

Regulating for a greener future: administering the government's environmental schemes

Ofgem is responsible for delivering a number of schemes for government to help promote renewable energy, CHP and energy efficiency.

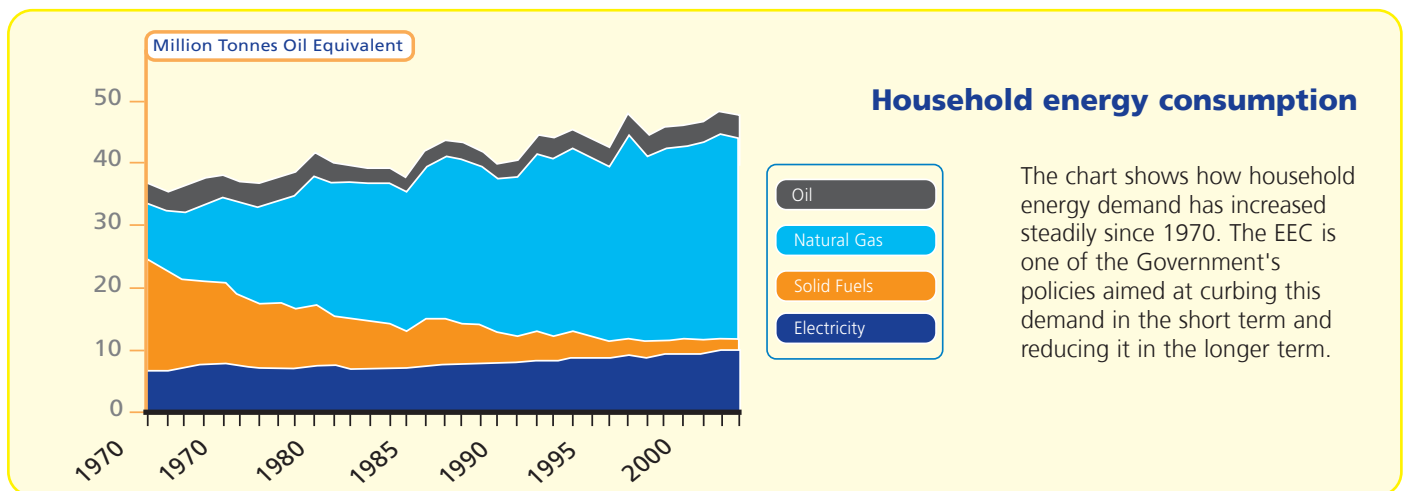
The Government's Climate Change Programme aims to reduce greenhouse gases by 12 per cent and CO² emissions by 20 per cent by 2010.

The Programme has been set up to ensure that the UK meets, and for CO² gases exceeds, its commitments under the Kyoto protocol on Climate Change.

One of the ways in which Ofgem helps the Government meet its environmental targets is by administering the:

- Energy Efficiency Commitment
- Renewables Obligation and
- Climate Change Levy exemption for renewables and CHP

Ofgem also maintains a database on Combined Heat and Power (CHP).



Energy Efficiency Commitment

What is the Energy Efficiency Commitment?

The Energy Efficiency Commitment (EEC) requires all major gas and electricity suppliers in Great Britain to improve the energy efficiency of customers' homes. Each company has an energy savings target, which it must achieve between 2002 and 2005 by installing energy efficiency measures in homes.

What exactly does this mean?

- DEFRA estimates that energy companies will spend roughly **£500 million** over the next three years in order to meet their targets
- more than half this amount, around £300 million, will be targeted at priority customers

- some customers could receive 100 per cent grants to improve the efficiency of their homes, which could mean savings of up to **£100 a year** on energy bills, and
- the Government has set energy suppliers the target of saving **62TWh** – meaning that roughly 1 million homes will benefit from better insulation, 750,000 energy efficiency appliances will be installed and 36 million low energy lamps will be delivered.

(Energy Efficiency Commitment continued)

Why is this important for Local Authorities and Housing Associations?

Local Authorities and other social housing providers stand to benefit from the EEC. By working together with energy companies, social housing providers can significantly improve the efficiency and comfort of their stock by working with suppliers to extend their efficiency programmes under the EEC.

How can housing stock be improved?

Energy companies can meet their targets by installing efficiency measures to make up their target. They include:

- cavity wall insulation
- boiler replacement
- energy efficient appliances
- insulation
- energy efficient light bulbs, and
- loft insulation.

Renewables Obligation

Ofgem has responsibility for implementing the Government's Renewables Obligation, which started in April 2002. The obligation sets a target for electricity suppliers sourcing at least part of their electricity from renewable generators. This target starts at three per cent in 2002-2003 and reaches 10.4 per cent in 2010-2011.

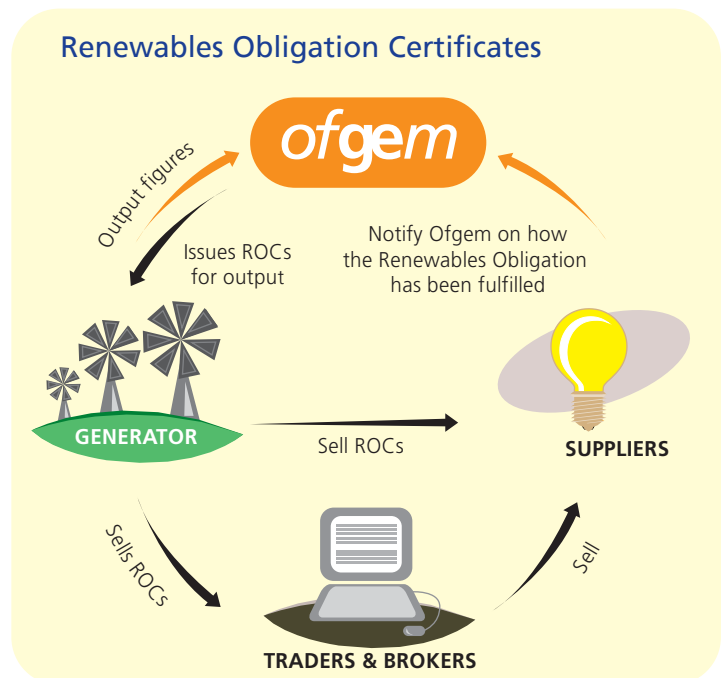
Around 2.8 per cent of Britain's electricity is currently sourced from renewable generators. The 10.4 per cent target should encourage the expansion of the renewable generation sector by offering a steadily increasing market over the next 10 years.

How does it work?

All renewable generators apply to Ofgem for accreditation to prove that their generation comes from eligible renewable sources. These generators are issued with Renewables Obligation Certificates (ROCs) for their qualifying output. Each ROC represents one megawatt hour of electricity. ROCs can be sold by the renewable generator either with or separately from the electricity generated.

Why can ROCs be bought separately?

By allowing renewable generators to sell the ROCs separately a market can be created whereby traders or brokers can buy ROCs to trade in them. Renewable generators will therefore be able to maximise their revenue by selling their ROCs to the highest bidder.



(Renewables Obligation continued)

How can suppliers meet their Renewables Obligation?

In order to meet their obligation to buy three per cent of electricity from renewable generators, suppliers have three choices. These are:

- buying three per cent of their supply from a renewable generator
- using a buy-out clause, which allows suppliers who have not bought renewable electricity to fulfil their Renewables Obligation by paying 3p/KWh for the shortfall, and
- using a combination of ROCs and buy-out to meet the three per cent target.

Why are suppliers allowed to buy themselves out of the Renewables Obligation?

The buy-out option is there to provide a market incentive to encourage suppliers to meet their obligation by buying ROCs. Using buy-out to fulfil its Renewables Obligation may cost suppliers more than buying ROCs.

All buy-out payments are made to Ofgem. This money is paid back to all the suppliers who have met their Renewables Obligation through ROCs.

How will this scheme be enforced?

If a supplier fails to meet its obligation, either through ROCs or buy-out payments, they will be in breach of the Electricity Act and liable to a possible financial penalty.

Climate Change Levy exemption for renewables and CHP

What is the Climate Change Levy (CCL)?

The Climate Change Levy came into effect in April 2001. The levy applies to sales of electricity to the business and public sectors. Large energy users thereby contribute to the costs of the greenhouse emissions they cause. This money is then used to offset National Insurance contributions.

What is Ofgem's role in exempting renewables and CHP from the CCL?

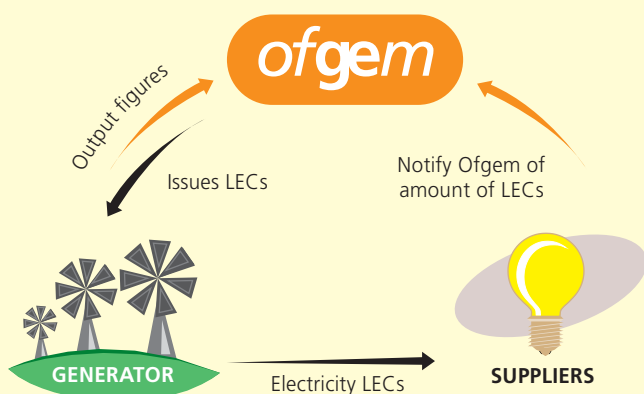
Renewable generators can apply to Ofgem to have their output exempted from the CCL. Ofgem ensures they meet the criteria and issues them with Levy Exemption Certificates (LECs).

Why is exempting renewable generators from the CCL important?

As the output from renewable generators does not contribute to global warming their electricity production is exempted from the levy. This gives renewable generators an advantage as it keeps their electricity prices competitive.

It was announced in the 2002 Budget that a CHP CCL exemption would include CHP output sold via a licensed supplier. The new arrangements are similar to the renewables CCL exemption with CHP Levy Exemption Certificates (CHP LECs) being issued in the respect of CHP output.

Levy Exemption Certificates (LECs)



ofgem

Combined Heat and Power (CHP)

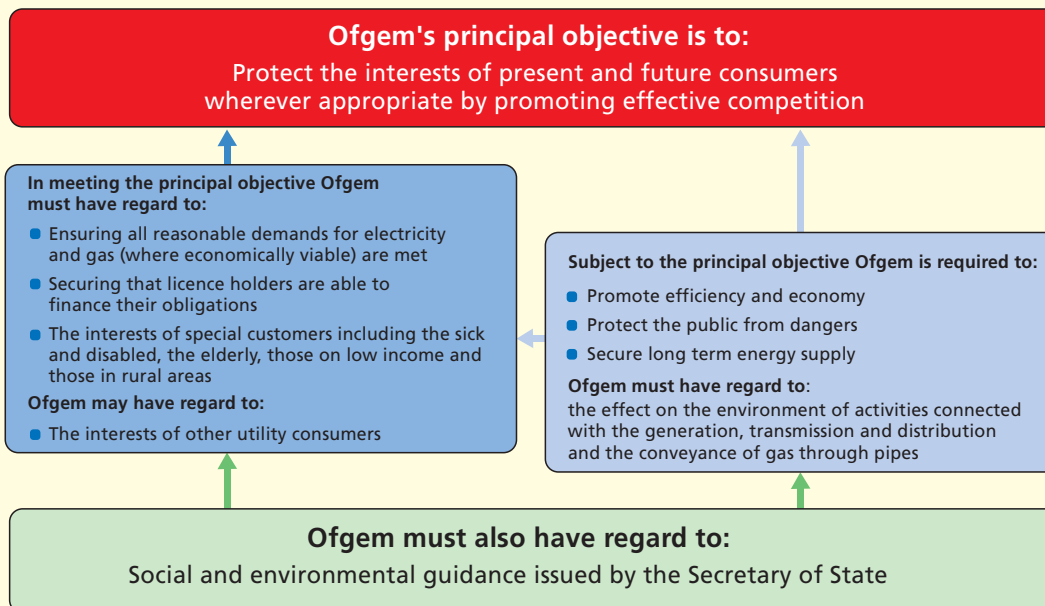
What is CHP?

CHP is the simultaneous generation of electricity and usable heat from the same plant. By using the heat given off when electricity is generated CHP plants are much more efficient compared to conventional power stations.

How is Ofgem involved in CHP?

Under the Utilities Act, Ofgem has a duty to review and collect information on CHP schemes in Britain. In order to do this, Ofgem has produced a database, which lists the basic details for each CHP scheme which has agreed to have its details added to this database.

Ofgem's statutory duties



To find out about Ofgem's environmental work contact:

Environmental Action Plan

- **John Costyn - Head of Environmental Action Plan**
Email : john.costyn@ofgem.gov.uk Tel: 020 7901 7166
- **Sarah Samuel - Environmental Economist**
Email : sarah.samuel@ofgem.gov.uk Tel: 020 7901 7422
- **Alex Thorne - Environmental Affairs Officer**
Email: alex.thorne@ofgem.gov.uk Tel: 020 7901 7194

Distributed Generation

- **Arthur Cooke - Distributed Generation Co-ordinator**
Email: arthur.cooke@ofgem.gov.uk Tel: 020 7901 7297

Renewables Obligation and Climate Change Levy

- **Amanda McIntyre - Head of Renewables and CHP**
Email: amanda.mcintyre@ofgem.gov.uk Tel: 020 7901 7323
- **Clare Hayward - Deputy Head of Renewables and CHP**
Email: clare.hayward@ofgem.gov.uk Tel: 020 7901 7236
- **Gary Craig - Manager Renewables and CHP**
Email: gary.craig@ofgem.gov.uk Tel: 020 7901 7344

Energy Efficiency

- **Charles Hargreaves - Head of Energy Efficiency**
Email: charles.hargreaves@ofgem.gov.uk Tel: 020 7901 7459
- **Kate Smith - Deputy Head of Energy Efficiency**
Email: katharine.smith@ofgem.gov.uk Tel: 020 7901 7488
- **Emma Chetwynd - Energy Efficiency Assistant Manager**
Email: emma.chetwynd@ofgem.gov.uk Tel: 020 7901 7476