

Residential sector energy services in the UK: can legislation turn rhetoric into reality?

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1. SYNOPSIS

Can the market deliver residential sector energy services in the UK? And is supportive rhetoric from policy makers backed up by an enabling policy framework?

2. ABSTRACT

The policy framework within which a market for energy services in the UK is expected to develop has changed significantly over the past year. In particular, for service providers targeting the residential sector, new legislation governing utilities and changes to local government powers will impact on available and desirable business options.

This paper considers the likely impacts of these policy developments, basing its findings on a review of the Energy Saving Trust's activities in the area conducted by the authors. The Trust has provided financial support since 1996 to pilot projects aimed at developing an energy services approach for small consumers. These projects have involved local authorities, other social housing providers, utilities and other private sector companies targeting both social housing tenants and owner-occupiers.

The paper reviews progress by these pilots, the barriers they have identified and the degree to which they are delivering full energy services (including fuel supply, provision of energy advice and supply and maintenance of energy efficiency measures and equipment). We consider whether present changes in policy will remove the barriers and encourage provision of a broad range of energy services.

We suggest a number of potential business models for delivery of energy services by various market actors within the new policy framework, and also discuss whether regulatory changes, for example to the Energy Efficiency Commitment, could be introduced to encourage the promotion of energy services.

3. INTRODUCTION

The UK Government expects energy services (i.e. the supply of e.g. heat and light rather than energy) for the residential sector to play a part in the development of a sustainable energy economy. However, to date there has been little progress in this area, and it is debatable whether present policy activity is sufficient to change this situation. This paper examines the policy context within which the market for energy services will have to develop in the UK, together with initial results from a support programme for residential energy services pilots run by the Energy Saving Trust (EST). (This programme has taken a more relaxed definition of energy services than the one described above, with schemes merely required to offer energy supply and energy efficiency measures in some form.) It draws from this discussion some pointers to what the future may hold.

The next chapter of the paper reviews the policy context in the UK, including important recent changes to the structure and emphasis of utility regulation. Following this, the Energy Saving Trust's programme is described briefly.

Further details of the programme are illustrated using case studies of some of the pilots that have received support. The initial impact of the support programme is discussed, together with the extent to which the pilots are resulting in the delivery of genuine energy services. Barriers uncovered by the programme are also explained.

Using the lessons learned from the early years of the programme, some potential models for future residential sector energy services activity in the UK are developed.

The paper concludes with consideration of whether residential energy services are a genuine option and whether, under present policy, they can make a significant contribution to meeting policy goals such as greenhouse gas emissions abatement and the eradication of fuel poverty.

4. THE POLICY CONTEXT

The policy framework within which the market for residential sector energy services may grow is changing. Recent developments are increasing the profile of energy services although as yet there is little practical assistance.

Climate change and energy efficiency

Historically, a comprehensive move towards energy services has not been a stated aim of climate policy: there has been an assumption that market liberalisation would eventually lead to energy services provision where appropriate. This rather over-optimistic view of the power of the market is beginning to change, as demonstrated by a recent report from the House of Commons Environmental Audit Committee (EAC, 1999, para. 57):

“we regard the development of energy services provision as fundamentally important to the achievement of the UK's environmental objectives and their promotion should be integral to the Government's stewardship of the completion of market liberalisation and not left for bolting on afterwards.”

Within the Government's new Climate Change Programme (UK Government, 2000) there is evidence of support for energy services, particularly through the regulatory requirement for utilities to meet an Energy Efficiency Commitment (EEC) (see later for more details on this).

Energy and social policy

Although in some cases the alleviation of fuel poverty (a condition suffered by those who cannot afford to adequately heat their home, due primarily to a combination of low income and inefficient housing) has been undertaken using an energy services approach, the overwhelming result of social policy in the energy field has been negative in terms of energy services development, as it has concentrated on ensuring that energy prices are minimised, which results in energy efficiency measures being less cost effective and subsequently harder to promote. As summarised by the Environmental Audit Committee (EAC, 1999, para 55):

“Falling energy prices appear to send stronger signals than awareness campaigns and seem likely to overwhelm current efforts to promote energy efficiency. The actual economics of energy efficiency investments will become less attractive but, more importantly, the already low priority afforded to the concept overall will be further weakened.”

There are no indications that the situation will change in this area of policy in the short to medium term.

Market liberalisation and energy regulation

The recent full liberalisation of the domestic markets for electricity and gas will gradually increase competition in these markets. In the longer term as the markets mature, the need to promote added value services may support the development of an energy services approach. However, in the short term, regulatory support is likely to be needed since competition will largely centre on prices for energy as a commodity.

The past regulatory framework in the UK, whilst not overtly hostile to the development of energy services, has done little to encourage it. However, there are a number of recent regulatory developments that suggest that this situation may be changing.

The Utilities Act 2000 (UK Government 2000b), which sets a new framework for utility regulation, may be helpful as a driver for energy services development. However, it is worth noting that the Act does not introduce any new possible areas of activity for utilities (they were already able to engage in energy services activity had they so wished) and therefore cannot perhaps be expected to change the pace of energy services development without additional supporting policy activity.

The Utilities Act includes requirements for Government to provide guidance to the regulator, and for the regulator to have regard to this guidance when exercising his/her economic regulation functions. In February 2000, the Department of Trade and Industry published for consultation 'Draft Social and Environmental Guidance for the Gas and Electricity Markets Authority' (DTI, 2000). Paragraph 6.8 of this guidance states:

“The Government hopes that companies will increasingly provide energy services, selling ‘warm homes’ of which fuel, and energy efficiency measures, are only a part. The Authority should have regard to this hope when exercising its functions and also have regard to the desirability of maximising awareness of energy service options as an alternative to energy supply.”

The draft guidance is being reflected in the Regulator's policy development work. However, it appears that the Regulator hopes for increased energy services delivery resulting from market developments rather than from a more proactive policy approach.

Since 1994, Public Electricity Suppliers have met a regulatory requirement to improve end-use energy efficiency for their franchise customers (residential and small business users for whom the markets have only recently been liberalised). This requirement was known as the Energy Efficiency Standard of Performance. Recently, it has been expanded to cover gas suppliers and all electricity suppliers, and renamed the Energy Efficiency Commitment (EEC). The current phase of EEC (3) is funded by a levy of £1.20 (Euro 1.9) per customer which will result in £110M (Euro 176M) will be invested by suppliers over the 2 year period. 65% of funds must be directed to disadvantaged customers. Proposals for EEC4, which will commence in April 2002, are still being finalised. It is likely the expenditure will be substantially increased, with the indicative target per customer rising to £3.60 (Euro 5.8) per customer per year, effectively tripling the budget of EEC3 and resulting in a total investment of around £170M (Euro 272M) a year. The present Commitment (Ofgem 2000) is designed to include '*opportunities for the promotion of energy services projects, combining energy efficiency with fuel supply*' (Ofgem, 2000b). However, each supplier is responsible for devising schemes to meet its targets, with the approval of the Energy Saving Trust (EST), and so far virtually no schemes have adopted an energy services approach.

Local government policy

UK local government interest in energy services has to some extent been encouraged by the requirements of the Home Energy Conservation Act 1995 (HECA) and Local Agenda 21. Some authorities have seen participation in energy services schemes as a good way to progress towards meeting their target 30% increase in domestic sector energy efficiency as required by HECA. However, the majority have yet to respond to the Act in such a comprehensive manner, although many have undertaken some activity on the demand side, assisted by a small amount of pump-priming funding from central Government.

Local authorities in the UK can only engage in activities for which they have been granted powers by legislation. Until recently, they have had no general powers enabling them to provide energy services. A number of more specific powers granted to local authorities (such as the power to supply electricity and heat through cogeneration schemes and the power to provide free energy efficiency advice) have enabled their involvement in some of the EST funding programme's energy services schemes. However, the lack of an overall general power has made participation in such schemes more complex for local authorities and hence less attractive.

It should be noted that local authorities are specifically prohibited from supplying gas or energy efficiency measures (other than free advice) to private households. However, it does not prevent local authority involvement in schemes led by utilities or other private sector partners which deliver full energy services (energy supply through affinity deals, free energy efficiency advice, and finance for energy efficiency measures through partnerships with e.g. credit unions), as the initial results from the EST programme demonstrate.

5. THE ENERGY SAVING TRUST'S PROGRAMME

The EST was established in 1992/3 to stimulate the market for energy efficiency amongst domestic consumers. The Trust has been promoting the development of energy services in the UK since 1994, when it commissioned a survey to establish opportunities for delivery of energy services in the non-domestic market. The survey found that an energy services market barely existed and that the energy supply competition was likely to focus on unit price or value-for-money (EST, 1994).

Since 1996, EST has been providing pump-priming funding and assistance to social housing providers, energy suppliers and other organisations to help them develop energy services schemes, primarily for the residential sector. By the end of 2000, a total of 25 schemes had been funded, receiving grants of between £15,000 (Euro 24,000) and £150,000 (Euro 240,000). Over 100 social housing providers, six utilities and other organisations had been assisted in developing energy services schemes (EST, 1999a).

Since 1999, the EST has also offered a Support Service, comprising a telephone hotline, an e-mail discussion network and a panel of experts. Access to the panel of experts is accompanied by funding of up to 75% of the consultants' fees, to a maximum of £10,000 (Euro 16,000) (EST, 1999b).

The schemes vary widely in terms of lead organisation, target audience and services offered (see Figures 1 and 3).

Figure 1. Participating organisations

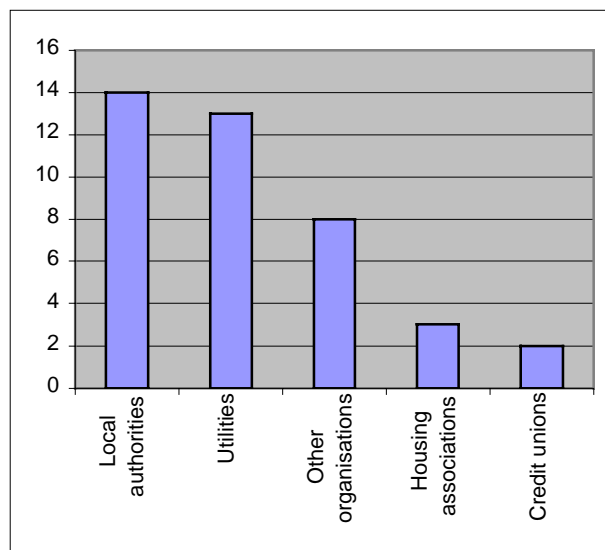


Figure 1 shows which lead organisations have been involved in targeting which sectors. Most of these schemes have been led by local authorities or utilities, and many have involved these two sectors working in partnership. In some cases, new companies have been established to run the programmes, usually as not-for-profit organisations with the local authority represented on the board, or joint venture companies with part local authority ownership. Housing associations (private sector providers of social housing) have been involved as partners in three of the schemes, and other organisations have been involved in many, often working in partnership with local authorities.

Figure 2. Target audience

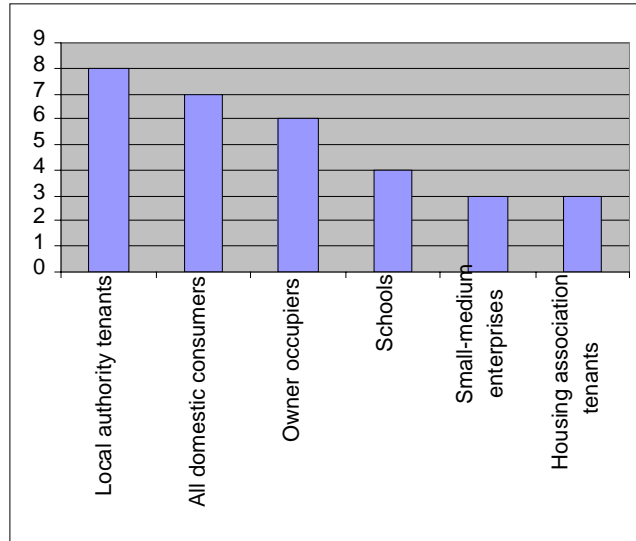


Figure 2 shows that the schemes are split roughly equally between targeting the private sector (some specifically targeting the 'fuel rich' and some targeting the fuel poor) and social housing. Some have been aimed specifically at local authority tenants and some at all social housing tenants. No scheme has targeted the private rented sector specifically.

Figure 3. Approaches taken

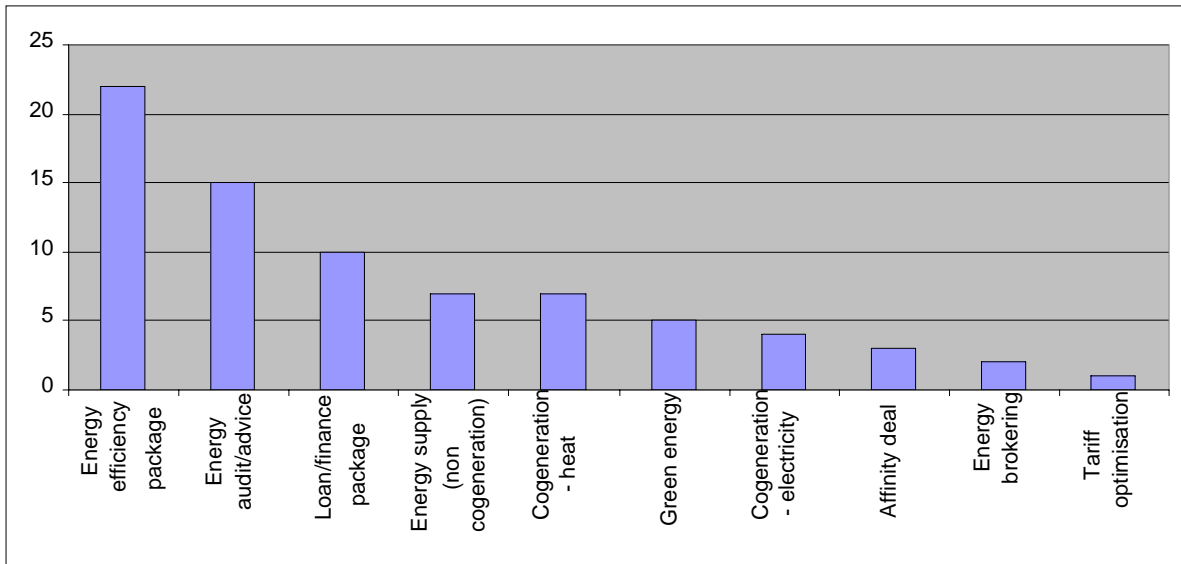


Figure 3 demonstrates the range of energy services provided. The schemes have included:

- Local authorities and/or housing associations setting up 'preferred supplier partnerships' with a utility (either directly or through a private sector partner) and also offering householders bulk-discounted measures (such as loft and cavity wall insulation, efficient heating systems and in some cases efficient white goods), plus in some cases loan finance and/or grants. There is one example of this approach that includes the fuel supply and

measures being billed together (see case study B, below). (Joint billing gives additional advantages by providing simplicity for the customer as well as an increased incentive to invest in energy efficiency measures through a clear demonstration of their benefits);

- Utilities offering customers surveys and discounted measures, plus loan finance (but not on one bill) (see case study A, below);
- Local authorities and/or housing associations offering energy services through cogeneration schemes (in partnership with private sector organisations) with profits recycled to fund energy efficiency measures in selected households.

Approaches taken by the pilots

All schemes include the offer of energy efficiency measures and energy supply, but using very different approaches. Table 1 illustrates which kind of approach is suitable for which target sector/implementing organisation.

Table 1. Approaches taken by the pilot programmes

APPROACH		SUITABLE FOR
Energy efficiency measures		Target sector
A. Customer funded	With upfront investment	Fuel rich (private sector)
	With loans	All but especially fuel poor/nearly poor – those not eligible for grants (private sector)
B. Grant funded	Funded from recycled profits (e.g. commissions paid by energy suppliers through preferred supplier arrangements)	Fuel poor not eligible for other grants (public/private sector)
	Funded from local authority/health authority/Home Energy Efficiency Scheme/Energy Efficiency Commitment	Fuel poor – as defined by the various grants (public/private sector)
Energy supply		Implementing organisations(s)
A. Indirect	Affinity deal with energy supplier	Local authority/housing association/other organisation working with one utility to target private/public sector
	Tariff optimisation	Local authority/housing association/other organisation working with more than one utility to target private/public sector
	Affinity deal 'plus' (supply & measures on a single bill)	Private sector organisation targeting private/public sector (may be in partnership with local authorities)
B. Direct supply of electricity/gas/heat	Cogeneration	Local authority or housing association targeting a defined geographic area (usually public sector)
	Non cogeneration	Utilities, housing associations or other private sector organisations (may be in partnership with local authorities) targeting public or, more commonly, the private sector

Case studies

We include here examples from three of the pilots funded. Please note that all are still relatively new schemes and are planned to run for many years. No attempt has been made as yet to analyse the overall cost effectiveness of these schemes – this is something that EST will be seeking to do as the pilot schemes are rolled out.

ScottishPower

The ScottishPower-led scheme is the most promising utility-led scheme funded by the programme to-date. The utility received £150,000 (Euro 240,000) in funding from the EST in 1998, to set up an energy services scheme that should be able to demonstrate to other utilities that an energy services approach can be commercially viable. They are marketing energy services (gas and electricity supply, plus a free energy report and energy efficiency measures) to householders across the UK, as a way of retaining and gaining customers. Surveys are distributed to customers with completed questionnaires scanned to produce energy reports including an energy certificate and a comprehensive energy efficiency pack recommending further actions with finance offers. A call centre handles enquiries and installer agreements have been developed to install energy efficiency measures at discounted rates.

The scheme has been marketed to owner occupied households in certain regions by mailshot and through questionnaires, as well as through advertorials and prize draws. On average, 17% of the energy surveys have been returned, with take-up of offers at 1.4% (168 households by October 2000).

Due to the high take up rate of the initial scheme, ScottishPower is rolling out a second, bigger energy services project called Energy Sense. A mailshot to 250,000 households commenced in March 2001.

HelpCo

The Greater London Energy Efficiency Network received £99,000 (Euro 144,000) in funding from EST in 1999 to set up HelpCo as a not for profit company limited by guarantee. HelpCo offers a comprehensive energy service package to the ‘nearly fuel poor’ in London, including a preferential tariff, energy efficiency measures through recommended installers and interest free loans to fund these measures.

The cost of the measures is added to the householders’ weekly/monthly fuel payment, and regular payments for the measures and supply are made to HelpCo, which then pays the supplier. The customer receives a monthly statement from HelpCo, which includes energy efficiency advice. Ongoing funding for the scheme will come from commission from the fuel suppliers, plus an additional 4% of the total bill. (The fuel suppliers do not have to bill the customers as this task is done by HelpCo, hence saving them money.)

10 local authorities are partners on HelpCo and are responsible for marketing the scheme to their householders. The marketing is to be rolled out gradually, with only three of the ten local authorities marketing it initially – some are marketing it to householders who move into the borough while others are promoting it alongside energy advice packs. Each authority can target different groups, in line with their fuel poverty strategies.

The scheme was launched in May 2000. By March 2001, there were almost 200 customers signed up. Enquiry rates have been increasing over recent months and the scheme manager is confident that the number of enquiries will increase significantly over the next year.

Barkantine cogeneration project

One of central London’s local authorities, the London Borough of Tower Hamlets is working with London Electricity Services on a cogeneration scheme that will provide affordable energy to 700 homes on a local housing estate (the Barkantine estate) as well as the local school and leisure centre. The scheme has received Private Finance Initiative (a government initiative that encourages partnerships between the public and private sector) funding of more than £6 million (Euro 9.6 million), plus a grant of £12,500 (Euro 20,000) from EST to investigate legal issues relating to this approach.

The Barkantine Heat and Power Company Ltd has been established as a partnership between the two organisations to operate and manage this project for a period of 25 years. The original plan was to establish a joint venture with Tower Hamlets owning 20%, but the council concluded it did not have the necessary powers for this. Instead, there is an agreement that every 2 years, after the third year of operation, the Council will receive a share of any profits in excess of the expected return, to invest in energy saving measures on the estate.

From November 2000, the company took over running existing services for the estate, and by February 2001, the boilers and cogeneration plant will be commissioned. At the end of the contract, the plant will revert to the Council on the basis that it will have at least two years remaining life before major re-investment is required. Residents pay for the heating fuel used and can also purchase electricity from the scheme at competitive rates.

The local community was extensively consulted regarding this scheme. The Tenants Energy Advice Service took on the independent advisory role on this – their participation was key in getting local people on board. The Company will liaise with residents of the estate and representatives of the council to ensure that local needs are reflected in the energy services provided.

6. ENERGY SERVICE DELIVERY TO THE RESIDENTIAL SECTOR ARE THERE SUCCESS STORIES?

The results of the 25 schemes have been very mixed. Some have found the barriers (or perceived barriers), such as low customer demand, to be insurmountable. Others have floundered due to system difficulties or poor marketing. Those funded in the first couple of years have provided a wealth of 'lessons learned' - experience which the more recently funded schemes have been able to benefit from. For some, it is still early days, but the initial results of many of these more recently funded schemes are encouraging, while out of those yet to launch there are several well-developed schemes that could do well.

Extent to which schemes are offering full energy services

Few of the schemes are offering 'full' energy services (i.e. energy supply and energy saving measures from one company). Only one scheme is offering 'full' energy services with joint billing for the energy supply and energy saving measures on one itemised bill.

In descending order of 'full energy services':

- HelpCo is the only scheme to offer customers one bill, with energy supply and energy saving measures, plus advice, all shown together on one bill, itemised separately.
- The utility led schemes (of which there are 4) offer direct energy supply and measures – but not on one bill.
- Most of the local authority led schemes offer a preferred supplier partnership (i.e. not direct energy supply) and access to measures if the customer wishes (4 schemes).
- The cogeneration schemes are not really offering energy services as such – they simply recycle some of the profits to go towards paying for energy efficiency measures (6 schemes).

Barriers

The following issues have been identified with respect to the uptake of energy service schemes:

Consumer demand

Most utilities have little interest in developing energy services because they say there is no demand from the market place. (This is of course a vicious circle applicable to any new product or service entering the market place.)

Corporate commitment

Some of the successful schemes have worked because there is a real commitment to seeing the scheme work. Much of this is due to commitment at a high level linked to the determination of individual champions. Where activity is

perceived as an unimportant fringe activity, internal opponents can see the first hurdle as a reason for not proceeding fully with the scheme. Conversely, in the case of ScottishPower's scheme, if one avenue does not produce the desired results, another is tried. Similarly, on the Barkantine project, the London Borough of Tower Hamlets faced internal legal opposition to its proposed joint venture with London Electricity Services but persevered and ended up with a concession agreement approach instead.

Misunderstanding of regulation issues

Customers are entitled to change energy supplier at any time by giving a maximum of 28 days notice. This is a perceived barrier to the development of energy services by utilities as it could result in a customer switching to another supplier before debts for any energy efficiency element of the services contract had been paid off. However, it is unclear whether the perception reflects reality, and indeed some utilities have participated successfully in energy services within the present programme. Note also that service providers are allowed to charge reasonable termination fees when a customer chooses to terminate a contract which includes long-term payment for energy efficiency works, and can demand reasonable security to ensure that outstanding non-fuel debts are paid. The regulator has recently committed to reviewing this rule, should evidence of a significant barrier to the development of energy services be presented. There is also a plausible argument that utilities are more likely to retain customers if they are providing an additional service, an argument supported by some available evidence.

Organisational inertia

Local government is not known for innovation in provision of its services. Where there are uncertain legal issues, already conservative attitudes often mean that many authorities will not proceed with anything (including energy services) perceived as being even slightly risky.

Similarly, established utilities often have entrenched attitudes and systems, which work together against the provision of energy services. Archaic, inflexible billing systems in particular have been cited as a barrier as has compartmentalisation of responsibilities; the energy efficiency departments are often remote, geographically and operationally, from mainstream areas of corporate activity. ScottishPower's success was helped by the formation of a small team with its own profit/loss responsibility.

7. POTENTIAL MODELS FOR THE FUTURE

The EST's Energy Services programme has developed four models that appear worthy of development and exploitation by others.

Mass market energy services

The model which has the potential to reach all householders is one led by utilities, as they currently serve nearly all UK households. They also have the potential to provide significant investment in energy services in order to seek a return in the future. Complementing energy supply, such a scheme would offer energy advice, energy efficiency measures and finance.

Some utilities have reported that there is a lack of consumer demand for energy services. However, through continued evaluation and reappraisal of the products offered, as well as of their marketing techniques, ScottishPower's Energy Services scheme is beginning to produce some promising results (although it is unlikely to be self-financing until after 3 years operation). However, the company does not intend to introduce joint billing for the fuel supply and measures due to major institutional barriers. Joint billing of supply and measures would make this more attractive to consumers.

Niche energy services

Cogeneration schemes

Local authorities do have powers to run cogeneration schemes, and many have done this for several years. By working in partnership with private sector companies, revenue streams can be generated from cogeneration plants that can be reinvested in energy efficiency measures. Cogeneration schemes tend to be particularly suited to social tenants, because of the need to have customers concentrated in a small geographic area. This approach has been taken by Woking Borough Council in its Thamesway scheme, which encompasses other, non-domestic buildings.

This approach also employs a fairly loose definition of energy services. Only some tenants will receive grants to fund energy efficiency measures – the rest simply have communally provided heat and/or power.

Indirect supply – preferred supplier partnership deal

Local authorities lack the necessary powers to deliver energy services to residents directly, but can act as facilitators for the necessary partners to deliver, by arranging an affinity deal with suppliers, bulk discounted energy efficiency measures with installers, and loan finance often through a credit union. This approach has been taken by several of the schemes. An affinity deal with an energy supplier is an ‘energy services’ approach only by a loose definition. However it represents a valuable way for local authorities and housing associations to get a good deal for their tenants and/or private sector households, and to create a revenue stream by receiving commissions from the utility. Energy efficiency measures and preferably loan finance as well are offered alongside supply. Other services such as maintenance of heating systems may also be offered. Local authorities are increasingly signing deals with suppliers to switch all their void properties to that supplier’s tariff. If all authorities had such an arrangement, this would apply to approximately 400,000 properties per annum, potentially creating a total revenue stream of around £10 million which could be invested in energy efficiency measures.

This approach can be taken a step further through the involvement of an organisation, which acts as a single point of contact for the customer. This is being done in the HelpCo scheme, where HelpCo are agents for the customers, who pay HelpCo a regular payment, while HelpCo pays the energy supplier (by direct debit) and installers. The customer receives a monthly statement from HelpCo showing how much has been paid on their behalf, and including energy efficiency advice. The statement includes the components of energy efficiency measures purchased and loan finance provided as well as energy consumed.

8. RESIDENTIAL ENERGY SERVICES: ARE THEY A POSSIBILITY?

Lessons

Energy service schemes can be complex and costly to set up, involving many aspects such as marketing, advice, finance, call handling, installations of measures, finance and installation. However the lessons learnt by the 25 EST-funded projects include some seemingly obvious business, marketing and project management issues. The following areas are all considered important pre-requisites to a successful energy services scheme:

- Business planning, market research and piloting;
- Marketing – targeting, getting the right message and finding the most effective routes;
- Operational systems – ensuring that a spread of customers is developed to ensure regular cash-flow, not letting leads go ‘cold’, following up leads; and
- Corporate commitment and individual champions.

Trends

However, there are several market trends, which could impact on the future provision of energy services. Whilst there appear to be no true domestic energy services products in the UK, the following initiatives indicate a trend towards a more positive environment for a comprehensive energy services approach. Some of the trends might integrate with, or provide a marketing platform for, energy services. For example:

- The increasing demand of the Energy Efficiency Commitment will maintain utility interest in energy efficiency and will give utilities interested in energy services a mechanism by which they can push activity. However, it is possible that it will have little other impact on companies that have not already shown an interest in this area;
- Utilities are increasingly choosing to team up with other companies to offer non-energy affinity deals (e.g. telephone and internet services). In particular, the trend for utilities to offer home services offers opportunities for the development of energy service provision;
- Some utilities are demonstrating innovative approaches to marketing their services. For example, Virgin Energy in partnership with London Electricity are offering to match customer's savings in annual energy bills with a cash refund paid for by Virgin Energy – in effect, doubling the customers' savings;
- The development by some utilities of energy services directed at their low-income customers. (Under EEC3, utilities are obliged to direct 65% of expenditure towards disadvantaged customers.) For example ScottishPower and Eaga are piloting an energy service initiative aimed at alleviating fuel poverty in which low-income consumers are offered a package of insulation, competitive energy supply and financing options; and Eastern TXU's Staywarm initiative is aimed at low-income pensioners who, following installation of energy efficiency measures are offered a fixed annual fuel bill for the next year.

Barriers

However, none of these trends really addresses the major barrier listed in section – the lack of consumer demand. While the government and its agencies have, at various times, undertaken advertising and promotion to increase the general public's awareness of issues such as climate change or the benefits of energy efficiency, it has not as yet taken on this role with respect to energy services. As a result, consumers expect their gas and electricity suppliers to provide only energy, rather than energy saving measures. At the same time, the suppliers say there is no demand for energy services and so do not generally offer them. This could be overcome by a two-pronged approach:

- The government could require suppliers to offer energy services – perhaps by changing the EEC rules so that at least 25% of each supplier's target must be met through an energy services approach. In this way, suppliers would be pushed into adopting this approach and hopefully would then find, as ScottishPower has done, that it can be a commercially advantageous one; and
- An education programme aimed at increasing the general public's awareness of energy services, so that consumers start to expect their suppliers to provide services beyond fuel supply.

EST's role in enabling energy services

The limited success of the pilots funded to-date indicates that the EST's role in developing this market is not yet complete and suggests that the EST could usefully adopt a more proactive role. EST recognises that further work is required to transform the energy markets to one of energy services as opposed to energy supply, and is proposing to take a dual approach to achieving this goal (EST 2001):

- Mass market energy services: Further drivers are required to build upon the models developed by the pilots so far. EST plans to continue to work with energy suppliers, Government and the Regulator to help realise the potential benefits of energy services.
- Niche energy services: There is clear potential for local authorities, housing associations and others to work with the private sector and help to deliver energy services (or derivatives of) to their tenants and residents. The two clearest opportunities are for preferred supplier agreements for energy services, and cogeneration based energy services. Clearly these approaches are restricted to distinct geographical areas. EST will work with local authorities, housing associations and others to support replication of these initiatives.

This will be accompanied by hand-on support from EST and its appointed agencies. In addition, we suggest that an energy services 'club' could be set up in different regions to encourage suppliers, local authorities and housing associations to pool their experience. Commercial sensitivities would require careful management; different support personnel could be allocated to each utility and individual utilities asked to sign confidentiality agreements.

In particular, we recommend that EST seeks to require as pilots organisations which have:

- A history of innovation;
- Excellent marketing skills;
- Environmentally aware customers;

- A determination to make energy services work;
- Trusted brand names.

While certain utilities possess the first of these attributes, there is a range of environmental organisations that could potentially partner with utilities in terms of the third attribute. (Such an approach has already been taken by some utilities – for example, Scottish and Southern has linked up with the Royal Society for the Protection of Birds (RSPB) to offer RSPB members ‘green’ electricity tariffs – i.e. electricity generated from renewable sources – although take-up has not been very high). Local authorities and housing associations can lend the fourth criteria – trust – and partnerships with these organisations should therefore be encouraged as part of the pilots.

An additional role for EST could be in endorsing various energy services initiatives undertaken by different organisations. This would firstly require:

- The establishment and acceptance of the EST’s endorsement of installed insulation measures and sold appliances (the ‘Energy Efficiency Recommended’ initiative, which was launched in September 2000);
- An increase in public understanding of the concept of energy services (as described above); and
- The related introduction of some robust market initiatives.

9. CONCLUSIONS

The government has stated that energy services will be required to help in delivering fuel poverty reductions and climate change targets, yet the liberalised market has not by itself yet produced energy service companies. Through its Energy Services programme, EST hoped to stimulate this transformation. Four years on, some successes have been achieved; however the energy services market is still embryonic. Customers across the UK are not yet, in general, being offered energy services. There is now a need for the government to accept that the market alone will not deliver energy services, and to recognise that greater policy intervention will be required if energy services in the UK are to become a reality.

EST plans to give further support to the development of some of the models generated under its pilot programme. However, results to-date suggest that, while there are some promising trends with respect to energy services, legislative and regulatory measures have not yet created an environment which encourages utilities to offer energy services. The authors suggest that two main changes are required if suppliers are to embrace the energy services concept:

- A slight shift to the regulatory context, with the introduction of a requirement that at least 25% of suppliers’ Energy Efficiency Commitment targets are met from energy services; and
- A government programmes of education or marketing aimed at increasing public understanding of the energy services concept and generating demand.

This, combined with EST’s continued work to develop and roll out the models piloted under its Energy Services programme, could make energy services a widespread reality in the UK.

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12. GLOSSARY

EAC	Environmental Audit Committee
EEC	Energy Efficiency Commitment
EST	Energy Saving Trust
HECA	Home Energy Conservation Act
UK	United Kingdom