



THE NATIONAL ENERGY FOUNDATION

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The Future of the Energy Company Obligation Consultation
Department of Energy and Climate Change
Area 1D
3 Whitehall Place
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16 April 2014

Dear DECC

National Energy Foundation response to the ECO Consultation

On behalf of the National Energy Foundation, we are pleased to attach our formal response to the consultation into the future of the Energy Company Obligation (ECO).

Our overall comment is that Government should not reduce targets just because they are difficult to achieve; they should instead identify where some energy companies have successfully met their obligation and encourage all companies to replicate this best practice. However where there are realisable energy savings that can be achieved at a lower cost than under the current arrangements, the Government should be open to permitting them within the ECO framework, especially where there is evidence that homeowners are not taking action without the incentive of ECO. Equally if it is clear that there are fundamental problems with certain aspects of ECO, these should be modified.

The National Energy Foundation is an independent charity based in Milton Keynes that has 25 years' experience of working to improve the use of energy in buildings. Over this period we have worked with residents of all types of dwellings, ranging from new build to historic properties, and with all forms of tenure. In recent years we have expanded our activities working with local authorities to develop solutions for affordable warmth among lower income groups, as well as maintaining engagement with owner-occupiers and all types of landlord.

Although we seek to be impartial and technology neutral, we should declare an interest in that we control patent rights to an innovative form of solid wall insulation (SWI). We have disengaged from all renewable energy trade associations (including the Ground Source Heat Pump Association) so no longer have any interests to declare in that area.

For more information please contact Dr Kerry Mashford, Chief Executive, Sandra Hayes or Jez Wingfield (Senior Energy Specialists) or the undersigned, who have all contributed to this response.

Yours faithfully

Ian W Byrne
Deputy Chief Executive

Public consultation questions

The Future of the Energy Company Obligation Consultation

Question 1

Do you agree that the 2015 CERO target should be reduced by 33 per cent from 20.9MtCO₂ to 14MtCO₂?

Reply

No, we do not agree that the target should be reduced in this way. It is for the energy companies to manage their obligation in such a way as to avoid a last minute rush to meet obligations as happened with CERT and CESP. The potential savings to householders in energy bills in reducing energy company's obligations are very small compared to the long term benefits of a more energy efficient home.

Question 3

Do you agree that underachievement against the CERO target at 31 March 2015 should be able to be carried forward at a penalty rate of 1.1 times the amount of the shortfall?

Reply

There should be a penalty. A penalty that bears a direct relationship to the amount of the shortfall is to be favoured. 1.1 times could be an appropriate rate.

Energy companies should be held to their obligations and any shortfall severely penalised. A 10% penalty seems very low compared with the benefits to householders of having a much more efficient home sooner rather than later. A higher penalty of, say 1.5 should be imposed or perhaps a lower penalty coupled with a requirement to place funding not spent on improvements in the time required, being paid into a fund for distribution outside the control of the energy company or to be reallocated to those companies that have shown they are able to deliver ECO in an effective and timely manner. This could pave the way to taking the whole of ECO funding distribution outside of the control of energy companies in the longer term.

Question 4

Do you agree that CSCO and Affordable Warmth targets should remain unchanged for 2015?

Reply

Yes

Question 6

Do you have a view on whether, and what proportion, of over-delivery against 2015 CERO, CSCO and Affordable Warmth targets should be permitted to count towards 2017 targets?

Reply

We think that this would be sensible to prevent a stall on installations by energy companies between 2015 and 2017. Over-delivery should be credited in full provided there is a split of activity consistent with the approved SWI targets (which should be higher than proposed).

Question 9

Do you agree that the ECO scheme should be extended from March 31 2015 to March 31 2017?

Reply

We think that ECO should be extended to 2017, but not at the expense of reducing SWI requirements and introducing more 'easy' measures or reducing targets for the period to March 2015. Funding should be focussed on those measures that are particularly difficult and, especially for low income households, unaffordable, yet have the potential to massively improve comfort, quality of life and reduce energy bills and CO₂. In extending the timeframe for ECO some proportion of the properties treated could usefully be nominated on a referral basis from health professionals. This could help close the gap from some individuals whose circumstances and property characteristics currently render them ineligible.

We also recognise that obligations on suppliers, such as the ECO Scheme, are likely to remain as a long-term feature. For this reason, we would welcome greater clarity on the future direction and scope of such schemes, to minimise the "start-stop" approach, and allow greater investment in training and systems by installers.

Question 11

Do you have a view on the modelling approach taken to set the 2017 targets, and are there other approaches that Government should consider? If so, please provide justification for your answer.

Reply

We feel that there is inadequate information given about what is exactly meant by "the basis of a constant annual level of carbon delivery effort" to be able to answer this question. However we feel that any modelling should look not just at input (effort) but also at outcomes, including the number of homes improved and the gross annual carbon savings achieved by householders.

Question 16

Do you agree that all forms of cavity wall insulation, including standard "easy to treat" cavities installed from April, should be eligible as a primary measure under CERO?

Reply

Yes, we agree that all forms of cavity wall insulation should be included in CERO. Cavity wall insulation of all types is very effective at reducing carbon emissions. In addition it will reduce the potential for fraud and the extensive monitoring that would be required to ensure that only 'hard to treat' cavities were being claimed under CERO. This should not however be the 'easy option' for obligated companies and thus at the expense of SWI installations.

Question 17

Do you agree that loft insulation which is installed from April 2014 should be eligible as a primary measure under CERO?

Reply

Yes, we agree that this would be a sensible step, as loft insulation is a cost effective measure to install and would (we anticipate) greatly increase the uptake of loft insulation, reducing carbon emissions and creating jobs in the carbon retrofit sector. This should not however be the 'easy option' for obligated companies and thus at the expense of SWI installations.

Question 18

Do you think it would be appropriate to make provision to ensure that low income and vulnerable households benefit from the delivery of loft and easy to treat cavity wall insulation under the 2017 CERO target? Please provide views on any appropriate mechanism by which to do this.

Reply

We agree it would be appropriate to target loft and easy to treat cavity wall insulation on the fuel poor. In theory, other mechanisms can then be used to encourage able to pay households to implement these relatively low cost energy and carbon saving measures. However, it may be desirable for all householders, no matter what their financial circumstances, to benefit from loft and cavity wall insulation through ECO without having to go through an assessment of their means as it keeps the customer journey simpler and less intrusive into personal circumstances. The 2017 CERO target would then have to be increased to take into account the inclusion of vulnerable households.

Question 19

Do you agree that heat networks (district heating schemes) should also become eligible primary measures under CERO from 1 April 2014?

Reply

There is no reason in theory why heat networks should not be permitted under CERO, providing that robust carbon savings can be demonstrated. In practice, we suspect that this is unlikely to be a cost-effective measure, irrespective of the level of carbon savings, outside the social housing sector (ie. CSCO), as ESCOs or other heat providers would have to negotiate with many individuals and would be unable to force private homeowners onto a heat network. We note also that the short-term nature of ECO, referred to in question 9 above, makes it highly unlikely that any such schemes will be brought forward unless they are already at an advanced stage of planning (and thus unlikely to offer any additionality in carbon savings).

The success of heat networks in Denmark demonstrates what can be achieved where district heating is implemented as a key part of a long term energy strategy. However, the results from several recent field trial assessments of the performance of heat networks in the UK has shown that they often fail to deliver the expected benefits in terms of energy efficiency, carbon emissions and cost savings to the consumer. The underlying reasons for the levels of underperformance observed are complex and relate to factors such as system design, assumptions about network losses and operational management of the network. The field trials have also highlighted other issues such as the way that heat is metered and consumers billed for heat. Problems with network resiliency as a result of equipment failure were also seen in several projects. These results demonstrate the relative immaturity of district heating in the UK when compared to countries like Denmark and Finland. It is critical therefore that DECC have suitable tools to assess the actual performance of heat networks funded through ECO and to develop mechanisms to feedback learning into the design, installation and management and such systems.

Question 20

Do you agree with the proposal to extend the number of eligible areas under CSCO from the lowest 15 per cent of areas, as identified using the Index of Multiple Deprivation, to the lowest 25 per cent of areas for measures delivered from 1 April 2014?

Reply

Yes, we support this. However we remain concerned that by referring back to the IMD based on the 2001 census, there may be significant variations between the historical income levels, used to determine eligibility, and those that exist today, so we would urge data based on the 2011 census to

be introduced as soon as possible. In particular, we suspect that continuing use of 2001 data may under-estimate income levels on city fringes where there has been substantial "gentrification" over the past decade, at the expense of some less favoured housing estates from the 1960s to 1980s.

Question 22

Do you agree that an uplift should apply to the notional lifetime bill savings of non-gas fuelled households? Please provide views on the form and level of the uplifts as suggested above.

Reply

Non-gas fuelled households do warrant an uplift to enable sensible improvements to their properties to be valued appropriately. A number of scenarios should be modelled to establish the appropriate uplift to be applied to specific measures such as installation of boilers where none exist.

Question 27

Do you agree that there should be a SWI minimum figure equivalent to 100,000 properties insulated with SWI by 31 March 2017? Should this be set as number of properties, or as a carbon equivalent? If the former do you have any views on how this should be set? If the latter, do you have suggestions as to how the target should be calculated?

Reply:

We believe that the minimum figure equivalent for SWI is too low at 100,000. There are nearly 8m homes in the UK with solid walls. At the rate of 100,000 homes every three years it will take over 200 years before all solid walls homes are insulated. The extension of the deadline and watering down of the target figures proposed in this consultation has already had a very negative impact on the price per tonne of carbon. This has stalled many existing proposals for SWI and makes very unlikely that development and maintenance of a skilled and experienced supply chain will happen between now and 2017. Without more ambitious targets the supply chain is likely to be very similar in 2017 to what it is now.

We believe that the figure should be set as a carbon equivalent rather than the number of properties. For many properties a full SWI retrofit will not be possible – either for practical or conservation reasons. Setting the target by house is likely to result in complex rules about when a house qualifies for CERO funding. The target should be calculated on the basis of standard occupancy as established by a before and after EPC.

Question 28

Do you agree that we should specify SWI lifetimes in legislation for installations accompanied with an appropriate guarantee, and do you have any views on what the specified lifetime should be?

Reply

We agreed that you should specify SWI lifetimes for those accompanied with an appropriate guarantee. Specifying lifetimes provides clarity for ECO scoring. The period should remain at the current 36 years for installations with a SWIGA or equivalent guarantee of 25 years, as is the current position.

Question 29

Do you have a view on whether lifetime for other measures should also be set in legislation, and if, which measures?

Reply

We believe that the lifetime of other measures should be set in legislation to avoid introducing even more uncertainty into the value of the ECO. We would suggest that all eligible measures be given a fixed lifetime.

Question 30

Do you agree that the SWI minimum threshold should be apportioned according to market share, and if so, should this be calculated on a phased basis? And if so, what principles should apply?

Reply

We agree that the SWI minimum threshold should be apportioned according to market share but not that it should be calculated on a phased in basis. Phasing in becomes an excuse for further delay and it seems unlikely that there will be new entrants who are obligated to administer the ECO between now and 2017.

Question 31

Do you agree that secondary measures installed alongside SWI should not be counted towards the proposed SWI minimum threshold? What are the practical implications of this proposal, for instance, brokerage trading?

Reply

Secondary measures through CERO should count toward carbon targets to encourage the uptake of whole house retrofits, which in the long run are less disruptive than piecemeal energy improvements and result in higher carbon savings. Carbon savings made through installing secondary measures are still valuable savings and could still be very beneficial for properties for which a whole house SWI solution is not practical or advisable – or indeed if there are legal constraints in place, such as the property being listed or in a conservation area.

If secondary measures do not count towards carbon targets the result is likely to be yet a further reduction in the value of brokered carbon.

Question 32

Were we to take legislative action, what would be your preferred option based on those set out above? Do you agree that scoring uplifts is likely to be the optimum approach?

Reply

We would prefer scoring uplifts to legislation, although overall we think both suggestions are bad ones. What should be rewarded is the implementation of a range of improvement measures to make carbon savings, not the mechanism by which they are financed. A Green Deal Plan bearing interest in excess of 7% is unlikely to be attractive to those with savings or able to extend their mortgage. Rewarding the uptake of Green Deal Plans, as currently financed, is a policy likely to fail.

Question 33

What are your views on a scoring uplift for blended finance and could you provide evidence for your view?

Reply

Please see above. Government statistics show that the majority who have a Green Deal Assessment done don't go on to take out a Green Deal Plan but do go on to carry out energy efficiency improvements.

Question 36

Do you agree with the above "levelisation" proposals for recognising and rewarding early progress, and do they sufficiently address any adverse competitive implications of the other proposed changes to CERO?

Reply

Early progress should be rewarded but not at the expense of reducing the overall target. Applying uplift to primary measures that is in excess of the penalty referred to in Q3 would result in a net reduction in overall impact and should not be adopted.

Question 38

Do you agree that an uplift of 1.75 should be applied to primary measures above the proposed 35 per cent threshold installed by the end of March 2014?

Reply

As in response to Q36, the proposed uplift of 1.75 is almost criminally generous and would only be viable if a penalty of equivalent magnitude (or expected to have a similar impact) was applied.

Question 53

Do you have a view on whether measures funded through ECO from April 2015 should be recommended on the basis of a GDAR? In which case, do you have a view on whether Chartered Surveyors Reports should only be used to recommend measures in exceptional circumstances only? And if so, what should constitute an 'exceptional circumstance'?

Reply

We believe that all measures funded through ECO from April 2015 should be recommended on the basis of a GDAR **but** that Green Deal Assessors should be given additional training on when to recognise when a measure might not be appropriate or warrant further investigation before installation work goes ahead. This would particularly apply to solid wall insulation in a traditional pre-1900 property. A mechanism should be set up so that Assessors can flag up on the GDAR that there is a concern about a particular measure being installed & funded through Green Deal and/or without further investigation. In this instance the measure could only be installed using Green Deal or ECO finance if a Chartered Surveyor says the property is suitable after making a visit to carry out a more detailed survey.

Our concern is that Chartered Surveyors are being used to sign off the work of non-accredited energy assessors who are using RdSAP software to generate assessments. The Surveyor does not actually need to have visited the property themselves to sign off the assessment.

Question 54

Do you have other views on improving accuracy of assessments, for example the use of lodged EPCs?

Reply

This is a tricky question. Assessments are carried out by accredited assessors using RdSAP. RdSAP is a relatively simple tool that can be used by a large number of people relatively quickly and cheaply. To improve the accuracy has high cost implications and would not be necessary in all cases. As we have

said in our answer to question 53, improved accuracy might be achieved by allowing assessors to flag up that a particular improvement measure might not be suitable and that this should be checked by a Chartered Surveyor or other building professional.

We believe that the accuracy of lodged EPCs might be improved by an auditing regime for assessors that took into account not only the individual property that the assessor has assessed, but compares that individual assessment to other properties in the same block of flats or estate, as appropriate. When checking lodged EPCs for a tower block recently we noted that there was a very large number of construction types recorded by the different assessors producing EPCs for the individual flats. This might be something that Landmark could monitor.

Question 55

Where GDAR's are a paid for service when recommending Affordable Warmth measures, we welcome views on where any cost would likely - or indeed – should sit.

Reply

Where Affordable Warmth measures are being installed with the benefit of the Affordable Warmth Scheme and Green Deal Finance, the cost should be borne by the householder but rolled up into the Green Deal Loan and paid back over time. If Green Deal Finance is not required, the cost should be borne by the installer (who will in all likelihood incorporate the expense of obtaining a GDAR into the cost of the installation work).

Question 56

Do you have a view on whether measures promoted under ECO from April 2015 should be delivered by an accredited Green Deal installer and/or an installer who is PAS2030 certified?

Reply

Our view is that the measures promoted under ECO could be delivered by both an accredited Green Deal Installer and an installer who is certified under PAS2030. Allowing both allows more customer choice and helps keep down costs. It also allows SMEs a foothold in this market, from which they are seeing very little benefit at the moment. A mechanism would need to be put in place to allow PAS2030 installers – and indeed Green Deal Installers working independently from Green Deal Providers – to access ECO funds.

Release of ECO funds could be linked to the production of a Building Regulations Compliance Certificate where this is applicable.

Question 62

Do you have views on the accounting treatment of the obligation?

Reply

We agree with the expressed view that the accounting treatment should reflect the reality of the obligation, and not be used to distort the policy design of the scheme. We take the view that recognition of the full financial liability to deliver measures at the time that the obligation arises is both consistent with the fundamental accrual principle of accounting and may serve as an encouragement to companies to take action relatively quickly, to avoid the build-up of a significant balance sheet liability.