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# **The Green Deal and Energy Company Obligation: Consultation being conducted by the Department for Energy and Climate Change (November 2011 to January 2012)**

**DECEMBER 2011**

Martin Field



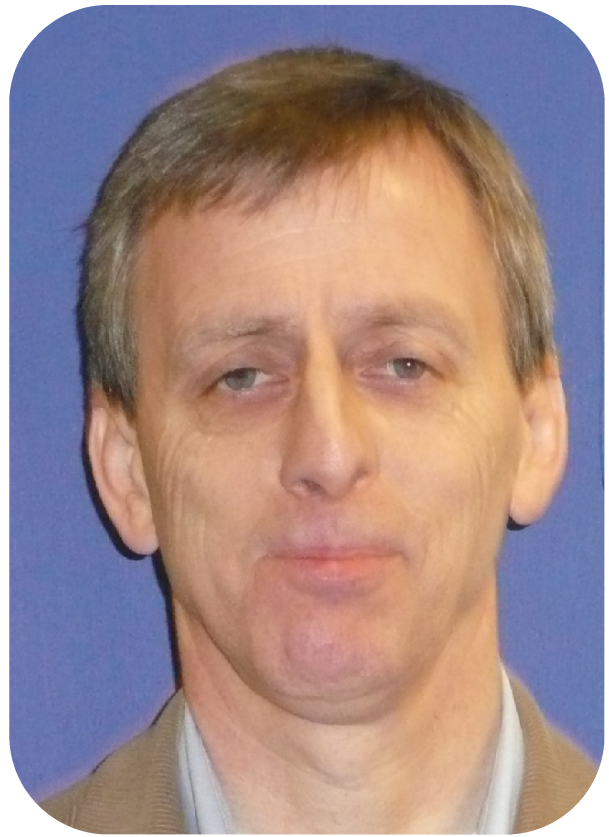
## About the author

**Dr Martin Field** is a Research Fellow and Lecturer with the Institute for Urban Affairs at the University of Northampton.

He has held senior positions in the local authority sector covering housing strategy, management and development roles; development posts with the housing association and the community sectors; plus regional positions with East Midlands Development Agency and on secondment to the Homes and Community Agency and the Housing Corporation.

Current work engagements have involved helping develop a new partnership in the academic sector behind the creation of the Collaborative Centre for the Built Environment that will be operational in the South East Midlands. This will have a significant interest in the development of skills and capacities required by 'retrofit' and other 'climate change' policies being promoting under the current 'Green Deal'.

From January 2012 he will be involved in a major new ESRC-funded project to look at the abilities of housebuilding schemes to be developed 'sustainably'.



## Introduction

In November 2011 the Department of Energy and Climate Change (DECC) began a two-month consultation inviting views on the next implementation of the coalition government's energy efficiency strategy – its proposed framework for a 'Green Deal and Energy Company Obligation (ECO)'.

The overarching intention for this framework is that it promotes a reduction in the carbon emitted by energy consumption in domestic and non-domestic properties through the creation of a 'dynamic' new market that will drive economic growth on the back of the envisaged property improvements: an open market, moreover, where 'local businesses and community organisations (are) competing to deliver the best proposition for the consumer'.

This briefing examines the nature of the consultation exercise about this framework and provides comment on some of the key issues that it entails for the housing sector.

***“Central to the development are proposals to create a market-led framework to allow individuals and businesses to make energy-efficiency improvements to their buildings at no upfront cost”***

## What is the Green Deal and ECO?

The Green Deal and ECO framework has been specifically designed by the coalition government to address what it sees as market failures and barriers preventing the uptake of cost-effective abatement measures to tackle energy inefficiency in both the domestic and non-domestic sectors.

The Energy Act 2011 made provisions for the development of a Green Deal and a new ECO to replace the existing Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP), both of which will expire in 2012.

Central to this development are the current proposals to create a market-led framework that will allow individuals and businesses to make energy-efficiency improvements to their buildings at no upfront cost. A finance mechanism will be instigated that will provide the funds needed for efficiency improvements: repayments will be attached to the property's electricity bill over an agreed repayment period.

## What are the measures proposed by the Green Deal/ECO framework to deliver improvements in energy-efficiency?

DECC issued a document in July 2011 (*What measures does the Green Deal cover?*) as an early indication of how policy in this area was being formed. In practice the choice of appropriate measures will be based on a physical assessment of the particular property and an understanding of what measures (if any) have already been installed. The 'Green Deal assessor' will make recommendations on which (new) measures are suitable for the property, highlighting those measures likely to be eligible for Green Deal finance.

The government proposes to list in subsequent regulations the measures permitted and add to that list any new measures which can be shown to be effective.

On 24 November the government also announced £200m of funding for incentive payments for early Green Deal adopters in 2012/13 and 2013/14.

***“Underpinning the Green Deal is the proposal that energy companies are set new obligations to fund measures to cut carbon use and reduce fuel poverty, paid for through a consumer levy”***

## What are the proposals for the new ‘obligations’ on energy supply companies?

Underpinning the delivery of the Green Deal is the proposal that energy companies are set new obligations to fund measures to cut carbon use and reduce fuel poverty, paid for through a consumer levy. There will be two obligations:

- Affordable Warmth, intended to fund installations which will reduce vulnerability to fuel poverty (the households being considered here are approximate to those currently in the ‘super priority’ group under CESP procedures)
- Carbon Saving, intended to top up Green Deal finance in properties in which a high standard of energy-efficiency is costly to achieve, such as some ‘difficult-to-treat’ properties.

DECC’s impact assessment suggests that the Affordable Warmth obligation will account for about a quarter of the companies’ obligations, and Carbon Saving the remainder.

## What is the subject of the current consultation?

The consultation is seeking views on the details of the Green Deal and ECO policies that are to be implemented in secondary legislation and under subsequent energy licensing arrangements. The proposed framework has a number of key components:

- Accredited and impartial advice and assessment of properties
- An accreditation framework for delivery and intervention to help create capacity
- An accreditation framework for low cost finance from finance providers
- An accreditation framework for installers
- Support through ECO for some owners of hard-to-treat properties
- Support through ECO for vulnerable and low income households
- Consent, disclosure and acknowledgement of Green Deal measures being carried out
- Provision for repayments and remittance to Green Deal providers through the electricity bill
- Partnerships and localised delivery of the Green Deal and ECO
- A consumer protection regime at every stage through the Green Deal and ECO journey
- ECO targets at a level that will not overburden energy companies and bill payers
- Monitoring and evaluation to inform future policy development.

## Why is there consultation now?

The government is keen to hear from as wide a range of stakeholders as possible, in particular from organisations with an interest in operating within the framework and from members of the general public who might be considering investing in energy-efficiency.



As there are a number of new mechanisms for the operation and financing of the Green Deal/ECO framework, the consultation stresses the desire to hear views on how whether or not they offer robust consumer protection ‘without unduly stifling ambition and investment’.

***“There is furthermore an ambitious legal timetable to complete”***

There is furthermore an ambitious legal timetable to complete, if the new framework is to be implemented by late-2012, so the government wishes consultation responses to inform the drafting of further policy detail and necessary Statutory Instruments.

## **What format does the consultation take?**

There is a very substantial amount of documentation involved in this consultation. Starting at DECC’s main website link: [https://econsultation.decc.gov.uk/decc-policy/green\\_deal\\_eco/](https://econsultation.decc.gov.uk/decc-policy/green_deal_eco/), there are two main documents:

- The Green Deal and ECO consultation document (238 pages). Click [here](#) to download
- Draft Green Deal and ECO Impact Assessment (298 pages). Click [here](#) to download.

An online consultation response form can also be located at this link, with the option of either completing online or downloading it and posting to DECC’s address.

Part of the consultation is a draft Code of Practice on assessment and installation, setting out in detail the content of Green Deal plans, the duties of Green Deal providers, the duties of certification bodies, the marketing and use of the Green Deal quality mark, customer complaints, dispute resolution and redress, and penalties for breaches of the Code.

See:

<http://www.decc.gov.uk/assets/decc/11/consultation/green-deal/3585-draft-green-deal-code-practice.pdf>

The rest of the consultation ‘package’ also contains draft Statutory Instruments, draft amendments to energy company licences, a draft agreement between energy companies and other Green Deal providers, and other notes to key stakeholders like the local authority sector.

There is no discernible list of all the documentation relevant to the consultation; however a list of all the government's Green Deal documentation can be located at:

<http://www.decc.gov.uk/publications/directorylisting.aspx?tags=57&PageNumber=8&resultsNumber=10>

## What are people being asked to consider in making responses to the consultation?

The consultation is posing 60-plus questions, and seeks views on the following issues:

- Questions 1-7 on the **assessment** procedures and requirements of Green Deal Assessors
- Questions 8-18 on the **measures, products and systems** that could be acceptably used
- Questions 19-24 on the authorisation and responsibilities of **Green Deal providers**
- Questions 25-30 on **the Golden Rule** to calculate levels of debt and repayments
- Questions 31-33 on how **fuel poverty** might be tackled in an **equitable** manner
- Questions 34-39 on whether the **disclosure** conditions will be a safeguard to all parties
- Questions 40-41 on whether accreditation already exists for some Green Deal **installation**
- Questions 42-50 on what 'infrastructure' is required for appropriate **payment collection**
- Questions 51-54 on 'brokerage' proposals for **delivering the Green Deal and ECO**
- Question 55 on whether or not the Energy Ombudsman has a role in **consumer protection**
- Questions 56-60 on **setting the ECO and its metrics** to calculate overall costs and savings
- Questions 61-62 on which bodies should **monitor and evaluate** the ECO administration



- Finally there is an open opportunity to make any other responses or 'general comment' on the overall framework.

## Will the Green Deal framework deliver savings in CO<sub>2</sub> production?

The robustness of measures being applied to housing properties in order to diminish their energy inefficiency requires a variety of skill sets to be all performing to their best abilities: assessment of the baseline energy use/efficiency; the selection of measures to reduce this relevant to each building; implementation of works on-site to apply chosen products and procedures in practice; and adequate monitoring and assessments post-installations.

Installation of measures financed through the Green Deal can only be carried out by installers certified to have met a new Green Deal standard. The British Standards Institute (BSI) is currently developing the installer standard; it is scheduled to be published in January 2012. However it is fair to say that all the 'green' skills required are still in the process of being developed in the UK, and the Green Deal/ECO framework will need to be clear about how it ties down real results against the investments involved, and not simply *projections* of such results. There needs to be explicit redress for situations where investment made does not achieve the stated long-term energy and CO<sub>2</sub> savings in order to sharpen the development of suitable and competent implementation skills.

Insurance-backed warranties to cover ineffective installation and implementation works may also need to consider a cover for the whole repayment period, ie, covering the lack of anticipated efficiencies coming to the energy suppliers, just as much as a lack to the property owner/bill payer.

## Are the targets to reduce households in fuel poverty realistic?

Current energy-efficiency measures targeted at households in fuel poverty principally involve subsidies under the CESP and CERT arrangements, many of whom are housed in the social sector. At present the consultation document proposes that the ECO Affordable Warmth element should not be available for installations in social housing. (There is not any proposed limitation on the Carbon Saving element, but the document indicates a preference for focusing this upon solid wall properties, the majority being outside the social sector.)

***“The robustness of measures applied to housing properties to diminish their energy inefficiency requires a variety of skill sets performing to their best abilities”***

The documentation does outline a possible ‘distributional safeguard’ which would focus the Carbon Saving element on lower income households, but there is little detail yet on how this might work.

***“The creation of a ‘new and open’ market is a bold aspiration”***

The recognition that there are substantial numbers of households in fuel poverty in private sector properties is to be welcomed; however this alone does not mean that the relevant properties and households will receive the measures of benefit here, especially if there is any reticence in the private sector (eg, from landlords) to having their properties changed.

Research commissioned by members of the social housing sector indicate that over one million homes could be susceptible to fuel poverty if they were denied access to subsidy *in addition to* the proposed Green Deal mechanism. Clearly the social housing sector is considering how to submit a case during the consultation that a significantly different approach is taken to the detailed design of ECO from that indicated as the government’s preferred approach, where the transition from existing subsidy arrangements is more realistic.

## **Will the framework help to improve homes?**

The new framework should enable property improvements to take place, given that it is intended to help implement changes where a lack of finance may be a significant reason that improvements have not been instigated before. The measures implemented need to secure a reduction in energy inefficiencies and thereby a subsequent increase in internal comfort and condition, so this will be on the provision that they have been implemented correctly – if the framework can assist in the development of a lasting supply and skill base to deliver this then it should certainly have a lasting value.

## **Will the government’s proposed framework generate a dynamic new market and lead to substantial economic growth?**

The creation of a ‘new and open’ market is a bold aspiration, let alone the intention that this helps subsequent wider ‘economic growth’. Recent government policy reversals to change plans for new market developments in the housing sector are no herald of confidence here: over the past couple of years there has been top-level encouragement of a new ‘Home Information Pack’ requirement for house sales, only for this to be discarded before the planned commencement date, and only recently the

reduction in Feed-in Tariffs payable against energy generation has been a major blow to confidence in that embryonic market.

The government needs to consider how to stimulate an appropriate balance between the interests of all potential stakeholders; however, it also needs to act cautiously if subsequent change is required in the future, in order that short-term or abrupt interventions do not detract from creating the momentum of confidence that any market will require for long-term sustainability.

***“The government needs to consider how to stimulate an appropriate balance between the interests of all potential stakeholders”***

### **Is the proposed framework primarily for properties in private sector tenure?**

The documentation tends to focus on how the approach would work for retail installations in owner-occupied properties, which is understandable to the extent that approximately 75% of properties are in the private sector and it is generally estimated that a smaller percentage of this has been the recipient of energy-efficiency measures to date than the percentage of social housing sector properties that has received efficiency improvements.

It is not clear if the government will consider whether similar approaches to the assessment, consent, installation and payment procedures could be applied to social housing stock portfolios, thereby acknowledging the landlord/tenant relationship here and the knowledge and professionalism of social landlords, as well as the chance to deliver improvement schemes at larger scale (including work for properties heated via communal systems).

Whilst a tenant or leaseholder could seek to arrange a Green Deal assessment and installation on an individual basis, the government rightly proposes that the landlord's consent should be required, not only to protect the landlord's interest in the physical condition of the property but also to prevent the misselling of individual Green Deals when a landlord-commissioned programme is in prospect,

### **Will the framework be efficient for the housing sector?**

This consultation involves an extensive set of technical issues and proposed mechanisms, and must rank as one of the most complicated recent processes on which views are being invited.

Whether or not the Green Deal/ECO framework is a cost-effective mechanism for financing work in the sector will depend on how the costs of the process, and the cost of capital, compare with the costs of other approaches. Some property owners may prefer an alternative model, under which they borrow conventionally to install energy-efficiency measures and either redeem the loan across a shorter period, or if they are landlords, cover the debt through additional service charges (which could also recognise potential Housing Benefit implications).

***“Whether or not the Green Deal/ECO framework is a cost-effective mechanism for financing work in the sector will depend on how costs compare”***

The level of interest charge that will constitute one part of the subsequent repayment agreement will be of crucial relevance here, both to the Green Deal financiers and to the property owner/charge payer. The consultation includes an acknowledgement that limits could be set on interest percentages; however, it will be uncertain if market mechanisms alone will be sufficient.

Other unanswered questions remain about how cost-effective the overall framework will be in making transitional arrangements away from existing CERT/CESP subsidy programmes.

## **When does the consultation end?**

The formal consultation period runs through until 18 January 2012.

## **Where should responses be sent?**

DECC would prefer the response form to be completed online and submitted by email to:

[greendealandecoconsultation@decc.gsi.gov.uk](mailto:greendealandecoconsultation@decc.gsi.gov.uk)

Postal responses should be submitted to:

Green Deal and ECO Consultation  
Green Deal Legislation Team  
Department of Energy and Climate Change  
1<sup>st</sup> Floor Area D  
3 Whitehall Place  
LONDON  
SW1A 2AW

## **What will DECC and the government do with the responses?**

Following the end of the consultation period the government will make final decisions about policy and funding and construct a package of appropriate Statutory Instruments to put before Parliament during Spring 2012.

The government intends that the Green Deal/ECO framework should commence by late 2012.

## **Sources of other relevant information:**

For up-to-date news on the progress of the Green Deal and ECO, DECC has a stakeholder mailing list:

[http://www.decc.gov.uk/en/content/cms/tackling/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/tackling/green_deal/green_deal.aspx)