

NATIONAL ENERGY SERVICES RESPONSE TO THE COMMUNITY ENERGY SAVING PROGRAMME CONSULTATION

ABOUT NATIONAL ENERGY SERVICES LTD

National Energy Services (NES) owns and operates both the NHER Accreditation Scheme and the SAVA Certification Scheme.

The NHER is the UK's first and largest energy rating scheme, established in 1990. We provide software, training, accreditation, research and consultancy for organisations and individuals involved with improving the energy efficiency of buildings, particularly dwellings. The NHER Accreditation Scheme currently has over 3,000 members accredited to issue various types of Energy Performance Certificates (EPC) and Display Energy Certificates (DEC).

SAVA provides software, training and accreditation for Home Inspectors and all aspects of Home Condition Reports and has operated since 2000. SAVA was the first approved Certification Scheme for Home Inspectors and currently has over 400 members.

STATUTORY INSTRUMENT

Q1. Do you have any comments on the draft Statutory Instrument?

No.

IMPACT ASSESSMENT

Q2. Do you have any comments on the partial Impact Assessment? Do you believe there are other sources of evidence that could be used to help refine the assessment? In particular:

The justification for choosing the preferred option is weak given the additional £1 billion in the Total Benefit of Option 4. Surely there must be scope for an option under which the additional investment is targeted towards low-income communities, but which delivers a better total benefit than the approach currently proposed?

Reducing the emphasis on measures with the poorest cost effectiveness (such as solid wall insulation) would significantly improve the overall benefits, in terms of reduced running costs, reduced carbon emissions and increased social equity by spreading the benefits of the programme over a greater number of low-income households.

The expenditure of substantial CERT funds on the installation of measures that enhance the asset value of an owner-occupied home whilst delivering only limited reductions in energy and carbon emissions is socially iniquitous.

Q3. Do you agree with the identified costs and the main groups on which they fall? If not, please explain why and suggest other costs which may exist and groups which may be affected.

It is reasonable to anticipate that all costs will be passed through to consumers in their energy bills. Since energy costs are a significantly higher percentage of income for low-income households, the impact is fundamentally regressive.

The targeting of the programme exclusively on low-income communities is welcome, but the pre-occupation with “whole-house” solutions and the incentives given to promote the installation of measures which have poor cost-effectiveness, results in too few households benefitting from the programme. Fundamentally, the number of households benefitting is too small given the number, including low-income households, who are funding the programme.

DISTRIBUTION BETWEEN SUPPLIERS AND GENERATORS

Q4. Do you agree that the CESP obligation should be split equally between supplier and generation companies? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

It is not self-evident that extending the obligation to generators serves any purpose. It would make seem to make more sense to stick with the existing model whereby the obligation rests solely with the suppliers, allocated pro-rata to the number of customer households they have.

Your analysis recognises that generators will have pass on the cost to their customers, primarily the energy supply companies. The supply companies will in turn pass the additional cost on to their customers, together with their own costs for delivering their element of the programme.

Since the generators have not previously had such an obligation, they will inevitably incur higher mobilisation costs gearing up to deliver the programme. This will increase the overall cost and reduce the overall cost-effectiveness of the programme.

Furthermore, since the generators will generally not have any relationship with the target households, there is little if any reputational or other commercial benefit arising from their involvement.

LIMITS FOR EXEMPTION OF SMALL COMPANIES

Q5. Do you agree with our proposed approach to providing an exemption from the CESP obligation to small companies? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

Allowing exemptions creates complexity and an increased oversight burden. It may be preferable for the obligation to apply to all relevant companies. Two options to avoid this becoming an excessive burden for smaller companies would be:

- Allow companies to contract-out their obligation through a commercial agreement with one of the larger suppliers (or indeed a third party); or
- Allow companies to contribute to an “obligation buy-out fund” run by Ofgem and priced at a rate slightly higher than the notional rate per tonne CO₂ assumed in the programme design. Larger suppliers or third-party organisations able to deliver community level programmes within the target communities could then “bid” for funds on the basis of the carbon savings they will achieve. This approach may enable a wider range of project types to be developed and evaluated than might otherwise occur.

DISTRIBUTION OF THE OBLIGATION BETWEEN COMPANIES

Q6. Do you agree that the CESP obligation should be distributed between companies in proportion to their annual electricity generation? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

We are not convinced that the inclusion of the generators is a sensible move; continuing to exclude these companies would obviate the requirement for rules on burden sharing.

However, if generators are included, then carbon emissions may be a better basis for allocating the burden than electricity generation. This would provide an additional incentive for generators to reduce CO₂ emissions.

THE REGULATORY APPROACH

Q7. Do you agree that the scheme should be flexible to allow for the development of different forms of community partnership working? If not, why not?

Yes.

Q8. Do you agree that it is reasonable to envisage that the natural incentives are strong enough to ensure an effective partnership approach for CESP? If not, why not?

No – but not because of the nature or size of the incentives. The fundamental nature and scale of the operation creates its own barriers to effective partnership working and the variety of partnership structures likely to arise.

In some previous projects, including Warm Zones, Local Authorities have been reluctant to be too directly associated with a project out of concern that too close an association with the energy supplier would be perceived as compromising their independence. As is acknowledged in the consultation document, obligation holders are likely to seek to enhance their brand reputation through this activity, exacerbating this potential tension.

The consultation also identifies that demand is likely to exceed the available funding. This will result in downward pressure on the amount of funding available to achieve a set level of savings. This provides the obligation holder with a significant degree of “purchasing power” in any negotiation with local “partners”.

As a result, the variety of possible partnership arrangements is constrained. In order that Local Authorities or community groups could lead on a project, it is likely that they will need direct control over funding. This could be enabled by encouraging or requiring the obligation holders to satisfy some proportion of their obligation through payment into an “obligation buy-out fund”. Local Authorities and other bodies could then propose projects to the fund manager (Ofgem).

Q9. Do you agree that there should be a requirement for some form of evidence of Local Authority endorsement, such as a letter of support?

Yes.

Letters of support and details of the roles and responsibilities of each of the partners should be included in the original project submission to Ofgem.

CREATING INCENTIVES

Q10. Do you agree that CESP should target fewer homes but provide greater CO₂ and fuel bill savings for homes targeted? If you do not agree, please explain your reasons and offer an alternative approach.

Recognising the broader objectives of CESP, it is reasonable that a greater priority should be given to ensuring that properties receive a range of measures sufficient to produce significant reductions in energy waste, fuel bills and CO₂ emissions. This will inevitably mean that fewer properties are treated. However, there has to be a balance struck between maximising the savings in an individual property and optimising the total savings achieved.

A minimum acceptable cost-benefit threshold should be used to determine which measures it is reasonable to include, given the objectives of tackling fuel poverty and reducing CO₂ emissions.

HIGH EFFICIENCY BOILERS

Q11. English building regulations require replacement boilers to be B-rated or better. Can CESP therefore add anything to the replacement of boilers mandated by the building regulations?

The Building Regulations only require that **if** a boiler is replaced, then it must be B-rated or better. As is acknowledged in the consultation document, the problem for many low-income households is a lack of capital to carry out a replacement. As such, old boilers will only be replaced as a last resort and in the event that repair is absolutely impossible.

An efficient and effective heating system with good controls should be considered as fundamental requirements for an energy efficient home. It is both the most tangible energy use in the home and is significant in terms of wider impacts such as air quality and general comfort.

We believe that there is a strong argument that the CESP programme should not only be supporting the replacement of G-rated boilers, but F, E and possibly D-rated boilers too – particularly those (generally older) models that are likely to be repaired rather than replaced in the event that they breakdown.

Q12. Is there a need for a mechanism that would protect households who have a boiler replaced under CESP from any potential early failure of the new boiler? If so, how might that protection be provided?

As a minimum, there should be a twelve-month full warranty on the full system, including any elements of the existing system that are retained. However, if there is evidence that concern over this issue is a barrier to the take up of the measure, then it must be possible to include a five year full system maintenance / service agreement as an integral part of the measure.

CENTRAL HEATING

Q13. The Government requests stakeholders to explain whether or not they support the inclusion of installing gas central heating in non centrally heated homes and provide evidence in support of their comments.

Yes we strongly support the inclusion of the provision of gas central heating (or an alternative efficient, whole-house, controllable heating system) for homes currently without central heating.

The running cost benefits of a modern heating system can be easily demonstrated by a SAP assessment, whilst the wider health and social benefits of an adequately heated home are widely recognised.

Ensuring all homes treated have an efficient and effective heating system with good controls should be a core goal of the programme. Without this, any claim to have provided a “whole house solution” would be open to challenge. Homes with only partial heating – often expensive to operate and therefore unused – cannot be considered to be energy efficient.

SOLID WALL INSULATION

Q14. What types of Solid Wall Insulation are available and what are their relative costs and CO2 savings?

The Energy Efficiency Partnership for Homes recently published a review of the Solid Wall Insulation industry supply chain. The costs in that report are generally higher than those shown in the CESP consultation document. The report is available from EST.

SCORING

Q15. Do you agree with the proposed list of measures available under CESP?

Given the objectives of the programme, the widest possible range of measures should be available to meet the needs of the widest variety of properties in the target areas. Specific suggestions for additional measures include:

- Additional space and water heating measures to ensure that all treated homes have safe, efficient and effective means of providing space and water heating. This may include replacement room heaters and instant water heaters, as well as the whole house systems currently proposed.
- Insulation suitable for fitting at rafter level in loft spaces and for flat roofs.

The Home Energy Audit proposals need significant further development. We recommend that the audit form the basis for both the determination of suitable physical measures and the delivery of behavioural measures. As well as the initial audit, a follow-up visit should be undertaken after all measures are installed to reinforce the behavioural measures and to ensure that the recipient is able to use the controls on any active systems installed.

We would recommend the formal lodgement of all HEA reports (including both the initial audit and the post-installation audit) on the national EPC register. This will provide a comprehensive audit trail for all measures installed in property and support a far more comprehensive assessment of effectiveness of the CESP programme and its link into the wider programme of improving energy efficiency in existing homes than would otherwise be possible.

DISTRICT HEATING CRITERIA

Q16. Should district heating projects be included within the list of potential CESP measures? Please include an explanation of your answer.

Yes.

We believe that district heating schemes offer a potential means of reducing carbon emissions from existing homes in selected situations, primarily tower blocks and, potentially, terraced housing. However, their effectiveness depends on near universal take-up, severely limiting the number of situations where they can be effectively deployed.

Q17. Are there any particular types of scheme which merit inclusion more than others or which it would be easier to include?

Only schemes based on biomass and CHP (or at least with the potential to be converted to biomass and CHP at some point in the future) should be supported.

Only schemes for tower blocks or equivalent should be supported and preference should be given schemes linked with a school and/or other public building to provide suitable space and system load.

Q18. Is it possible to attribute any base-line scores to particular types of scheme, or would this need to be on a case-by-case basis?

Schemes should be assessed on a case-by-case basis. The software used for the assessment should be freely available to all interested parties and the underpinning algorithms used by the software should be published so that third-party software providers can implement software to support developers in identifying and assessing potential schemes.

CREATING INCENTIVES FOR A WHOLE-HOUSE APPROACH

Q19. Do you think our proposed bonuses for scoring measures encourage the delivery of a whole-house approach? If not, please explain why and offer an alternative set of incentives.

Clearly the proposed bonus arrangement encourages the installation of multiple measures within each dwelling. However, given the savings in marketing costs and the claimed operational benefits of installing multiple measures where possible a single household, it is unclear that additional incentives are actually required.

Furthermore, the bonus arrangements add significantly to the complexity of the overall programme. This increases the risk of unintended consequences and, potentially, sub-optimal outcomes.

At a general level, the “whole-house approach” appears to be designed to promote the installation of solid wall insulation; something we feel is of questionable merit or justification. Clearly SWI delivers significant reductions in carbon savings and fuel bills in the individual property, but the absolute benefits would be greater if the funding was used to support the installation of lower cost measures in several homes instead.

The disruption associated with the installation of SWI means that any activity is likely to be focused in the social housing sector, where substantial public investment is already targeted and where the average energy efficiency is already higher than in the owner-occupied and private rental sectors.

Furthermore, the installation of measures that are not cost-effective raises social equity questions, particularly given the likely increase in the asset value of the properties where the measure is installed.

CALCULATING BONUSES

Q20. Do you agree that this scoring system will encourage the delivery of measures that will meet the CESP objectives of reducing CO₂ and fuel bills? If not, please explain your reasons and offer an alternative methodology.

No. Giving credit strictly according to carbon savings and not offering any uplifts or bonuses etc would optimise the outcome given the objectives of “reducing CO₂ and fuel bills”. The only objective that the proposed approach delivers is pursuing a “whole house approach”, including the installation of high-cost measures with poor cost-effectiveness. Penalising cavity wall insulation (on the grounds that it is a highly cost-effective measure) in order to promote other measures is particularly perverse.

DELIVERING INTENSIVE ACTION IN SPECIFIC AREAS

Q21. Would uplifts on a points score, proportional to the density of homes reached or measures introduced, encourage intensive action within a targeted area?

Potentially. However, the identified disadvantages and other sub-optimal behaviours are almost inevitably going to arise. Furthermore, the density achieved (and therefore the score achieved) cannot be known at the start of a project. This hugely complicates decisions about the financial support that could be made available, creating a circular problem.

Overall, we would not support this approach as it significantly increases the complexity of a programme that is already too complicated.

Q22. Do you think any of the described options will deliver intensive action in specific areas? If so, which option do you favour? If not, please explain your reasons and offer an alternative.

All of the options are excessively complex and we would not support any of them since much simpler options are possible. For example, since only measures installed under projects within specific areas and approved by Ofgem count towards the CESP target, it is a simple matter to control the number of projects approved for a company. This will ensure that a minimum activity density is achieved, whilst still providing companies with a high level of operational flexibility and confidence in the score per measure.

If companies struggle to achieve adequate levels of activity in their approved project areas, it would be simple to set a reducing multiplier (starting at one and declining) that would be applied to the carbon score for measures installed under each additional project. This would create a strong incentive to avoid having to add additional project areas.

Fundamentally, an underpinning premise of CESP is that there are operational (and therefore cost) advantages in focusing activity in specific areas; if this is true, then there should not be any requirement to explicitly incentivise such an approach.

LOW INCOME HOUSING

Q23. Do you agree CESP should use the income domain of the Index of Multiple Deprivation as the as the measure of income deprivation? If not, what should be used and why?

Yes. However, since the proposed areas include more than 2.5m households and it is anticipated that the programme will only help 90,000 homes, there is a strong argument for applying a more stringent criteria for selecting the target areas. This would ensure that the programme targets the most deprived communities.

TARGETING LOW-INCOME HOUSEHOLDS

Q24. Do you agree with the proposal not to prescribe in legislation what suppliers and generators can charge for measures?

Yes.

Q25. Is the assumption that suppliers and generators will themselves have to bear the whole cost, or the very great majority of the cost, of the measures which they deliver a reasonable one? If not, please state why.

Yes, it is a reasonable assumption. Even if it proves to be false and one or more companies are successful in leveraging in additional funding (e.g. EU

regional development funding), it is difficult to see that this would be anything other than beneficial.

WORKING WITH OTHER INITIATIVES

Q26. Do you agree that a flexible approach, allowing communities to identify how best to integrate the range of initiatives in their areas, should be followed?

Yes, but it is unrealistic to expect effective integration given the complexity of the currently proposed scoring arrangements. Simpler rules will make it easier for companies to commit to levels of activity and financial support, which will in turn make it easier to implement coordinated programmes.

Q27. Or should there be an attempt to develop a more prescriptive approach? If so, how would the concerns expressed in paragraph 5.10 be overcome?

No. It is unlikely that this is even achievable given the desire that individual communities develop solutions that meet their specific needs.

Q28. Are there any other initiatives we should consider when thinking about the design and interaction of a new CESP obligation?

There are potential overlaps with HIPs, landlord incentive schemes and the low-carbon buildings grants (especially if microgen or district heating schemes are proposed), as well as possible impacts from renewable heat and other new programmes.

The diversity of potentially overlapping programmes is another argument in favour of a dramatic simplification of the scheme rules and the scoring arrangements.

PROGRAMME TIMING

Q29. Do you agree that CESP should run from autumn 2009 until December 2012? If not, what other option do you prefer and why?

The HESS consultation document refers to CESP as acting as a pilot for possible post-CERT approach to improving the energy efficiency of existing homes. If this is the case, it is essential that CESP projects be completed in good time to enable the effectiveness of the approach to be evaluated prior to any detailed consideration of future options.

We therefore recommend that companies be required to complete installation of all CESP projects by the end of September 2011 and to have completed all reporting by the end of December 2011. This will feed into the consideration of possible post-CERT options, which will need to be consulted on in spring 2012 to avoid any gap between the end of CERT in December 2012 and the start of whatever replacement programme is decided upon.

TRANSFERRING OF CREDITS AND TRADING OF OBLIGATION

Q30. Do you agree that obligated parties should be allowed to transfer credits that they have achieved with other obligated parties?

Yes.

However we are concerned about the impact of transfers of credits from one programme to the next and about the problems of forecasting future activity levels because of a lack of information about total activities undertaken. We therefore strongly recommend that the Regulations for both CESP and CERT be amended to require obligated parties to notify Ofgem of all measures installed on an address specific basis within 30 days of their physical installation. Measures not notified within that period will be subject to a reducing multiplier factor, effectively reducing their value of the measure pro-rata with the length of the delay in notification, so that measures installed 90 days prior to notification attract zero credit.

Q31. Do you agree in principle that trading of the obligation itself should be allowed? If so what level?

The consultation does not describe the potential risks associated with allowing this and we have not identified any. As such, we support the proposal.

If trading is allowed, we cannot see any reason why it would be limited. The organisations most likely to want to take advantage of this option are likely to be those with low CERT and/or CESP obligations and lack the expertise and resources to manage programmes in-house. In such a situation, limiting the level of trading allowed would still require obligated parties to run CESP programmes, negating the benefit of trading.

Q32. Should Ofgem be required to approve any trading arrangements?

Ofgem must be satisfied that the legal duty to satisfy the CESP obligation lies with an organisation competent to satisfy that obligation, otherwise an obligated company could simply trade the obligation to a company that could then be wound up. However, there is no obvious reason why Ofgem would need to be party to the commercial terms of the trade.