

NATIONAL ENERGY SERVICES RESPONSE TO HEAT AND ENERGY SAVING STRATEGY 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.

Q1: Do you agree with the level of ambition and the indicative pathway set out in this chapter? If not, why, and what alternative would you suggest?

- **We support the level of ambition.**
- **We do not agree with the pathway as outlined as we do not believe it will achieve these goals.**
- **We believe that establishing mandatory minimum energy efficiency standards for buildings being sold or rented out is essential to achieving the goals and would be more socially equitable.**

We support the ambition of an 80% reduction in carbon emissions by 2050 and the consequential necessity to reduce emissions from buildings to as close to zero as possible. We also support the interim ambition to have installed loft and cavity wall insulation in all homes where it is possible to do so by 2015.

However, we are not convinced that the indicative pathway described will deliver these ambitions. Our concerns relate primarily to the over-dependence on advice and financial support funded by the energy industry to drive action, without price signals or any element of compulsion for building owners to take responsibility for their emissions.

Ideally, carbon pricing would be used to increase carbon-based energy costs and therefore stimulate efficient investment strategies for emission control. However, given that energy costs remain a relatively small proportion of most occupants' overall costs, the price of carbon would need to be high, imposing unacceptable burdens on the fuel poor and many small businesses.

In the absence of carbon pricing, we believe that the required level of investment in emissions reduction can only be achieved through a combination of both incentive and obligation. Specifically, we believe that legislative measures are required to place responsibility on the owners of the buildings whose assets are responsible for the emissions. This will ensure that they invest in their building in order to achieve the appropriate standards, which can be set to be compatible with the overall carbon budget.

Delaying the introduction of such legislative measures will, we believe, simply result in the necessity to introduce more onerous regulation in the future. We therefore recommend the immediate introduction of regulations to require the installation of low-cost measures recommended in the Energy Performance Certificate (EPC) at the time of change of ownership or when a property is being let. This would deliver a significant boost to the rate of improvement of the energy efficiency of the building stock and help to ensure that the 2015 ambition is achieved.

The EPC is ideal for this purpose, being a legal document, prepared by fully qualified and regulated energy assessors and utilising the approved National Calculation Methodology to both assess the energy efficiency of the building and to provide recommended improvement measures. Furthermore, all EPC in England, Wales and Northern Ireland and for domestic buildings in Scotland are registered on nationally managed databases, thereby providing a robust dataset to monitor improvements in the energy efficiency of the building stock and to audit compliance with standards. This provides an ideal framework within which standards can be further raised in the future, as needed to achieve the overall target.

At a more detailed level, we are concerned with the over-emphasis on the “whole-house” approach. Whilst such an approach may provide some improvement in operational efficiency for the installer, there is no evidence presented that this benefit is substantial. By contrast, it is very clear that such an approach is likely to result in financial support being poorly directed, going towards the installation of high cost measures in some properties and away from the installation of more cost-effective measures in other properties.

The “whole-house approach” also presumes that buildings can be “sorted out once and then ignored”, completely ignoring the potential for new technologies and improvements in the cost-effectiveness of existing technologies. We feel that financial support should be fundamentally directed according to local cost-effectiveness criteria, not according to an operational model which has not been demonstrated to deliver significant benefits in overall cost-effectiveness.

Q2: Do you agree with the Government's policy approach set out in paragraphs 1.31 onwards to achieving our ambitions on heat and energy saving?

- **No.**

The approach outlined is overly dependent on the provision of additional information leading to significant changes in behaviour, without any specific evidence to suggest that this is realistic. No solutions are offered for even the most

basic of barriers identified such as having to remove items from lofts or households not liking solid wall insulation.

The policy is also pre-occupied with a “whole-house approach”. As discussed in our response to Question 1, no evidence is offered to demonstrate that the operational benefits of such an approach outweigh the disbenefits. In particular, we are concerned that such an approach will inevitably result in financial support being poorly directed because cost-effectiveness is not the primary criterion.

We do support the policy recognising the significant role that can be played by Government and the public sector generally. However, no proposals are made that will boost activity, therefore it appears unrealistic to expect that the sector will progress at the rate needed to meet the 2015, 2030 and 2050 targets.

Q3: How can the Government encourage people and communities to change behaviour to save energy? What is the appropriate balance between changing attitudes, and providing advice and information?

- **The policy approaches outlined are overly dependent on financial incentives and the provision of advice and information, funded through a socially regressive obligation on the energy companies.**
- **Defining minimum legally acceptable standards is the most effective means of achieving emission reductions and will, over time, change attitudes and behaviour by changing expectations.**

The question implies that “changing attitudes” and “providing advice and information” are alternatives and that there is a choice between them. In practice, the provision of information and advice is critical to changing attitudes and behaviour; however, this can be an extremely slow process. Furthermore, seeking to change behaviour by encouraging people to accept a reduction in service (e.g. reducing comfort by lowering the heating or taking time to switch appliances off) is unlikely to gain wide support.

Regulatory intervention, supported by effective communication, has been demonstrated to be effective in delivering both changing attitudes and behaviours. For example, the introduction of a plastic bag tax in Ireland supported by communications about the environmental impact of disposable plastic bags, resulted in a very quick change in behaviour. The introduction of legislation requiring the use of seat belts and supported with information about the reduction in the risk of serious injury for seatbelt users, has similarly been effective in changing most people’s behaviour.

The critical objective behind the introduction of the EPC was to make potential buyers and tenants aware of the energy efficiency of the building. However, it is currently widely acknowledged that many potential purchasers or tenants do not currently get to see the EPC. Regulation to require that the low cost measures recommended in the EPC, supported by strengthened requirements to provide and/or display the EPC, could be effective in raising awareness and changing expectations and behaviour.

Q4: How can home energy audits be made most useful, and do you agree that the Government should use Domestic Energy Assessors, who have been suitably trained, to deliver them as widely as possible?

- **Home energy audits should build on the EPC, providing more extensive and better-tailored advice specific to the property and to the occupants.**
- **DEA and the accreditation framework are ideally placed to support the effective delivery of home energy audits.**

Home energy audits (HEA) will be most effective when the advice is appropriate to the specific recipient and is provided face-to-face, in the home, by a suitably qualified and regulated individual. Critically, the advice must be consistent and reliable, so that recipients can have a high level of confidence in it. It also needs to be supported by an efficient framework to allow recommendations concerning measures to be acted upon.

It is critical that Domestic Energy Assessors (DEA) provide the core group to offer this service. They are qualified and formally accredited, ensuring competence and an effective means for resolving complaints and dealing with disciplinary issues. Furthermore, as part of their accreditation, all DEA are listed on a national register and have been subject to Criminal Records Bureau checks, quality checks of the reports they produce and are required to have suitable PII and maintain their competence through CPD.

Some DEA may not wish to provide HEA, whilst other individuals will wish to focus exclusively on the provision of HEA and will never wish to produce EPC. This is perfectly viable since the competence required for the provision of HEA should an extension of the competence required for EPC.

Whether an individual was accredited to produce one or both types of reports, they would operate within the same competence and quality framework and the assessment they provide would be derived using the RDSAP methodology, which is the approved National Calculation Methodology for assessing the energy efficiency of existing homes and generating appropriate recommendations.

Utilising the same regulatory framework and assessment and recommendations tools will ensure consistent advice, build confidence in the service and provide effective consumer protection and means of redress.

However, it must be recognised that some development work will be required to support the provision of effective advice for current occupants, rather than for unknown prospective buyers or tenants. The key issues that will need to be addressed include:

- Designing the HEA report specifically intended for existing occupants;
- Improving the energy benchmark calculation to include all energy uses rather than just the SAP energy uses as in the EPC;
- Improving the energy benchmark calculation to reflect actual occupancy factors (number of occupants, hours of heating, desired heating level etc) rather than the standard occupancy used in the EPC;

- Improving the energy benchmark calculation to reflect the actual location factors for the property rather than the standard location assumptions in the EPC;
- Facility to compare actual energy usage (from bills) with the calculated benchmark to enable operational comparison and to support the calculation of likely savings;
- Strengthened behavioural recommendations with estimated savings tailored to the actual household and their energy use;
- Strengthened assessment and evaluation of potential benefits of low-carbon / renewable / micro-generation systems for the specific household rather than the generic approach in the recommendations provided in the EPC; and
- Improved facility for assessing super-insulated and other highly non-standard homes to enable the potential benefit of such approaches to be assessed with the householder.

In practice, many of these improvements would also strengthen the EPC itself and consideration should be given to enhancing the EPC in lockstep with the development of the HEA report.

The recommended improvements can be implemented in stages and do not all have to be addressed prior to the roll out of home energy audit provision. Utilising the DEA accreditation framework provides another advantage in this regard as it allows additional functionality and any associated competence requirements to be rolled-out in a managed fashion.

There are concerns about the proposals and, specifically, how the provision of HEA will be funded. The CERT consultation proposes a carbon credit for the provision of energy advice of 0.675 tCO₂. It is understood that the energy companies currently incur costs of between £10 and £20 per tCO₂ savings in the able to pay and priority groups respectively. Therefore in the absence of a substantial increase in the cost of generating savings, the energy companies are unlikely to pay more than £10 per standalone HEA.

This represents a significant risk. Without a formal framework to prevent it happening, it is likely that the scope and quality of the advice provision will be cut to fit the available funding - probably to nothing more than a tick sheet list of behavioural dos and don'ts. This would reduce the effectiveness of the advice and undermine confidence throughout the industry and amongst the public.

A better alternative would be to allow individuals providing the HEA to also offer (and receive commissions for) other CERT measures, including real time displays, lighting, insulation, heating, microgeneration etc. The potential conflict of interest issues are managed since the individual would be operating within the formal accreditation framework. The potential commission if multiple measures are taken up would make the provision of the overall service financially viable.

Q5: Should the Government work with industry to develop accreditation standards for advice about, and installation of, energy efficiency technologies? What would be the best model for such a scheme, and why?

- **Accreditation standards including suitable consumer redress increase consumer confidence and will assist in delivering the policy objectives.**
- **The existing DEA accreditation schemes provide the most appropriate framework for the provision of advice.**
- **Accreditation of installers of newer technologies is essential and a single scheme will simplify the consumer message.**

As noted above, the existing DEA accreditation framework already provides the appropriate framework to regulate the provision of energy efficiency advice. Whilst this will need to evolve to cope with the technical and financial issues associated with the provision of specific energy advice to occupants, there is no reason to establish a separate framework. Indeed, doing so would only serve to undermine both the existing and any new framework, adding to consumer uncertainty and potentially creating another barrier to action.

An accreditation framework for companies supplying and installing measures is clearly required. The key concerns that the accreditation framework will need to address will include the prevention of mis-selling, resolving product and service failures, dealing with legacy problems when a company goes into receivership.

Ideally, the accreditation framework should be a single scheme, self-funding and managed by the industry. The single scheme is needed to ensure a simple message to consumers. However, in a new industry with limited investment resources, it may not be possible for the industry to fund the development, operation and promotion of the accreditation framework initially. Government support, perhaps in the form of a loan, may therefore be required until the scale of the industry increases.

The critical issues will be to ensure that the redress mechanism provides consumers with a high level of confidence and to promote the accreditation framework sufficiently strongly to ensure that consumers know of it and require that any company they deal with is part of it.

Q6: Are the information, advice and support services provided by the Government to businesses effective in encouraging them to reduce their energy use and their CO₂ emissions?

What other types of support services are useful and how can these be provided cost effectively?

Is there scope to do more on behaviour change through businesses and their employees? Please support your suggestions with evidence.

- **There is no evidence that the availability of advice and support is constraining action by businesses.**

- **Extending the requirement for DEC to more commercial buildings would increase awareness amongst businesses.**
- **The key barrier to action is the landlord/tenant split of authority and incentive to invest. This barrier can only be addressed through regulatory intervention specifying minimum building standards.**

For the majority of businesses, the combination of the landlord/tenant split incentive and the relatively small proportion of their total costs which energy represents, mean that there is little incentive to invest time and effort in exploring how best to reduce their energy use and CO₂ emissions. The opportunity cost of spending time on this issue, rather than pursuing a new client or resolving a more pressing operational issue, will remain a barrier in the absence of a dramatic increase in energy or carbon cost. This is particularly true in the current economic climate, when capital is scarce, the future uncertain and energy prices are falling.

No significant increase in investment in energy efficiency in commercial and industrial buildings can realistically be expected without specific legislative intervention requiring that building owners implement measures to ensure appropriate standards are met when letting or selling a building. The EPC and associated recommendations report provides an ideal platform upon which to base such requirements, whilst the EPC registers would provide a means of monitoring and auditing progress towards the ambitious targets that have been set.

The EPC requirements affect only a relatively small proportion of the commercial building stock in any year. For the many buildings where there is no change of ownership or tenant, an EPC may not be required for many years. In these circumstances, the Display Energy Certificate (DEC) offers a potential means of highlighting to businesses how energy efficiently they operate the building.

Extending the DEC requirement to all buildings visited by the public and, subsequently, to all buildings other than dwellings, would ensure that all businesses have clear information on how efficiently they use energy and what can be done to improve their energy use and thereby reduce their costs. This would provide valuable operational information, as well as information to support any lease renewal – potentially prompting the installation of improved energy systems as part of the negotiation.

For the vast majority of businesses, the cost of a DEC would be negligible and the cost of the annual update would be marginal, however the potential benefits would be significant.

Taken together, the availability of EPC and DEC for all building owners and occupants would provide an effective framework within which improvements could take place. Ensuring that businesses and property owners have the information they need and access to appropriate support programmes such as the interest free loans offered by the Carbon Trust.

Q7: Are the existing commitments for public sector buildings sufficient for the public sector to fulfil its role in driving improvements and leading by example?

- **Public sector must demonstrate that commitments are being honoured in practice.**

The public sector can and must take a leading role in driving down carbon emissions from buildings. The commitments that have been made support this. However, concerns remain about the degree to which commitments are being honoured.

The public sector must do more to communicate how the commitments are being met and the benefits realised by doing so. This would contribute directly to the body of evidence demonstrating both the benefits and the problems associated with reducing carbon emissions from our buildings. Effectively communicating this evidence to building owners and occupiers would increase confidence that the benefits can be realised and thereby contribute to a growth in awareness and a change in attitudes.

Q8: What will be the most effective way for Government to develop RHI and FIT policy so that combined financing packages of insulation, renewable heat and small-scale low carbon electricity technologies might be offered?

- **Subsidising the installation of some high cost measures sufficient to make them cost-effective is irrational and socially inequitable and should be avoided.**
- **Mandating minimum standards for the energy efficiency of buildings when they are sold or let would link the investment in energy efficiency measures directly to the financing of the asset, which will be the lowest cost finance available.**
- **The existing financial industry is best placed to develop and offer financing options at the lowest possible cost, but will do so only if adequate demand exists.**
- **The development of FIT should be directly linked to the de-carbonisation of the electricity supply and should operate in competition to other ways of producing low-carbon electricity.**

Policy must be developed in such a way that it works with market forces, rather than undermines them. In this regard, the provision of subsidies and incentives must be done with great care to avoid distortion and perverse incentives. Contriving to induce a household to make an irrational investment by providing a subsidy sufficient to make the investment cost-effective is not a robust basis for any policy.

This is especially true where the cost of the subsidies and incentives is met through CERT-type mechanisms (either customer levy or industry obligation), as these effectively constitute a regressive tax regime (since low income households spend a higher proportion of their income on energy). The examples given of 50% subsidies for high cost measures – providing several thousand pounds of subsidy for the

household – imply that many households are contributing to the benefit of relatively few. There are issues of social justice over whether low-income households and those in rental property should be subsidising the improvement of an owner-occupier's asset in this way.

As noted above, we believe that a more effective and equitable route to achieving the desired improvement in the energy efficiency of the building stock is to place an obligation on building owners (at the time of change of owner or change of occupant as appropriate) to invest in their asset to ensure it complies with the standards required to meet the national targets. Given that obligation, the equipment supply, energy supply and finance markets can be expected to develop a comprehensive range of solutions which will succeed according to how effectively (and cheaply) they meet the needs of building owners.

FIT can also distort markets and result in poor investment decisions and be socially inequitable. The most appropriate context in which the contribution of FIT should be evaluated is to apply carbon budgets for the electricity supply industry. The existing Renewables Obligation would appear to go some way towards this, but in a carbon constrained future, this needs to become more explicit e.g. a year-on-year reducing cap on average CO₂ emissions per kWh of supplied energy.

Within such a context, FIT become one route for electricity suppliers to access low or zero carbon electricity. Cost effectiveness can then be judged against competing alternatives such as electricity from commercial wind, wave or tidal generators. This will determine the FIT prices that the company is willing to offer. The net result should be that the policy objective of reducing demand and de-carbonising the electricity supply is achieved at the lowest overall cost to the UK consumers. This will be achieved without the concerns about social inequity and with the minimum regulatory intervention in the market, allowing multiple competing solutions to emerge.

Q9: What action, if any, should the Government take to enable finance to be arranged for the higher cost energy efficiency and low carbon measures? Are there other options the Government should consider? Please provide evidence to support your response.

- **Priority should be given to removing any barriers that are perceived to exist to the development of alternative models.**
- **The development of efficient financing models would happen naturally if mandatory minimum standards were set, thereby ensuring demand.**

The priority for any Government action must be to ensure that potential barriers to alternative financing models are removed e.g. ensuring there is nothing preventing DNO from offering financing for energy efficiency measures with repayment linked to the property. However, it is not an appropriate role for Government to select specific financing models where doing so would undermine the development of a competitive market.

The existing property finance industry is well established, with a wide range of products and services linked to undertaking improvement works on the property already being offered at highly competitive prices. For the vast majority of householders and property owning businesses, such borrowing secured against the building will be the lowest cost finance that they have access to. The sales and marketing, legal and administrative framework for these products already exist and no further intervention is likely to be required. Indeed, actively seeking to create alternative means of finance is likely to undermine existing markets, result in increased complexity and lead to higher costs.

In Canada, the USA and Australia (and possibly other countries), lenders and the installer industry are geared up to work with grant support schemes where the lender approves the householder proceeding with the installation of a package of measures, then the grant is paid post installation and the balance is repaid by the householder as part of the secured lending on the property (thereby attracting the lowest interest rate). Such approaches offer considerable scope for flexibility over the choice of measures, the choice of suppliers and the range of grants available.

Seeking to create new financing models would be entirely unnecessary if the policy objective was supported with carbon pricing, carbon rationing or if property owners were required to improve their assets to conform to defined standards at the time of change of ownership or letting. The existing range of financial products would be perfectly appropriate to meet the market needs, with or without the provision of grants to subsidise the capital cost of the measures.

In essence, the perceived need to provide alternative means of finance only arises because of the dependence of the proposed strategy on voluntary action driven by subsidy and incentive. It is an attempt to deal with a symptom, rather than the actual problem.

Q10: What should the Government do beyond these initiatives to promote investment in energy saving and low carbon energy technologies in business and the public sectors?

- **Introduce minimum energy efficiency standards for the sale or rental of buildings at the time of sale or rental.**

No evidence is offered that the lack of financial support initiatives is the key barrier to action in either the business or public sectors. The fundamental barriers to action have been identified as being the owner/tenant split incentive, the lack of obligation and the poor cost-effectiveness of measures given the lack of carbon constraints and low energy prices. Unless these are tackled, the introduction of new financial support initiatives risks being completely futile or potentially counter-productive if it results in financial support being directed towards less cost-effective measures.

Q11: Should levels of support through the Renewable Heat Incentive vary by technology and/or customer group? Are there any other ways of differentiating levels of support under the RHI?

- **Levels of support should normally be based exclusively on relative carbon savings.**
- **Additional support for specific technologies may be justified if achieving critical mass will result in significant price reductions and therefore an overall reduction in the cost of abatement.**

Providing higher levels of support for specific technologies will inevitably distort the market, potentially resulting in the inefficient allocation of limited financial support. As such, it can only be justified if the provision of short-term support can be realistically expected to stimulate demand and result in prices falling faster than would happen with other technologies. The result should be that after an initial period of enhanced support, the level of support required is comparable to or lower than that required for the most cost effective technology.

Q12: How can we introduce the levy to fund the Renewable Heat Incentive so as to minimise suppliers' administrative costs and reduce uncertainty among suppliers of fossil fuels for heat?

- **The levy should be applied at the earliest point possible in the supply chain and should be based directly on the carbon content of the fuel.**

The purpose of the levy is to drive down carbon emissions. It is therefore logical that the levy should be linked to the carbon content of the fuel sold i.e. a fixed price per tCO₂ arising from the use of the fuel. Any divergence from this will inevitably result in distortions.

The levy should be administered at the earliest point possible in the supply chain, such that the number of suppliers directly involved and the cost of administration as a percentage of total operating cost can be kept as low as possible.

Q13: Do you think that financial institutions, such as banks or other loan companies, would be an effective way of assisting potential small-scale heat generators (such as householders) with financing of the initial capital cost of renewable installations?

What other considerations, if any, should be taken into account when determining eligibility for an up-front payment (for example, only generators with equipment below a certain size can apply, such as domestic customers)?

- **Financial institutions can cost-effectively provide the variety of products required, so long as the demand exists and the risk and liability are known.**

- **Support should be based strictly on the potential reduction in carbon emissions and should not discriminate by scale or other factors, as this would only introduce market distortions.**

Financial institutions are well placed to support building owners wishing to invest in renewable heat equipment. Mortgage extensions to fund improvement works on dwellings are an established and competitively provided product. As such, the legal framework and administration functionality already exists and does not need to be replicated. Furthermore, loans secured against the property will be at the lowest interest rates available commercially.

In the absence of specific obligations on property owners to improve properties to meet specific standards that are high enough to require the installation of high cost measures, we believe that upfront lump-sum grant support will be essential to stimulate demand for renewable heat systems.

It is unlikely that individual financial institutions will be prepared to offer property owners a lump-sum reduction in debt in return for them receiving an ongoing revenue stream from the RHI. Even if they wished to do so, it is likely that the administrative costs would be prohibitive. It would be better to establish a single "RHI grant agency" contract, with the operator taking out a commercial loan secured against future RHI levy receipts. The operator would then distribute individual lump-sum grants to lenders / property owners installing approved systems.

Structuring a grant scheme to provide a lump sum paid to the lender once the measures are installed should be relatively straightforward. The same fundamental framework could apply to insulation and microgeneration measures as well as renewable heat measures, so that administrative costs for finance suppliers will be minimised.

The level of grant support should be set to reflect the likely reduction in carbon emissions resulting from the installation of the system. This would depend on the type of system, the space and water heating demand of the building and the availability of alternative systems within the building which may be used periodically and therefore reduce overall carbon savings e.g. an electric water heating system may be used in a dwelling during summer months in preference to the renewable heat system.

We would suggest that the RHI grant support with upfront payments should be available to all installers of renewable heat systems, domestic and non-domestic, private and public. Both small- and large-scale installations will help to promote the development of the technology and can contribute to the reduction in carbon emissions, which is the purpose of the exercise.

Q14: How can we maintain demand for renewable heat technologies before we introduce the Renewable Heat Incentive?

- **Work with existing programmes such as Clear Skies.**
- **One or more of the CESP areas should be chosen on the basis that mains gas is not available.**

Utilise Clear Skies or one of the other grant schemes to provide the upfront grants. Funding should come either from central programmes or from within the overall CERT programme. If the latter, then one option would be to let the energy companies buy carbon credits at a competitive price – perhaps established through an auction process and subject to agreed caps.

Alternatively, since renewable heat systems will be most appropriate in areas without access to mains gas, it might be possible for several of the CESP areas to be selected on this basis

Q15: Do you agree with the proposal to continue with a CERT-type obligation until December 2012? Do you also agree that the proposed CESP framework should run concurrently to the same end date?

- **CERT is essentially a regressive tax regime and therefore imposes a greater burden on low-income households. Despite this, we support the extension of the obligation through to end-2012 providing there are no significant changes to the scale of the obligation, the likely mix of measures and the priority group obligation. Extension beyond 2012 would be unjustified.**
- **We have reservations about the proposed “whole house” approach. As such, a robust evaluation of the CESP pilot projects must be completed by April 2012 to inform decisions about any post-2012 programme.**

We have a fundamental reservation about the CERT funding model in that it is essentially a regressive tax regime. The energy companies must reflect the cost of the obligation in the prices they charge customers. Since low-income households typically spend a greater proportion of their income on energy, they effectively incur more of a cost burden as a percentage of their salary. This is potentially exacerbated by the fact that low-income households are more likely to be on high cost tariffs and to pay through more expensive means, so their effective cost burden is arguably greater.

Whilst the CERT programme is focused on the delivery of low cost measures that are known to be highly cost effective and with the emphasis placed on priority group customers, we acknowledge the overall benefit of the scheme and can accept the funding arrangement. However, as the requirement switches to higher cost measures and the overall cost of measures increases, whilst the number of households benefitting is likely to reduce as a proportion of those contributing, we do not believe that the CERT model is appropriate.

So long as there is no substantial change in the mix of CERT measures anticipated over the period to December 2012, we support the proposal to extend the obligation. However, if any significant change in the overall mix is anticipated, such that the number of beneficiaries reduces significantly as a proportion of the total contributors or if the obligation requires a significant increase in the effective contribution per household, then alternative funding methods should be explored.

We have reservations about the pre-occupation with a “whole-house” approach proposed in CESP, which effectively ignores whether installed measures are cost-

effective. This is likely to result in the inappropriate allocation of financial support. However, we acknowledge that CESP is essentially a series of pilot projects to explore delivery options and that the overall scale of the programme is relatively small. We are therefore not opposed to the programme per se.

But given that the programme is a series of pilots, it is essential that those pilots are completed and evaluated prior to any decisions being made about future funding and/or obligations. We would therefore suggest that it is essential that all CESP measures be installed by the start of October 2011 and that all programmes have been subject to an initial cost-effectiveness evaluation, including data from monitoring during the 2011/2012 winter season, by no later than April 2012.

Q16: Do you agree with our analysis of the potential impacts of a cap-and-trade approach to delivering energy efficiency in homes? Please support your answer with evidence.

We agree that a cap and trade system is unlikely to be effective in improving in the energy efficiency of the building stock and would have concerns that it could result in serious social inequalities or the exclusion of some customers from the market.

Q17: Do you have views on the merits of moving to a different approach for delivering energy efficiency to households? Do you have other suggestions of alternative delivery models which might be effective in achieving our objective?

- **We do not believe that the supplier-led model will be appropriate as emphasis moves to higher cost measures.**
- **We believe that asset owners should be responsible for the energy efficiency of their buildings and that a regulatory approach can best deliver improvements in energy efficiency reliably and cost-effectively.**

As the focus switches to a requirement for the installation of higher cost measures, we do not believe that the supplier-led model is appropriate.

The policy objectives for the future delivery model should be that it will:

- Provide a high level of confidence that the challenging goals will be achieved;
- Not act as a barrier to new solutions, whether technical or financial;
- Increase public awareness and understanding of the issue and the means by which they can reduce their carbon emissions;
- Promote competition between technologies and suppliers in such a way that quality is maintained and cost-effectiveness is improved;
- Create high quality “green collar” jobs with skills of lasting value; and
- Encourage the engagement of the widest range of stakeholders, including property owners, occupiers, local authorities, charities etc.

We believe that this can be best achieved through the use of regulation, placing a burden on property owners to improve the energy efficiency of their building to meet specified standards. Initially, this obligation should be applied at the time of change of ownership or in the event that there is a change of tenant, creating a requirement for an EPC.

This requirement could be rolled out very quickly and existing frameworks could be used to monitor compliance (particularly easily when a change of owner is involved since registration of the transfer could be dependent on evidence of compliance).

There is a separate question over whether financial support should be available to support building owners meeting this obligation and, if so, how that support should be financed.

We believe that for providing support to achieve compliance would be inappropriate. The owner of the asset should be responsible for ensuring that it meets the required standards, prior to it being used. We would expect that this will result in the cost of measures needed to achieve compliance with current (and potentially future) standards being reflected in the value of the asset, whether as part of a sale or when being let.

There is an argument for providing support if building owners are prepared to go beyond current minimum standards. This will help to bring forward investment, reduce emissions and help technologies to become established. Supporting "early adopter" take-up in this way will help build confidence prior to the mandatory standards being raised.

We would support the provision of lump-sum grant support to offset part of the capital cost of the additional approved measures and paid to the householder or their lender following the installation of the measures. The value of the grant should be based on the additional carbon savings resulting from the measure being installed, providing an open competitive framework for the widest range of possible measures.

A single grants administration framework should exist for all support schemes for building owners. This would greatly simplify administration and provide a single point of contact for consumers and should result in much clearer communication.

As grants would be payable to the householder or the lender providing the additional finance required, it would be open to the householder to select their supplier and the measures they wish to use. An accreditation framework would need to exist for measures eligible for grant support, but it would be for the supply industry to market both "compliance" measures and "additional" measures to building owners.

Since the purpose of the grant support is to encourage building owners to go beyond their statutory responsibility and contribute to the national goal of reducing carbon emissions, we feel that the most appropriate means way to finance them is through general taxation. We feel that this would be more socially equitable than some form of hypothecated indirect tax incorporated into energy bills.

Q18: Would you support a voluntary code of practice on energy performance for landlords and/or builders? How high do you think uptake would be, and would it achieve much additional action? Please support your response with evidence.

- **We consider it extremely unlikely that a voluntary code of practice would have any significant impact on the attainment of the overall policy goal and it could therefore prove to be a damaging distraction.**

The poor standard of energy efficiency of private sector rental dwellings and in much of the commercial and industrial buildings sector is a clear indication that the sector has little interest in improving energy efficiency standards. As such, there is little reason to believe that a voluntary code of practice would have any impact.

In the dwellings social rental sector, the high standards that already exist reflect the different priorities in the sector and the role of standards. The introduction of a voluntary code of practice in this sector is more likely to result in confusion and conflicting priorities than to actually help improve standards.

We also have doubts over the merits of a voluntary code of practice for builders. Since much of the work undertaken by builders is governed by Building Regulations, a voluntary code of practice could actually confuse an already complicated picture with approved persons and multiple different compliance requirements.

We would support the introduction of a mandatory accreditation framework for companies selling and installing energy efficiency measures. This should ensure robust protection for consumers in the event of mis-selling, poor workmanship and poor product quality. Ultimately the accreditation should be financed by the industry, but it is likely that some financial support will be needed initially until the industry is more fully established. A comprehensive communications programme would be needed to raise consumer awareness of the accreditation framework and the protection it offers.

Q19: Should we require marketing material for property sales and rental to feature the EPC rating more prominently? If so, how? What delivery bodies or industry groups could be given access to the EPC database, and how could they make best use of it whilst ensuring that it is not misused? Please support your answers with evidence.

- **Yes. All marketing material for a building should include information from the EPC. The information required should depend on the physical size of the marketing item, but no marketing material or listing should be allowed that excludes the rating completely.**
- **Any organisation wishing to access summary data from the EPC register should be allowed to do so at reasonable cost. Use of the information provided to be subject to an acceptable use license.**
- **By default, no organisation should have access to information on individual properties.**

- **Building owners should have the option to “opt-in” to receiving marketing information and organisations should be able to access full information for these properties and use it for marketing and other purposes subject again to an acceptable use license.**

We agree that Government should require marketing materials for property sales and rental to feature the EPC rating more prominently.

All marketing material for buildings offered for sale or rental should incorporate information from the EPC. The information to be included should vary according to the physical size of the marketing item.

- Newspaper and website listing without an image of the property or where the image size is less than 1” square would only be required to include the energy rating amongst the other property details;
- Listings with slightly larger images should include the SAP A-G graph adjacent to the image of the property the property details should include the rating and low-cost recommended measures.
- Listings over a minimum size, say 1/8th page in a newspaper, should include the SAP A-G scale and details of low and medium cost recommendations.
- Property particulars provided to potential buyers should include a one-page summary of the EPC including the rating graph and the low and medium cost recommendations.
- The SAP A-G graph and details of the low cost recommended measures should be specifically required on all listings in agents’ windows, irrespective of their size.

Fundamentally, no marketing information should be allowed to completely exclude the SAP A-G rating.

We would also recommend that an A4 colour printout of the EPC and the main recommendations page should be required to be displayed in the building being marketed for sale or rental. This should be located in the entrance hall / close to the main entrance and/or in the main lounge / reception area, so that it is clearly visible to prospective purchasers / tenants visiting the property.

Providing access to the information in the EPC database is potentially fraught with problems. However, these can be mitigated by separately considering access to raw and processed information.

There are clear potential benefits in allowing relatively widespread access to processed analyses. For example, academic organisations wishing to know average energy ratings by postcode district or an industry trade body wishing to know the percentage of properties where cavity wall insulation is recommended by postcode district. We would suggest that any organisation wishing to have access to an analysis of the data in a form that would not allow direct marketing should be allowed to request the analysis via the central register operator or another approved contractor. There should be a standard, low, price per report based on query templates, with the option to commission more detailed queries and analyses on commercial terms.

By contrast, it is not clear that it is at all appropriate to allow any organisation to have access to data in a form that could be used for marketing purposes. We believe

that anyone commissioning an EPC should have the normal right to opt in to receiving marketing information. The administration of this could be handled by the central register operator or by the accreditation schemes, but the result should be that households wishing to receive additional information are allowed to say so. Organisations wishing to market to those households who have opted in (or organisations wishing to undertake their own analyses for this self-selecting subset of the register), would need to subscribe to a suitable code of practice as a precursor to being granted access to the data.

Q20: Besides removing the threshold for consequential improvements, which will be considered in the consultation on changes to the Buildings Regulation in 2009, are there any other options for wider building regulation that you would like to see considered in the longer term? Please support your answer with evidence for the effectiveness of your suggestions.

- **Regulations should be introduced requiring that when a building is sold or rented out it complies with minimum energy efficiency standards.**
- **Initially the standards should require that the low cost energy efficiency measures recommended in the EPC are installed. The Regulations should allow for the standards to be increased over time in order to achieve the policy goals.**

As has been noted in the response to several earlier questions, we believe that regulations should be introduced requiring that any building being sold or let should be subject to a requirement that it meet specific energy efficiency standards. The transfer of ownership should not be allowed without evidence that the standard has been met. Similarly, any owner allowing a new tenant to occupy the building without the standard being met would be in breach of the legal requirements.

Initially, we would recommend that the standard be a requirement for the installation of the low cost measures identified in the EPC. Over time and as the requirement for emissions to be reduced increases in order to meet national targets, the standards would evolve, becoming more stringent.

It may be appropriate to use the Building Regulations as the vehicle for introducing this requirement, but other options no doubt exist. The choice of the most appropriate legal vehicle should be determined by the availability of suitable enforcement powers and resource.

Q21: Do you agree with the approach of conducting a review in 2012 to assess the effectiveness of other policies before considering further policy interventions for the energy performance of existing buildings? Are there other options you think should be part of our strategy? Please support your answer with evidence.

- **No. Experience over the past thirty years suggests that the proposed approach will not achieve the progress required given the policy goals.**

- **Any delay to the inevitable introduction of regulations requiring building owners to ensure that their assets meet minimum energy efficiency standards at the time of sale or rental will make it increasingly more difficult to achieve the stated policy goals.**

We believe that delaying the introduction of regulations placing an obligation on building owners to take responsibility for ensuring that their asset meets minimum standards will mean that less progress is made towards the challenging goals. This will result in higher emissions during the intervening years and an even more challenging task at some point in the future.

If the requirement for building owners to install the low cost measures recommended in the EPC had come into force when the EPC was first introduced, several hundred thousand properties would by now have benefitted from cavity wall insulation, additional loft insulation, hot water tank jackets and other improvements. Instead, these properties have been sold or let without the any action having been taken in the vast majority of instances – despite the availability of heavily discounted measures via the CERT programmes.

Q22: Do you agree that the Heat Markets Forum should consider regulatory arrangements for district heating to ensure consumer protection? Are there specific issues you think it should cover?

District heating schemes are essentially monopoly suppliers in their local market. It is therefore essential that adequate consumer protection is built into the regulatory arrangements from the outset. These should focus on defining clear performance standards and suitable compensation arrangements in the event that the performance standards are not met. Without such protection it is difficult to imagine any acceptance of retrofitted district heating.

Q23: There are a number of ways to tackle commercial barriers to district heating. These include using the planning system and heat mapping, encouraging or requiring certain buildings to connect to networks and engaging property developers. Which of these options should be taken forward and why?

Local planning powers should include scope to require that newly constructed buildings and those subject to major refurbishment should integrate into an existing district heating scheme. However, it is not evident that it would be appropriate to require owners of existing buildings to connect to a new district heating scheme in order to make it financially viable; this should be subject to normal commercial negotiation.

Q24: What are your views on the options for reducing the risks of poor returns on investment in district heating networks? Which do you think would be most effective and are there other more appropriate solutions?

Any measure which reduces the commercial risk of developing a district heating scheme is effectively a subsidy. As such it should be judged against other options for reducing carbon emissions – is the provision of this subsidy the most cost-effective option compared with other choices?

Given the very limited scale of the district heating industry currently, it is extremely uncertain that there is any significant scope for new schemes, particularly on a retrofit basis. A flexible ad hoc approach may therefore be better suited to evaluating the realistic scope for this technology to contribute to the achieving the policy goals. Rather than developing a complex funding regime, a simple grant approach with a defined level of funds available each year for a 5- or 10-year period and with schemes allowed to bid for the money may be more suitable. Funding requests should be primarily assessed on the basis of their cost-effectiveness as a means of reducing carbon emissions.

Q25: Will the ETS and other policies, such as the Carbon Reduction Commitment and support for renewable combined heat and power, send a strong enough signal to encourage the development of CHP schemes and more efficient use of surplus heat? If not what measures do you believe would provide sufficient stimulus to accelerate new CHP capacity build? Can you provide evidence to support your view?

The policies outlined do not tackle the separation of landlord and tenant interests, which will remain a fundamental barrier to the take up of CHP in commercial buildings even if the investment makes notional sense.

The introduction of regulations requiring that all new domestic boilers be highly energy efficient has been extremely successful and will deliver substantial carbon savings without any requirement for financial incentives. At a national level, it has undoubtedly been the most cost effective emissions reduction programme. Adopting a similar measure requiring that plant installed in new buildings or installed as replacement plant in existing buildings meet minimum efficiency standards and/or includes electricity generation could be equally effective.

Q26: As electricity generation overall becomes much less carbon intensive than today, the advantages of CHP powered by fossil fuel in reducing carbon emissions will diminish, although it will continue to be a cost-effective energy efficiency measure. When do you think CHP powered by fossil fuels will no longer help to reduce emissions because the alternatives are less carbon intensive?

No comment.

Q27: Should the Government do more to publicise the opportunities and benefits of CHP and surplus heat? If so, how should it do this, and which are the key audiences we need to reach?

Commercial and industrial building owners and tenants are clearly the key parties determining the take-up of CHP, but no evidence has been presented to suggest that a lack of information is the primary issue. It is more likely that the split-incentives issue is the greater barrier to take-up and unless this issue is addressed, increasing efforts to communicate the benefits of CHP will be a waste of money and effort.

Q28: Do you consider such cooling technologies can play a role in delivering a renewable and low carbon energy mix? What opportunities exist for their exploitation in the UK? What further factors do we need to consider?

Whilst the technologies may be theoretically capable of making a contribution, it seems highly unlikely that they will be able to make a substantial contribution to achieving the policy goals. Making some limited funding available to support pilot projects that can then be rigorously evaluated to assess their cost effectiveness in reducing carbon emissions would seem sensible.

Q29: Do you agree with our analysis of the likely impacts of the proposals in this document and in the associated impact assessments on:

- carbon dioxide emissions?
- energy prices?
- fuel poverty?
- security of supply?
- sustainable development?
- the economy?

Are there any other wider issues that we should consider? Do you have any other comments on the Impact Assessments?

- **We doubt that the proposed measures will deliver the anticipated reduction in carbon emissions.**
- **Funding incentives through a supplier obligation increases energy prices for all consumers, including low-income households, thereby potentially increasing fuel poverty.**
- **Providing financial incentives for high-cost measures exacerbates the risk of cost of the obligation pushing low-income households into fuel poverty.**
- **Responsibility for ensuring that buildings meet acceptable standards should lie with the asset owner; adopting this approach would be less socially divisive and could increase the rate of emission reductions.**

The strong focus on providing advice and financial incentives to deliver carbon emissions reductions means that there is considerable uncertainty as to whether the anticipated savings will actually be achieved. Given the evidence of the past 30 years, the balance of probability must be that proposals will not overcome the barriers to action.

It is self-evident that funding financial incentives through a supplier obligation will result in increased energy prices compared with a scenario without such an obligation. However, the main issues affecting fuel prices will inevitably be supply and demand. Given the current economic situation, it seems unlikely that there will be any sudden rise in oil prices, further undermining the likelihood of a significant increase in voluntary investment in energy efficiency.

The use of a supplier obligation to fund investment in high cost measures could potentially increase the number of households in fuel poverty – simply because the cost is spread across all energy consumers but the benefits are directed towards a very limited proportion of those contributing.

We do not believe that a supplier obligation is a socially acceptable way to fund the improvement in the energy efficiency of buildings. Rather, we believe that the onus should be on the owner of the asset to ensure the building meets acceptable standards.