

CSE response to specific questions

CHAPTER 1: Assessment

Q1: Do you feel the proposed requirements on Green Deal assessors set out in the main body and at Annex A of the Code of Practice are clear and robust enough to support the Green Deal assessment?

CSE believes that the impartiality of Green Deal assessments will be of significant importance to people's adoption of the Green Deal. While the consultation document makes provision for a tied assessor to have to carry out the Green Deal assessment in an impartial way, there is nothing to then stop that assessor from finishing the official impartial assessment and then moving on to a hard sell of their own Green Deal offer. While customers will be made aware of the fact they can take their assessment results elsewhere, in practice many will be tempted to take up a solution that is provided to them there and then. Further to this, there is currently little detail of any consumer protection to avoid mis-selling of products once an assessor has moved on from their impartial role.

CSE also believes that any tied assessors will have significant advantages that will price impartial SME assessors out of the market:

- An assessor tied to a large provider could offer the assessment at no upfront cost whereas an SME assessor could not afford to take this risk. This is of particular concern where that assessor is employed by an energy supplier who could use income from fuel bills to cross subsidise free assessments giving them an unfair position in the market and increasing the distributional impact on fuel bills.
- Where energy companies employ assessors (and act as Green Deal Providers) they could offer preferential rates of ECO (beyond the market-driven rate) for their own Green Deal packages, which in turn they could limit to their own employed installers. Where this financial benefit to the energy company results in lower fuel bills for customers this may be acceptable, but there is currently no mechanism to ensure this.

The market-driven nature of Green Deal assessments (with no provision of a minimum cost) also risks driving down the quality of the assessments. An example of the risk can be seen through the experience of the EPC market on launch – assessments were driven down from 2 hours and £150 to 0.5 hours and £50 in many cases. The quality of the assessments suffered as a result.

CSE would recommend that tied assessors are required to advertise their service as such, and while they will ultimately provide an impartial Green Deal assessment customers are made very aware that by signing up for this (potentially free) assessment installers will be incentivised to promote Green Deal products to them from the Green Deal provider they are tied to.

Q10: What innovative ways can the Government use to encourage uptake of a package of measures and could our existing proposals support this?

Joint funding and additionality

CSE has managed energy supplier-funded schemes since 2003. We have a proven track record of administering energy efficiency schemes which coordinate funding from a variety of sources, e.g. energy suppliers, central Government (Warm Front), local government (regional housing funds), charitable trust funds and the Lottery. The consultation suggests that the proposals will encourage energy companies to leverage funds to match ECO. The private sector renewal budgets for local authorities were cut entirely in 2011/12. In addition, funds through charitable lenders are becoming increasingly difficult to access with increased competition and a reduced return on investments from their own trust funds.

CSE would therefore encourage DECC to make better cross-departmental links with the health sector. The Health and Social Care Bill has introduced the concept of Health and Wellbeing Boards as a route for establishing local targets and aims. Health and Wellbeing Boards will be a forum for local commissioners across the NHS, public health and social care, elected representatives, and representatives of Health Watch to discuss how to work together to improve health and wellbeing outcomes for people in their area¹. In doing so, the aim is to create a more democratic approach in commissioning decisions and provide opportunity for open discussion involving local people.

Community care funding for wider public health issues such as mental health could be an important source of match funding. For example, a South West local authority has recently used funds from its Community Health budget to fund insulation measures previously funded by the housing renewal team (i.e. replacing cut housing funding). However, establishing this link will require a proactive approach from Government to ensure the necessary research is conducted to bring the two sectors together.

Q14: We propose that *any measure* should be allowed under the Affordable Warmth obligation, provided it allows eligible households to heat homes more affordably. If you disagree, or feel there are risks to this approach, please explain and set out any restrictions you believe should be put in place.

CSE feels that the affordable warmth aspect of the ECO should be focussed on those measures that allow households to heat their homes more affordably. It is important to ensure that major interventions are accompanied by minor measures that will ensure householders can maximise the delivered savings. CSE's evaluation of its own Freedom from Fuel Poverty scheme looked at the impact of solid wall insulation on fuel poverty across 11 homes in Bath². The study found that the

¹ Department for Health, 2011. <http://www.dh.gov.uk/health/2011/10/health-and-wellbeing-boards/>

² <http://www.cse.org.uk/downloads/file/solid-wall-insulation-in-fuel-poor-households-in-the-private-sector.pdf>

savings associated with solid wall insulation had been minimised on several occasions as householders couldn't adequately control their heating. We would therefore recommend that all solid wall and heating measures are accompanied by an adequate package of controls, e.g. timer, room thermostat and TRVs.

Q15: Do you have any suggestions for whether and how we should score boiler repairs under the Affordable Warmth obligation, such that where repairs are more cost-effective than replacement systems, without significant impact on efficiency, these can be promoted?

CSE believes that boiler repairs should only be considered in the case of efficient boilers that have broken down. If the non-functioning boiler does not meet current standards (less than B-rated), a replacement boiler should be installed.

CHAPTER 4: The Golden rule

Q25: Is it necessary to afford consumers additional protections and extra comfort where they take out Green Deal plans in excess of £10,000? If so, is the proposed protection of reducing the saving estimate appropriate and is the 5% figure the correct adjustment?

In a recent report to Consumer Focus, 'Understanding fuel expenditure: Fuel poverty and spending on fuel'³, CSE and Donald Hirsch (University of Loughborough) explore patterns of actual consumption relative to energy need. The report found that a comparison of actual fuel consumption with fuel need shows that, in general, households consume substantially less fuel than the requirement calculated from the 2007 English House Condition Survey. On average, households consume only around two thirds of 'need', and across all income groups at least 80% consume 'too little'. Both fuel need and fuel consumption rise with income.

The exact parameters needed to calculate the savings and the level of Green Deal finance are not clear. CSE understands that the savings need to be reduced by 15% before the finance can be calculated. The 15% therefore represents a buffer between the modelled savings and a householder's actual consumption, i.e. protecting the Golden Rule. Given the divergence between consumption and energy need, a 5% buffer would be dangerously low. As a minimum, the 5% needs to be added to the 15% to create a larger buffer for more expensive installations, i.e. greater than £10,000.

Q28: Do you agree with the proposed approach to how the Green Deal charge can vary in subsequent years of a Green Deal Plan?

We agree that there should be strict controls over how the Golden Rule is calculated and applied. However, we are concerned that the Government's proposals focus on the Golden Rule working in Year 1, with a lack of clarity about how the Rule can be applied to subsequent year energy savings

³ <http://www.cse.org.uk/downloads/file/understanding-fuel-expenditure.pdf>

and Green Deal finance repayments. We believe this risks causing confusion (which will, in turn, discourage consumers from taking action) and can be avoided.

We believe that the Golden Rule should be calculated to apply over the lifetime of the loan on the basis on a more standardised approach than proposed in Section 4 of the consultation. Energy prices used in the assessment calculator should be updated at least every six months (so that they reflect current bills) and an agreed fuel price inflator included in future savings projections within *all* Golden Rule calculations. We note that the Government has suggested the Bank of England's inflation target of 2% and we believe that is a reasonable (if optimistic) value to incorporate routinely into Golden Rule calculations.

In addition, we believe the Government should limit the Green Deal finance for both domestic and non-domestic sectors to fixed interest arrangements. We see no reason for keeping open the option of a variable rate based on the fuel and light component of the Retail Price Index.

We do not share the Government's confidence that non-domestic customers will have the knowledge and ability to 'shop around' for the best deal. Indeed, we would suggest that this requirement and lack of explicit control introduces an additional barrier to action for non-domestic energy efficiency improvements and we see no reason not to mirror the arrangements in the domestic sector of a standard approach and fixed interest.

Q30: Do you agree our proposed approach to the Golden Rule principle strikes the right balance between ensuring the necessary consumer protection mechanisms are in place whilst not unduly stifling ambition and investment in the Green Deal?

The Golden Rule is not a sales pitch (with reference to Section 4.2)

We are concerned that less scrupulous companies will use the Golden Rule as a sales pitch, thus potentially undermining the integrity of the Green Deal as a concept and reducing consumer confidence. By this, we mean that companies will claim that because the measures they are offering meet the Golden Rule they are somehow superior, endorsed or of high quality (i.e. borrowing the qualities of 'golden'). In order to build and retain confidence in the Green Deal and the Golden Rule as a cost-control mechanism, this must be prevented – and punished if discovered.

We propose that the Green Deal Oversight Body is tasked with actively monitoring sales activity and given powers to suspend Green Deal accreditation to any organisation abusing the use of the Golden Rule in its sales literature or practices.

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| CHAPTER 5: Delivering equitable support and tackling fuel poverty through the Green Deal and ECO |
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Q31: Do you agree that eligibility for Affordable Warmth measures should be restricted to households who are in receipt of the benefits and tax credits similar to the CERT Super Priority Group and who are in private housing tenures?

The Super Priority Group represents a relatively specific group of customers who have typically been targeted for measures on a number of previous occasions, i.e. through CERT and EEC schemes. A number of energy suppliers and scheme delivery agents have found difficulty in identifying interested customers that fall within this group.

Based on discussions with DECC's Fuel Poverty team, it is our understanding that the Cold Weather Payment (CWP) group has a 50% overlap with households in fuel poverty, i.e. half of this group qualify for CWP. CSE recommends that DECC explores the possibility of extending the successful Winter Fuel Payment data sharing arrangement between the suppliers and Department for Work and Pensions for this group.

CSE believes that a minimum proportion of the ECO Carbon element should be targeted at low income consumers, including social housing tenants. We consider social housing providers are best placed to deliver large volumes of solid wall insulation, achieve economies of scale and bring down costs. The use of area-based approaches would allow low income households in private sector housing close to social housing to also benefit, such as those in mixed tenure blocks. Targeting the ECO Carbon element in this way would represent a more cost-effective method of meeting carbon targets than providing one-off expensive subsidies to better-off households through 'pepper pot' delivery.

Q33: Do you have any evidence or views to put forward on whether the benefits of ECO as a whole, or of the carbon saving obligation within it, are or are not likely to be distributed equitably to all income groups? If so, do you think regulatory intervention is necessary to ensure a more equitable pattern of delivery and, in particular, do you have any comments on the likely effectiveness of setting a 'distributional safeguard' as a means of achieving this?

Relationship between ECO Affordable Warmth and ECO Carbon

It is not clear whether energy suppliers will be able to claim the combined carbon and bill savings for both measures if an ECO Carbon measure and an ECO Affordable Warmth measure are installed in the same property.

CSE believes that the full carbon saving for the combined package and the full bill saving should be claimed. For example, solid wall insulation on its own (installed under Eco Carbon) may save 1 tonne of CO₂ per year, but when combined with a new boiler (installed under ECO Affordable Warmth) could save 1.8 tonnes of CO₂ per year. If energy suppliers were able to claim carbon savings for both, this would encourage the targeting of the most vulnerable customers with multiple measures.

Q51-54: ECO brokerage

CSE welcomes the proposal to ensure that energy suppliers purchase a proportion of their ECO through a brokerage mechanism. We would recommend that the proportion is at least 50% in the first year, rising to 75% by Year 5 (subject to the effective operation of an ECO measures market). We believe the principal value in brokerage arrangements lies less in driving costs down and much more in its potential to (a) reduce the risk that energy suppliers will use ECO disproportionately to support their own Green Deal businesses and (b) enable independent and smaller companies and agencies involved in Green Deal to secure ECO funding for their customer offerings.

However, for this potential to be realised, several safeguards need to be put in place, as is the case with any effectively functioning and truly competitive market that works in the interests of consumers:

- The brokerage market must be established independently of the energy suppliers and as a regulated operation with appropriate disclosures, credit safeguards, cost controls and quality assurance standards.
- The brokerage market should not just be open to Green Deal Providers (as suggested in Diagram X on p.181 of the consultation) but also to Green Deal accredited installers and agents acting on their behalf.
- The ECO measures should only be traded once to reduce the risk of price speculation.
- Some provision should be made for offering part payment for measures in advance of their installation in order to avoid smaller installation companies having to cash-flow this in full.
- **ECO targets must be set for energy suppliers with binding six monthly or even quarterly targets** to ensure the buyers (essentially the 'big six') have to price their buying in the market to reflect their continuous requirement to meet obligations and to prevent them using their buying power as a supply control mechanism (as has happened in CERT). Note that a market with only six buyers is generally not considered competitive in any normal consumer-protecting sense of the word.
- The costs of the ECO brokerage service should initially be met by the Government and then by a levy on buyers set by Government.

We do not agree with the Government's suggestion (p.179) that quality is not an issue for the ECO brokerage service. We believe it is an issue (since consumer confidence in ECO and Green Deal is highly dependent on quality) and that quality should be reflected in the transaction process (e.g. by disclosure of quality standards met by the contractor installing the qualifying measures). This information is typically available in most markets.

Q58: The division of the overall ECO between energy companies could be based on share of customer accounts, or sales volume. Do you have a preference as to which metric should be preferred, taking into account possible impacts on distributional equity? Please provide evidence for your views.

CSE prepared a paper in 2011 for Consumer Focus and Fuel Poverty Advisory Group examining the distributional impacts of CERT and the proposed ECO. The paper found that an overall policy of moving ECO and the Warm Home Discount from 'charge per household' to 'charge per unit of energy used' would help mitigate the regressive impacts of climate change policies for most low income consumers. Recovering ECO costs from gas consumers alone would also benefit low income, high energy users who use electricity to heat their homes, particularly in the context of the large range of carbon reduction policies recovered from electricity consumers, e.g. EU Emissions Trading Scheme, Renewables Obligation and Feed-in Tariff.

The majority of consumers (i.e. 20.4m gas customers – 7.9m of whom are in the bottom four income deciles) would be better off under a 'per unit' approach. CSE therefore supports the proposals put forward by the Fuel Poverty Advisory Group for reforming the method by which suppliers recover ECO charges.

Q59: We propose that savings calculated through the SAP-based Green Deal Assessment methodology be used as the basis for ECO targets and scoring. Can you envisage any undesirable or inadvertent effects that this approach might result in? If so, please provide details and evidence?

As discussed under Q25, BREDEM or SAP consistently over-predict consumption, i.e. energy need is higher than actual usage for the majority of the population. This has important implications for the Green Deal. The Green Deal assessment will use a BREDEM-based energy assessment (via Enhanced RD-SAP) to model the financial viability of a package of measures. Integral to the assessment is the Golden Rule, whereby energy bill savings from energy efficiency packages are larger than the Green Deal finance charge. Green Deal assessments may therefore suggest that potential energy bill savings will be larger than those likely to be realised in practice. In effect, the Golden Rule may not be very helpful in guiding consumer decisions on whether or not to invest in energy efficiency.

Evidence from the PAYS pilots⁴ suggests a degree of consumer goodwill with respect to the integrity of the Golden Rule if they are happy with the standard of works and feel they paid a fair price. However, these households typically represent those with higher incomes and as such may not be reflective of lower income households with higher levels of debt aversion.

⁴ EST, Home Energy Pay As You Save Pilot Review, DECC 2011
<http://www.decc.gov.uk/assets/decc/11/meeting-energy-demand/microgeneration/2670-home-energy-pay-as-you-save-pilot-review.pdf>

Q62: Should DECC be responsible for administering the ECO, with technical functions outsourced to the private sector, or should Ofgem administer the scheme? Please provide evidence to support your views.

Transition from CERT and CESP – recent insulation measures and the Green Deal

The transition from CERT and CESP to the new Green Deal/ECO framework is an important issue which is raised in Chapter 12. However, there appears to be no question on this subject other than the open space under Q63.

CSE would like to see any cavity wall or loft insulation saving be included in the Golden Rule calculation for any measures funded through CERT+ in 2012. Otherwise we risk discounting from the calculation fuel bill savings that customers are yet to realise and so punishing them for proactively installing the measure in the last few months of CERT+. This would have a time limitation of a year from install. We would therefore recommend that Ofgem administers the scheme to ensure the smoothest transition possible.

Q63: In addition to the specific questions asked throughout this consultation document, do you have any other comments on any aspect of our proposals?

Market-driven ECO

The expected market-driven nature of the ECO contribution is referred to a number of times throughout the consultation document. While the assumption is that the competition within the market will drive the most cost-effective delivery of the ECO contribution and thus reduce the impact on UK energy bill recipients, there are a number of potential pitfalls with this approach:

- By the very nature of being driven by cost-effectiveness, the market will be skewed towards work being carried out on those properties that offer the maximum ECO Carbon or Affordable Warmth points for the minimum cost. This will mean that ECO and Green Deal providers (and by extension their installers) will market and seek out particular property types and not offer an attractive solution for all household types ('cherry picking' households to target).
- Whilst the need to drive cost-efficiencies is intrinsically a good thing, there is also a need to employ careful monitoring to ensure that quality of work is maintained. Further to this, this approach tends to skew the nature of who the installer sees as the customer. One of the many challenges of the current CERT scheme is that the energy supplier and not the householder has been seen by the installer as the customer. This has sometimes meant poor quality of work but has ultimately shifted the focus from a customer driven 'How can I best improve your home and convince you I can do the work?' to a 'You are getting this for free/cheap, so just be happy with what you get' approach in some cases – the Green Deal

cannot afford this kind of bad press. This will be of most relevance to solid wall where the quality of the finish and the aesthetic appearance will be of utmost importance to the customer.

- While the Green Deal Consultation talks of an aim to complete multiple measures for each household (particularly through the Affordable Warmth contribution) it is very likely that many measures will not be offered because at the time they are not cost-effective. However, were the suppliers to struggle over time to meet their target, prices will be driven up and homes that had previously not been cost-effective will then become so and will have to be re-targeted at extra cost to the householder.

CSE believes this is particular concern with ECO Affordable Warmth where suppliers start instigating additional qualifying criteria to ensure maximum cost-effectiveness, e.g. a free heating system for Affordable Warmth customers but only those who have an electrical heating system at present and are on the gas network (so the maximum savings can be made at the minimum cost). CSE believes that suppliers should be obliged to improve the home of Affordable Warmth customers with an adequate heating system (including controls), loft insulation and cavity wall or solid wall insulation as a minimum.

Solar PV and the Golden Rule

While CSE recognises the logic that Feed-in Tariff and Renewable Heat Incentive income cannot be counted as part of the Golden Rule on the basis that DECC believes only one policy instrument should be required to incentivise take up, we do believe that any electricity savings resulting from the PV installation should be counted as part of the Golden Rule assessment. It is currently unclear whether this will be the case.

Fuel poor households

In 2010/11 over £1bn was spent on improving the energy efficiency standards of low income households' homes in England (£345m on Warm Front, £600m on the priority group element of CERT and £110m on CESP). The consultation proposes approximately £325m is spent on Affordable Warmth energy efficiency measures for low income households (across the whole of Great Britain). This much reduced spend on helping people out of fuel poverty in no ways ties in with the Government's ambition to eradicate fuel poverty by 2016.

CSE also believes that the qualifying criteria for ECO Affordable Warmth is too narrow and only includes a relatively small proportion of the fuel poor. There is also a suggestion that any distributional safeguard applied to the ECO Carbon element would be limited to this same group. By doing this, many low income customers will see increases to their fuel bills and have no access to the ECO Affordable Warmth funding and little access to the ECO Carbon element, as they are likely to be seen as a higher default risk and so are subsequently much less likely to be targeted by a market-driven Green Deal.