

# Scotland's Energy Efficiency Programme Consultation

## Energy UK response

30 May 2017

### Introduction

Energy UK is the main trade association for the energy industry, with over 80 members; representing energy generators and suppliers of all sizes. Our members supply gas and electricity and provide network services to both the domestic and non-domestic market. Energy UK members own over 90% of energy generation capacity in the UK market and supply 26 million homes and 5 million businesses, contributing over £25 billion to the UK economy each year. The industry employs 619,000 people across the length and breadth of the UK, not just in the South East, contributing £83bn to the economy and paying over £6bn annually in tax.

Energy UK's retail members are: Bristol Energy, British Gas, Co-Operative Energy, DONG Energy, Ecotricity, EDF Energy, Engie, E.ON, Extra Energy, Flow Energy, Good Energy, Haven Power, npower, Octopus Energy, Opus Energy, OVO Energy, ScottishPower, Smartest Energy, Spark Energy, SSE, Utilita and Utility Warehouse.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to the Scottish Government's consultation. The response will focus on the overall topics raised by the consultation as opposed to the individual questions posed. Furthermore, this is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with the Scottish Government or any other interested party if this is considered to be beneficial.

### Executive summary

Energy UK would like to take this opportunity to welcome the Scottish Government's decision to designate energy efficiency as a national infrastructure priority and the Government's work to put in place a comprehensive energy efficiency policy through Scotland's Energy Efficiency Programme (SEEP).

In designing Scotland's Energy Efficiency Programme, it is important that the Scottish Government seeks to ensure long-term policy certainty. This includes a coordinated approach to energy efficiency, working to ensure that current policies align with existing schemes.

In addition, Energy UK would like to note that in order to see the full-scale deployment of energy efficiency measures that will help the Scottish Government meet its climate change targets of reducing emissions by 42% by 2020 and by 80% by 2050, it will be important to promote a vibrant able-to-pay market for energy efficiency measures. These overall points underline our approach to this consultation. In addition, Energy UK will respond to this consultation on Scotland's Energy Efficiency Programme in sections as opposed to looking at individual questions.

## **Consultation Response**

### **1. What Works and Current Issues**

Over the last two decades, the UK Government has primarily relied on supplier obligations to fund the deployment of energy efficiency measures to improve the energy efficiency of the UK housing stock. Obligations on suppliers are, however, a regressive means of funding the delivery of energy efficiency improvements as these invariably lead to increased costs for all consumers including those in or at risk of fuel poverty. A top-down approach through obligations on suppliers has, in our view, also led to an expectation that energy efficiency should be provided free of charge, undermining the value of energy efficiency to the public and has held the able to pay market back. For this reason, Energy UK are supportive of the Scottish Government designating energy efficiency as a national infrastructure priority. We, and our members, believe that energy efficiency improvements are best funded via general taxation to minimise the regressive nature of any programmes and ensure they are best able to support those living in fuel poverty whilst also incentivising the able-to-pay market.

### **2. The Aims and Objectives of SEEP**

Energy UK would like to stress the importance of the Scottish Government clearly setting out what the aims and the objectives of SEEP are as well as what the timelines will be. For example, it is imperative that the Scottish Government are clear on whether the objective will be to reach the Scottish Government's carbon emissions targets or whether the focus will be on alleviating fuel poverty. The design and delivery of the scheme is likely to differ depending on the chosen focus.

Furthermore, Energy UK considers that the Scottish Government should move forward with an integrated approach that has considered how SEEP will sit alongside other energy efficiency schemes, including the Energy Companies Obligation (ECO) both in Scotland and in England and Wales. In this regard, Energy UK would like the Scottish Government to clarify at the earliest opportunity how they envision the relationship between SEEP and ECO working particularly whether SEEP funding can be used to match ECO funding in Scotland.

In addition, in order to avoid adding a significant degree of complexity, it is important that Scottish ECO is as aligned as possible with the England and Wales ECO programme, especially with regards to their respective approaches to administration, reporting, compliance and timescales.

### **3. The Role of Regulation, Standards and Financial Incentives**

Regulation, standards and financial incentives have an important role to play in helping drive the delivery of energy efficiency measures needed for the Scottish Government to be able to reach its climate change targets of reducing carbon emission by 42% by 2020 and by 80% by 2050.

Energy UK and its members believe the SEEP offers an opportunity for positive change by refocusing on a long-term strategy around transitioning towards a competitive energy services market that is self-sufficient, demand-led and not dependent on subsidy raised through energy bills. This requires a policy framework that supports competition to its fullest potential to drive cost-efficiencies and offers a range of products and services that suit the needs of different consumer audiences.

There is a concern in the industry that the current GB policy framework is overly reliant on funding through supplier obligation subsidies like ECO.

Whilst subsidies, like those targeted at the ECO Help to Heat group, are necessary to support vulnerable customers living in inefficient homes, customers who are able to pay for energy efficiency improvements are also currently able to access supplier obligation-based funding. As subsidies are levied off the bills of all customers this approach exacerbates the situation of financially vulnerable customers.

We believe the Scottish Government should help kick-start a sustainable energy efficiency market via targeted incentives to encourage demand, supported by regulation that sets a clear trajectory of the Scottish Government's expectations. This should be backed by a national narrative with consistent messaging on the importance and value of home energy efficiency to educate consumers and promote demand.

Energy UK has identified a number of initiatives which The Scottish Government may wish to consider to form part of a scheme to kick-start the able-to-pay energy efficiency market – see below.

### **Possible fiscal incentive options**

Effectively marketed fiscal incentives could support the uptake of energy efficiency measures. They benefit consumers either by offering significant savings or by enabling access to finance to support the installation of energy efficiency measures.

#### Land and Buildings Transaction Tax

Varying Land and Buildings Transaction Tax, provided it is revenue neutral, could trigger both sellers and buyers to take action and install energy efficiency measures. The merit of adjusting this tax in relation to energy efficiency is that it would incentivise demand for energy efficiency amongst homeowners and make its value pronounced and recognisable in the housing market. For example, a buyer could claim a rebate for a percentage of the tax based on EPC improvements installed within one year of purchasing the property. Land and Buildings Transaction Tax is paid by the property buyer, but its impact on the total cost of purchasing the property makes it of significant interest to the seller. Alternatively, to encourage sellers to take action, the Land and Buildings Transaction Tax charge could vary depending on the building's EPC.

#### Council Tax:

A number of changes could be made to the tax system to encourage energy efficiency. One such change the Scottish Government could consider is to offer Council Tax rebates. In designing such a scheme, local authorities could use local property data to establish a baseline of efficiency and households could then be given a percentage increase or reduction in their council tax based on whether they are above or below the baseline<sup>1</sup>. In deciding on how a council tax rebate scheme should operate, consideration should however, be given to what impacts this might have on people who would not be able to access the benefits.

### **Possible financial incentive options**

Financial incentives are an effective way of generating uptake for energy efficiency measures. They may, however, also destabilise the market by indicating to consumers that subsidies should fund energy efficiency measures in full. Moreover, Energy UK noted that policy should be designed to achieve additionality.

#### Low Interest Loans

Low interest loans, supported by subsidy, and Green Mortgages (such as the Green Additional Borrowing offered by Nationwide Building Society) could be utilised as a sustainable way for consumers to release capital for energy efficiency measures. These initiatives have the advantage of releasing significant capital via a simple and cost-effective mechanism. The interest rate could be lowered through a Government guarantee. Quantitative research may be beneficial to establish the appropriate interest rate for a low interest loan.

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<sup>1</sup> Westminster Sustainable Business Forum - Warmer and Greener: A Guide to the Future of Domestic Energy Efficiency Policy – 2016

We would support consideration of initiatives to encourage banks to offer products and services which complement other policies that seek to increase demand for energy efficiency. For example, the size of the loan and the bill impact of the measure could be taken into account in affordability tests undertaken by banks. Further consideration should also be given to home improvement loans which allow a customer to tag-on energy efficiency improvements as part of broader refurbishment – e.g. home extension.

It would however also be worth the Scottish Government taking the time to learn the lessons from the Green Deal. The scheme provided funding for energy efficiency measures via low-interest loans but the uptake was very low. This would indicate that making finance available in and of itself is not enough to drive demand for the installation of measures and the Scottish Government will also have to look carefully at other mechanisms that can help to promote demand.

#### Factory gates subsidies

Factory gates subsidies would reduce the cost of materials for installers, these savings could be passed on to customers to reduce the overall cost of installing energy efficiency measures. Factory gates subsidies could also be adjusted to incentivise installers if required. The value of factory gates subsidies will, however, ultimately be dependent on the extent any subsidies are passed onto the end consumer and the cost of materials as a proportion of the overall measure cost. A monitoring and enforcement regime would be required to ensure delivery and transparency.

#### **Possible regulatory options**

Fiscal and financial incentives may not be enough to create the level of demand needed to deliver the UK's carbon abatement and fuel poverty targets. To give the market clarity on the long-term expectations of government, regulatory backstops to complement 'carrots' may also be required to generate demand.

#### Consequential improvements

The Scottish Government could consider the introduction of regulation that would require energy efficiency improvements as a condition for planning permission for certain home improvements/extensions. This type of regulation may help increase take up of incentives such as a cash-back scheme or Land and Buildings Transaction Tax rebates. Consequential improvements could also work with other financial products such as mortgage extensions.

#### Minimum EPC standards

The introduction of minimum energy efficiency standards in the private rented sector is a step in the right direction for a proportion of the housing stock. Consideration could be given to introducing minimum energy efficiency standards for other property types (where appropriate) and strengthening the existing PRS regulations to set out a long-term direction for the energy performance of a property.

#### Technical Specifications

This refers to the development of technical specifications to support the installation of energy efficiency measures in households, requiring the measures installed to be of a specific energy efficiency standard. An example of this are the building regulations that ensure new gas boilers are energy efficient condensing boilers. Choice editing in this way will phase out inefficient products and raise household efficiency, this would support regulations on consequential improvements and minimum standards and provide a sustainable driver for energy efficiency installations. Improved technical specifications would also support the wider energy efficiency policy framework by ensuring the industry is not undermined by non-cost-effective installations. In addition, Energy UK would encourage the Scottish Government to ensure tight control of cost through aligning any development of technical specifications as closely as possible with any GB-wide technical specifications.

## **4. Levels and Sources of Funding**

Ensuring that SEEP is adequately funded should be the key priority for the Scottish Government. Without adequate funding, there is a risk that the targets and objectives set out in not only Scotland's

Energy Efficiency Programme, but also in the other consultations the Scottish Government have published, will not be achievable and deliverable.

A significant number of Energy UK's retail members are obligated under ECO. We note that ECO has been overperforming in Scotland partly due to the availability of funding through the Home Energy Efficiency Programme Scotland (HEEPS) which has complemented the delivery of measures which are typically seen as more difficult and less cost effective under ECO (such as Solid Wall Insulation). We note the most recent Scottish House Condition survey highlights the need to treat aging housing stock with solid wall insulation. Retaining an element of match funding through future Scottish Government funded schemes, will lend itself to enabling increased levels of difficult and costly SWI installations under ECO in Scotland in future.

Energy UK and our members consider this to be an example of good practice and would encourage the Scottish Government to consider how central funding will sit alongside the Scottish ECO in order to continue to maximise the volume of Energy Efficiency measures being delivered in Scotland.

## **5. Advice, Information and Consumer Protection**

Looking specifically at question fourteen of the consultation, Energy UK and our members would not support linking SEEP to the smart meter roll-out. The installation of energy efficiency measures and smart meters are two complex processes. By linking them, an added layer of complexity would be introduced which could hinder the delivery of both measures and meters.

In designing SEEP, Energy UK would strongly encourage the Scottish Government to align itself with the outcomes of the "Each Home Counts" review. The review examined and made recommendations on how consumers can be protected and are given the right advice throughout the process of having energy efficiency measures installed in their home. In order to achieve this, the review made various recommendations about how to drive up standards in terms of installation of energy efficiency measures. The reviews outputs should not be limited to the domestic market, and clarity is needed on how standards will be improved for non-domestic consumers as well.

## **6. Establishing and Sustaining Local Supply Chains and Trusted Delivery Agents**

In working to establish and sustain local supply chains and trusted delivery agents, Energy UK notes that it is important that the Scottish Government carefully considers what mechanisms can help to drive demand for energy efficiency measures. In the section on the role of regulations, standards and financial incentives, Energy UK outlined a number of mechanisms that could be helpful in driving demand. In addition, Energy UK would like to stress the importance of the Scottish Government providing long-term policy certainty.

## **7. Programme Delivery and the Balance Between Local and National Responsibilities**

With significant powers having recently been devolved to the Scottish Government, it is important that careful consideration is given to how local schemes align with national policies. It will be important that BEIS and the Scottish Government work closely together to ensure that any scheme divergence does not impact fairness between suppliers or the competitiveness of the GB-wide energy market. With this in mind, it will be important to minimise any differences in the schemes as far as possible, particularly in relation to the administration and reporting requirements. It is critical that costs and, therefore, bill impacts in Scotland do not differ to those in England and Wales.

Local authorities have an important role to play and are uniquely placed to help deliver SEEP in their local areas. This is why we welcomed the UK Government's plan to trial allowing local authorities to help identify fuel poor households under the new ECO2t scheme and we welcome the Scottish Government's Local Heat and Energy Efficiency Strategy which should be an important vehicle for facilitating this. We do however note, that whilst local authorities have an important role to play, it is important to recognise that different local authorities will have different levels of resources and capabilities to dedicate to energy efficiency delivery. Evaluating and dealing with these differences

across local authorities will be key to ensuring SEEP implementation is a success. To mitigate any implementation imbalances, it might be worth the Scottish Government considering whether appropriate funding should be set aside to upskill local authorities where needed.

## **8. Monitoring and Review Processes**

In order to put in place stringent monitoring and review processes, we would once again like to stress the importance of the Scottish Government clearly setting out the objectives of SEEP. It will be important to understand whether the focus will be on reaching carbon emissions targets or will the SEEP to a greater extent be targeted at alleviating fuel poverty. By being clear on the objectives, the Scottish Government will be able to put in place a clear policy framework that sets out clear milestones that will enable adequate oversight of how SEEP is performing. Once such a policy framework has been put in place, monitoring would be welcome along with a mechanism for providing feedback so that the outcomes from this monitoring can be used to inform policy design.

Furthermore, Energy UK are aware that this consultation on Scotland's Energy Efficiency Programme is part of a set of consultations looking at the Scottish Government's vision for the future energy system in Scotland for the period to 2050. This vision has a number of shorter-term strategies and long-term targets. Energy UK considers that it is important that the Scottish Government clarifies how the different strategies and targets link and align in order to ensure deliverability against the different objectives.