

# Call for Evidence – Green Deal Framework

## Energy UK response

30<sup>th</sup> November 2017

### Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry from established FTSE 100 companies' right through to new, growing suppliers and generators, which now make up over half of our membership.

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 BEIS's call for evidence on reform of the Green Deal Framework. 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 BEIS or any other interested party if this is considered to be beneficial.

### Executive Summary

Energy UK and its members welcome the fact that the government is reviewing the Green Deal framework and are grateful for the opportunity to respond to BEIS's call for evidence. Like Government, we continue to believe that Pay As You Save (PAYS) mechanisms, like the Green Deal, can play a valuable role in supporting an Able-to-Pay market for energy efficiency measures.

We would, however, highlight that when electricity suppliers agreed to work with government on a PAYS mechanism which involved the use of their billing system to collect any Green Deal debt, a number of protections were built in to the policy design to minimise any adverse impact on their debt books. In order to protect the financial position of customers and Green Deal Licensees, it is essential that these mechanisms remain intact and that any changes to the end-to-end Green Deal framework do not negatively impact electricity suppliers, and in turn their customers.

In particular, Energy UK members would urge BEIS to ensure that two key protections are maintained as part of any future framework.

1. **The administration fee** - When members agreed to support the PAYS system, government gave confidence that suppliers would be fairly reimbursed for any costs which they had to bear to protect their overheads. Evidence collected by Energy UK, and previously shared with BEIS, suggest this is not in practice being achieved. As such, we ask that government undertakes a timely review of the administration fee.
2. **The Golden Rule** – The Golden Rule is vitally important to the Green Deal framework, in that it protects future occupants from inappropriately high energy bills as a result of the Green Deal Plan. We ask government for assurance that the principles of the Golden Rule mechanism will remain intact.

Energy UK would also note that Obligated Suppliers have already made considerable investments in collection and remittance systems and processes, impacting the bills of all consumers, including those in or at risk of fuel poverty. Any changes to the Green Deal framework which require further changes to suppliers' collection and remittance systems, therefore, need to be carefully considered.

With this in mind, it is also important that BEIS take time to sufficiently review any changes to the Green Deal framework and carefully consider the impacts for consumers, suppliers and other Green Deal parties. We note that currently the review of the framework appears to be working to a much shorter time scale than other pieces of work, including the implementation of Each Home Counts review and the 'Building a Market for Energy Efficiency' call for evidence, which have the potential to have significant impacts on the future Green Deal framework

We have provided detailed responses to the specific questions raised in the call for evidence, where relevant below.

### **Detailed responses to questions**

#### Green Deal Participants

1. What roles do you see in the future for the above Participants? Can any or all of these roles be fulfilled without the need for formal Green Deal status?
2. What interactions and relationships need there be between different Green Deal Participants?

**Energy UK response:** Energy UK notes that there may be need to ensure that the Green Deal framework is aligned and integrated with the implementation of the Each Home Count Review. This will help avoid duplication of schemes and resource.

It is, however, vital that this is not at the expense of a robust and reliable Green Deal framework. Each party involved in the Green Deal needs to clearly understand each other's roles and have confidence that other parties are and have performed their roles correctly. This means ensuring that all parties are subject to robust compliance and monitoring processes. It is too early to tell if the outputs of the Each Home Counts' review will deliver this.

Energy UK would also note that all interactions and all communication between parties in relation to the management Green Deal should continue to be managed via the Data Transfer Network (DTN) rather than there being a number of different channels.

#### Green Deal Assessment

3. Is it necessary for all types of assessment to be carried out by professionals (i.e. authorised Green Deal Advisors, or a future equivalent)? Would some form of self-assessment (e.g. by consumers) be possible and sufficient? If so, what might need to be in place to enable this?
4. In their current form, are GDARs necessary, or helpful to Providers and consumers? What outputs might lenders need in any future scenarios?
5. What value do In-Use Factors have? Do they achieve the aim of increasing consumer confidence and protection for consumers? Do they help provide lenders with confidence?

**Energy UK response:** Energy UK notes that that in some areas there may be opportunities to simplify the Green Deal framework, any changes must not, however, undermine a customer's ability to make a properly informed decision about whether to take out a Green Deal plan.

### Green Deal Measures

6. How might the process for incorporating new measures be made more efficient, and help enable the deployment of innovations and new technologies?

7. Is it better to have a list of qualifying energy efficiency improvements in secondary legislation or should the legislation just set out high-level principles (with the Standard Assessment Procedure – SAP - helping to determine whether an improvement falls within the principles)?

8. Are there alternative ways to determine what measures could be installed and funded using the PAYS mechanism, which would help enable the deployment of innovations and new technologies?

9. What do you see as the merits of including the above measures in the Green Deal? Do you have any comments on whether they meet the criteria for measures?

**Energy UK response:** Energy UK supports making the process for incorporating new measures more efficient. However, attention must also be paid to whether the Golden Rule and Green Deal finance mechanism can and should support these measures, especially those with high up-front costs. Not all measures will or should meet the Golden Rule. The Green Deal is not and cannot be a silver bullet for funding the delivery of energy efficiency mechanism and it is important that this is recognised by BEIS.

Given the large scale of investment that such technologies will likely require from consumers, we also believe it is also appropriate that there is a high degree of oversight and scrutiny given to new measures before they are included within the framework.

### Consumer Confidence, protection and redress

10. Could the system which provides consumer confidence, protection and redress be managed differently? For instance, do other existing general consumer protections, such as those available to consumers under the broader consumer credit regime, provide alternatives? Can you foresee developments resulting from the implementation of the Each Home Counts recommendations as offering scope for change?

11. Does the disclosure of have a Green Deal Plan to prospective homeowners or tenants to be by means of providing an Energy Performance Certificate? What alternatives exist?

12. Where consumers wish to make a number of improvements but not all meet the Golden Rule, are there any ways of better facilitating this?

13. Do you have any other comments on these elements of the Framework? Are there any ways in which they could be re-organised and improved, without any detriment to the consumer?

14. Are there changes that could be made to the Framework to make it more accessible or attractive to landlords and tenants in both the private rented and social housing sectors?

**Energy UK response:** Energy UK would highlight the following points:

1. **Consumer protection:** It is vital that the Green Deal Framework continues to provide consumer confidence, protection and redress. It is important to remember that the Green Deal is a unique financial product, in that it is tied to a property and not individual. Energy UK recognises that there may be need to ensure that the Green Deal framework is aligned and integrated with the implementation of the Each Home Count Review. With this in mind, it is, however, vital that BEIS ensure that the implementation of the Each Home Counts review delivers a robust system for consumer protection and redress and that it builds consumer confidence. As noted above, it is currently too early to tell if the outputs of the Each Home Counts' review will deliver this.
2. **The Golden Rule:** At the heart of the Green Deal is the Golden Rule. The Golden Rule *“limits the amount of Green Deal finance that can be attached to an electricity bill to the estimated*

energy bill savings that are likely to result from the installation of a measure(s) under the Green Deal Plan.”<sup>1</sup> This was incorporated into the original framework as a means of “protecting future occupants from inappropriately high energy bills as a result of the Green Deal Plan.”<sup>2</sup> The Golden Rule also helps suppliers manage the debt risk emanating from the Green Deal for their wider customer base, by aiming to ensure that overall electricity bill do not go up as a result of electricity suppliers being negatively impacted by the *pari passu* principle. We ask government for assurance that the principles of the Golden Rule mechanism will remain intact. At a time when all Energy UK members are working with government and Ofgem to increase trust in the industry, any reduction in this key protection, which could result in increased bills and debt levels, could be very detrimental.

3. **Private Rented Sector:** With the PRS in mind, Government should be seeking to amend and strengthen the existing regulations to ensure they actually drive improvement in the sector, rather than relying on energy customers (via the ECO or Green Deal) to pay for landlords to deliver the required improvements to their property stocks. DECC’s own impact assessment of the existing regulations notes that the current standards are unlikely to result in significant improvements as landlords are able to avoid taking action (44% of all F & G rated properties will not make any improvements). Ensuring a joined-up approach with the relevant enforcement agencies (likely to be Trading Standards officers) will also be crucial.

#### Authorization and certification of parties

15. Do you see a need for specific Green Deal authorisation and accreditation? What role might parties involved in this play in the future?

**Energy UK response:** There remains a need for authorisation and accreditation under the Green Deal framework. We recognise that there may be benefit in ensuring that this is aligned and integrated with the implementation of the Each Home Counts review. To this end, it is vital that BEIS ensure that the implementation of the Each Home Counts review delivers a robust system of authorisation and accreditation. As noted above, it is currently too early to tell if the outputs of the Each Home Counts’ review will deliver this.

#### Other elements of the framework

16. We would welcome comments on any of the above elements of the Framework, and whether there is any case for a change in arrangements and the feasibility of making any such changes.

17. We would welcome any views on the administration fee, including on the amount, and whether this is the most appropriate way of compensating suppliers for the costs of collecting the Green Deal charge.

**Energy UK response:** Energy UK would like to provide comments on the following elements of the framework:

1. **Administration fee:** When members agreed to support the PAYS system, government gave confidence that suppliers would be fairly reimbursed for any costs which they had to bear to protect their overheads. However, the level of recompense was difficult to estimate when the scheme began in 2012 due to its innovative nature. Therefore, as noted in the call for evidence, government stated in its decision document that: “We plan to review the level of the administration fee within three years from the point the Green Deal framework becomes operational. At this point the costs incurred by electricity suppliers in collecting and remitting the Green Deal charge can be more accurately assessed”<sup>3</sup>. To date, BEIS has not, however, conducted any such review.

<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/43028/5521-the-green-deal-and-energy-company-obligation-cons.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43028/5521-the-green-deal-and-energy-company-obligation-cons.pdf); page 16

<sup>2</sup> Ibid; page 17

<sup>3</sup> Ibid; page 25

Earlier this year, Energy UK conducted its own request for information with the six largest energy suppliers, to better understand their actual costs associated with administering a Green Deal plan. The results of the RFI were discussed with BEIS earlier this year. On average we found that the actual cost of administering a Green Deal plan, including set-up costs, was £166.60 per plan, £162.95 more per plan than the £3.65 Obligated Suppliers are paid by Green Deal providers. Even when initial set up costs are excluded, our analysis show that the average cost of administering a Green Deal plan on a day-to-day basis is in excess of £74 per annum.

As such, we ask that government undertakes a timely review of the administration fee and ensures that suppliers are fairly reimbursed, based on the actual costs which are incurred in the administration of a Green Deal Plan. Currently the fee clearly does not provide adequate recompense for suppliers. We would also ask that a robust review of the administration fee consider whether it is fair to maintain the existing two tiered payment of the fee for Obligated and Voluntary Green Deal Suppliers.

2. **Green Deal Oversight and Registration Body (GD ORB):** This should be reviewed in light of the implementation of the Each Home Counts review. This should consider whether the ORB continues to provide oversight that others cannot.
3. **Green Deal Central Charge Database (GDCC):** We believe improvements could be made to the GDCC. For example, it is important to ensure that all parties can access the information they require from the GDCC to effectively manage Green Deal Plans.

Any other issues

18. Are there factors that we have not identified that you believe will, or should, influence the future of the Framework? How might they influence it?
19. Are there any other opportunities to improve the Framework, not covered by the above?
20. Are there any aspects of the Framework you wish to comment on specifically in relation to non-domestic usage of the Green Deal, not covered above?

**Energy UK response:** During the establishment of the Green Deal significant attention was paid to putting place a new financial mechanism and ensuring that suppliers put in place systems and processes capable of collecting and remitting Green Deal monies – which they did. In our view, enough attention was not, however, paid to driving demand for energy efficiency measures and developing an able-to-pay market, in either the domestic or non-domestic sector, to make use of the Green Deal.

With this in mind it is disappointing to note that while this call for evidence looks to address the complexity of the scheme, it does not consider what can be done to increase customer awareness and demand, despite this being noted in the call for evidence as one of the major challenges facing the Green Deal framework.

Energy UK believes this call for evidence and the ‘Building a market for energy efficiency’ call for evidence offer 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.

A top-down approach through obligations on suppliers has, in our view, led to an expectation that energy efficiency should be provided free of charge, undermining the value of energy efficiency to the public. Instead, the able to pay market needs to become sustainable. The government could help kick-start the market via a range of supporting incentives.

Energy UK believes energy efficiency policy should utilise a combination of incentives and funding mechanisms to engage with different consumer groups. These incentives should be supported appropriately by regulation to trigger demand in the market, underpinned by a long-term holistic government strategy and consumer education campaign.

There are a range of fiscal, financial and regulatory incentives that could be implemented to support the able-to-pay energy efficiency market. However, we believe that adjusting the Stamp Duty of a property in accordance with its EPC is worth particular consideration as part of any future energy efficiency policy framework for the able-to-pay market. Any new framework should also be supported appropriately by regulation to trigger demand in the market, underpinned by a long-term holistic government strategy and consumer education campaign.

**For further information or to discuss our response in more detail please contact Daniel Alchin on 020 7747 2965 or at [daniel.alchin@energy-uk.org.uk](mailto:daniel.alchin@energy-uk.org.uk).**