House of Commons

Environment, Food and Rural Affairs Committee

Climate change: the "citizen's agenda": Government response to the Committee's Eighth Report of Session 2006–07

Second Report of Session 2007–08

Report, together with formal minutes

Ordered by The House of Commons
to be printed 12 December 2007

HC 189
Published on 18 December 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Environment, Food and Rural Affairs Committee

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Introduction

1. Our Eighth Report of Session 2006–07, *Climate Change: the "citizen's agenda"*, was published on 13 September 2007 as HC 88.

2. Our Report concluded that Government was failing properly to involve people in the fight against climate change and to help the many individuals and community groups keen to cut their greenhouse gas emissions. The stream of ministerial speeches and initiatives urging citizen engagement with the issue were not backed up with adequate resources to enable individuals and community groups to play their part in helping to reduce carbon emissions. We believed that more needed to be done to co-ordinate publicly-funded messages and strategies on climate change so that people were not left feeling powerless to 'do their bit'.

3. We received the Government's response on 15 November 2007, and we publish it as an Appendix to this Report. We are disappointed by aspects of the response, and in particular its unnecessarily negative approach to a number of our practical suggestions. We set out our views in more detail below.

Timing of the Government response

4. Defra and the Prime Minister and Defra made important statements on 18 and 19 November, including announcing a new Green Homes Service with £100m of funding.[1] We welcome the Green Homes initiative, which looks to be a positive development in encouraging households to reduce their homes' carbon impact, but our inquiry demonstrated that advice needs to be backed up by effective financial incentives to improve homes' environmental performance.

5. We are puzzled that the response appears to have been written without regard to these announcements of 18 and 19 December. We received the document from the Department for Environment, Food and Rural Affairs (Defra) on 15 November. It was already two days late, and we question why the Department did not wait a few days more in order to provide us with a complete and up-to-date document. If on the other hand these announcements were a surprise to those in Defra responsible for preparing and authorising the response, it reflects badly on the processes of government.

Other comments on the Government response

Assistance to local authorities

6. In response to Conclusion 10 the Government says that its Community Energy Efficiency trial has provided a total of £6.3m of grant funding to 48 projects "to provide local communities a holistic package of energy efficiency support". Such 'bottom up' action

1 See Defra news release, 18 November 2007, *Benn launches plan for one stop shop for greener homes*, and speech by Prime Minister on climate change, 19 November 2007 (http://www.number-10.gov.uk/output/Page13791.asp)

needs to be much more widely encouraged. We urge the Government also to come forward with a scheme to give financial encouragement to local and community renewable generation and energy saving programmes. As we said in our report, there are many in the country who want to 'do their bit', and need only a small amount of help to get them started. Local authorities should have an important role in providing community leadership and practical help with energy efficiency and renewable generation. Woking and other like-minded councils have shown what local authorities can do, especially when it comes to the installation of decentralised heat and power schemes. The Government needs to help disseminate best practice and listen to the views of these leading local authorities with a view to removing the barriers that prevent councils doing more.

7. Clause 147 of the recently introduced Planning Bill places a duty on local planning authorities when preparing their development plan documents to include policies in relation to the development and use of land which take action on mitigating and adapting to climate change. Authorities will be required to have regard to the national Planning Policy Statement on Climate Change. **We ask the Government to explain how it expects the Planning Bill to assist local authorities in bringing forward decentralised generation schemes.**

Supplier obligations and energy services

8. The Government says in response to our Conclusion 10 that a "clear sense of direction" will emerge by 2008 on the carbon abatement obligations that will apply to energy suppliers up to 2020. As our Report states, the Government has been studying the idea of suppliers becoming energy service companies since 2000, so progress is very slow.[2] In some ways utilities such as EDF seem to be ahead of the Government, by saying that they will soon be no longer just selling units of energy but will focus on services (including energy saving measures and micro-generation).

9. We were very surprised to read in response to our Conclusion 18 that the Government is unwilling for customers to be told the fact that they themselves are paying through their bills for the energy efficiency measures of the Energy Efficiency Commitment. This lack of transparency is very difficult to understand if—as our evidence suggests—lack of trust is thought to be a barrier to people taking up the opportunities the EEC offers.

Metering

10. The Government's response to our Conclusion 15 does not make its strategy very clear. We are not convinced that the Government yet grasps the need to require any meters or displays that consumers receive over the next few years to be 'future proofed'. It seems to be treating real time displays and 'smart' meters separately rather than thinking in an integrated way about these complementary—rather than alternative—technologies. We are aware that members of the British Electrotechnical and Allied Manufacturers' Association (BEAMA) have developed a 'Smart enabled meter' specification designed to be installed in all new properties and in all meter replacement situations. Energy suppliers would be able to install systems with more functionality but the basic functions of the systems would be

2 See paragraph 103 of our report

inter-operable.[3] We are surprised that the Government makes no mention of this work when it describes its consultation on the subject.

Micro-generation

11. We remain unconvinced that the Government has a clear policy to support micro-generation. Renewable Obligation Certificates (ROCs) are mentioned in response to Conclusion 21, but these were never designed to support micro-generation: the ROC system is too bureaucratic for that purpose. In May 2007, the former Department for Trade and Industry confirmed this, saying that "the Obligation was designed to support large scale deployment of renewables and we do not feel that it is the best way to deliver the incentives that the microgeneration industry require".[4] The response also says that electricity suppliers are publishing 'buy back' tariffs, but the fact that such a tariff exists on a voluntary basis is not the same as having a tariff which guarantees to give people a return over the period of the investment, as is the case with the German feed-in tariff system. The Government's attitude towards the German feed-in tariff is unnecessarily negative. We do not understand why it failed to outline in any detail why it believes it would not be applicable to the UK. The German approach has been far more successful in delivering micro-generation capacity than our ROC system has. Under the German system more than 10% of electricity came from renewables in 2005, whereas in this country the equivalent figure was just 4%. We do not believe that a feed-in tariff need cost consumers any more per unit of renewable electricity generated than ROCs. The average annual cost per customer of the German feed-in tariff is about £12, compared with about £7 for the ROC system. But the German system supports far more renewable generation.

12. We note however that the announcements from the Government on 18 and 19 November state that "other incentives for microgeneration, such as feed-in tariffs, will be investigated" alongside its 'Green Homes' initiative.[5] This is a welcome change of heart from Defra's view of the previous week, but it is rather vague and nothing may come of it in the end. **Defra must publish the timescale and terms of reference of this investigation of feed-in tariffs, and publish the material it considers as well as its conclusions. A key issue is how the speedy transition to feed-in tariffs would be handled if the investigation finds that a change of policy is required.**

13. In response to paragraph 123 of our original Report, the Government lists the amounts spent under the Low Carbon Buildings Programme since it was relaunched in May. Before May, £500,000 per month was available. Defra's figures show that the amount spent each month since May has been far below that figure. The Department offers no commentary as to why it thinks the monthly expenditure has dropped so much. **Defra should be embarrassed at the low sums being spent on the revamped Low Carbon Buildings Programme, and we ask the Department to offer an explanation.**

14. The Government mentions in response to our Conclusion 17 that the new Carbon Emissions Reduction Target for energy providers (which will replace the Energy Efficiency

3 See BEAMA website, http://www.beama.org.uk/hottopics/Smart+Metering/challenges.asp

4 DTI, *Renewable Energy: Reform of the Renewables Obligation*, May 2007, page 21, paragraph 3.15

5 Defra news release, 18 November 2007, *Benn launches plan for one stop shop for greener homes*

Commitment from 2008) will include micro-generation technologies, but we repeat our doubts that this will be of significant assistance to micro-generation.

15. The response to Conclusion 20 says that it proposes "the removal, later this year, of unnecessary controls in the planning consents regime" on micro-generation. Such a step would be welcome, and **the Government should make clear how this will be done**.

Renewable heat

16. Renewable heat is mentioned in response to our Conclusion 22 but only to say that the Office of Climate Change has done a review. The Prime Minister's speech on 19 November mentioned a consultation on this early in 2008.[6] This is slow progress given that this Committee and many others have called for renewable heat to be treated seriously for a long while. If we are serious about playing our part in reaching the European Union target to generate 20% of EU energy from renewables by 2020, encouraging towns and cities across the country to put local energy networks in place is more urgent than ever.

'Green' taxes

17. In response to Conclusion 24 the Government opposes earmarking revenue from environmental taxation for spending on measures to reduce emissions on the grounds that it would not guarantee value for money and would remove revenue from the overall Spending Review process. We find this argument odd given that the existing Climate Change Levy is recycled in the form of a reduction in employers' NI contributions and a small percentage of the tax take is passed to the Carbon Trust to support low carbon technologies and energy efficiency.

18. **The Government must develop an overall strategy on grants and taxation that combines effective encouragement to climate-friendly behaviour and good value for the taxpayer.**

Conclusion

19. For all its rhetoric, we are not yet convinced that the Government is ambitious enough in driving forward practical measures to help people reduce their climate change impact. The new Public Service Agreement 27—*Lead the global effort to avoid dangerous climate change*—that will come into force in April 2008 gives Defra a clear leadership role on this crucial priority of the Government as a whole, and we look forward to seeing the Department take a very active part in ensuring that the whole of Whitehall pays proper heed to the PSA. As part of that leadership role, Defra must also demonstrate that it has its own house in order.

20. **We ask Defra to respond to the points raised in this report, and in particular to our observations in paragraph 5. We will also wish to take oral evidence from the Secretary of State on its response to our original Report.**

6 Speech by Prime Minister on climate change, 19 November 2007 (http://www.number-10.gov.uk/output/Page13791.asp)

Appendix

GOVERNMENT RESPONSE

INTRODUCTION

The Government is grateful to the Select Committee for its report into the role of the citizen in helping tackling climate change. If we are to meet our ambitious target of reducing CO_2 emissions by 60% by 2050, Government, business and civil society, including individual members of the public, all have to act together. The Government appreciates the Committee's recommendations and suggestions of ways in which we can meet this vital challenge.

There is a great deal of activity in this area and a broad range of initiatives including: grant programmes/subsidy schemes such as Energy Efficiency Commitment (EEC), Warm Front and Decent Homes; advice and information campaigns run by Government and the Energy Saving Trust; voluntary approaches with retailers (for example, in the area of lighting); as well as attempts at EU-level to improve the regulation of products. Sometimes these measures do not have a high public profile (for example, as the Committee notes, the £400 million of investment into domestic energy efficiency measures generated each year through the Energy Efficiency Commitment is not well known). However, this is not to suggest that we have done enough. Given the significant barriers to individual action, including apathy, hassle factor, up-front costs, and poor information, there is still a long way to go. The key challenge will be to make the help that is available to individuals much clearer, accessible and easily understandable. For this to happen, the different activities must be brought together as a holistic package, making it easier for individuals to be taken on a journey of awareness, engagement and action.

RESPONSE TO CONCLUSIONS AND RECOMMENDATIONS

Information and awareness raising

Stimulating behavioural change

1. **Raising awareness and citizen involvement at a domestic level is fundamental to tackling climate change. However, we remain unconvinced that all that needs to be done to maximise this is actually being done. We are concerned that the Government is giving out mixed messages and continues to display a fundamental lack of joined-up thinking. It is clear that so far efforts to alert the public to the dangers of climate change, and the need for personal behavioural change to deal with it, have met with mixed results. More needs to be done to achieve greater coordination of publicly funded messages and strategies to deal with the problem so that people are not left feeling that they cannot make a difference. We call upon the Government to review**

its efforts in this area and publish—within six months—details of its proposals for a more effective public communication strategy in this area. (Paragraph 18).

Awareness of climate change is now almost universal (97%) as is concern about its impact (81%) but there is considerable confusion about how individuals can address it (only 26% feel they can influence climate change). This is in part due to the confusing and often contradictory messages on climate change in the media and from the many organisations involved. Our research also suggests that the public now feel that overt Government leadership is both missing and would make a direct difference to their level of personal engagement.

Consequently Defra's communication strategy was revised in the second half of last year. This involved working closely with DfT and hence the joint development and then the launch of the Act on CO_2 brand, which is designed to work ***across*** government climate change communications and be suited for "action-oriented" campaign work.

DfT have been running an advertising campaign on smarter driving and car purchasing since earlier in the year and Defra has developed the "Footprints" advertising campaign. (Hitherto, Defra had always devolved mainstream public facing campaigns to its funded delivery bodies.) This is a multi media campaign of TV, press, on line and public relations activity that was launched in July. This complemented and linked into other Defra public facing initiatives such as the launch of the web-based Act on CO_2 calculator. The initial results of this have been very encouraging for the advertising campaign, with a comparatively high level of awareness generated (on a relatively modest media spend) and success in driving nearly half a million visitors to the website to assess their personal footprint on the carbon calculator.

DfT and Defra Communications teams have recently appointed the same specialist marketing suppliers (advertising, media, research and marketing agents) as another means of getting our publicity more "joined up" and messages to the public on climate change more consistent and hence less confusing.

DEFRA and DFID are also working closely to ensure joined up messages to the public on how climate change impacts on poor people and on efforts to reduce global poverty.

We are continuing to review achievements to date, and accept that there is more to be done, especially:

- Building on this initial pilot, a high impact and sustained communications campaign (similar in scale to other successful Government behaviour change campaigns such as drink - drive, anti smoking etc); and
- Taking further steps to enhance the coordination of climate change communications beyond this (especially from delivery bodies and other government departments) both in terms of consistency of message and

exploiting opportunities to link them together using the unifying brand of Act on CO_2.

Defra is developing its proposals as part of a more sophisticated strategy based on social marketing principles, including the identification of key behaviour change goals and a more detailed audience segmentation. Funding for this work will need to be considered later this year alongside other priorities following Defra's CSR settlement. It will publish plans once the future direction is agreed.

Defra has meanwhile treated civil servants as an audience segment and liaised with internal communications managers across government to publicise Act on CO_2 messages. Government departments have encouraged staff to calculate their carbon footprint on the Act on CO_2 calculator, promoted the launch of the Act on CO_2 campaign, invited staff to sign up for climate change seminars and film screenings (An Inconvenient Truth). There has also been a co-ordinated approach to Energy Saving Week, with cross-departmental competitions and the opportunity for staff to ask questions about climate change which will be published within every department.

Energy Saving Trust

2. **Given the urgency the Government purports to place on tackling the threat of climate change, we recommend that the Government ensures that the Energy Saving Trust does not suffer the consequences of any tightening or reprioritising of the Departmental budget, as the cut in funding in 2006–07 suggests it did. (Paragraph 20)**

The Government recognises the value the Energy Saving Trust brings to helping the Government meet its climate abatement targets. We have provided the Trust continued and significant sponsorship funds since its inception. The work of the Trust is integral to underpinning our household energy efficiency and carbon abatement policies and the Trust is recognised to be a trusted independent voice at a time when we need consumers to act further. The impact of, for instance, the Trust's Energy Saving Recommended scheme is testament to this. Future support for citizen engagement, including the role of the Energy Saving Trust, will be part of Government's Comprehensive Spending Review (CSR) priorities.

3. **In its response the Government and Energy Saving Trust must provide details of the future of the Sustainable Energy Network pilot and if so, whether the intention is to roll this out more widely and over what timescale. Furthermore, the Energy Saving Trust should provide details as to how the 50% figure for overall carbon savings was determined, as we are concerned that tools to calculate domestic emissions are still at a very early stage of development. (Paragraph 22)**

The Trust seeks to roll-out the Sustainable Energy Network on a national basis by the end of October 2008. Full roll-out can, though, only progress on the basis that

appropriate funding is available beyond 07/08, which hinges on decisions following the CSR for 2008–2011. In the Review, Government will be looking at the best way of providing advice and support to households.

The Trust has a two phase proposed roll out in England, the first to commence immediately after a positive decision on funding and the second to follow soon after. However, given the readiness of the North West Region and the active support for consumer transport activity to be provided through the network it has been agreed to further accelerate the roll-out of the Sustainable Energy Network in the North West Region.

The Trust has agreed to provide the Committee information on their emissions calculations directly.

4. **We recommend that additional Government funding is made available to the Energy Saving Trust specifically to tackle greenhouse gas emissions from personal transport. We recommend that the Department for Transport (DfT) recognise its responsibility to ensure that the EST has appropriate funding to pursue its transport emissions reduction programme. The DfT should now confirm what steps it will take to tackle this problem. (Paragraph 23)**

The Department for Transport has provided £225,000 of funding to the Energy Saving Trust in the 2007–08 budget to provide consumers with transport advice and information about the DfT's Act on CO_2 communications campaign through the Energy Saving Trust Advice Centres.

EST will report to the DfT on the outcomes of this initial work. This will help inform the EST's business planning process for 2008–09, what funding will be available in the future for personal advice on transport, and how EST contributes to the department's activities aimed at encouraging lower CO_2 emissions from personal transport.

EST's work with DfT in this area complements the Government's wider programme to promote changes towards more sustainable patterns of travel behaviour. This includes using a range of measures collectively known as Smarter Choices, such as workplace, school and personalised travel planning.

Pledge schemes

5. **Pledge schemes clearly have a role to play in raising awareness about climate change and what individuals can do to address this problem. However, there is a plethora of such schemes with a multiplicity of messages. This degree of multiplicity may result in confusion, particularly as schemes are often couched in different terms—some to save tonnes of carbon dioxide, others to reduce your carbon footprint, and others to 'save your 20%'. We are also concerned by the lack of appropriate monitoring of these pledge schemes. Whilst there is some evidence that**

information and awareness translates into action, it is difficult to be sure how far this impact goes. We recommend that Defra invite the promoters of pledge schemes to attend a seminar designed to address these problems and improve the quality, effectiveness, objectivity and performance of such schemes. Monitoring of impacts must also be co-ordinated. (Paragraph 31)

The Government agrees that coordination of climate change communications is vital to provide the public with much greater clarity through consistency (see response to recommendation 1, above). As part of an attempt to develop greater consistency in such engagement activities, we have, for example, developed a standardised set of data and calculations showing the CO_2 emissions from everyday actions. This is used in the Act on CO_2 calculator and is being made freely available to organisations wishing to encourage behaviour change in this area. A wide range of organisations are already making use of this opportunity.

We also recognise that monitoring and evaluation of engagement activities is essential, although challenging: there is, for example, ongoing work being carried out to assess the impact of initiatives such as the Act on CO_2 campaign, the Climate Challenge Fund and the Energy Saving Trust's activities, and to share lessons learnt.

Government accepts the recommendation and will seek to host a seminar to encourage the promoters of pledge schemes, specifically with the objective of encouraging "improvements in quality, effectiveness, objectivity and performance".

The role of Local Government

6. **Although there is a lot of ad hoc activity, there is no concerted central Government strategy to help local authorities to develop local greenhouse gas reduction programmes. Furthermore, it appears to us that community and local government initiatives are often taking place in spite of, rather than because of, Government activity. The Government must take visible steps to remove barriers to encourage local authorities to be more proactive in this area. It should publish before the end of 2007 its proposals to achieve this objective. (Paragraph 40)**

7. **Funding and activity clearly needs to be coordinated at a regional level between local authorities, Regional Development Agencies, and the Energy Saving Trust's Energy Efficiency Advice Centres and Sustainable Energy Networks, amongst others, to ensure that everyone has regional access to credible and independent advice, whilst avoiding unnecessary duplication of effort. The Government must make clear in its response how it proposes to do this. (Paragraph 40)**

Government policy to support and incentivise increased local authority action on climate change is set out in the 2006 UK Climate Change Programme and the 2006 Local Government White Paper.

Since publication a new national indicator set has been developed, as part of the Comprehensive Spending Review 2007, that reflects the Government's national priorities.

For the first time, there will be performance indicators on climate change mitigation which will send a clear message to local councils about where we expect them to focus their carbon reduction efforts—in their own operations and buildings, through the delivery of their services, and as leaders of their communities. These indicators are designed to incentivise more authorities to reach the levels of the best. Performance against each of the 198 indicators will be reported for every Local Strategic Partnership in a unitary authority or county council (where it is a two tier area). The Government has also recently published the 'Energy Measures Report: Addressing Climate Change and Fuel Poverty – energy measures information for Local Government'. The report sets out the steps which local authorities can take to improve energy efficiency, increase the levels of microgeneration and other low carbon technologies, cut greenhouse gas emissions and reduce the number of households living in fuel poverty. It does this by focusing on key local authority activities such as community leadership, planning, housing, transport and the powers which local authorities already have at their disposal.

It also seeks to pull together existing sources of help and advice to local authorities on climate change and fuel poverty, such as EST's practical help service, into one place. The guidance will assist Local Authorities to perform well against the new performance indicators on climate change.

Additionally in 'Planning for a Sustainable Future' the Government committed that it would set out clearly in the Planning Bill, the role of local planning authorities on energy efficiency and climate change.

Future funding in this area will need to be considered alongside other priorities following Defra's CSR settlement later this year.

Household energy efficiency

New build—the Code for Sustainable Homes

8. **The Government must set out a clear timeline delineating the proportion of all new housing stock which will be built as 'zero carbon' homes on a year by year basis. We further recommend that the 2016 Zero Carbon Homes Taskforce incorporates within its terms of reference the intention to report on steps to be taken to achieve 'zero carbon' homes as soon as possible. (Paragraph 52)**

Following a consultation exercise during the first half of the year, the Government published alongside the Housing Green Paper in July, a policy statement 'Building a

Greener Future'[7] which set out a clear timetable for zero carbon homes. The timetable involves three steps: moving first, in 2010 to a 25 per cent improvement in the energy/carbon performance standards set in Building Regulations (Code for Sustainable Homes level 3); second to a 44 per cent improvement in 2013 (level 4); and then zero carbon in 2016 (level 6). These steps would be achieved through changes to the Building Regulations.

The policy statement also set out the Government's definition of zero carbon.

The Government believes that a phased approach in this way will be more effective than specifying that a proportion of new homes should be zero carbon on a year by year basis. This is to allow the industry to plan for the change, test approaches, and for the supply chain to be geared up to deliver the new products needed to achieve the new standards. The consultation exercise showed broad support for this timetable.

The Government has decided that new homes funded through the Housing Corporation should be built to Code Level 3 from April 2008. English Partnerships are currently running a carbon challenge for developers to bring forward developments meeting Code levels 5 and 6. An announcement on the successful developer for the first site will be made by the end of the year.

The terms of reference for the zero carbon homes task force already include looking at the barriers to achieving zero carbon homes and the measures which need to be put in place to deal with them. The task force is considering the implementation plan. The Government also expects that the Callcutt review into housebuilding delivery (to report shortly) will comment on the programme for zero carbon homes. It will be for the task force to consider what material it will want to publish, but the Government expects that it will issue reports on progress towards zero carbon homes as the programme unfolds.

9. **The Government must not only require all new houses to be built to a 'zero carbon' standard well before 2016, but must ensure that existing regulations are rigorously enforced. (Paragraph 53)**

The Government consulted fully on the proposed timetable confirmed in 'Building a Greener Future' and 39% of respondents believed that the 2016 timetable for zero carbon homes is achievable whilst recognising the challenges involved. Only 16% said it was not stringent enough. Based on consultation responses and discussions with the housebuilding industry, we believe that the timetable is already sufficiently ambitious.

The Government agrees that there needs to be effective enforcement of Building Regulations. Enforcement of Building Regulations is the responsibility of local authority building control services. When Part L of the building regulations (conservation of fuel and power) were changed in 2006 the Government made a number of changes to

7 http://www.communities.gov.uk/publications/planningandbuilding/building-a-greener

reinforce Local Authorities' ability to enforce the requirements (for example, introducing post-construction testing) and also undertook the most comprehensive communication and training programme ever carried out for a change to the building regulations. A review will be undertaken in 2008 which will look at the success of implementation of Part L and consider whether further action is necessary.

Existing housing stock

10. **Where energy efficiency measures in existing homes are simply impractical or too expensive, an alternative approach is to include the incorporation of renewable electricity and/or heat technologies. This could either be within individual dwellings (e.g. solar water heating) or to supply groups of properties or a community (e.g. solar photovoltaic and wind generation; combined heat and power). The German programme to refurbish all pre-1978 housing stock such that they attain contemporary energy standards has much to commend it. The Government should evaluate the application of such a programme to UK circumstances, with particular emphasis on instances where older properties are substantially improved or extended. Planning permission should not be granted where the proposed modifications will increase the carbon footprint of the building. (Paragraph 59)**

We agree with the Committee that if we are to continue to improve the carbon footprint of UK households as a means of helping us achieve our overarching carbon reduction ambitions, we need to look to support the uptake of all cost effective energy efficiency and microgeneration measures that can help maximise that carbon saving potential.

The Government has in place a wide range of mutually reinforcing policies and programmes which are designed to promote the uptake of low carbon measures, including through the Building Regulations, which set energy efficiency standards at component level for the replacement of windows and doors, boilers and hot water systems, and key programmes such as the Energy Efficiency Commitment (EEC), Warm Front and Decent Homes. Whilst we have made some good progress—EEC has, for example, delivered substantial carbon savings and supported improvements in millions of homes—we recognise there is still some way to go. Looking over the whole of the existing housing stock, Standard Assessment Procedure (SAP) data shows us that action to improve the energy efficiency of buildings has over the years had an impact, with average SAP ratings increasing for all property age bands between 1996 and 2005, although more generally the least efficient and older housing stock is improving less than the more efficient stock.

In order to make further progress, recent policy announcements have demonstrated a determination to speed up the pace of change and make a much more significant contribution to tackling climate change within a much shorter timescale. We are developing the next stage of the EEC (now called the Carbon Emissions Reduction Target) to run from 2008–2011 and are aiming to put the relevant legislation to Parliament shortly. We have made effective use of the Climate Change and Sustainable

Energy Act to allow us to amend the primary legislation so that microgeneration and behavioural measures can be included for the first time. This means that CERT will support householders in understanding and addressing the whole carbon footprint of their home. It will also allow energy suppliers the opportunity of using a broader range of tools in providing help and support to householders and for working in conjunction with local authorities, retailers and other stakeholders. As part of this, we intend to introduce creative and significant support for innovation, offering space for energy suppliers to explore and experiment with totally new routes for carbon abatement in the household sector, helping the UK to prepare for the challenges ahead, including getting carbon saving measures into hard to treat homes such as those with solid walls. We intend to support energy suppliers who wish to focus some of their work with low-income customers on those who are especially vulnerable or at risk of fuel poverty in hard to treat homes and are unlikely to have benefited from previous supplier obligations. We intend to introduce all these new routes while continuing to build on the success of the existing framework in delivering cost-effective carbon abatement and wider social benefits. The three-year programme is expected to deliver double the annual carbon savings of EEC2, to generate about twice as much activity by energy suppliers and will mean that about twice as much resource is directed at low-income customers.

We are committed to an obligation on suppliers out to 2020, at least as ambitious as the Carbon Emissions Reduction Target and are now working to establish an evidence base on which to set framework decisions. It is clear that as the most cost-effective opportunities to improve energy efficiency of existing homes are taken up, realising savings will become increasingly difficult to achieve. We will need consumers to demand and pay for low carbon measures if we are to continue to deliver carbon savings from households equitably. We intend to issue a clear sense of direction on the Obligation by 2008, looking to learn from international evidence and best practice as we do, including from the German retrofit programme.

We are also working to maximise the impact of our policies on the ground and through our £6.3m Community Energy Efficiency trial, have provided 48 projects grant funding to provide local communities a holistic package of energy efficiency support. The aim is to overcome barriers to the take up of energy efficiency such as hassle factor and lack of information through innovative means which facilitate the joined-up delivery of assistance and measures through the Energy Efficiency Commitment (and subsequently Carbon Emmissions Reductions Target) and Warm Front.

In total, policies are expected to deliver reductions in emissions from existing homes of around 23MtCO_2 by 2020 and represent a total investment by Government and energy companies of around £1.5 billion a year.

We cannot, at this stage, accept the Committee's recommendations on consequential improvement. Having previously considered this issue, the Government decided that it was not in a position to judge whether the potential benefits of introducing this

requirement outweighed the possible social consequences and the difficulty of enforcing such measures, and that it could not therefore proceed with such a proposal at this time. Any existing home that is undergoing extension or major refurbishment must already: comply with increasingly stringent statutory minimum energy efficiency requirements set out in the Building Regulations; not result in a worsening of the overall energy efficiency of the building concerned; and, if 25% or more of the surface area of any thermal element (e.g. a wall or the roof) is being renovated, require the entire element usually to be improved (the 25% limit is intended to exclude minor repairs but to ensure that any significant upgrading incorporates energy efficient construction). The proposed review by the European Commission of the Energy Performance of Buildings Directive in 2009, including of the application of its existing requirement that, where an existing non-domestic building over 1,000m^2 was being extended, certain consequential improvements to existing structure should be made to offset the increased carbon footprint of the building, will present an opportunity to revisit this issue, taking into account the Committee's views.

11. **We recommend that the Government provide a stamp duty rebate to homepurchasers who improve the energy performance of their property within one year of purchase. (Paragraph 65)**

The Government continues to consider all avenues for improving household energy efficiency and to overcome some of the key barriers to the uptake of energy efficiency measures such as lack of information and access to up-front capital as well as the hassle factor. However, there are significant administrative hurdles to using stamp duty land tax as a lever. If such a broad rebate were introduced wherever a property included energy efficiency measures, this would imply quite considerable additional resources to police the allowance.

Equally, a stamp duty land tax (SDLT) rebate to home purchasers who improve the energy performance of their property would not represent value for money, since it would fund activity which may have happened anyway in response to other Government initiatives to promote household energy efficiency, including, as identified by the Committee, Energy Performance Certificates. It would seem sensible first to assess the impact of this measure on the housing market, once fully rolled out. Moreover, proposals for the Carbon Emissions Reduction Target (2008–2011) will see supplier led energy efficiency activity driven at around twice the level of the current Energy Efficiency Commitment (2005–08).

The SDLT exemption for new zero carbon homes is a more cost effective way of improving the energy efficiency of homes. This measure will help kick-start the market for new highly efficient technologies in homes, both for the fabric of the building and in the use of microgeneration, and sets a gold standard for green homes. The tax relief is designed to encourage innovation in advance of the 2016 target for mandating a zero carbon standard for all new homes. The exemption applies from 1 October 2007 and is time-limited for five years to 30 September 2012. The exemption applies when the home

is first sold; homes costing less than £500,000 will pay no SDLT whilst homes over £500,000 will have their SDLT reduced by £15,000.

Tenanted properties

12. **Meaningful information regarding the thermal properties of these buildings, as well as the energy ratings of heating systems and appliances, must be made available to incoming tenants. Energy Performance Certificates for rented properties should be introduced as soon as possible, ideally before 2009. (Paragraph 69)**

The Energy Performance of Buildings (Certificates and Inspections) (England and Wales) 2007 set the timetable for the introduction of Energy Performance Certificates (EPCs) over the next year. EPCs on marketed sales are being introduced in phases from 1 August 2007. During 2008, EPCs on construction, sale and rentals of all buildings (domestic and commercial) will be introduced, in accordance with the Energy Performance of Buildings Directive. This includes domestic rentals (both social and private). From 1 October 2008, landlords will be required to make an EPC available to prospective tenants, and give the EPC to the final tenant.

EPCs are designed to help potential building owners and occupiers understand the current and potential energy performance of the building they are considering occupying, and provide advice on cost effective changes to improve its performance. The Certificate also contains behavioural advice on saving energy in the home, and suggestions for more expensive measures (such as the installation of low and zero carbon technologies) that could be pursued.

Energy Saving Trust and CLG research suggests that, in the early stages of rolling out EPCs, home buyers are most likely to act on the recommendations and make changes to their homes. Longer term, however, the market may make energy efficiency a greater factor in the decisions that people make about which buildings they choose to buy or rent, and landlords and sellers should become more likely to make changes to improve the market appeal of their buildings.

CLG's Regulatory Impact Assessment sets the net cost of domestic Energy Performance Certificates at £81 million per year, for which a saving of around 0.9 million tonnes of carbon per year is expected to be delivered by 2020[8].

The implementation of EPCs for the domestic sector is being accompanied by a communications campaign to inform all those who will be receiving or providing certificates of the benefits and obligations associated with them. Communications is a key part of the implementation of EPCs because there is no legislative requirement for building owners to act on the advice given in them.

8 Regulatory Impact Assessment: Energy Performance of Buildings Directive Articles 7-10, p29, http://www.communities.gov.uk/publications/planningandbuilding/regulatoryimpactenergyperformanc

Communications work is being carried out in conjunction with the Energy Saving Trust, who will act as the main point of further information for consumers on EPCs and advice on making energy efficiency improvements and adopting more energy efficient behaviour. We are also working closely with private landlords and local authorities/Registered Social Landlords, including a pilot of EPC production for the social sector during summer 2007. Over 100 social landlords took part, and the results will be used to inform guidance for this sector.

Product standards

13. **We appreciate that "the end of standby" cannot be achieved unilaterally, but the Government must make every effort to drive forward improved product standards and eliminate the appalling waste of energy caused by leaving equipment on standby. It must make clear the efforts being made in international negotiations to achieve the "end of standby", and provide an indicative timetable detailing when it anticipates agreement is likely to be reached. As an interim measure the Government should initiate voluntary agreements with manufacturers on improving product standards. As a bare minimum they should include the energy labelling of consumer electronics—as is already in existence for "white goods" such as refrigerators—within the next twelve months. (Paragraph 73)**

The Government remains fully committed to raising product standards and aiming to limit stand-by power consumption. In the recent Energy Review Report—The Energy Challenge, the Government confirmed that it will continue to press at international level for full implementation of the International Energy Agency's 1 Watt initiative to reduce stand-by power consumption which aims to limit stand-by for the majority of appliances to 1 watt by 2010.

However, the rapid expansion of ownership of consumer electronic products does mean that the amount of domestic electricity consumed by standby is increasing in real terms. At the same time, some gains in product efficiency, such as external power supplies (e.g. mobile phone chargers now generally consume less that 1 w when in stand-by) means that this growth is less rapid than may otherwise have occurred.

Under the framework directive on the Eco-Design of Energy-Using Products (EuP), proposals are currently being developed which will allow standards to be set for a wide range of electrical and electronic products. If agreed, a recent proposal by the Commission under EuP would see stand-by power restricted to 2 watts for the large majority of energy using products within a year of implementation – with many restricted to 1 watt – and within 3 years of implementation all products within the scope of the proposal would be required to achieve the 1 watt standard. The UK intends to support this proposal when it comes forward for negotiation.

The Retailers' Initiative, announced in Budget 2006, is also a key element of our products programme. The Government is working with major retailers and the Energy

Saving Trust to encourage retailers to take voluntary action to improve the energy efficiency of the goods they procure and sell. Consumer electronics, including the power they consume in stand-by, are the first products being considered. A meeting between Government and the major consumer electronics retailers to consider how this can best be moved forward is scheduled for November.

Under EU Single Market rules the UK cannot by itself require any freely traded product to carry an energy efficiency label. Such action would need to be taken at EU level. We are therefore continuing to press the European Commission to expand its current mandatory energy labelling scheme to cover a wider range of products including consumer electronics. However, the UK has already started taking voluntary action in this area via the Energy Saving Trust's Energy Saving Recommended logo which identifies the most energy efficient products available. This already includes energy efficient Integrated Digital Televisions, including their stand-by power consumption and is in the process of being expanded to include ICT equipment.

14. **We recommend that the Government give serious consideration to taxing energy inefficient consumer electronics and lighting in order to reflect the wider environmental impact of choosing and owning poorer performing products. Revenue raised could then be used to offset financial incentives established to encourage environmentally beneficial behaviour. Any tax increase must, however, be combined with the provision of better information on the availability, environmental and cost benefits of energy efficient alternatives. (Paragraph 81)**

Whilst the Government recognises a potential role for the use of fiscal instruments in encouraging consumers to change their behaviour, there are a number of factors which must be taken into consideration to ensure that the most cost-effective and best targeted measure is chosen including the distributional impact of such a measure, as well as the cost to both business and Government of administration and collection. To take account of these considerations, the Government has introduced an innovative range of measures since 1997 to encourage greater energy efficiency in products and, more widely, behaviour of households. For instance, voluntary agreements are effective instruments and the Government announced on 27 September 2007 that major retailers, with the support of manufacturers and energy companies, have agreed on an ambition to phase out inefficient incandescent light bulbs by 2011.

Acknowledging the potential role of a fiscal measure in encouraging consumers to purchase more energy efficient alternatives, the Chancellor and the French Finance Minister have written to the relevant European Commissioners to press for the introduction of a reduced rate of VAT for the most energy-efficient goods, building on the letter sent at Budget 2007 by then Chancellor Gordon Brown. At the same time the Chancellor and the Secretaries of State for BERR and Defra also wrote to Member States and the Commission, calling on the EU to take more urgent action to improve energy efficiency of consumer goods.

We would agree that information is critical to the proper functioning of the market. We are already working both within the UK and the EU to expand the range of products for which reliable energy efficiency information is provided. For example the Energy Saving Trust has recently expanded its Energy Saving Recommended (ESR) scheme and has uplifted its eligibility criteria to identify and endorse the most efficient consumer electronics and lighting products. The EST also publishes a comprehensive range of consumer advice and information on energy efficient products. We have been actively engaging with the European Commission as they undertake their review of the EU Energy Labelling Scheme which could, if agreed, expand the number of products for which mandatory energy labelling information is required. We expect to see proposals from the Commission early in 2008. More fundamentally, the Government, in the Energy White Paper, announced that it would publish its analysis, targets and indicative standards for energy efficient products, setting out its ambition for improving the energy efficiency of the most important products and informing such things as EU mandatory eco-design requirements and Government procurement standards. We have consulted on product standards for consumer electronics and will be publishing our response to the consultation shortly. We hope to publish consultations on other sectors before Christmas.

Smart metering, information displays and better billing

15a. **We are disappointed by the recent provision in the Energy White Paper to provide householders with real-time displays on request from 2008. Real-time displays are not smart meters. This is a wasted opportunity and displays a sorry lack of ambition. (Paragraph 89)**

In the Energy White Paper, the Government set out its expectation that, within the next ten years, all gas and electricity customers would be provided with smart meters. The Government is using its current consultation on metering and billing, as well as additional work within Government and by the industry, to obtain further information about the costs and benefits of smart metering and the appropriate mechanisms for providing them to customers. It will set out its views on next steps following the consultation.

However, initial consultation with industry suggests that it will be approximately six years before the majority of households receive a smart meter and another four before a national roll-out is complete.

Research suggests that a visual reminder of energy consumption is an effective way of encouraging people to reduce energy wastage and this is why the Government set out its display device policies in the Energy White Paper. This will ensure that customers are provided, at the earliest possible point in time, with real-time information that will help them to reduce their energy use. It is also consistent with the Government's commitment in the Climate Change Programme to seek a 0.2MtC saving from better

billing and metering by 2010, and with the requirement in the Energy Services Directive to provide consumers with actual time of use information from May 2008.

Although the proposed requirement is for a display that will provide real-time information about consumption and cost, most displays can, for example, show cumulative data in graph form and compare electricity use between time periods, to highlight if electricity is being saved or wasted—and innovation, supported by expertise in design and behaviour change, continues. Suppliers that provide displays that exceed the minimum requirement may be able to claim CERT (Carbon Emission Reduction Target) credits.

More work is now needed on the potential for displays to affect gas consumption.

The Government's consultation on metering and billing provides an opportunity for consultees to advise Government on any implications that the display policy may have for the Government's expectation that all customers will be provided with smart meters within ten years.

15b. **At the very least, all displays must be 'future-proofed' to facilitate upgrading to two-way communications between meter, consumer and supplier, and to provide time-of-day pricing. (Paragraph 89)**

The Government proposes to give gas and electricity suppliers as much flexibility as possible in determining which device they provide. It is, therefore, for suppliers, subject to available technology, to decide what functionality they wish to incorporate in the device.

Full two-way communications between suppliers and customers, including the provision of services such as time-of-day pricing, require smart technology. The Government understands that real-time display technology is technically capable of being developed to enable the devices to communicate with a smart meter and that the use of open protocols for data communication could allow displays to be "future proofed" to do this.

15c. **As an interim measure, better billing must be in place within the next 12 months. This must incorporate not only energy consumption in kWh, but how this relates to cost, carbon dioxide emissions, and with individual historical usage to help consumers make informed decisions about energy use reduction and efficiency savings. (Paragraph 89)**

Electricity customers are already provided with information about carbon dioxide emissions under the Electricity (Fuel Mix Disclosure) Regulations 2005. The Government shares the view that the provision of additional information on bills can promote energy-saving by customers. It therefore proposes to require suppliers to provide historic information, preferably in graphical form, that compares energy usage

in one billing period with the same period in the previous year on domestic customers' energy bills or statements or, for those customers with internet-based contracts, electronically. The Department for Business, Enterprise and Regulatory Reform is currently consulting on this proposal, with a view to its being implemented in 2008.

The Government notes the Committee's recommendation that bills should include information on how energy consumption in kWh, cost and carbon dioxide emissions relate to each other. However, following consultation prior to the publication of the Energy White Paper, the Government does not consider that, overall, it would currently be useful or cost-effective to require such information to be provided on bills.

The Energy Efficiency Commitment (EEC)

16. **We are concerned by the apparent poverty of Government ambition for the Energy Efficiency Commitment (EEC; now the Carbon Emissions Reduction Target, or CERT), which compares poorly with the ambition of the emission reduction targets outlined in the draft Climate Change Bill. The existing targets are so undemanding that suppliers had already met 93% of the target for EEC2 (2005–08) by the end of the second year. Given that the Energy Efficiency Commitment is not even funded from the Government's own budget, this demonstrates a woeful lack of ambition. (Paragraph 101)**

In its consultation proposals for the Carbon Emissions Reduction Target (CERT) 2008–11, issued in summer 2007, the Government sought to set the overall target at as challenging level as possible. As the Committee noted, the level of activity proposed for CERT will broadly double that which energy suppliers must deliver under EEC2 and is expected to deliver around twice the level of carbon savings.

The target was proposed following detailed analysis, set out in an illustrative mix of possible measures that suppliers might utilise to meet their targets. This was constructed to be as ambitious as possible and generally the capacity for the most cost-effective measures was understood to be close to the maximum number that could feasibly be installed, in terms of supply and installation capacity, in the CERT period.

While maximising the carbon abatement of CERT, the Government's proposals took account of the need to maintain equity for low-income consumers, including those likely to be in fuel poverty. It was proposed that suppliers should be required to direct at least 40% of the carbon savings of the CERT to a priority group of consumers in receipt of certain income or disability benefits or tax/pension credits. It should be noted, however that suppliers' costs of promoting measures in the priority group are higher than in the non-priority group.

Recognising that the suppliers' costs of achieving their CERT obligations are passed on to consumers through their bills, the Government sought to ensure that costs to consumers are kept at a reasonable level.

The scale of the target proposed by the Government was therefore set at the most challenging level possible, while maintaining the cost-effectiveness of the EEC mechanism and taking account of wider social considerations.

17. **We are pleased to see that CERT (EEC3) makes provision for the inclusion of microgeneration technology. However, the proposed size of CERT means that the amount of microgeneration it supports is likely to be small because suppliers expect to focus on cheaper ways of saving carbon dioxide. Therefore, once the existing programme of microgeneration grants has expired, the Government must not rely on this support mechanism alone until the market is sufficiently mature to stand alone without financial support. If the Government does go ahead with CERT as planned, and intends to use it as the sole support mechanism for microgeneration, then the level of CERT must be considerably bigger. (Paragraph 102)**

The inclusion of microgeneration technologies will allow a more holistic approach to carbon abatement in the household sector and will provide suppliers with more flexibility in measures they can employ to meet their CERT obligations. The Government is keen to encourage innovation through CERT and has proposed a new route for demonstration activity to support trials of innovative approaches. It also proposes to continue the support given to market transformation under the current EEC. Under the market transformation incentive, as proposed, Ofgem would attribute an additional 50% carbon savings to measures that were not qualifying actions under EEC 2002-05 and which would achieve a significantly greater carbon saving than any similar qualifying action. Since microgeneration technologies have not been included in EEC to date, they would potentially qualify for this incentive.

The Government's strategy for developing microgeneration technologies is wider than CERT and is described in response to the Committee's recommendation 21.

18. **The Government must match ministerial rhetoric with tangible regulatory reforms that change incentives on suppliers. We commend the move to an energy services model beyond 2011, but the Government must make clear in its response what its intentions are to inspire consumer confidence in this model. Given the volume of evidence we received discussing the 'credibility barrier' associated with the Energy Efficiency Commitment (EEC), it must be made crystal clear to consumers that this is something that they are paying for through their bills. We recommend that householders' contributions to the EEC are listed separately as part of the Government's move towards better billing. (Paragraph 111)**

Government's commitment in the 2006 Energy Policy Review to some form of obligation on household energy suppliers out to at least 2020, and at a scale equivalent to the Carbon Emission Reduction Target (CERT) 2008–11, has given the household sector unprecedented long term certainty on the ambition and scope of the household policy framework. It is clear that if we are to continue to deliver cost effective carbon savings from households, we need to bring about a change in consumers' approach to

energy use. Suppliers and their customers need to have a shared incentive to reduce domestic emissions, and to work in partnership to achieve this.

Encouraging suppliers and consumers to make this change will be challenging, and cannot be made in one step. Creating this shared incentive will require an innovative policy, which changes the way suppliers engage with the end consumer. Our vision is to see this carbon reduction obligation as one that works with rather than against the grain of the supply businesses. It will require suppliers to develop alternative business models, earning profits through a combination of low carbon measures, related services and sales of energy. The Carbon Emission Reduction Target is a first step towards creating such a marketplace, with its rewards for innovative approaches and domestic microgeneration.

Market transformation will also require changes to other aspects of energy markets. Government's steps to improve billing, and over time, to roll out smart meters to domestic customers will improve the opportunities for suppliers to develop alternative business models. Equally, our commitment to roll out Energy Performance Certificates and Real Time electricity displays should allow consumers a better understanding of their energy use. Energy services relationships are likely to involve longer-term contracts between suppliers and customers. Although not the sole barriers, such contracts have been further facilitated by Ofgem's recent removal of the "28 Day Rule", making it possible for suppliers to offer more innovative contracts to customers, whereby the supplier makes investments in the customer's home in return for a fixed term contract, for example.

Defra issued a Call for Evidence earlier this year on the post 2011 supplier obligation, to enable interested parties to offer their views at an early stage in the policy development process. Further detail on the type of business models suppliers could offer consumers to incentivise uptake of energy service approaches were an important part of this. We are now looking to commission work to precisely look at consumer responsiveness to a range of supplier offerings as well as the role of trusted intermediaries such as local authorities or NGOs. The Government intends to reach a clear conclusion on the direction for the post–2011 supplier obligation in 2008.

The Government does not consider that making it clear to customers that they are paying for EEC or CERT through their bills would necessarily provide a better environment to promote an energy services model. While the draft Impact Assessment published with the CERT consultation proposals estimates the overall cost to all suppliers of meeting their obligations, the estimated cost at household level is an average: individual suppliers will pass on costs in different ways. It is not clear that a supplier would be able to include anything but a notional cost on bills. Furthermore it may not be helpful to consumers if they interpret the bill information as an opportunity to receive direct assistance from the supplier, since a supplier's costs may have been directed to promoting measures through other routes, for example retail schemes. For

the purposes of EEC/CERT, the lack of information on customers' bills does not appear to have been a barrier to suppliers achieving their targets.

The Government is, however, considering more widely the potential for improving the information on customers bills, including in relation to broader environmental initiatives, as well as the potential to better explain to the public the different instruments being used to tackle climate change and energy efficiency.

Green tariffs

19. **We are concerned that the provision of 'green tariffs' by energy suppliers may not be as transparent or consistent as it could be. This could cause confusion and, at worst, result in a loss of consumer confidence in these products. The use of green tariffs could be an important step forward in the UK emissions reduction strategy, especially in those households where it is difficult to reduce emissions through energy efficiency measures. It is vital that Ofgem and bodies like energywatch investigate the plethora of tariffs which claim to be green and develop an independent assessment of those proposed in order to boost consumer understanding and confidence in reducing emissions via this approach. We look forward to the results of Ofgem's consultation on Developing Guidelines on Green Supply. (Paragraph 112)**

We agree with this recommendation. The Government is committed to working with Energy Saving Trust to ensure consumers have access to impartial information and advice on tackling climate change including options on what individual householders can do; and working with Ofgem and energywatch to ensure all consumers, including business customers, have independent, accessible, transparent and user friendly information on the "green electricity" tariffs. There were Government representatives at the consultation workshops which were organised by Ofgem and the Energy Saving Trust. We look forward to revised guidelines on green supply from Ofgem as the first stage in this process.

Microgeneration

The Low Carbon Buildings Programme

20. We are concerned that householders will lose interest in the Low Carbon Buildings Programme, despite the additional £6m announced in Budget 2007. We remain to be convinced that the LCBP is the most appropriate support system. The Government should provide details of its intentions regarding the future of the programme once the current phase ends. We further recommend that the Government consider proposals for longer term alternatives to the current system, such as providing targeted grants for people on lower incomes and the use of tax incentives. (Paragraph 125)

Government published its Microgeneration Strategy, 'Power from the People', in March 2006. Our objective is to create conditions under which microgeneration becomes a realistic alternative or supplementary energy generation source for householders, communities and small businesses. The Low Carbon Buildings Programme (LCBP) is just one of many measures aimed at tackling widespread take-up of microgeneration.

The LCBP was designed as a "pump-priming" scheme, following earlier successful Clear Skies and Major (solar) PhotoVoltaic Demonstration grant programmes, to bring about a significant increase in microgeneration installations in households and other buildings. The microgeneration technologies that the LCBP supports are proven technically, but tend to have relatively high upfront costs, as compared with fossil-fuel based alternatives. The LCBP's £86m of support is divided into two phases, with the overarching aim of helping to build a sustainable microgeneration industry that can thrive without grants.

Part of a long-term, post-grant, framework will include ensuring that microgenerators can receive a fair price for any surplus electricity exported to the Grid. Government asked the regulator, Ofgem, to look at this in the last Budget and Ofgem is expected to report on its findings later this financial year. All six major electricity suppliers have committed to publishing easily accessible export tariffs; we are aware that some already offer such a tariff, as do some of the smaller companies.

We have already taken actions to make it easier for householders to claim the financial benefits available to them under the Renewables Obligation for all of the renewable electricity they generate. The use of agents and aggregation of outputs across several households is now permitted, and Ofgem has streamlined and simplified the procedures for householders who prefer to handle the administration themselves. We also want to make sure that microgenerators realise the full benefit of the additional income. So we have introduced changes which mean households are exempt from tax on any payments received under the Renewables Obligation or for their exported electricity. These changes are in addition to the lower 5% VAT rate which already applies to the purchase of most microgeneration technology.

We are also making the process of installing microgeneration simpler. Government recently launched a robust certification scheme to build consumer trust in products and installers, and we are proposing the removal, later this year, of unnecessary controls in the planning consents regime. Government acknowledges that there needs to be better information about the wider measures to support and reward microgeneration. The Energy White Paper commits us to ensuring that this improved information provides a comprehensive picture of all the options, costs and benefits.

We are also proposing to allow energy suppliers to use microgeneration to meet their 1.1MtC reduction target under the next phase, 2008–11, of the Energy Efficiency Commitment. In particular, we are proposing changes that would encourage energy suppliers to look at innovative solutions, including microgeneration, and to consider

providing such technology to customers, particularly those on lower incomes, at a reduced cost.

In paragraph 123 of its report, the Committee states "**The Committee would be grateful if the Government could provide precise actual monthly expenditure committed through the Low Carbon Buildings Programme since its relaunch in May 2007, including details of previously committed expenditure which will no longer be spent as a consequence of households 'dropping out' of the scheme."**

	Commitments		Expirations/ Withdrawals	
Month	No.	Values	No.	Value
May-07	301	£320,770	45	£42,009
Jun-07	295	£275,202	36	£23,918
Jul-07	242	£229,979	7	£8,701
Aug-07	203	£166,705	1	£600
Sep-07	214	£183,113	7	£7,000

Note: Figures were prepared on 5 October 2007. These numbers will change subsequently as the expiry date on each application is passed. For example, some applications made in May have not yet been completed so these could expire/be withdrawn in November; in cases where the offer expires, the previously committed funds are returned for awarding to other applicants.

Feed-in tariffs

21. **The current system of Renewable Obligation Certificates (ROCs) for individual householders is too unwieldy for microgeneration, and risks losing citizen engagement. We recommend the Government replace ROCs and export payments with a feed-in tariff with a single fixed rate per kWh, varying according to the type of generation. (Paragraph 131)**

To set an absolute feed-in tariff would be a significant intervention in the energy market. It would run contrary to the Government's established position of facilitating a highly competitive market with the attendant benefits that brings for consumers. Feed-in tariffs tend to be set a long way ahead and cannot respond to market changes. Moreover, they can also be very costly; any premium would ultimately be passed on to consumers with the associated impact on fuel poverty.

We will continue to review the support needed for microgeneration, but Government remains committed to flexible market-led mechanisms such as the Renewables Obligation, which is our key mechanism for encouraging large scale renewable generation. Along with exemption from the climate change levy, the Renewables

Obligation will be worth up to £1b p.a. to the renewables industry by 2010. We have recently consulted on proposals to 'band' the Renewables Obligation, which would provide different levels of support for different renewable electricity generating technologies with the aim of bringing forward an increase in renewable generation from a wider range of sources.

All six major electricity suppliers have committed to publishing easily accessible export tariffs – we are aware that some already offer such a tariff, as do some of the smaller companies. Ofgem are currently examining the prices paid to green homes when they sell electricity back to the grid. In considering this they will also be looking at how easy it is for green homes to access this information and determine the value of the excess electricity that they sell.

Distributed generation—local energy networks

22. **There is a distinct lack of national focus on community level microgeneration with an over-emphasis on individual households, and we remain seriously concerned that renewable heat is still the 'poor relation' to renewable electricity, despite recommendations in our Report into The Role of Bioenergy and the work of the Biomass Task Force. The Government should initiate a study on barriers to progress to the widespread development of community-level Combined Heat and Power, and should look at financial instruments—including localised financial instruments—to encourage investment at community level. This should be published within six months. The Government must then work with the Local Government Association and Rural Development Agencies to move this type of agenda forward. As a start, the Government should lift the limit on the size of private wire networks to encourage more distributed energy. (Paragraph 139)**

The Energy Review Report, published in July 2006, highlighted the need for more work to investigate the extent to which decentralised or distributed generation could complement the centralised system, as well as the specific incentives and barriers that impact upon it. In light of this, BERR and Ofgem jointly undertook a Review of Distributed Generation to consider these issues. The Review considered technologies on a range of scales from microgeneration to community schemes incorporating the use of combined heat and power.

The results of the Review were published in a report alongside the Energy White Paper 2007. The report set out a package of measures aimed at addressing those barriers specific to distributed generation which are not being addressed through Government and Ofgem action elsewhere in the energy market. Notably this included a commitment to consult on options for more flexible market and licensing arrangements for distributed low carbon electricity, to be implemented by the end of 2008. This was in response to concerns raised in the Distributed Generation (DG) Review Call for Evidence which suggested that current arrangements were unduly complex for DG

operators, requiring high levels of expertise to understand and often involving disproportionately high costs.

An industry working group has been established to advise on the development of options for new arrangements. BERR and Ofgem will consult later this year. The Working Group is chaired by Ofgem, with support from BERR. The Group includes representatives across the range of industry, and is specifically focussing on developing options for more flexible market and licensing arrangements for distributed low carbon electricity. As also announced in the Energy White Paper, the Government is separately conducting further work into policy options to reduce the carbon impact of heat.

Government recognises that actions to decarbonise the UK's heat supply will be a key aspect of future UK energy and carbon policy. Heating accounts for almost half of UK final energy use, and for 47% of our carbon emissions. In response to this challenge Government directed the Office of Climate Change (OCC), a cross-departmental strategy unit, to examine how heat could contribute to the UK's climate change goals. The scope of this work includes the potential contribution from community Combined Heat and Power schemes.

The OCC has been working on the subject since January and will report their findings to Ministers shortly, including recommendations on next steps.

We recognise the potential benefits to having a more decentralised energy system with local energy supply, ranging from household to community-scale, which could play an important part in meeting the challenge of climate change.

Personal Carbon Allowances

23. **Personal carbon allowances (PCAs) are an interesting 'theoretical exercise', but we remain sceptical about the practicalities of implementation. There are several substantial issues—not least regarding the avoidance of 'double-counting' and considerations of equity associated with such a scheme—which must be resolved before a system of PCAs could be implemented. As an interim measure, we recommend that voluntary personal 'indicative carbon budgets' be considered as a valid alternative to a more formalised system of Personal Carbon Allowances, thereby allowing individuals to exercise self-discipline. To this end, we commend the Government's 'Act on CO2' calculator, although note that this translates into a clear need for a comprehensive review of how people can gain an understanding of their emission profile, for example by providing information at the point of sale and the need for better billing, as discussed earlier. (Paragraph 152)**

The Government welcomes the EFRA Committee's views on personal carbon trading (PCT), which coincides with our study of PCT as just one of a number of potential long-term options being explored for making individuals better informed about, and involved in, tackling climate change. It is important to unlock the potential for

individuals and the household sector to contribute more to tackling carbon emissions. Citizens need to be empowered, not lectured; and they need the assurance that their actions are worthwhile, and will lead to real and identifiable environmental improvements.

Following the Centre for Sustainable Energy's (CSE) initial scoping study "A Rough Guide to Individual Carbon Trading: The ideas, the issues and the next steps", the Government is conducting a pre-feasibility study designed to show whether or not PCT is a realistic and workable policy option. A decision will then be taken on whether or not to devote more time and resources to this potential policy. The study is addressing high-level questions relating to the economic value of PCT, equity and distributional issues, public acceptability, technical feasibility and cost. It aims to complement the work being undertaken by researchers and academics such as The Tyndall Centre for Climate Change, the Environmental Change Institute, and the Royal Society for Arts (through their CarbonLimited project).

As the EFRA Committee's report notes there are a number of substantial issues that must be addressed, and resolved, before it is viable to consider the detail of how such a scheme could be implemented. This is why the Government's work programme focuses on the four highest-level issues described above. This work will cover key issues identified by the Committee including equity and double-counting (i.e. the potential overlap of policy measures and how different instruments interact). The Government is not currently proposing to develop a voluntary PCT scheme, as the EFRA Committee recommend, although it does not rule it out for the future. Instead, as recommended by the scoping study carried out by CSE in 2006, the Government has decided to address the high-level questions surrounding PCT to inform consideration about any next steps. We will also continue to enhance the engagement of individuals in action to tackle climate change – and "CO_2 literacy" – through tools such as the Act on CO2 campaign and calculator. Indeed, the data and calculations underlying the calculator are being made available to other organisations, including a number who are developing carbon accounting systems.

Once Defra's pre-feasibility analysis has been completed, ministers will take a view on whether to devote more time and resources to this area. In the meantime, we await the results of the pre-feasibility analysis, along with the results of RSA's CarbonLimited project with interest.

Green taxation

24. **The Government must do much more work to improve the credibility of green taxation as part of its overall set of policies designed to deal with climate change. Green taxes should be developed to stimulate behavioural change but in such a way that revenue derived via this route is seen to be being used to fund further carbon dioxide emission reduction strategies. The Government should consider, for example, increasing taxation on poorly performing electronic goods, the revenue**

from which could go into a fund from which individuals and community groups could bid for support for emissions reduction projects. The Government should encourage uptake of 'green' ISAs—which invest solely in community-based emissions reduction projects and technologies—by increasing individuals' tax-free entitlement if they invest in them. 'Green' taxes must absolutely not be simply a means of revenue raising in a green wrapper to increase palatability, as this will ultimately devalue the perception of genuine green taxes. (Paragraph 159)

In its 1997 Statement of Intent on environmental taxation, the Government committed itself to use the tax system to support progress towards environmental goals. It stated that:

- it will explore the scope to use the tax system to deliver environmental objectives, as one instrument in combination with others;
- over time, the Government will aim to reform the tax system to shift the burden of tax from 'goods' (like employment) to 'bads' (like pollution); and
- to ensure that action taken to protect the environment is effective and delivers net benefits, environmental taxation must meet the general tests of good taxation.

It is important that the most effective instrument for achieving environmental objectives is used in each circumstance. In some cases, fiscal measures can be the most effective instrument (e.g. tackling negative externalities); but in many circumstances, other measures can be more effective (e.g. where a specific standard of environmental behaviour is required).

Since 1997 the Government has introduced a number of environmental tax measures including for housing the Landlords Energy Saving Allowance, stamp duty rebates for zero carbon new homes and reduced VAT for a range of professionally-installed household energy-saving materials including insulation, draught stripping, hot water and central heating, as well as microgeneration. But tax is only one instrument and tax measures introduced since 1997 sit within a wider package of innovative measures to combat climate change and other environmental priorities including new kinds of policy instruments like trading and tradable regulations. For example, the EU Emissions Trading Scheme (ETS) is now our principle carbon-pricing instrument. Nearly 50% of the UK's emissions are capped and priced through EU ETS. EU ETS sets quantity limits; and it is much easier to do emissions trading internationally than tax.

Tax does have a role – particularly in areas not covered by EU ETS eg. fuel duty prices carbon emissions from transport. And it can be key in encouraging energy or fuel efficiency (eg. Climate Change Levy, Vehicle Excise Duty). However, we should not over emphasise its role. It is also important to remember that government action on the environment needs to be the outcome of balanced decision-making, taking into account all of the government's objectives. Environmental benefits should not be achieved at the expense of wider objectives such as fuel poverty or economic stability. These constraints may mean that compromises have to be made in the design of a policy instrument, or

that the most effective instrument environmentally cannot be used at all and an alternative is required instead.

The Government has achieved this balance – as shown by the progress it has made on all environment priorities whilst maintaining strong economic growth. The key fact is that greenhouse gas emissions are falling and that the UK is projected to reach its Kyoto target nearly twice over.

Earmarking environmental tax revenues for investment in energy saving technology would mean that this revenue is taken out of the overall Spending Review process and would not guarantee value for money. Indeed, earmarking environmental tax revenue in any way could create a significant obstacle to shifting the burden of tax from 'goods' to 'bads'. Rather, it is important to look for environmental policy to be supported by an innovative range of measures that can tackle the environmental challenges we face – not just relying on one or two instruments such as spending measures, but also: emissions trading; regulation; voluntary agreements; information services and fiscal measures. This approach has been taken by the Government and has enabled the UK to make significant progress against its environmental targets whilst also supporting strong economic growth and sound public finances.

The role of Central Government and the Government Estate

25. **There is an important role for public buildings and public investment in leading the way by example, but very little evidence of this taking place. We observe that Parliament has an important role to play as an exemplar, and that more needs to be done to improve its environmental performance. However, we remain unimpressed by the Government's poor record regarding its own buildings. It is failing to set a good example, and missing a valuable opportunity to demonstrate the financial and environmental savings that can be made. The Government must be a 'guiding light' which individuals can follow, and if the Government is to be an exemplar for citizens, then Defra should set the example for the rest of Government. Accordingly, the Secretary of State should be set binding targets and if these targets are missed for two consecutive years, the Secretary of State should report to Parliament the reasons why. The Government should reinforce guidance on energy performance standards for public buildings and make it easier for investment to be made in local energy generation/networks. The UK Government must set an example, showing other developed and developing nations that implementation of energy efficiency measures is not detrimental to economic growth. (Paragraph 163)**

The Government agrees there is an important role for the public sector to lead by example in the management of its buildings and investments. It also accepts that reports by the Sustainable Development Commission, the National Audit Office and others highlight the need for improved performance.

Government has committed to introducing the new Carbon Reduction Commitment (CRC), aimed at large non-energy intensive organisations in public and private sectors, in 2010. This will include government departments, their agencies and Non Departmental Public Bodies that meet the entry threshold of 6000MwH electricity use a year through 100 kw metering systems (also known as mandatory half hour meters). By putting itself at the heart of this innovative scheme, the first in the world for non-energy intensive bodies, Government is leading the way both domestically and internationally and is ensuring that government departments, their agencies and non departmental public bodies, as well as other parts of the public sector including large local authorities, play a full part in meeting the UK's commitments to reducing emissions and tackling climate change.

CRC is a mandatory cap and trade scheme aimed at large non-energy intensive organisations in the public and private sectors. The Climate Change Bill will contain the necessary legislative provisions. There will be an introductory phase, in which Government will not set the cap, between 2010 and 2012, but from 2013 Government departments will be included within a sector whose overall energy related emissions are capped. The size of the cap will be set by Government on the advice of the Committee on Climate Change, as provided for in the Climate Change Bill.

Meanwhile the Government is also developing a range of other policy measures for central government departments that will help prepare departments for CRC, and, once it is operational, will help them meet their obligations within it.

In June 2006 Government published revised targets for sustainable operations on the central government estate, including the achievement of a carbon neutral office estate by 2012. In March 2007, plans for achieving a low carbon resource efficient public sector were set out in the UK Government Sustainable Procurement Action Plan. It commits each department to increase the level of procurement professionalism, raising the status and standard of procurement practice and ensuring rapid progress towards achieving the sustainable operations targets.

Ministers and Permanent Secretaries are accountable for the plans, progress and performance of their own departments. The Cabinet Secretary holds ultimate accountability for the delivery of the targets, while the Secretary of State for the Environment, Food and Rural affairs is the lead Minister reporting to the Prime Minister. A cross departmental board, chaired by the 2nd Permanent Secretary of the Ministry of Defence, is in place to support the Cabinet Secretary and Departmental efforts to improve performance.

Defra is demonstrating its commitment to improving its environmental performance through the implementation of the Defra as Sustainability Leader (DaSL) programme. This programme integrates sustainable development across many areas within the department including operations and building management. Although our last Sustainable Development Action Plan was judged 'leading the pack' by the Sustainable

Development Commission, we were only placed in the middle on actual performance on operations targets. Defra wants, and needs, to do better than that and has set up this programme to help it achieve that improvement. For example, Defra has made sustainable development a priority in the construction of all new buildings to ensure they meet the Building Research Establishment Environmental Assessment Methodology (BREEAM) "excellent" standard. The new Alnwick development in Northumberland uses wind turbines, photovoltaic (PV) solar electric, PV solar thermal and biomass heating. Also, use of new technologies such as voltage and boiler optimisation devices as well as retrofitting of fluorescent tube lighting is being rolled out at locations on the Defra estate.

A range of measures are in place to support public body efforts in this area, include the Carbon Trust's Carbon Management Programme, a revolving loan scheme enabling bigger investments in energy efficiency ('Salix'), and grants for microgeneration available from BERR's Low Carbon Buildings Programme. In addition, the Carbon Trust's Partnership for Renewables venture is supporting the development of privately-financed renewable energy projects on public sector land. As we take forward the Environmental Transformation Fund, we are reviewing the support available to the public sector.

The performance of public bodies will also be driven by other measures set out in the Energy White Paper. On buildings, Government has reinforced guidance on energy performance standards. From January 2009, under Article 7 of the Energy Performance of Buildings Directive an Energy Performance Certificate must be produced when buildings are constructed, sold or rented out. These certificates will provide an energy rating (from A to G) for the building and will set out what steps can be taken to improve its energy efficiency. There is also a requirement for 'Energy Certificates' to be displayed in "buildings with a total useful floor area over 1,000m^2 occupied by public authorities and by institutions providing public services. These 'Display Energy Certificates' will be developed from actual in-use energy consumption, will show to employees and visitors how well buildings are being used and managed. In addition, Article 5 of the Energy End-use Efficiency and Energy Services Directive places a duty on the public sector to fulfil an exemplary role in the context of energy efficiency. Government will be launching a public consultation on this article in December.

The Government already reports publicly on performance via the independent Sustainable Development Commission's annual review of progress against the targets for Sustainable Operations on the Government Estate. Furthermore, the Climate Change Bill will require Government to report annually to Parliament assessing progress in meeting overarching targets set in the legislation. While the exact content and format of the Committee's progress reports are not known at this stage, it is possible that they may include an assessment of performance in the public sector, which would necessarily require a response from Government. In the light of these processes and public reports, we do not consider that additional reports to Parliament are necessary at this stage.

The Government is also the principal contributor to an international initiative, REEEP (the Renewable Energy and Energy Efficiency Partnership), which delivers projects on the ground that demonstrate the potential for reform of energy policy and financing frameworks in a sustainable way – providing the basis for scale up and acceleration of investment in the markets for energy efficiency and renewable energy to provide both economic and environmental sustainability. All G7 countries are now REEEP partners along with many key developing countries and international agencies. REEEP has implemented over 80 projects globally.

The Government is also setting an example overseas through its Sustainable Development Dialogues. These are in place with five of the largest emerging economies—China, Brazil, India, Mexico and South Africa. They provide a forum to share information and best practice on a range of sustainable development issues, promoting solutions which have economic, social and environmental benefits. One of the themes of the SDD with China, for example, is sustainable urban development, and we will be working with the Chinese Government on sustainability in urban regeneration and low-income housing.

Department for Environment, Food and Rural Affairs

15 November 2007

Formal Minutes

Wednesday 12 December 2007

Members present:

Mr Michael Jack, in the Chair

Mr David Drew	Dr Gavin Strang
Patrick Hall	David Taylor
Lynne Jones	Paddy Tipping
Dan Rogerson	Mr Roger Williams

Draft Report (*Climate change: the "citizen's agenda": the Government response to the Committee's Eighth Report of Session 2006–07*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

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[Adjourned till to-morrow at 11.15 am.