



House of Commons
Energy and Climate Change
Committee

The Green Deal: watching brief

First Report of Session 2013–14

Volume I

Volume I: Report, together with formal minutes, oral and written evidence

Additional written evidence is contained in Volume II, available on the Committee website at www.parliament.uk/ecc

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The Energy and Climate Change Committee

The Energy and Climate Change Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Energy and Climate Change and associated public bodies.

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The Report of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Sarah Hartwell-Naguib (Clerk), Liz Bolton (Second Clerk), Jenny Bird (Senior Committee Specialist), Tom Leveridge (Committee Specialist), Luanne Middleton (Inquiry Manager), Shane Pathmanathan (Senior Committee Assistant), Jonathan Olivier Wright (Committee Assistant), Joe Strawson (Committee Support Assistant), and Nick Davies (Media Officer).

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Summary

Energy efficiency can help to deliver energy security, climate change and affordability ambitions. The Government launched its flagship energy efficiency policies – the Green Deal and Energy Companies Obligation (ECO) – earlier this year and both will play an essential role in helping the UK to use energy more wisely. As a Committee, we believe that energy efficiency should be a priority for the Department and so we hope that the schemes will be a success. We intend to monitor the Green Deal and ECO over time. Our ongoing scrutiny will help to evaluate whether delivery is proceeding according to plan and, should any unexpected problems be encountered, to assist in developing remedies to get the programme back on track.

In order to provide effective scrutiny, we need to understand what the Government is hoping to achieve through the Green Deal and ECO, but there is some confusion about exactly what outcomes DECC is expecting to see. We were disappointed that the Minister was not able to give us a clear idea of what success would look like. We believe this is problematic because without this information, it will be impossible to tell whether delivery is happening according to plan, exceeding expectations or whether improvements are required. We hope that DECC will be able to provide greater clarity on this point.

We would also welcome more information about the Government's proposed methodology for its own monitoring and evaluation of the Green Deal and ECO. It is important to determine this soon, so that opportunities to record baseline data are not missed. There may also be scope for greater collaboration with other organisations, such as academic institutions and the energy companies themselves, which could help DECC's evaluation budget go further.

We have identified seven key areas where we believe scrutiny will be beneficial:

- public awareness and communications;
- take-up levels;
- energy and carbon savings;
- financial savings and value for money;
- access to the Green Deal and ECO;
- customer satisfaction; and
- supply chain and job creation.

We intend to use these topics as the basis for our future inquiries into the Green Deal. We have identified a number of key indicators under each heading that will be useful in our ongoing scrutiny. These are set out in full in chapter 3 of this report.

We very much hope that the Green Deal and ECO will be successful and that we can play a part in maximising their efficacy through our scrutiny of both programmes.

4 The Green Deal: watching brief

1 Introduction

1. The Green Deal is the Government's flagship initiative to help households and businesses increase their energy efficiency. The policy has formed a central part of the Coalition's commitment to be the "greenest government ever" and has been frequently cited by the Prime Minister and Deputy Prime Minister (as well as DECC Ministers) as one of the main ways in which the Government is helping households to tackle rising energy bills.¹ For example, Mr Cameron recently told the Liaison Committee:

I do support further steps on energy efficiency and the green deal is an enormous commitment by the Government to help bring that about. In most areas of policy, politicians are accused of making too many speeches and not actually doing anything. I think in this area of policy, we've got the opposite problem. We have actually got, as I hope I have described, a very aggressive, very progressive, very forward-looking green energy policy.²

2. As a committee, we have consistently stressed the importance of improving energy efficiency.³ Greater efficiency will bring benefits for energy security and affordability as well as helping to reduce carbon emissions. As such, it is truly a "no regrets" option.

3. During our inquiry into consumer engagement with energy markets, we raised concerns that there were a number of barriers to uptake of the Green Deal that DECC had failed to address adequately. We were also worried that the Minister was not able to give us a clear response when we asked what criteria DECC would use to monitor the success of the Green Deal.⁴ As a result, we launched this inquiry into the Green Deal with the intention of monitoring the progress of the Green Deal as it is rolled out; to assess whether its core aims are being met, and to identify any opportunities to make improvements in the future if necessary (or indeed to offer praise, should expectations be exceeded). In this report, we hope to help clarify what a successful roll out would look like and to identify key elements that will contribute to success. It is our intention to return to these indicators in future to examine how well the scheme is progressing. This will be done in the spirit of trying to maximise the efficacy of the Green Deal, since its overall aim—to improve energy efficiency in homes and businesses—is one that we very much support.

1 HM Government, *The Coalition: our programme for government*, May 2010;

See for example, David Cameron Green Economy speech, available at:

<http://www.businessgreen.com/bg/news/2241323/camerons-green-economy-speech-in-full>; Nick Clegg's speech on the green economy, 23 May 2011, available at:

http://www.libdems.org.uk/speeches_detail.aspx?title=Nick_Clegg%E2%80%99s_speech_on_the_green_economy&PK=0e1da756-bb98-489e-9e72-d97c95a0715b

See, for example, DECC press release, *Policies are putting a cushion between energy prices and household bills* – Davey, 27 March 2013

2 House of Commons Liaison Committee, *Oral evidence from the Prime Minister*, Tuesday 11 December 2012, HC 484-ii and -iii, Q 135

3 For example, see House of Commons Energy and Climate Change Committee, *Eighth Report of Session 2010-12, UK Energy Supply: Security or Independence?*, HC 1065; House of Commons Energy and Climate Change Committee, *First Report of Session 2012-13, Draft Energy Bill: Pre-legislative Scrutiny*, HC 275-1

4 House of Commons Energy and Climate Change Committee, *Fifth Report of Session 2012-13, Consumer Engagement with Energy Markets*, HC 554-I, para 100

4. We launched our inquiry on 6 December 2012 and received 34 submissions of evidence. We also held two oral evidence sessions. A full list of witnesses can be found at the end of this report.⁵ We are very grateful to all those who have contributed towards this inquiry.

Box 1: What are the Green Deal and ECO?

The Green Deal

The Green Deal is a market-led framework that is intended to allow individuals and businesses to make energy efficiency improvements to their buildings at no upfront cost. The costs will be repaid in instalments through the electricity bill for the property.

The Golden Rule

The 'Golden Rule' of the Green Deal states that the expected financial savings must be equal to or greater than the costs attached to the energy bill. In practice, this means that repayments should be no more than what a typical household should save in energy costs.

How it works

There are five stages to the Green Deal process:

1. Assessment – a registered Green Deal Assessor visits the property and surveys energy usage and options for energy efficiency improvements.
2. The Assessor recommends appropriate improvements and indicates whether they would be expected to pay for themselves through reduced energy bills.
3. Green Deal Providers give quotes for a Green Deal Plan, which include the work to be done and the repayment plan.
4. The Provider arranges for improvements to be made by a Green Deal Installer.
5. Green Deal repayments are automatically added to the electricity bill for the home.

Energy Companies Obligation (ECO)

The ECO is a subsidy from energy suppliers that works alongside the Green Deal to provide energy-saving improvements for those people who are most in need and for properties that are harder to treat.

How it works

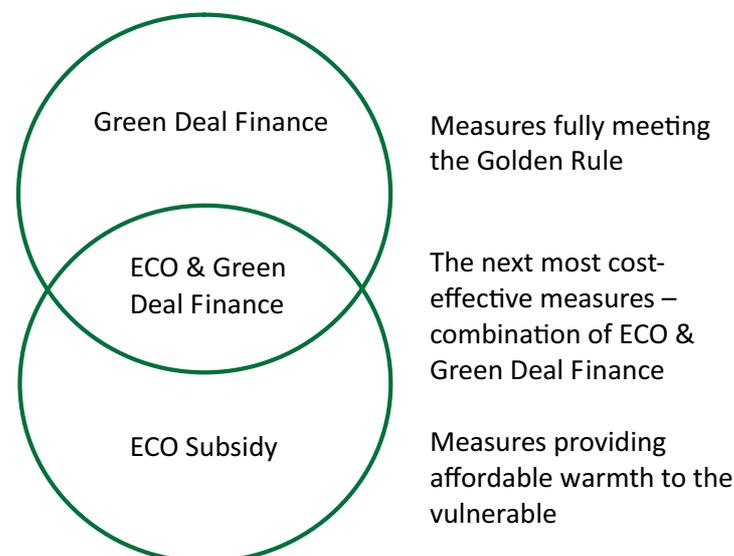
Energy companies have three obligations under the ECO:

1. an **Affordable Warmth Obligation**, to deliver a total of £4.2 bn savings on energy bills for consumers living in private tenure properties that receive particular means-tested benefits;
2. a **Carbon Saving Obligation**, to deliver total carbon savings of 20.9 MtCO₂ through the installation of measures like solid wall and hard-to-treat cavity wall insulation, which ordinarily can't be financed solely through the Green Deal; and
3. a **Carbon Saving Community Obligation**, to deliver total carbon savings of 6.9MtCO₂ through the installation of insulation measures in households in specified areas of low income, including hard-to-reach low-income households in rural areas.

The costs of ECO will be passed on to all energy consumers on their energy bills.

Green Deal and ECO interaction

It is intended that the two schemes will overlap as follows:



Sources: GD 12a (DECC supplementary), GD 28 (IIF), www.gov.uk/DECC

2 Objectives, outcomes and monitoring methodology

5. In this section we investigate why the Green Deal is needed, what the Government is hoping to achieve and how it will evaluate its progress against its aims. Chapter three provides a more detailed examination of the kinds of indicators that would be useful in monitoring the performance of the Green Deal programme as it is rolled out.

Objectives: why introduce the Green Deal and ECO?

6. Buildings in Britain are among the least energy efficient in the world.⁶ The Government has launched the Green Deal in order to introduce a new way for households and businesses to pay for energy efficiency improvements to their properties. The Energy Companies Obligation (ECO) is an obligation on energy companies to provide energy efficiency measures to help vulnerable and fuel poor consumers and people living in harder-to-treat properties. It is paid for by all consumers through their energy bills. It should be noted that ECO is replacing two other schemes—the Carbon Emission Reduction Target (CERT) and Community Energy Saving Programme (CESP)—which also aimed to provide energy efficiency improvements through an obligation on energy companies.

7. DECC told us that the principal objective of the Green Deal and ECO was reducing carbon. Other aims of the scheme include:

- boosting the low carbon economy;
- empowering consumers to make energy efficient home improvements;
- empowering businesses to compete for energy efficiency opportunities in new ways;
- leveraging in new private investment; and
- ensuring that robust consumer standards are met.⁷

8. ECO is intended to:

- provide insulation measures to households in specified areas of low income;
- provide support to low-income consumers that are vulnerable to the impact of living in cold homes, including the elderly, disabled and families; and
- deliver the installation of measures like solid wall and hard-to-treat cavity wall insulation, which ordinarily can't be financed solely through the Green Deal.⁸

6 "Hate rising energy costs? Green Deal with it", DECC press notice 13/009, 28 January 2013

7 Ev 34

8 <https://www.gov.uk/government/policies/helping-households-to-cut-their-energy-bills/supporting-pages/energy-companies-obligation-eco>

Outcomes: what does success look like?

9. There is no doubt that the Green Deal is a high profile policy with a lot riding on its success: it will contribute towards all three of DECC's core aims of reducing carbon emissions, ensuring energy security and delivering affordability. Given the prominence of the Green Deal, we believe it is appropriate to ask what a successful outcome would look like. Only when clear outcomes have been specified will it be possible to assess whether the policy is delivering effectively or not.⁹ As British Gas explained to us:

Consideration should be given to establishing a forecast for each measure so that progress can be tracked against expectations, and mitigating actions instigated where necessary.¹⁰

10. We were therefore surprised that DECC was not able to provide us with a well defined set of expected outcomes. The Department's written submission identified only two concrete outcomes for the Green Deal and ECO:

- potential carbon savings of 4.5 million tonnes of CO₂ per year by 2020; and
- benefitting an extra 100,000 households in low income areas each year (making a total of around 230,000 households).¹¹

11. The Minister was either reluctant or unable to answer our questions about exactly what he hoped the Green Deal would achieve. For example, when we asked the Minister how many homes he expected to have improved over the next five years, what the net benefit per home would be, and what the carbon reduction would be, he was not able to give us a definitive answer. His official, Mr Thomas (Deputy Director, Green Deal Consumer Demand), told us that the Department expected 1 million Green Deals by March 2015 but then qualified this by adding that this figure included "installations involving ECO, installations not involving ECO, people paying for things through Green Deal finance and people not paying through that".¹²

12. The Department provided some clarification in written supplementary evidence; reiterating the anticipated carbon savings of 4.5 million tonnes of CO₂ per year by 2020 and estimating that the Green Deal and ECO would support between 39,000 and 60,000 jobs in the insulation sector by 2015.¹³

13. Several witnesses told us that many of DECC's projections for Green Deal outcomes had been revised downwards. For example, Mr Sinfield (Insulation Industry Forum) told us that DECC had previously forecast that 250,000 jobs would be created through the

9 Ev 45; Ev 57

10 Ev w26

11 Ev 34

12 Qq 47 - 49

13 Ev 36

Green Deal.¹⁴ The Association for the Conservation of Energy said DECC had revised its projection for marketplace worth and carbon savings downwards too.¹⁵

14. In order to remain on track with carbon budgets, the Committee on Climate Change has suggested that 6-7 million cavity walls will need to be insulated by 2020, as well as 7 million lofts and in excess of 1 million solid walls.¹⁶

15. **Our role as a select committee is to hold the Government to account. It is impossible to do this if the Government itself cannot explain more precisely what it is hoping to achieve through its policies. It is unacceptable that, three years into the life of this Parliament, Ministers are incapable of defining the actual goals of one of the Coalition’s flagship policies. This is not a question of “micromanaging” but rather trying to gain an unambiguous view of what the Department expects to happen as a result of its policy intervention. This would allow us to assess in future whether the policy is on track, underachieving or indeed exceeding expectations.**

16. *We hope that, in the spirit of open scrutiny, the Department will set out in its response to this report what the most recent projected outcomes of the Green Deal and ECO are. In addition to expected carbon savings, it would be useful to identify outcomes for DECC’s other objectives of the scheme (namely: boosting the low carbon economy, empowering consumers, empowering businesses, leveraging in new private investment, and ensuring consumer standards are met).*

Use of targets

17. Establishing a forecast is not the same thing as setting a target. Many witnesses argued that setting take-up targets for the Green Deal would be a bad idea.¹⁷ This was partly because it is simply too early to know what might be realistic.¹⁸ However, we also heard that setting targets for uptake of the Green Deal—which uses a market-based approach—could lead to overselling, which could be detrimental to consumers and the overall reputation of the scheme.¹⁹ Of course, ECO operates in a different way to the Green Deal; it is a regulatory approach and uses targets to drive action from the companies who are subject to the obligation. Dr Eyre (Environmental Change Institute, University of Oxford) noted that there are existing targets under article 7 of the new European Energy Efficiency Directive for energy efficiency improvement.²⁰

18. **While it would be useful for the Department to set out *projections* for uptake of the Green Deal, we do not believe that it is appropriate to set *targets*. The Green Deal uses a market-based approach and so setting fixed targets could lead to hard-selling or even mis-selling in order to meet goals. This would be detrimental to consumers.**

14 Q 6

15 Ev w3

16 Q 113

17 Ev 45; Ev 49; Ev 57; Ev 64; Ev w19; Ev w34; Q92; Q 147; Q 169

18 Ev 45; Ev 64

19 Ev 57; Ev w34

20 Q 102

Monitoring and evaluation: methodology

19. As we have already noted, the Green Deal is a flagship policy with a great deal riding on a successful implementation. Ongoing monitoring and evaluation will be very important in ensuring effective delivery; it should allow any problems to be identified so that they can be rectified and should also distinguish aspects that are working well so that they can be replicated.

20. We are aware that DECC does have plans to track and evaluate the progress of the Green Deal. However, much of the detail of exactly how the evaluation will be conducted and what it will look at remains opaque. At the time of writing (May 2013), DECC had not published any kind of evaluation plan for the Green Deal and ECO.

21. DECC told us that it will “gather an extensive set of data from delivery partners as the Green Deal is rolled out”.²¹ There are also plans for “a specific evaluation study that will track awareness of Green Deal and appetite for installing energy efficient measures amongst consumers over a period of time”.²² The Department later told us that “we have also started to put in place our plans for longer term evaluation and have already undertaken one survey of the domestic consumer experience”.²³

22. We encourage DECC to finalise its evaluation strategy for the Green Deal as soon as possible. This is particularly important for areas where baseline measurements will be required to assess changes over time (such as energy usage before and after measures are installed).

23. Witnesses suggested a number of methods that could be used as part of the monitoring and evaluation of the Green Deal and ECO. These included:

- conducting a sample survey of Green Deal participants to gather data on the characteristics of who is engaging with the scheme;
- conducting a sample survey of Green Deal participants and combining this with qualitative research to assess consumer experience and satisfaction;
- conducting a sample survey with a subgroup of Green Deal participants to assess the experiences of fuel poor, low income and vulnerable consumers;
- conducting a “mystery shopping” exercise to assess the quality of advice given to consumers;
- conducting expert monitoring of Green Deal installations to assess the quality of work and to measure actual energy usage and expenditure on energy bills; and
- conducting longitudinal studies to gain an understanding of consumers’ journey through the Green Deal process, from initial enquiry through to post-installation.²⁴

21 Ev 34

22 Ev 34

23 Ev 36

24 Ev 45; Ev 49; Ev 64; Ev w10; Ev w21; Ev w26; Ev w34; Q 40; Q 97; Qq 158-9; Q 161; Q 165

24. We believe that all of the methods outlined in paragraph 23 could form a useful part of a monitoring and evaluation programme for the Green Deal. Two in particular strike us as being particularly important: research that seeks to understand consumer experiences on a longitudinal basis (following the Green Deal process from start to finish) and expert assessment of actual energy usage and expenditure on bills before and after measures are installed. We recognise that these types of study can be expensive to carry out. *We therefore recommend that DECC should attempt to co-ordinate its own evaluation studies with research being carried out by other institutions in this area, in order to maximise the utility of any data being collected. For example, the five End Use Energy Demand research centres that were announced in late 2012 could potentially contribute towards the evaluation process. Energy companies will also conduct their own monitoring.*²⁵ DECC should use the Low Carbon Innovation Coordination Group to ensure that research is properly joined-up and provides the maximum use to policy makers. Chapter 3 sets out some of the specific questions that a collaborative research and evaluation approach like this should seek to address.

25. DECC told us that there may be a delay in accessing some of the data needed for evaluation:

In collecting and analysing information against indicators, it is important to recognise some of the time lags involved. In some cases, this is because data only becomes available over longer timescales – such as the National Energy Efficiency Database, which reports on changes in actual energy use. In other cases, such as when building evaluation evidence, this can only be considered to be representative and robust when collected over a longer period of time.²⁶

26. While we recognise that there will be a time lag involved in collecting some data—such as measuring energy usage, which needs to take place over a number of years—it is nevertheless essential to carry out monitoring of impacts in the short-term too, so that any teething problems can be identified and ironed out at an early stage.²⁷

Monitoring and evaluation: areas for scrutiny

27. We have identified 7 key areas where we believe scrutiny would be beneficial:

- Public awareness and communications
- Take-up levels
- Energy and carbon savings
- Value for money
- Access to the Green Deal and ECO
- Customer satisfaction

25 Q 157

26 Ev 34

27 Ev 45; Ev w11; Ev w13; Ev w19; Ev w27

- Supply Chain and job creation

In the next chapter, we provide a more detailed breakdown of the indicators that would be helpful in monitoring progress in each of these areas.

3 Monitoring progress

28. In this section, we highlight some of the key pieces of information that we would find useful in our ongoing scrutiny of the Green Deal. We also make recommendations to DECC about some of the information it should try to capture in its own monitoring and evaluation work.

Public awareness and communications

29. The first step towards a successful Green Deal programme will be ensuring that consumers are aware of the initiative and know how to access it. A number of witnesses noted a survey carried out in December 2012, which found that 62% of the British public had not heard of the scheme and 98% of people said they did not fully understand the scheme.²⁸ Since the launch of the Green Deal took place after the survey was conducted, it is perhaps not surprising that levels of awareness and understanding were found to be low. However, it does demonstrate the scale of the task ahead.

30. DECC launched the Green Deal in January 2013 and has a £2.9 million budget for marketing the initiative.²⁹ Witnesses welcomed the fact that funding was available to promote the launch of the Green Deal, but ScottishPower suggested that further promotional and marketing activity might be required as the scheme develops.³⁰

31. It will be important to monitor how effective the marketing campaign has been. We received some evidence to suggest that DECC's print advertisements, which use the slogan "Green Deal with it", might not be a particularly effective approach.³¹ Consumer Focus told us:

[M]arket research shows that naming a product or service 'Green Deal' is unlikely to attract consumers; instead, we expect providers to name and brand their products and services in a way that appeals to their target consumer segments.³²

32. DECC is also offering a "cashback" incentive for early adopters, whereby any householder making improvements under the Green Deal can receive money back for each measure taken up. There is a total of £125 million funding available for this purpose.³³ Initial cashback rates vary from £10 for hot water cylinder insulation to £650 for solid wall insulation (although rates are only guaranteed for the first £40 million spent).³⁴

28 Ev 55; Ev 64; Q 131

29 Ev 67

30 Ev 64; Ev 67

31 Available at:
https://www.yousendit.com/dl?phi_action=app/orchestrateDownload&rurl=https%253A%252F%252Fwww.yousendit.com%252Ftransfer.php%253Faction%253Dbatch_download%2526batch_id%253DUW16YURORKVLVIZWeHNUQw
 and
https://www.yousendit.com/dl?phi_action=app/orchestrateDownload&rurl=https%253A%252F%252Fwww.yousendit.com%252Ftransfer.php%253Faction%253Dbatch_download%2526batch_id%253DUW16YURJNHZ0QTE3czlVag

32 Ev 57

33 "Hate rising energy costs? Green Deal with it", DECC press notice 13/009, 28 January 2013

34 <https://gdcashback.decc.gov.uk/>

33. DECC told us that the Department would be “funding a specific evaluation study that will track awareness of Green Deal and appetite for installing energy efficient measures amongst consumers over a period of time”.³⁵

34. We welcome DECC’s intention to monitor awareness of the Green Deal over time. *We recommend that this research should include an evaluation of DECC’s marketing campaign and cashback incentive scheme to assess their effectiveness in raising awareness and stimulating interest in the Green Deal.* The Committee would find the outputs of this monitoring and evaluation work useful in its scrutiny of the Green Deal and we hope that DECC will share this information with us in due course.

35. *The Committee would also find the following information useful in its ongoing scrutiny of the Green Deal: the number of calls made per month to the Energy Saving Advice Service; the number of unique visits per month to DECC’s Green Deal website (gov.uk/greendeal); and the value of cashback incentives paid out per month. We recommend that this information should be collected and published by DECC.*

Take-up levels

36. Take-up levels will clearly provide an important indication of the success or otherwise of the Green Deal. We welcome DECC’s intention to regularly track the number of assessments carried out, number of Green Deal plans taken out and number and types of energy efficiency measures installed. *The Committee would also find it useful to know the proportion of Green Deals that are taken out by individual households compared with organisations acting on behalf of individuals (such as housing associations and local authorities).* We recommend that this information should be collected and published by DECC.

37. Many witnesses argued that it was important to monitor not only the number of Green Deal plans taken out, but also to measure the “drop out” rate along the Green Deal journey; from initial enquiry, to assessment, signing a plan and installation.³⁶ This would help to improve understanding about where the main barriers to success lie, in the case that take-up was lower than hoped for.

38. It is not apparent to us whether this information will be captured by DECC since data about each stage of the Green Deal process will be collected by different organisations (Energy Saving Trust, Landmark and Gemserv). It is not clear whether it will be possible to connect up these three sources of information in order to track individual households through the Green Deal process from start to finish. The Minister told us that “we do not have that [comprehensive data set] at the moment”.³⁷

39. *DECC should monitor the “drop out” rate at each stage of the Green Deal process. This will require the data collected by the Energy Saving Trust (on usage of the Energy Savings Advice Service), Landmark (on Energy Performance Certificates (EPCs) lodged as part of a Green Deal Assessment) and Gemserv (on Green Deal plans taken out) to be*

35 Ev 34

36 Ev 49; Ev 55; Ev 64; Ev w19; Ev w24; Ev w34; Q 1; Q 148; Q 158

37 Q 45

collated. DECC should ensure that data is collected in a consistent manner to ensure that it is possible to combine it at a later point in order to track households' progress from start to finish of the Green Deal process. Alternatively, DECC could seek to monitor "drop outs" as part of the collaborative research process described in paragraph 24.

40. The Committee would find the following information helpful for its scrutiny of the Green Deal: the number of households that contact the Energy Saving Advice Service but do not go on to have a Green Deal Assessment; and the number of households that have an assessment, but do not take out a Green Deal Plan. We recommend that this information should be collected and published by DECC.

41. It is also important to know *why* households drop out of the Green Deal process in order to understand how the programme might be improved. Witnesses suggested a number of reasons why people might drop out before completing the process:

- failure in credit rating, meaning it is not possible to obtain a Green Deal Plan;
- inability to obtain consents from landlords (this applies both to those in the rented sector and also to leaseholders);
- difficulties in securing planning permission;
- issues arising as a result of meeting building regulations;
- the "hassle" involved with building works; and
- the availability of alternative, cheaper sources of finance.³⁸

42. The latter of these points shows that the fact that there are "drop outs" does not necessarily mean the policy is not working – customers may have simply chosen to finance energy efficiency measures through means other than the Green Deal Finance Company.³⁹ Following up with households that do not take up Green Deal plans will help to ascertain whether they fail to make any energy efficiency improvements at all, or whether they are financing them through other means.

43. DECC should seek to monitor the reasons for any "drop outs" along the Green Deal process. This data may help DECC identify any barriers to take up as well as to demonstrate the wider success of the Green Deal project if consumers are making efficiency improvements to their homes arising from a Green Deal assessment, without drawing on Green Deal Resources. The longitudinal research described in paragraph 24 could be used for this purpose.

Energy and carbon savings

44. In the short term, DECC intends to monitor the *estimated* energy and carbon savings made through measures installed. In the longer term, the Department intends to monitor *actual* carbon savings using energy consumption data from households based on data from

38 Ev 49; Ev 64; Ev w24; Q 2

39 Ev 64

the National Energy Efficiency Database and Smart Meters.⁴⁰ Dr Eyre suggested that it would be possible to estimate energy savings by cross-correlating the National Energy Efficiency Data Framework with the National Energy Efficiency Database.⁴¹ **We welcome DECC's intention to monitor carbon savings resulting from Green Deal and ECO. However, while data on *estimated* savings can be collected from EPCs, it is not clear to us exactly how DECC intends to measure *actual* savings. We recommend that the Department explains its intended methodology for this in its response to this report.**

45. Consumer organisation Which? pointed out that quantifying actual savings was not straightforward:

Calculating these [energy and carbon] savings is not as simple as comparing pre-and post- energy consumption from energy bills. The savings depend on wider factors such as: weather [...] changes in occupancy or circumstance [...] [and] the 'rebound' effect.⁴²

Which? argued that expert analysis would be required to assess energy and carbon saving estimates.

46. **It is crucial that DECC monitors whether the Green Deal and ECO are delivering carbon savings in practice (in addition to the estimated savings generated by the schemes). DECC should aim to measure carbon savings on an annual basis, starting a year after the launch of the scheme in 2014. *Since this is not a straightforward operation and may require costly research, we recommend that the collaborative approach described in paragraph 24 be used to investigate this point. It is important that the right baseline measurements are taken ahead of a Green Deal or ECO package being installed to ensure that it is possible to make a before/after comparison.***

47. ***The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: estimated carbon savings per year from all Green Deal and ECO installations; and measured carbon savings per year from Green Deal and ECO installations. We recommend that this information should be collected and published by DECC.***

Financial benefits and value for money

Is the Green Deal a good deal for consumers?

48. According to the “golden rule”, the expected financial savings for any Green Deal package must be equal to, or greater than, the costs attached to the energy bill.⁴³ However, financial savings are not *guaranteed* because the actual savings depend on energy use and the future cost of energy.⁴⁴ Nevertheless, witnesses thought it was important to monitor

40 Ev 34

41 Q 97

42 Ev 45

43 DECC, The Green Deal: A summary of the Government's proposals 2010

44 www.gov.uk/greenddeal 26 April 2013, Q 164 (Mr Broad)

whether households were actually saving money in practice because this was one of the key selling points of the scheme.⁴⁵

49. The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the total expected lifetime bill savings for all Green Deals (£); average measured annual bill savings for Green Deals undertaken each year (£). We recommend that this information should be collected and published by DECC.

50. We recommend that the collaborative research approach outlined in paragraph 24 be used to monitor actual household expenditure over time and to investigate whether participating households are actually saving money in practice.

51. Witnesses highlighted a number of factors that might affect the financial benefit realised by Green Deal participants. These included:

- the interest rate for Green Deal finance (cheaper sources of finance might be available);
- the cost of the initial assessment;
- the impact on property prices (Consumer Focus suggested that house buyers were likely to ask for the Green Deal charge to be cleared hence creating an unexpected cost for the occupier); and
- early repayment fees.⁴⁶

52. The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the average interest rate charged on Green Deal finance per year; the average cost of a Green Deal assessment; the proportion of Green Deal plans that incorporate the assessment charge versus those where it is paid up front; and the number of early repayments of Green Deal finance. We recommend that this information should be collected and published by DECC.

Is ECO a good deal for energy consumers?

53. Many witnesses, and energy companies in particular, were concerned that low uptake of the Green Deal could lead to higher than expected costs of delivering on ECO (this is because DECC anticipates that some measures—such as solid wall insulation—will be financed through a combination of Green Deal and ECO funding – see Box 1 on page 7).⁴⁷ Energy companies cited a study by NERA Economic Consulting, commissioned by Energy UK, which suggested that the annual cost of ECO could be £2.35 billion or more, compared with the DECC estimate of £1.3bn per year.⁴⁸ Energy companies were also concerned that the process of identifying consumers who are eligible for the Affordable Warmth aspect of ECO could add to the cost of the scheme.⁴⁹

45 Ev 45; Ev w16; Ev w27; Q 164

46 Ev 45; Ev 52; Ev 57; Ev w11; Ev w13; Ev w24; Ev w26; Q 162

47 Ev 52; Ev 55; Ev 64; Ev w24; Ev w27; Q 93; Q 131; Q 167

48 Ev 52; Ev w37; Q 121; Q 133

49 Qq 143-145

54. *The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the total cost of ECO to consumers per year; the proportion of ECO installations that have Green Deal co-financing; and the proportion of ECO installations with no other form of co-funding. We recommend that this information should be collected and published by DECC.*

55. Which? argued that there should also be scrutiny of any public money that is used to support the roll out of the Green Deal including the cashback scheme as well as funding for Green Deal pioneer councils and cities.

Access to the Green Deal and ECO

56. Witnesses were concerned that certain groups may be denied access to the GD. These included:

- low-income households/ financially stressed consumers (who may fail credit checks and be denied access to finance);
- households in the private rented sector;
- leaseholders and freeholders (who may need multiple consents);
- households in rural and remote areas;
- households that are “off-gas”; and
- park homes (who do not require an EPC so the Green Deal is not applicable).⁵⁰

57. DECC told us that it would monitor the extent to which particular consumer groups were able to access the programme through “an analysis of both operational data and through survey evidence”.⁵¹ **We welcome DECC’s intention to monitor the geographical coverage of Green Deal take-up and take-up among fuel poor consumers and carbon saving communities. We recommend that DECC should also investigate other distributional impacts and should monitor take-up by tenure, property type and socio-economic classification/income decile.**

58. *The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the number of households per year that have been refused a Green Deal loan; the number of households taking out a Green Deal plan broken down by socio-economic classification, income decile, tenure, property type, geographical region and urbanity/rurality. We recommend that this information should be collected and published by DECC.*

Distributional impacts

59. The Affordable Warmth element of ECO is designed to help fuel poor households, who are unlikely to benefit from taking out a Green Deal plan (because they are likely to take

50 Ev 57; Ev 61; Ev w11; Q 30; Q 158

51 Ev 34

benefits in the form of thermal gain, rather than financial savings). NEA was concerned about the number of low-income homes receiving ECO compared with more affluent households.⁵² Mr Smith (NEA) told us:

The biggest proportion of ECO is the £760 million a year that will be spent on carbon saving. In their impact assessment, the Government flagged that that is more likely to support more affluent households that use more energy [...] Our concern is that, if low income and vulnerable households do not benefit from that bit of the programme, then the overall effects would be regressive.⁵³

60. The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the number of homes receiving ECO funding under each of the three strands of the scheme; a breakdown of the households receiving ECO carbon saving funding by income decile. We recommend that this information should be collected and published by DECC.

61. Consumer Focus and NEA also argued that the costs of ECO should be passed on to consumers on a per unit, rather than per household basis so that those who use more energy pay more towards the cost of ECO.⁵⁴ However, Mr Stacey (RWE npower) explained that a per unit approach might be problematic for energy companies because “if you have a warmer or colder winter, then you can end up over or under-recovering your costs, so in a colder winter you potentially over-recover your costs”.⁵⁵

Customer satisfaction

62. Witnesses suggested that customer satisfaction was important because a few bad experiences might undermine the credibility of the scheme as a whole.⁵⁶ Consumer organisations highlighted a number of potential causes of consumer detriment or dissatisfaction with the Green Deal, including:

- The need for consumers to have interactions with a number of organisations (assessors, providers and installers) potentially leading to confusion over redress;
- complex and overlapping regulations and regulators;
- complex calculations related to the cost of measures, the potential savings, the occupancy assessment, and the cost of finance;
- the related trade-off between short, medium and long-term incentives and between current and future bill payers;
- potential for confusion over the extent to which the scheme is government-backed and on the relationship between the Green Deal and ECO;

52 Ev 61

53 Q 16

54 Refs, Qq 167-8

55 Q 136

56 Ev 52; Ev w16; Ev w27

- the likelihood of cold-calling and doorstep-selling (including of non-Green Deal products or services) and risk of pressure selling;
- the risk of mis-selling (heightened by the existence of many important terms—early repayment fees, warranty terms, the risk that repayments exceed savings and so on—buried in the small print); and
- potential difficulties for consumers wishing to move home or settle early.⁵⁷

63. Consumer groups wanted to ensure that the Green Deal was not sold inappropriately to fuel poor, low income and vulnerable consumers.⁵⁸ For example, Which? told us that the Green Deal might not be suitable for low-income consumers who use less energy than average (since repayments could exceed savings).⁵⁹

64. DECC told us

Feedback from the Energy Saving Advice Service will be valuable as will regular analysis of complaints dealt with by the Ombudsman. Our evaluation research will also enable us to track satisfaction at different parts of the consumer journey.⁶⁰

65. **We welcome DECC's intention to track consumer satisfaction with the Green Deal. We recommend that this should include investigation of: understanding and perception of financial savings achieved; experience of sales and marketing practices; experience and understanding of the assessment, quote and installation process; experience of customer service and redress processes; and experiences of consumers wishing to move home or settle early. There should also be a focus on the experiences of fuel poor and/or low income households to ensure that they are not being sold Green Deals inappropriately. The longitudinal research approach outlined in paragraph 24 could be used to investigate consumers' experiences of the Green Deal process.**

66. **The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the number of complaints to the Ombudsman per month; and the number of compensatory financial awards required by the Ombudsman per month. We recommend that this information should be collected and published by DECC.**

67. Mr Smith (NEA) and Mr Broad (Consumer Focus) argued that monitoring was needed to track the number of people getting into debt or being disconnected as a result of a Green Deal charge.⁶¹

68. **The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the number of disconnections related to a Green Deal charge per year. We recommend that this information should be collected and published by DECC.**

57 Ev 45; Ev 57; Q 158; Q 160

58 Ev 45; Ev 61

59 Ev 45

60 Ev 34

61 Q 4; Q 160

69. Consumer Focus also argued that there should be monitoring of consumer satisfaction with the Affordable Warmth aspect of ECO. This is because unlike Warm Front, there is no requirement to carry out consumer satisfaction surveys post-installation. There is also no independent scrutiny of Affordable Warmth ECO delivery, as there was for the Government's Warm Front programme (which has now ended).⁶²

Supply chain and job creation

70. Some witnesses expressed a hope that many of the anticipated new jobs would be created in small and medium-sized enterprises (SMEs), both to better utilise local knowledge and to ensure that any economic benefits are spread throughout the economy.⁶³ However, others who work in this sector, were concerned that smaller organisations might be squeezed out of the installation market by larger construction firms.⁶⁴ Peter Thom of Green Heat Ltd described the accreditation system as “onerous” and suggested that “costs are disproportionate and much of the training accreditation and inspections are unnecessary”.⁶⁵

71. The Committee would find the following information useful in its ongoing scrutiny of the Green Deal: the number of accredited assessors and installers and the number of each working in the SME sector. We recommend that this information should be collected and published by DECC.

62 Ev 57

63 Ev w8; Ev w16

64 Ev w1; Ev w2; Ev w11

65 Ev w2

4 Conclusion

72. This is our first report on the Green Deal and ECO and as the title of the inquiry implies, we intend to keep a “watching brief” on this area of policy and to return to it again in the future. We hope that in this report, we have set out a baseline for our future scrutiny of this subject.

73. We would value a clearer statement from Government of the projected outcomes of the Green Deal and ECO as this will help both us and the Department itself to assess whether the roll out of the programme is proceeding in a satisfactory manner. It would also be helpful if DECC could provide a more detailed outline of its own plans for monitoring and evaluation, including the methodologies it will use.

74. We have identified seven key areas on which we will focus our future scrutiny: public awareness and communications; take-up levels; energy and carbon savings; financial savings and value for money; access to the Green Deal and ECO; customer satisfaction; and supply chain and job creation. We have also highlighted a number of indicators that will help to monitor progress under each of these headings.

75. We are concerned that such a flagship policy has no apparent means to verify its own success or otherwise. DECC should confirm in its response to this report that it intends to monitor the progress of the Green Deal from the word go and that it will make its analysis available as soon as possible. This should include how the policy is developing based on experience.

76. We consider it important that the Green Deal and ECO should be successful and trust that our Committee can play a part in maximising their efficacy through our scrutiny of both programmes. We look forward to our ongoing engagement with DECC in this area.

5 Recommendations

Objectives, outcomes and monitoring methodology

1. Our role as a select committee is to hold the Government to account. It is impossible to do this if the Government itself cannot explain more precisely what it is hoping to achieve through its policies. It is unacceptable that, three years into the life of this Parliament, Ministers are incapable of defining the actual goals of one of the Coalition's flagship policies. This is not a question of "micromanaging" but rather trying to gain an unambiguous view of what the Department expects to happen as a result of its policy intervention. This would allow us to assess in future whether the policy is on track, underachieving or indeed exceeding expectations. (Paragraph 15)

2. *We hope that, in the spirit of open scrutiny, the Department will set out in its response to this report what the most recent projected outcomes of the Green Deal and ECO are. In addition to expected carbon savings, it would be useful to identify outcomes for DECC's other objectives of the scheme (namely: boosting the low carbon economy, empowering consumers, empowering businesses, leveraging in new private investment, and ensuring consumer standards are met).* (Paragraph 16)

3. While it would be useful for the Department to set out *projections* for uptake of the Green Deal, we do not believe that it is appropriate to set *targets*. The Green Deal uses a market-based approach and so setting fixed targets could lead to hard-selling or even mis-selling in order to meet goals. This would be detrimental to consumers. (Paragraph 18)

4. We encourage DECC to finalise its evaluation strategy for the Green Deal as soon as possible. This is particularly important for areas where baseline measurements will be required to assess changes over time (such as energy usage before and after measures are installed). (Paragraph 22)

5. We believe that all of the methods outlined in paragraph 23 could form a useful part of a monitoring and evaluation programme for the Green Deal. Two in particular strike us as being particularly important: research that seeks to understand consumer experiences on a longitudinal basis (following the Green Deal process from start to finish) and expert assessment of actual energy usage and expenditure on bills before and after measures are installed. We recognise that these types of study can be expensive to carry out. *We therefore recommend that DECC should attempt to co-ordinate its own evaluation studies with research being carried out by other institutions in this area, in order to maximise the utility of any data being collected. For example, the five End Use Energy Demand research centres that were announced in late 2012 could potentially contribute towards the evaluation process. Energy companies will also conduct their own monitoring.⁶⁶ DECC should use the Low Carbon Innovation Coordination Group to ensure that research is properly joined-up and provides the maximum use to policy makers.* (Paragraph 24)

6. While we recognise that there will be a time lag involved in collecting some data—such as measuring energy usage, which needs to take place over a number of years—it is

nevertheless essential to carry out monitoring of impacts in the short-term too, so that any teething problems can be identified and ironed out at an early stage. (Paragraph 26)

Monitoring progress

7. We welcome DECC's intention to monitor awareness of the Green Deal over time. *We recommend that this research should include an evaluation of DECC's marketing campaign and cashback incentive scheme to assess their effectiveness in raising awareness and stimulating interest in the Green Deal.* The Committee would find the outputs of this monitoring and evaluation work useful in its scrutiny of the Green Deal and we hope that DECC will share this information with us in due course. (Paragraph 34)

8. We welcome DECC's intention to regularly track the number of assessments carried out, number of Green Deal plans taken out and number and types of energy efficiency measures installed. (Paragraph 36)

9. *DECC should monitor the "drop out" rate at each stage of the Green Deal process. This will require the data collected by the Energy Saving Trust (on usage of the Energy Savings Advice Service), Landmark (on Energy Performance Certificates (EPCs) lodged as part of a Green Deal Assessment) and Gemserv (on Green Deal plans taken out) to be collated. DECC should ensure that data is collected in a consistent manner to ensure that it is possible to combine it at a later point in order to track households' progress from start to finish of the Green Deal process. Alternatively, DECC could seek to monitor "drop outs" as part of the collaborative research process described in paragraph 24.* (Paragraph 39)

10. *DECC should seek to monitor the reasons for any "drop outs" along the Green Deal process. This data may help DECC identify any barriers to take up as well as to demonstrate the wider success of the Green Deal project if consumers are making efficiency improvements to their homes arising from a Green Deal assessment, without drawing on Green Deal Resources. The longitudinal research described in paragraph 24 could be used for this purpose.* (Paragraph 43)

11. We welcome DECC's intention to monitor carbon savings resulting from Green Deal and ECO. However, while data on *estimated* savings can be collected from EPCs, it is not clear to us exactly how DECC intends to measure *actual* savings. *We recommend that the Department explains its intended methodology for this in its response to this report.* (Paragraph 44)

12. It is crucial that DECC monitors whether the Green Deal and ECO are delivering carbon savings in practice (in addition to the estimated savings generated by the schemes). DECC should aim to measure carbon savings on an annual basis, starting a year after the launch of the scheme in 2014. *Since this is not a straightforward operation and may require costly research, we recommend that the collaborative approach described in paragraph 24 be used to investigate this point. It is important that the right baseline measurements are taken ahead of a Green Deal or ECO package being installed to ensure that it is possible to make a before/after comparison.* (Paragraph 46)

13. *We recommend that the collaborative research approach outlined in paragraph 24 be used to monitor actual household expenditure over time and to investigate whether participating households are actually saving money in practice.* (Paragraph 50)

14. We welcome DECC's intention to monitor the geographical coverage of Green Deal take-up and take-up among fuel poor consumers and carbon saving communities. *We recommend that DECC should also investigate other distributional impacts and should monitor take-up by tenure, property type and socio-economic classification/income decile.* (Paragraph 57)

15. We welcome DECC's intention to track consumer satisfaction with the Green Deal. *We recommend that this should include investigation of: understanding and perception of financial savings achieved; experience of sales and marketing practices; experience and understanding of the assessment, quote and installation process; experience of customer service and redress processes; and experiences of consumers wishing to move home or settle early. There should also be a focus on the experiences of fuel poor and/or low income households to ensure that they are not being sold Green Deals inappropriately. The longitudinal research approach outlined in paragraph 24 could be used to investigate consumers' experiences of the Green Deal process.* (Paragraph 65)

16. *The Committee would find the following information useful in its ongoing scrutiny of the Green Deal:*

- *the number of calls made per month to the Energy Saving Advice Service (Paragraph 35);*
- *the number of unique visits per month to DECC's Green Deal website (gov.uk/greendeal) (Paragraph 35);*
- *the value of cashback incentives paid out per month (Paragraph 35);*
- *the proportion of Green Deals that are taken out by individual households compared with organisations acting on behalf of individuals (such as housing associations and local authorities); (Paragraph 36);*
- *the number of households that contact the Energy Saving Advice Service but do not go on to have a Green Deal Assessment (Paragraph 40);*
- *the number of households that have an assessment, but do not take out a Green Deal Plan (Paragraph 40);*
- *estimated carbon savings per year from all Green Deal and ECO installations (Paragraph 47);*
- *measured carbon savings per year from Green Deal and ECO installations (Paragraph 47);*
- *the total expected lifetime bill savings for all Green Deals (£) (paragraph 49);*
- *average measured annual bill savings for Green Deals undertaken each year (£) (Paragraph 49);*
- *the average interest rate charged on Green Deal finance per year (Paragraph 52);*
- *the average cost of a Green Deal assessment; (Paragraph 52)*

- *the proportion of Green Deal plans that incorporate the assessment charge versus those where it is paid up front (Paragraph 52);*
- *the number of early repayments of Green Deal finance (Paragraph 52);*
- *the total cost of ECO to consumers per year (Paragraph 54);*
- *the proportion of ECO installations that have Green Deal co-financing (Paragraph 54);*
- *the proportion of ECO installations with no other form of co-funding (Paragraph 54);*
- *the number of households per year that have been refused a Green Deal loan (Paragraph 58);*
- *the number of households taking out a Green Deal plan broken down by socio-economic classification, income decile, tenure, property type, geographical region and urbanity/rurality (Paragraph 58);*
- *the number of homes receiving ECO funding under each of the three strands of the scheme (Paragraph 60);*
- *a breakdown of the households receiving ECO carbon saving funding by income decile (Paragraph 60);*
- *the number of complaints to the Ombudsman per month (Paragraph 66);*
- *the number of compensatory financial awards required by the Ombudsman per month (Paragraph 66);*
- *the number of disconnections related to a Green Deal charge per year (Paragraph 68); and*
- *the number of accredited assessors and installers and the number of each working in the SME sector (Paragraph 71).*

We recommend that this information should be collected and published by DECC.

Formal Minutes

Tuesday 14 May 2013

Members present:

Mr Tim Yeo, in the Chair

Dan Byles
Barry Gardiner
Ian Lavery

John Robertson
Sir Robert Smith
Dr Alan Whitehead

The following declarations of interest relating to the inquiry were made:

Sir Robert Smith declared an interest as a shareholder in Shell and as an owner of rented property. He also declared a non-financial interest as President of Energy Action Scotland.

Draft Report (*The Green Deal: watching brief*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 76 read and agreed to.

Summary agreed to.

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

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 16 January 2013, 23 January 2013 and 5 March 2013).

[Adjourned till Tuesday 14 May at 2.45 pm]

Witnesses

Wednesday 6 February 2013

Page

Peter Smith, External Affairs Manager, National Energy Action, **Alexandra Willey**, Special Projects Manager, Affinity Sutton, **Simon Gordon**, Private Rented Sector Consultant, Residential Landlords Association and **John Sinfield**, Managing Director, Knauf Insulation, representing the Insulation Industry Forum, Ev 1

Rt Hon Gregory Barker MP, Minister of State, Department of Energy and Climate Change, **Tracy Vegro**, Director of Household Energy Efficiency, Department of Energy and Climate Change, **David Thomas**, Deputy Director, Green Deal Consumer Demand, Department of Energy and Climate Change and **Chris Nicholls**, Economic adviser, Department of Energy and Climate Change Ev 9

Tuesday 5 March 2013

Dr Nick Eyre, Environmental Change Institute, University of Oxford and **Dr David Kennedy**, Chief Executive, Committee on Climate Change Ev 17

Eric Salomon, Energy Field Services Director, EDF Energy, **Simon Stacey**, Managing Director of Energy Services, RWE npower and **Neil Clitheroe**, Chief Executive Officer, ScottishPower Retail and Generation Ev 24

Peter Broad, Policy Manager, Consumer Focus and **Simon Osborn**, Principal Policy Adviser, Which? Ev 30

List of printed written evidence

1	DECC	Ev 34; Ev 36
2	Affinity Sutton Group	Ev 38; Ev 42
3	Which?	Ev 45
4	Residential Landlords Association	Ev 49
5	EDF Energy	Ev 52
6	RWE npower	Ev 55
7	Consumer Focus	Ev 57
8	National Energy Action	Ev 61
9	Scottish Power	Ev 64
10	Insulation Industry Forum	Ev 67

List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/eccpublications)

11	Crystal Windows and Doors Ltd	Ev w1
12	Green Heat Ltd	Ev w2
13	Association for the Conservation of Energy	Ev w3
14	Knauf Insulation	Ev w4
15	Glass and Glazing Federation/GK Political	Ev w8
16	National Housing Federation	Ev w10
17	Sheffield LATAG	Ev w11
18	Hampshire County Council	Ev w13
19	UK Green Building Council	Ev w16
20	Gentoo Green	Ev w19
21	powerPerfactor Ltd	Ev w20
22	All Party Parliamentary Group for the Roofing Industry	Ev w21
23	SSE	Ev w24
24	Centrica/British Gas	Ev w26
25	ECA and NICEIC	Ev w27
26	Mineral Wool Insulation Manufacturer's Association	Ev w30
27	National Landlords Association	Ev w34
28	Energy UK	Ev w37
29	Ofgem	Ev w38
30	Energy Saving Trust	Ev w39
31	Ombudsman Services	Ev w41
32	GD Oversight & Registration Body	Ev w55
33	Landmark Information Group	Ev w60
34	Jonathan Over	Ev w62

Oral evidence

Taken before the Energy and Climate Change Committee

on Wednesday 6 February 2013

Members present:

Mr Tim Yeo (Chair)

Barry Gardiner
Ian Lavery
Mr Peter Lilley

John Robertson
Sir Robert Smith

Examination of Witnesses

Witnesses: **Peter Smith**, External Affairs Manager, National Energy Action, **Alexandra Willey**, Special Projects Manager, Affinity Sutton, **Simon Gordon**, Private Rented Sector Consultant, Residential Landlords Association, and **John Sinfield**, Managing Director, Knauf Insulation, representing the Insulation Industry Forum, gave evidence.

Q1 Chair: Good morning. Thank you for coming in and I am sorry we are starting a few minutes late. I will not ask you to introduce yourselves; we do know who you are. We had rather more private business to conclude than we had anticipated. We are quite tight for time. I need to wind this session up in about just over 45 minutes, so I am asking my colleagues to be disciplined in the length of their questions and if we could get through as much as we can with concise answers that would be helpful. Could I start with a general question? From the point of view of your different organisations, what would be the most important indicators of Green Deal success and why?
Simon Gordon: Mr Chairman, take-up, obviously. From our point of view, specifically, take-up by private landlords who face possibly the most difficult situation of all because they have the oldest properties, 40% of the private rented sector is pre-1919. So it is vital from our point of view—and I am sure everybody else will say similar—that there is take-up, it is properly monitored, and the monitoring is effective and comprehensive.

Peter Smith: Certainly, from National Energy Action's point of view, generally it is warmer homes. Sadly, a lot of households at the moment are under-consuming energy within their households and we think it is very important that they increase the amount of warmth within their homes. Obviously, if you could get to that point, you would see reduced levels of fuel debt and reduced costs to the NHS and local health sectors as a result of households being warmer in their homes, and fewer excess winter deaths.

Alexandra Willey: I would agree with my colleague about the take-up to some extent as well: who, why, when, from whom the take-up is taking place and how long that lasts at each level of the journey, if there is any drop out at all. For us it is definitely whether the actual savings are made and, if not, why not? So much of the image and customer satisfaction will be based on, "Well, we thought we were going to get these savings" and for us what we are finding with our study is not only are the savings quite hard to pin down—there might have been a milder winter, people might be on direct debits so if they are saving they might not know—but also we are starting to find that

actually SAP does over-predict in some instances and it is certainly not consistent. If that is going to be the case, we need to understand how to refine the model so that it does work better, and even refine the marketing so perhaps it is not just about the savings.

John Sinfield: Absolutely, it is about take-up. There is an aspiration to deliver 14 million property retrofits over the next eight years and it is about seeing a nice, steady growth towards a trajectory that will deliver those retrofits. It is about the whole house retrofit, not just cherry-picking the bits and pieces. If we are going to address the issue of energy efficiency in our housing stock, we have to deal with the whole house retrofit.

Q2 Chair: Do you anticipate any negative outcomes, obviously unintended negative outcomes, and will it be easy to monitor whether we are getting problems as well as advantages?

Alexandra Willey: Certainly, what we have found from our studies is, in some instances, issues with condensation and inappropriate use of ventilation. Once you have made a house warmer, it is not just about explaining to residents how to live in an energy efficient home but actually to live in a retrofitted home can be slightly different. There do appear to be some mechanisms in place to address this, for example, the requirements in the Code of Practice to ensure no adverse issues associated with ventilation. It will be possible to report on such things under the Green Deal provider reporting requirements, but I think a great deal more monitoring will have to take place, perhaps with some consumer organisations, such as Which?, Consumer Focus, to see what sort of queries go to the energy advice helpline.

Peter Smith: From our perspective, it depends on how households access the scheme or which bit of the scheme. If households who are eligible receive support through the Affordable Warmth element of the Energy Company Obligation, then they should be able to get measures upfront without having to enter into a Green Deal finance arrangement and, therefore, mitigate some of the risk associated with that mechanism, a mechanism that the Government concede themselves is inappropriate for low usage

6 February 2013 Peter Smith, Alexandra Willey, Simon Gordon and John Sinfield

households. In instances where a household has lower usage than typically, the occupancy assessment might suggest there is a risk that households are on the wrong side of the golden rule, and they could run into arrears and ultimately, sadly, disconnection from supply. So it is important that households access the right bit of the scheme.

John Sinfield: From a manufacturing and supply chain perspective, then, as an industry we have done a huge amount of work on developing systems and working with bodies to ensure that the training, the installation, the accreditation of systems is robust but, as Alexandra says, you cannot factor in every element of the human behaviour in a property. That has to change. Once a house has been retrofitted, people have to treat their properties differently. As an industry, that is an element that we need to work with Government to address.

Simon Gordon: On the human side in particular, and obviously in the private rented sector, because this is all going to be caught up in the relationship between landlord and tenant, we need to know—slightly echoing Peter or supporting what he said—why things do not take place, why the Green Deal is implemented, why things go wrong, why people back off from it. Is it that the tenant was not willing to consent to the Green Deal? Is it there is a poor credit rating for the tenant? Is it that there is a poor credit rating for the landlord? Is it that there is something to do with planning regulations or building regulations? We need to be absolutely certain about all this, to gather information to make certain that the scheme is properly implemented in the private rented sector.

Alexandra Willey: To add a slightly more positive note as well, I think unintended consequences could be positive. It is important to understand whether people who have taken up the Green Deal are reporting increased warmth, increased comfort and even increased value in their property or increased pride in their property.

Q3 Sir Robert Smith: I had better remind the Committee of my interest in the Register of Members' Interests relevant to this inquiry: one is an oil and gas interest, a shareholding in Shell, and the other is that I own rented property. I also have a non-financial interest as honorary Vice President of Energy Action Scotland. DECC plans to track regularly the number of Green Deal plans taking place. Will this be an important indicator or is it too early in the process?

Peter Smith: Certainly, from a fuel poverty perspective, there is no requirement to take up the Green Deal plan to access the Energy Company Obligation, which is the primary way in which we hope low income and vulnerable households would access the energy efficiency improvements under the scheme.

Alexandra Willey: Certainly it would be important for us to know how many people take those up, but, as I said at the beginning, it is the why, when, and who is taking it up that would be really of interest to us.

Simon Gordon: Again, it is important, yes, but I agree with Alexandra.

John Sinfield: It is a good measure but it is a very top line measure. We need to understand where the

finance is coming from, how much of that is financed, how much of that relates to the ECO subsidy, and what types of measures are being taken out. Are we getting the whole house retrofit that the scheme is designed to deliver?

Q4 Sir Robert Smith: The Future Fit project had a drop-out rate of 23%. Were you able to work out the reasons for that?

Alexandra Willey: Sure. They were reasonably varied and, because there was no payment mechanism attached to Future Fit, it was self-funded by the organisation. It ranged from health issues, moving out, moving to a different house, family problems, perhaps they were having more family members to stay, and then simply time and the perceived disruption.

Peter Smith: Returning to your question about Green Deal plans and the numbers, one of the requirements set by DECC is that if the assessor is aware that the householder consumes less energy or does not consume enough energy and, therefore, might not be able to make the savings, then they are supposed to seek written acknowledgement from the householder that that is the case. We would be very interested in noting instances of Green Deal plans where that acknowledgement has been sought or given and, therefore, tracking those households to make sure that they do not run into arrears or, as I said earlier, possible disconnection.

Alexandra Willey: I know transparency of costs is always a challenge within industry, but it was really important for us to understand how much it cost to keep people engaged and to make sure they did not drop out once they had taken up the plan. For us, it was up to £1,300 a property in order to do that. That was with our pre-existing engagement mechanisms, but I think it would be really interesting to find out how much engagement it requires of organisations to keep people on that plan.

Q5 Ian Lavery: DECC says that one of the objectives of the Green Deal is job creation, in particular in the insulation industry. My question is to Mr Sinfield. I believe that the Insulation Industry Forum, which you represent, recently suggested that because of DECC policy there has been a loss of perhaps up to 1,700 jobs in the industry. Do you think that these job losses will be mitigated by the Green Deal?

John Sinfield: Certainly, DECC's view is that those job losses will be mitigated by the Green Deal. Our concern as an industry is that, as we sit here today, there are nearly 4,400 people who have lost their jobs because of the gap and the lack of transition between the schemes that ran to the end of last year—the CERT and the CESP scheme—and the Green Deal kicking off. DECC's contention is, because solid wall is more labour intensive than loft and cavity and other more simple measures, that jobs will grow. Our concern is that the delivery infrastructure is being dismantled. Companies are closing down; people are losing their jobs because there is no viable transition between the schemes. We are waiting for the Green Deal to take off, and those companies do not have a

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visibility and a pipeline to allow them to retrain, re-skill and develop the new business model for delivery of the solid wall systems that we have all been developing.

Peter Smith: To add to that, it is not just CERT and CESP. It is also the Warm Front Scheme, which, as I am sure you are aware, provided low income and vulnerable households with insulation improvements through a Treasury-funded scheme that closed in January, with the consequence that some contractors—especially heating contractors—are going out of business at the moment. If you look at the provision for support for heating measures for low income and vulnerable households through the Energy Company Obligation, I believe it is restricted to two elements of the programme: the Affordable Warmth bit of the programme and potentially the carbon saving communities' bit of the programme. We are particularly worried about heating contractors and the provision of heating measures, specifically in off-gas grid properties as well, where the cost to install a heating system is considerably higher than for those on gas.

Q6 Ian Lavery: The estimates from DECC in June last year suggest that the Green Deal could lead to an increase in the number of installers from 4,700 in 2007 to approximately 9,800 by 2015, with a knock-on effect—and I am sorry to bamboozle you with figures but it is really important—of roughly between 29,000 and 50,000 jobs by 2015. More recently, it has been suggested that up to 60,000 jobs could be created by the Green Deal by 2015. A lot of figures, a lot of differences and a lot of variances. Do you think these estimates are anywhere like being realistic?

John Sinfield: They could be, but then this is the same policy that 18 months ago was going to deliver 250,000 jobs. The number of jobs that are going to be created through the Green Deal has continually been revised down. It is a range. It is an estimate based on the analysis of the DECC economists. I can only speak to what is happening in reality on the ground, and our view is that today people are losing their jobs because there is a gap between the Green Deal starting and the old schemes finishing, including Warm Front certainly.

Q7 Ian Lavery: Do you think that 60,000 jobs come 2015 is realistic, 60,000 new jobs because of Green Deal?

John Sinfield: Sixty thousand new jobs because of Green Deal? I think that would be a challenging target to achieve.

Q8 Ian Lavery: Would you like to give a prediction?

John Sinfield: No, I wouldn't.

Peter Smith: Certainly, modelling undertaken to support the energy bill revolution campaign, which advocates the hypothecation of carbon taxes back into more ambition on energy efficiency, showed that there is a great potential for jobs and contractors' jobs in the energy efficiency industry if the Government put adequate resource into those programmes. I think it showed that the biggest stimulus that the Government

could undertake at the moment is a big retrofit of energy efficiency across the country.

Q9 Ian Lavery: On the energy efficiency industry, how important is it to monitor the number of insulation installers and other professionals in that industry and how best do you think that could be achieved?

John Sinfield: As it is one of the key drivers behind the policy, I think it is very important to measure and monitor those numbers. We have achieved it through utilising some of the trade associations, which cover the vast majority of the installer base, through regular email questionnaires, and I am sure those trade associations would be more than happy to collect that information on behalf of the Committee.

Q10 Ian Lavery: Ms Willey, you have suggested that there is a gap in the knowledge and skills in the energy efficiency retrofit industry and in the supply chain. Would you like to give a little bit more detail briefly on that issue?

Alexandra Willey: Yes. When we carried out Future Fit, it was before the Green Deal consultation had come out and any of the framework had been put into place. We found from using our own in-house training facilities and some energy consultancy advice, existing supply chains in the social housing sector—so that was our existing contractors, our own surveyors—that there was definitely a gap between traditional surveying methods and energy efficiency surveying methods. I think a lot has been done around that, and I know there is an awful lot of training now required in order to become certificated as a Green Deal assessor, for example, and also that there are different levels of training all the way down the line. That said, as an assessment tool I think SAP is still something that we would perhaps stress needs a bit more work around and understanding of, and also the combination of the public-facing role and the technical skills required to carry out the assessment now have to be combined within an assessor. Again, that is something that we found has never necessarily been combined within our industry. We might have had a resident liaison officer or a housing officer who would carry out the face-to-face interaction with the resident, say, around occupancy, and it would be the surveyor who would carry out the technicals. So we would be very interested to understand how those two skill sets have been merged.

Peter Smith: One other point on who is capturing the jobs information and the economic opportunity around Green Deal, or energy efficiency generally, we think local authorities have a key role to play, in terms of capturing the wider jobs aspect of energy efficiency retrofits. So, as well as installing the insulation itself, there is a requirement to go and put—I don't know—aerials back on the side of buildings and paint them. There is a wider set of opportunities for perhaps lower skilled work, which sit alongside extensive energy efficiency jobs, which we think local authorities could capture quite neatly through their reporting on HECA. Similarly, local enterprise partnerships, LEPs, could also track the extent of job creation and opportunities around energy efficiency as well.

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Q11 Ian Lavery: Mr Sinfield, do you agree that there is a lack of knowledge and skills in the industry? I think you have suggested that there is. Is there any evidence that the lack of this knowledge and skills is being filled anywhere?

John Sinfield: No, I agree with Alexandra. It is about a different skill set. It is a very different skill set to go in and do a full Green Deal assessment, and to talk to people about their own personal energy use habits, than it is to go and do a relatively simple survey of a property to see whether or not they can have, for example, a loft or cavity wall installed. It is a completely different skill set. The industry is ready to retrain and wants to retrain. The question is how we bridge the gap between where we are and where we need to be.

Q12 Mr Lilley: When you talk about these job figures, you are talking about gross jobs, aren't you? You are not making any allowance for the fact that the £100 million that, say, is spent on a given programme in insulation could or would have been spent on £100 million of something else in the economy. You are not netting off the jobs lost by diverting demand to this industry, are you?

Peter Smith: I am aware of the issue that you are flagging up. Certainly, it is one that persists, in terms of the debate about the transition to the low-carbon economy and the opportunities arising from that. From my perspective, I think it is probably best to ask the Department, whose impact assessments I base my numbers on.

Q13 Mr Lilley: You have no reason to suppose that £100 million spent on insulation creates more jobs than £100 million spent elsewhere in the economy?

Peter Smith: I do. The evidence that I was flagging up earlier, which Cambridge Econometrics have produced, suggests that in contrast to other interventions by Government, particularly a VAT cut or a road-building programme, the net effect of that is more positive compared to investing in energy efficiency or the jobs boost you would see from energy efficiencies.

Q14 Mr Lilley: Why is that? Because they are lower paid jobs?

Peter Smith: Potentially. I think there are a variety of skill levels involved in energy efficiency installations, certainly at a contracting level; but potentially yes.

Q15 Sir Robert Smith: Just remembering some of the central heating scheme installations in Scotland, and some of the disruption to people's households and the quality of the work, in terms of this Green Deal the work in someone's house is going to be much more intrusive. The loft insulation can be difficult enough if people have used it for storage, and obviously cavity wall is out of sight and out of mind, apart from the legacy of the *World in Action* documentary still persisting in some people's minds that it might damage their house. Solid wall insulation must involve much more customer-facing skills in terms of the finished product. Is that going to be a challenge?

John Sinfield: It will be a challenge, but it is a challenge that the industry wants to take on because, if you look at the housing stock, there will come a time when the last cavity is filled and the last loft is topped up. We have to address the row after row of Victorian terraces. I think something like 60% of the properties we will have in 2050 have already been built, so we have to address the existing housing stock. We stand ready to learn and to re-skill ourselves, and to develop the systems that are needed to bring forward that change.

Simon Gordon: For the private rented sector, Sir Robert, the disruption is avoided if, of course, the work is carried out during a void between one tenant leaving and another tenant arriving. The work could be carried out under the ECO scheme, but, as the Committee may be aware, there is a problem now developing about whether private landlords can actually use the ECO scheme. I can develop this now or later on.

Sir Robert Smith: I think it comes up later.

Q16 John Robertson: The group of questions I have are mostly to you, Peter. It is on fuel poverty in general. You pointed out that, although some fuel poor households may not be able to benefit from ECO measures, they will be paying a contribution towards the ECO in their bills and, therefore, may end up subsidising the ECO measures in the better-off households. Do you think ECO will turn out to be a regressive policy or an effective method of reducing fuel poverty?

Peter Smith: The key thing there is to monitor the extent of extensive measures in hard-to-treat properties that are inhabited by low income households. The biggest proportion of ECO is the £760 million a year that will be spent on carbon saving. In their impact assessment, the Government flagged that that is more likely to support more affluent households that use more energy because they are able to bring more Green Deal to bear and, therefore, do the jobs in a more cost-effective way. Our concern is that, if low income and vulnerable householders do not benefit from that bit of the programme, then the overall effects would be regressive.

Q17 John Robertson: Yes. I have had my loft done. I also have a number of multi-storey buildings in my constituency, which are basically concrete blocks. What do they get when we are dealing with ECO? How do we help them?

Peter Smith: I don't know if Affinity Sutton wants to comment because they have high-rise stock, but largely the work would be external cladding on the outside of the building or connection to a district heating network. Both of those might present challenges within ECO, in terms of the various uplifts that the suppliers will get for those programmes. Those tower blocks that are not in a carbon saving communities area may particularly struggle, so at the moment we are looking in terms of how you can lever in other finance, other capital contributions into those types of programmes. I would be happy to speak to you about our thoughts around that.

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Q18 John Robertson: Do you want to say anything about that?

Alexandra Willey: I would add, yes, that social housing providers being excluded from the Affordable Warmth element of ECO is obviously something we are lobbying against, for many reasons but one of the main ones being—as Peter has said—it does exclude people who are effectively paying for ECO accessing any of it. Although the argument is that the social housing sector has better performing stock, fuel poverty has always been based upon not just the performance of the property but the income of the household as well. Even though we do have an average SAP of 69, which is higher than the UK average, not many of our properties are SAP80, which is allegedly what it takes to preclude people from fuel poverty.

Q19 John Robertson: What indicators do you think would help to monitor the effect of the Green Deal and ECO on fuel poverty?

Peter Smith: I certainly think getting to grips early on with the numbers on a monthly basis. Ofgem have said that they will report to the Secretary of State on a monthly basis on ECO, so within that update we think there should be a monthly indication of how many households are benefiting under Affordable Warmth, how many households are benefiting through the Carbon Saving Community Obligation, how many low income and vulnerable households have been provided with the extensive measures in hard-to-treat properties. Those types of figures will help us ascertain early on whether or not there is a gap in provision and that low income households are getting left behind.

John Sinfield: That also highlights one of the key measures that I believe the Committee should be looking at, which is the price of carbon within the ECO scheme. If the price of carbon within the ECO scheme is low, that means the ECO scheme is operating effectively and measures in carbon and energy savings are being delivered at the lowest possible cost to all bill payers.

Peter Smith: One quick other point, just to come back to HECA and local authorities' responsibility under the guidance of HECA. Every two years local authorities are supposed to report their contribution to the Government's Green Deal and Energy Company Obligation programmes. Through that, there is a way of ensuring that we are tracking the success of the programme from a low income and vulnerable households' perspective.

Q20 John Robertson: How can you direct them towards ECO, these vulnerable and low paid people?

Peter Smith: We support the Government's recent views expressed in a consultation about the consumer landscape, where it advocates that there should be locally based energy advisers who are able to provide advice, not only about energy efficiency but fuel debt advice, benefit entitlement checks, and try to get that integration of a range of issues that are important to low income and vulnerable households, to try to combine that with the provision of energy efficiency and do that very much at a local level. If you do that,

then they have a supportive ally who is not motivated by money, whose interests are the tenant or the householder. We think that that is a very—

Q21 John Robertson: You are on record as saying that the annual expenditure on heating and insulation programmes for fuel poor households should be reduced from the £1.1 billion, which includes the Warm Front community energy saving programmes, carbon emissions, and so on. How are you going to do that? What should DECC do to achieve this?

Peter Smith: We did not say we would reduce it. We said that, sadly, it is reducing by about a half. We believe that the Government should recognise the legitimate use of tax-funded support for energy efficiency for low income and vulnerable households, so they could review their decision to close the Warm Front Scheme. They could provide an ongoing fund as opposed to non-recurrent funding for local authorities to support the Green Deal and ECO. Absolutely, they should recycle the carbon tax associated with the carbon floor price into an ambitious energy efficiency programme.

Q22 John Robertson: Mr Gordon, just so you are not left out, private lettings and residential landlords have a bad name, and they have not done what they are supposed to have done in relation to the upkeep of homes. How do you get these people on board to sign on to this?

Simon Gordon: Obviously, Mr Robertson, I dispute some of what you say. I would accept that the sector—

John Robertson: I did not say everyone, but in general there is a bad name.

Simon Gordon: There was a slight sweeping statement there.

John Robertson: Everybody laughs when you say that.

Simon Gordon: We would accept—in fact, I was in a meeting only yesterday on universal credit where we were discussing this—that the sector does not have the best of reputations, of course. It is still bedevilled with the image of Rigsby and *Rising Damp*, unfortunately. That, of course, was meant to be amusing. The RLA would take the view that the time has come for the gloves to come off and we should no longer refer to “rogue landlords”. We should actually refer to “criminal landlords” and they should be driven out of the sector by local authorities using the powers that they have.

That being said, on your specific question, the overwhelming majority of landlords, of course, would want to provide good quality accommodation that is warm, decent, energy efficient and not damp. Energy efficiency helps landlords as much as it helps tenants. Coming back to the first point I made, monitoring is vital for the sector to help drive landlords who, like everybody else, are going to be a little bit slow off the mark—like all sections of the population, like owner-occupiers—into the Green Deal. The sector is the only sector where there is going to be an element of compulsion because, as you will be aware, in 2018 F and G rated properties will not be rentable. Landlords will not be able to rent them out if they are still F and G rated. They have to go into E.

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There are two points I would make about that. One is there are constant rumours that the Government may bring that date forward. If there is any intention to bring that date forward the private rented sector must be told. There must be clarity about this. Decisions must be made. The second thing is—and why monitoring is so important to get everybody up to at least an E—if there are thousands of landlords left in F and G, when we get to 2018 the property market will shrink and the housing crisis we have—

Q23 John Robertson: But there is good reason for getting rid of F and G.

Simon Gordon: There are perfectly good reasons, I accept that.

Q24 John Robertson: As I see it, the problem is with the Government's policy on bedroom tax and people that may have to leave housing and be pushed towards some of the people you represent and others you do not represent. Therefore, there will be a rush to get accommodation without actually looking at the facility obviously.

Simon Gordon: To a certain extent you are taking us into areas that are not directly concerned with this inquiry, but I accept—

John Robertson: If you do not have a house ready, then you will fill it anyway.

Simon Gordon: I accept the challenge. Providers and participants in the Green Deal will probably go to the private rented sector last. Owner-occupiers, the social sector, the public sector, will be much easier to do than the private rented sector because it is more disparate for a start. I think we have to push the providers, the participants, to go to the private rented sector. It has to be properly monitored, so everything is done to encourage landlords to get up to E. That has to be coupled with—what I said earlier—local authorities using their powers to get rid of criminal landlords so that the really bad landlords, who probably have the F and G rating, are not there in the market to swoop on the very people you are talking about.

Q25 Barry Gardiner: Mr Gordon, what you just said about landlords being as recalcitrant as the rest of the population rather belies the figures that came out from ARLA, doesn't it? ARLA noted that 62% of landlords had responded that they would consider taking out Green Deal, and ARLA suggested that "Landlords' awareness of the Green Deal far outstrips that of the general public". This idea that you have just come up with, that they in particular need to be incentivised, is in direct conflict with what the Association of Residential Landlords is saying, isn't it?

Simon Gordon: No, to be fair, Mr Gardiner, what I pointed out was the difficulty if they are not incentivised.

Q26 Barry Gardiner: I think the record will show what was said. Let me ask you another question then. Why should one of your landlords be able to discharge their legal duty to provide a dwelling free from category 1 excess cold hazard under the Housing

Health and Safety Rating System by initiating a Green Deal arrangement that would impose a financial burden on what may be a very vulnerable and poor tenant?

Simon Gordon: You are asking a highly technical question. I do not know whether I can entirely answer it in full. The—

Q27 Barry Gardiner: Let me phrase it in less technical and simpler language. The fact is you have a statutory obligation if you are renting a property to have it so that heat can be maintained in it to a certain level.

Simon Gordon: Yes.

Q28 Barry Gardiner: Your landlords will be able to fulfil and discharge that statutory obligation, by getting their tenants to pay for it through the savings that are made through the Green Deal. Do you think that that is fair and equitable?

Simon Gordon: Inevitably, if there are costs to landlords they will pass them on to the tenant. Landlords are business people.

Q29 Barry Gardiner: No, the point here surely is precisely the opposite. The costs are not going to be borne by the landlords. The costs should be borne by the landlords. Under statute they have an obligation to have their property at that level, but the costs will be borne by the tenant—potentially a very poor tenant—who is going to have to pay those costs back in the electricity or gas bill. I am asking you whether you think that that is fair.

Simon Gordon: It may not be fair, but that is the way the scheme is designed.

Q30 Barry Gardiner: Thank you. That is very helpful. In that case, Mr Smith, how important is it to monitor the level of Green Deal take-up by tenure type, do you think?

Peter Smith: I think it is important and previous programmes have shown that there are blind spots, in particular the private rented sector. Monitoring it by tenure, but by which element of the scheme households are receiving support in, would be important to address that question, because that might flesh out some of the tensions that you were highlighting in your previous question. Where you have a tenant who feels that their landlord is offsetting their responsibilities on to them—and I think we were discussing this earlier—in some ways it is going to be a very difficult conversation to have with your tenant to say, "You should benefit by this scheme but if you don't you might get disconnected". It is pretty high risk stuff from the tenant's point of view.

Q31 Barry Gardiner: How important is it to monitor the extent to which ECO is used to fund energy efficiency improvements in the private sector, social housing and local authority housing sectors?

Peter Smith: I think it is very important. We need to get a feel of where delivery is happening, what is driving that, is it through the guidance that the Government has put in place through HECA, for

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instance, which is acting as a tool to drive up local authority involvement in the scheme?

Q32 Barry Gardiner: What is going to be the best way of doing it?

Peter Smith: Through taking some of the discretionary elements out of the guidance within HECA, and ensuring that local authorities have to report in a standardised way on their activity on Green Deal and ECO on a yearly basis. At the moment, the guidance for HECA is very much discretionary—you could report on this if you wanted to. Whereas, we believe that it is important to track delivery across all HECA areas appropriately, and that there is a standardised format or template to do that, otherwise you will get a great variety, in terms of the quality of submissions to DECC on those important issues.

Q33 Barry Gardiner: Ms Willey, in terms of the Future Fit programme that you have been engaged in, can you elaborate on the role that you see for the Green Deal and ECO in the social housing sector?

Alexandra Willey: Sure. As I said, I think ECO were excluded from the Affordable Warmth element, but certainly we will actively try to source the carbon saving element for our residents. I think the Green Deal is very much a private sector owner-occupier tool. That is what it has always been posited as. We carried out Future Fit because we knew that the pay-as-you-save mechanism was going to be around, was going to hit us at some stage, and we wanted to understand how we and our residents could best benefit from that. At the moment the Green Deal is not quite right for us as an organisation. I would not like to speak for the whole sector, but the main reason I am here today is to try to find ways that it can be monitored and perhaps even amended, so that it could work for all sectors. At the end of the day, it is a funding mechanism for energy efficiency when they are very few and far between.

Q34 Barry Gardiner: If you were to give us your top two ways in which it could be amended to better serve the social housing sector, what would they be?

Alexandra Willey: It is hard to limit it, but I think there is—

Barry Gardiner: You can always write to us and send us more.

Alexandra Willey: I will.

Barry Gardiner: The Chairman is very strict on time.

Alexandra Willey: If I were to take two, I think there needs to be much more focus around the tenant behaviour. What we are finding is energy usage is quite unique to the individual within a household, so on the occupancy assessment go further than just the three or four bullet points on, “This is how you might be able to save energy”. Also, for us at the point of handover to the next tenant—which does happen with us perhaps more than any other sector, apart from perhaps the private rental sector—information in the Green Deal opening statement should not just be financial but, if we are going to set these savings on typical energy usage in homes, people need to understand how to live according to typical energy

usage, because that is not typical right across the board.

Peter Smith: One important point about your last point there is that, if households are concerned that there is a Green Deal charge associated with the property, one of the ways that they might think that they are doing themselves a favour is reducing their energy consumption. If that happens in contrast to the energy usage of the previous household, then they are getting into a worse situation. They are reducing their energy consumption. They are reducing the amount of savings that they are making.

Barry Gardiner: It is an extremely important point, particularly within the social rented sector, when you do have a high turnover of people coming through, because those changes in lifestyle will have a very big impact on the prospective savings. There is no such thing as a standard average family. Yes. Thank you.

Q35 Ian Lavery: Looking at the golden rule, which is obviously very important, it states that, “Your expected financial savings must be equal to or greater than the costs attached to the energy bill”. I think again Ms Willey has expressed some doubts about the accuracy of the SAP, which is the standard assessment procedure, the measurement system for energy saving. I wonder if you could provide any figures to illustrate these potential inaccuracies.

Alexandra Willey: Unfortunately not. I wish I could because I know they would be very valuable evidence. We are still validating our figures. All I can say is that it appears that certainly in some instances it is over-predicting but, more importantly, it is just not consistent. In every instance it is not matching the projections that were made, so that leaves us with enough anxiety that it would not work. We cannot really have a situation where, on average, even 75% of our residents would benefit and they would work because that still leaves 25% who might be paying more and who could be pushed further into fuel poverty. As soon as we have those figures, we would be very, very happy to share them with you.

Q36 Ian Lavery: I think you have noted that the figures and the methodology have been improved since Future Fit?

Alexandra Willey: Yes.

Q37 Ian Lavery: Do you have any concerns about the updated methodology?

Alexandra Willey: To be quite honest with you, I am not fully in tune with that. I have not seen the most recent methodology. All I have heard is that it is getting a lot better. Effectively, it is a design tool for new build—that is what SAP was built for—and I think trying to make it fit, and make more and more amendments to make it fit to this situation, might not be the best option. But I am not of a technical background so I would not like to comment further.

Q38 Ian Lavery: Does anybody else think it is important that we monitor whether the golden rule is being met? I hope the answer to that is “yes”, and the next question would be: how best could this be achieved?

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Peter Smith: Absolutely we think it is important to make sure it is being met. I explained the risk earlier that, if you are a household with low energy usage or lower energy usage than a previous occupant who took out the Green Deal, then there is a risk that you might be on the wrong side of the golden rule and, ultimately, that might result in arrears and ultimately disconnection. The body that has oversight of those issues is going to be the fairly complex arrangement between the Energy Ombudsman, the Green Deal Ombudsman, Gemserv, Ofgem, and the Regulated Industries Unit. That landscape will be confusing to people, because it is not absolutely clear how issues, such as not meeting the golden rule, might be unpicked at an oversight or compensatory level. I believe it is the Green Deal Ombudsman that will have responsibility for providing Gemserv with advice about various settlements, if households are on the wrong side of the golden rule or the Green Deal process is not followed religiously. Then Gemserv have to instruct the Secretary of State, and you can see that that is going to cause confusion in terms of process I think.

Alexandra Willey: I think there is an opportunity that has already been flagged in the occupancy assessment, where there is room for a discussion around previous bills. I think that needs to be made more stringent because I think what we are finding from Future Fit is it is incredibly difficult to get that baseline, the before picture, and it is also that people are very unaware of how much energy they use in a home. It is very difficult to nail down and I think there is that opportunity to get the figures from the resident themselves, but I also think there should be a wider obligation with the data transfer service that perhaps it is unclear, certainly to me—and there may be others that have further information on this—whether as well as the amount of energy being used going forward is going to be shared, whether there is any room if consent is acquired for understanding what the previous year's usage has been and perhaps applying other factors to that.

Peter Smith: Also, we do not know whether or not the Green Deal Ombudsman is going to be publishing figures, in a public way, about the amount of disconnections or arrears-related issues where a Green Deal charge is on the meter. The thinking is very much that arrears with Green Deal will be lumped in with energy arrears, but we will not know potentially the extent of householders that are running into trouble—either in arrears or are disconnected as a result of Green Deal—because of the integration with existing debt problems or fuel debt protocol. So that is an issue.

Q39 Ian Lavery: Are there genuine concerns that there might be a number of people disconnected because of this?

Peter Smith: I think disconnection is going to be a very extreme situation.

Ian Lavery: I would hope so.

Peter Smith: What you might see, as is typically the trend with energy at the moment, is that householders are running into arrears and those arrears are a bit of a millstone around their neck, to be frank. If you are

a prepayment customer then you need to pay some of your arrears on a proportionate basis to the amount of energy that you are consuming. Say you buy a £10 top-up card, a certain proportion of that, say £4, will be spent on your arrears leaving you with £6 worth of credit. I think that that is more likely, that you will see householders paying down fuel debt as opposed to being disconnected. That is still a very significant issue for householders, and it takes money out of the local economy because, if they are paying down fuel debt, then they are unlikely to be spending their money in the local shop or on a night out.

Q40 Mr Lilley: How can one ever know whether the golden rule is being met as a result of the Green Deal? Or put another way, how can one ever know that any change in usage of energy in a household is a result of the Green Deal or changes in behaviour? Can one ever know that?

Alexandra Willey: Something we are struggling with at this very moment with Future Fit is to understand what might have resulted in the energy usage in the year following the works, where perhaps it was unexpected. I think there is going to be a real need for some more qualitative assessment of the Green Deal, in terms of customer satisfaction surveys that include things like we are planning on going back to visit all of our Future Fit tenants and take them through a questionnaire of, “Has your life changed significantly in the last year, in terms of has there been some unemployment so you have spent more time at home? Any sickness? Has anybody been living with you who was not living with you before?” There are certain things that have to be understood, so that you can get a picture of whether the golden rule is working as a trend. But I would agree that it is incredibly difficult to pin down specifically.

Q41 Mr Lilley: If you do not know, aren't you asking for a great leap of faith by householders and tenants to invest in something where they do not know in advance, and will not even know in retrospect, whether it has been beneficial or not?

Alexandra Willey: Sorry, just to jump in again, I think that is why we have argued about the Green Deal being predicated on the financial mechanism. I appreciate that was necessary in order to get it through legislation and to get a change in approach, but throughout Future Fit we were pushing the comfort and warmth benefits and “You might save money”, rather than the focus being on “You will definitely save money” and certainly not, “You will definitely save this much money”. That is why we are very keen to monitor what happens in the early stages of the Green Deal, to see if people are still happy, even if they have not necessarily saved the right amount, and there are other benefits that could be used to market it.

Peter Smith: It comes back to this: “You are better off than you would otherwise have been” and I think that is going to be a very hard thing for consumers to wrestle with, especially with a backdrop of energy prices continuing to rise.

John Sinfield: I think it points to the central concern that we have as an industry, which is: what is going to drive demand for the Green Deal? Is it about the

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theoretical energy savings or is it about improving the quality and energy efficiency of your property? The market, whether it is the financial market, the installation market, the economy, needs volume and it needs volume through the Green Deal to make it a

success. The question that we have is: what is going to drive that volume?

Chair: We will have to leave it there as we are out of time, but thank you very much indeed for coming in.

Examination of Witnesses

Witnesses: **Rt Hon Gregory Barker MP**, Minister of State, Department of Energy and Climate Change, **Tracy Vegro**, Director of Household Energy Efficiency, Department of Energy and Climate Change, **David Thomas**, Deputy Director, Green Deal Consumer Demand, Department of Energy and Climate Change, and **Chris Nicholls**, Economic adviser, Department of Energy and Climate Change, gave evidence.

Q42 Chair: Minister, good morning and welcome back to the Committee. We are delighted to see you again, and your officials. Sorry we are running slightly late. We will aim to wind up just after 11 o'clock. I am sure that is helpful to you and it is certainly helpful to us. We have another meeting on the back of this one. We will not have any long introductions. There has been some research, relatively recently, suggesting only one consumer in five had actually heard of the Green Deal. Do you have any concerns about take-up rates?

Gregory Barker: Sorry, one consumer in what?

Chair: In five.

Gregory Barker: Will what?

Chair: Had heard of the deal.

Gregory Barker: If we have got to one consumer in five after about eight days I would say that is fantastic progress beyond our wildest dreams. What I can tell you is that 42,000 people visited the Green Deal website on the first day that the Green Deal went live, and I am very encouraged by the feedback that we are getting.

Q43 Chair: Have you set internally progressive targets for take-up?

Gregory Barker: No. I think progressive targets are a bit of a waste of time. We know that we have a very large amount of work to do over the next 10 years or more. We can either spend our time hypothecating and making forecasts and targets, or we can actually crack on and work with the private sector. We are now into deployment of the Green Deal. This is a market-based mechanism. There is clearly a role for Government to work in partnership with the private sector, but this is very different from Government monopoly programmes that have preceded it. We need to work with it and spend our time doing helpful things rather than making forecasts that we can almost guarantee will not turn out to be correct.

Q44 Chair: Do you think the up-front assessment fees are going to have any effect on take-up?

Gregory Barker: I am sure they will have an effect on take-up; exactly what that effect will be we will discover over time. We do know that people are already moving. We know that there is a range of different offers and they will continue to develop over the months and years. Obviously, we watch that very closely because people have raised this as an issue. If it were found to be an insuperable barrier to progress then this is something that we would look at with a

view to action, but I think, on the basis of the very early responses that we have seen, this does not seem to be a huge barrier and there are actually some companies who are offering assessments without a fee. We will have to see how that market develops. We do not want to skew the market so early on.

Q45 Chair: Will you be monitoring the number of applications that do not go forward to a Green Deal being taken up?

Gregory Barker: It is very difficult to do that very objectively because we do not have access to that information ourselves. As I said, this is a private sector driven proposition so obviously there will be quite a lot of anecdotal evidence. There will be some companies who will want to share their information with us, but, in terms of having a comprehensive data set, which would be sufficiently robust to make a very clear judgment on, we do not have that at the moment. We are less than two weeks into the Green Deal, so it is early days.

Q46 Chair: You have said that you would like to track the extent to which consumer interest is rising.

Gregory Barker: Absolutely, and we will continue and there are different ways in which you can do that. Obviously, modern advertising and research companies have tools that allow you to do that, but what I do not want to do is create a big DECC-centred bureaucracy of doing that.

Q47 Mr Lilley: The answers to the questions I was going to ask may be in this splendid document given to me by my colleague, your impact assessment, but I would just like to know the answers to simple questions: how much is the Green Deal going to cost per annum or over a five-year period; what number of homes you expect to have improved the efficiency of over that period, and what the net benefit per home will be and what the carbon reduction will be? Will I find it all in here if you do not have it in your head?

Tracy Vegro: We have our economist.

Gregory Barker: We have our economist, but all I would say, Mr Lilley, is that is a forecast.

Q48 Mr Lilley: You do not make forecasts.

Gregory Barker: That is an impact assessment, and the one thing I can guarantee you is that all of those numbers will not turn out to be correct. There are huge variabilities. We are creating a new market here, and I do not place a huge amount of faith on anyone's

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ability to accurately forecast how a completely new market is going to develop. So poring over an impact assessment that was prepared what, nearly two years ago now?

Chris Nicholls: It was completed in June. The final impact assessment was in June but we started the impact assessment process a couple of years ago.

Mr Lilley: 11 June 2012.

Gregory Barker: Yes, that was when it was finished. That was when it was signed off, but the actual work that was undertaken started when?

Chris Nicholls: Some of the research is 2010.

Gregory Barker: 2010, so it is really quite old data. So the important thing is that we now—

Mr Lilley: I was hoping you would just say “Yes” or “No”. So I cannot find it there and you will not tell me now? It is a simple question.

Gregory Barker: If I could finish, the important thing is that we now have real time data. Rather than hypotheses based on abstract assumptions, we are starting to get real time data and, over the coming weeks and months, we will do our best to get real responses from real consumers, real communities, real costings based on real businesses, based on real economic models, rather than a set of assumptions made in 2010 about a future market.

Q49 Mr Lilley: When DECC publishes its estimated impacts of all its policies together, it does have some assumptions about these things, but you will not tell us what they are?

Gregory Barker: We do have assumptions, but what I am saying, Mr Lilley—and I will hand over to my colleague to talk in more detail—is we are now entering a new stage. The assumptions there are very large assumptions based on an entirely new market that we did not have any firm evidence to base it on. It was all very forecast driven. We are now at the start of being able to deal with real live evidence and we can make much more accurate forecasts.

David Thomas: Shall I try to add something to that? The key number in the impact assessment, which is looking forwards March 2015, is 1 million Green Deals. When we talk about that, we talk about Green Deal in the broad sense, i.e. installations involving ECO, installations not involving ECO, people paying for things through Green Deal finance and people not paying through that. That is the number in the impact assessment and that is the number that we have in mind in broad terms. However, as the Minister has said, it is an impact assessment. The key question that it is trying to answer is whether the costs will outweigh the benefits or whether the benefits will outweigh the costs. The very clear answer from the impact assessment is that it is worth proceeding with the Green Deal and ECO policy. The question then is: what will the market actually deliver? As the Minister said, it is a new market. No one is quite sure exactly what the market will deliver. We have a reasonable degree of confidence that it will deliver that. Of course, we will be monitoring what happens in practice. I think some of the more detailed numbers my colleague Chris has to hand.

Chris Nicholls: Yes, I am very happy to run through some of them.

Q50 Mr Lilley: Before we go too far further, I mentioned the impact assessment here. I also mentioned a document you produced called “Estimated Impacts”, which are two different things. The estimated impact is the overall impact of all your green environmental policies, which you say will have a net benefit to households as a whole. You are making assumptions about the savings made by the Green Deal, in particular, and ECO, and that they will offset the huge increase in the cost of energy due to the subsidies and costs of moving to higher cost sustainable energy. So you do have—

Gregory Barker: Not exclusively. They are one of the factors.

Q51 Mr Lilley: The other is a bold assumption that products fuelled by electricity will become 27% more efficient. Am I right?

Gregory Barker: I do not have the 27% figure off the top of my head, but you are absolutely right, Mr Lilley, that we are likely to see substantial savings in electricity from an increase in energy efficiency productivity.

Q52 Mr Lilley: They will happen even if we do not do the Green Deal.

Gregory Barker: Yes, there are separate drivers.

Q53 Mr Lilley: Households will never know whether they are benefiting from that 27% improvement in efficiency of their washing machines, and everything else, or whether it is a result of the Green Deal.

Gregory Barker: I think they will, actually.

Q54 Mr Lilley: Given that you do use these estimates, it would be helpful to the Committee if we could know what they are and if we have a little note saying so.

Gregory Barker: I am sure we can give that detail.

Q55 Barry Gardiner: Minister, this is a bit up and down and all over the place, isn't it, really? Because you are saying, “Yes, of course we made estimates. We made projections, but we do not think any of them are going to hold good”. It is all very well to be cavalier in that way and say, “Now we are in a phase where we will begin to get real time information”, which all of us will welcome, but the point here is can we then hold the Government to account in a way that says “Yes” or “No”, they have or they have not achieved their objective? That is why you do impact assessments. That is why you make these promises. That is why you come out and say, “We do believe it is going to save 2.2 million tonnes of carbon dioxide emissions from burning gas and other heating fuels”, which you did. The Association for the Conservation of Energy now says you have now come out and said it is going to be only 0.7 million tonnes of CO₂, a 70% reduction. That is a 70% reduction in your own stated emissions reductions from gas and other heating fuels in the space of, what, a year and a half?

Chris Nicholls: Yes.

Q56 Barry Gardiner: So how are we meant to hold you to account? Are we meant to say, “Oh dear, even

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before they started they had not delivered on their 2.2"? Are we supposed to say, "Well, thank goodness, they have now revised their figures, and presumably sacked the people that gave them the original estimates, because both are before the scheme has actually gone live, and now it is found that it is only 0.7 so we will hold them to account on the 0.7"? Where do we hold you to account here?

Gregory Barker: One of the major reasons is that we overachieved last year on our insulation targets, by substantially improving and amending the totally inadequate insulation scheme that we inherited from the previous Government. Perhaps Mr Nicholls would like to give a bit more detail.

Chris Nicholls: Yes. The original estimate was based on the policy mix that we were expecting when we were initially doing the first impact assessment. That had a greater focus on carbon saving. As the policy has developed, there has been a greater focus towards combating fuel poverty, so the Affordable Warmth element has meant that, as we are trying to help the fuel poor and vulnerable households heat their houses, that will in itself increase some emissions or there will not be such significant reductions in emissions. That is—

Q57 Barry Gardiner: Sorry, I am trying to connect what you are saying, Mr Nicholls, with what the Minister was saying. My question was about a reduction in the estimates of 1.5 million tonnes of CO₂.

Chris Nicholls: That is right.

Barry Gardiner: The Minister seemed to imply that that 1.5 million tonnes had been achieved last year, so that we were only going to get 0.7.

Gregory Barker: No, that is not what I said, in fact.

Q58 Barry Gardiner: Oh, sorry, you said that the impact of the wonderful work you had done last year had meant that you had had to revise your projection as to what could be achieved in the future.

Gregory Barker: We overachieved last year.

Barry Gardiner: 1.5 million is the difference, so how do we account for that 1.5 million tonnes?

David Thomas: The numbers always get quite complicated and we can send you a more detailed note. The important thing to bear in mind is when these numbers were prepared and what has changed since. As Mr Nicholls has said, some numbers were produced some years ago. Since then, there was a very open process of consultation that everyone contributed to. The consensus of that consultation was that we should move away from such a strong focus on carbon in increased fuel poverty. There have been various other changes as well. Inevitably, each year—

Q59 Barry Gardiner: Sorry, in your own written submission to us you said, "Potentially saving 4.5 million tonnes of CO₂ per year by 2020 through the Green Deal and ECO."

David Thomas: That is correct.

Barry Gardiner: "Saving carbon is the principal objective of the programme."

David Thomas: Exactly.

Gregory Barker: The principal but not the only objective, Mr Gardiner.

Q60 Barry Gardiner: So that objective has been relatively downplayed and fuel poverty has been brought up as an objective?

Gregory Barker: It is a balance, and it is quite possible to have more than one objective.

David Thomas: I just need to clarify on the numbers. The 4.5 figure is still the correct figure. It is our latest figure. It is not a 70% drop on the previous figure; the previous figure that compares to the 4.5 was 5.6, so there has been a fall.

Q61 Barry Gardiner: I was only talking about the emissions from burning gas and other heating fuels, which had gone from 2.2 to 0.7. That was the 1.5 I was talking about, but I accept the other figures that you have said.

Gregory Barker: Could Mr Nicholls explain?

Barry Gardiner: Yes, if Mr Nicholls wants to continue.

Chris Nicholls: As I mentioned, there were two primary aspects to the reduction: the focus towards the fuel poverty and the policy, but also the emerging evidence on the amount of energy savings from solid walls. Over the last year or so, there has been increasing evidence from our statisticians collecting information on costs and the amount of energy it takes to heat Britain's houses over the last few years. It suggests that solid walls do not save as much energy as suggested in the SAP calculations. So what we have done is we have made some adjustment factors in that calculation, in order to account for what we believe is now a realistic energy saving from solid wall insulation.

Gregory Barker: I would expect those figures to continue to evolve, as both product standards improve as well as our understanding of how they react in real time grows, because solid wall is a very small measure.

Q62 Barry Gardiner: I am sure we will develop further clarity as it goes on. If I may just develop that line, Peter, and I am sure you will weigh in in due course. The difficulty is getting these specific individual targets. Are you going to publish those? Are you going to set out, as you were saying for solid walls, "We believe we can attain this much saving" for different elements of the scheme?

Gregory Barker: I am trying to resist micromanaging, if that is what you are suggesting.

Q63 Barry Gardiner: It is not micromanaging. It is allowing us to hold you to account, isn't it?

Gregory Barker: But you are familiar with the market, Mr Gardiner. We are not Gosplan. This is not some huge micromanaged Government scheme where we will be having a desk in DECC that works out how much Mrs Bloggs' insulation should be. By and large, this is going to be delivered by the private sector through a variety of delivery agents, without any form of state funding, all done through a framework established by law but which is primarily driven by the market. We want to drive innovation,

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we want to drive consumer choice but this is not a Government programme in the way that Warm Front was.

Q64 Barry Gardiner: No. But you do want to save 450 million tonnes of CO₂. That is your primary objective.

Gregory Barker: We do, but we are not going to do it by micromanaging it. We are going to do it by primarily unleashing the market.

Q65 Barry Gardiner: I am not talking about micromanaging. Mr Nicholls was extremely helpful. He laid out the fact that revisions in the technological assessment had meant that there had been a variation to the amount of saving of emissions that you thought you would get from solid wall insulation. Fair point. I understand that leads you to revise the figures. But, unless you are transparent about this, unless you are prepared to let us know what each of these different areas is expected to achieve to make up the 450 million, it is much more difficult for the public and for Parliament to hold the Government to account for what it purports to be doing. That is why I want it.

But if I can go to another element of, sort of, shifting on the scheme? Minister, I have a very helpful letter from you setting out the basis of the Green Deal, dated December last year, in which you say, "There are a number of important consumer protections, which will be embedded into the Green Deal: the savings will always be greater than the costs". I know you probably were not here when Mr Lilley questioned our previous witnesses, but he was very strong on this point. I also have your response to the shadow Secretary of State when she asked, "If he will take steps to ensure that customers are not charged more for the home improvements under the Green Deal than they save in cheaper energy bills". To which you said—in direct contrast to the notion that savings will always be greater than the cost—"It is not possible for a Government to guarantee people will save money". This does go to the heart of the questions that people have been putting to the Green Deal for quite a long time now, about whether the cost of the deal will save them money.

Gregory Barker: No, Mr Gardiner, what this goes down to is people deliberately trying to dissemble, in order to make out that there is no difference between a projected cost and a guarantee. A guarantee has a financial cost. If you want to guarantee savings—guarantee in the full sense of the word—that will have a financial cost, and that will mean higher bills or it will mean lower impacts. But there is a difference between saying a model should project under the golden rule that the savings will be greater than the financing. That is different to a guarantee.

Q66 Barry Gardiner: Of course it is. Do you consider, Minister, that the constituent who received your letter, which said, "There are a number of important consumer protections, which will be embedded in the Green Deal, number one, the savings will always be greater than the cost" was being given a financial protection, or do you think that that constituent will believe that they had been given a

guarantee by the Government Minister that the savings will always be greater than the costs?

Gregory Barker: They were not being given a guarantee. What they were being told is that the basis on which their assessment will be given is that, on a like for like basis, the projection of savings should always be—and we insist upon it—greater than the financing cost. But that is not the same as a guarantee.

Q67 Barry Gardiner: Minister, I know that and you know that because we have read the small print, but that is not what that says to that constituent.

Gregory Barker: No, but that is also made explicitly clear in the Green Deal assessment. If there is any case where consumers have been mis-sold products, where products have been inappropriately sold because, under any reasonable use or any reasonable expectation, they do not deliver the savings that were suggested in the assessment, then they will have full consumer redress. We have gone to great lengths to make sure that the Green Deal does have very strong consumer safeguards. That is why this morning, Martin Lewis of moneysavingexpert.com, possibly one of Britain's most trusted independent consumer champions—do we have the quote there?

Tracy Vegro: I think he said it is a good deal for consumers.

Gregory Barker: Yes, he spoke out very strongly in favour of the Green Deal and—

Tracy Vegro: And the highest consumer protections that have been afforded, I think he said.

Gregory Barker:—the very strong consumer protections. But to try to pretend that is somehow saying a guarantee is the same as a projection, and that there is not some sensible common-sense user obligation—

Q68 Barry Gardiner: I have never pretended that. I have always been saying exactly the opposite. It is your letter that I believe pretends that, because it says quite clearly, "The savings will always be greater than the cost". There is not an asterisk. There is not a footnote. There is not a small print. Not in that letter.

Gregory Barker: I would agree. If we missed out the words "projected" savings, I agree with you that would be an improvement. But we have always been absolutely consistent. That is why Martin Lewis of moneysavingexpert.com said, "From a purely financial perspective, provided the work qualified for full financing, it seems a good bet for those keen to improve their homes who cannot afford to shell out for major improvements". He also recommends that it is a myth that the interest rate is too high and also a myth that there is not strong consumer protection.

Mr Gardiner, what I would say is that everybody doing a Green Deal will not be doing so on the basis of a letter from me. They will be doing so on the basis of a professional, independent assessment, from someone who is professionally qualified and who will be able to give them an assessment based on the unique qualities of their home.

Q69 Barry Gardiner: And the projected usage?

Gregory Barker: And the projected usage thereof, yes.

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Q70 Barry Gardiner: Minister, earlier in our session I asked Simon Gordon from the RLA—who is still with us—why it should be that one of their landlords might be able to discharge their legal duty to provide a dwelling free from category 1 excess cold hazard, under the Housing Health and Safety Rating System, by initiating the Green Deal arrangement that would put a financial burden on a potentially poor and vulnerable tenant. I asked him whether he thought that was fair. His response was, “It may not be fair but that is the way the scheme is designed”. Do you agree with him?

Gregory Barker: No, I wouldn't. I do not agree with your suggestion that it is imposing a financial burden. The whole premise of the Green Deal—as we have just been battling, back and forth—is that the projected savings should be greater than the cost of finance, otherwise it is not going to meet the golden rule. The savings are greatest where the need is greatest. For the coldest homes, for the most poorly insulated, for the sort of homes that you are alluding to, Mr Gardiner, those are the very homes where the savings are clearest and where the occupant can benefit most.

Where it is most marginal is in the better insulated homes, in those where the incremental improvements are a lot less. But if you are talking about very poorly insulated homes—as you must be in order to fit that category—the majority of Green Deal measures would very likely offer significant savings above and beyond the financing. In no way are you imposing a financial burden. It is a novel way of financing it. As you know, successive Governments, which either you served in or which Mr Lilley served in, have failed to deal with this problem and have bequeathed a building stock to 21st century Britain that is totally unfit for purpose.

Q71 Barry Gardiner: I have let you have your say. Let's now just come back to two points. One would be that, of course, the projected savings for the family that might initially occupy that property might be substantial. It might have a number of people in that property but, over time, particularly in the private rented sector—and you know that the churn is very considerable—one of the problems, therefore, is that the usage cannot be projected on a long-term basis on the basis of the initial tenant. Those savings will vary. In fact they may not be achieved, particularly in the situation where you might go from more to fewer occupants in that property. That is one point.

Gregory Barker: If I could just respond to that, because that is a very valid point and it is something that we take great care to incorporate into our thinking. As a result, there is a need for two assessments—one that projects forward the use under the occupants and the second is typical usage. If you are going to put a family of five into a one bedroom flat, who stay at home all day, that will perhaps give a rather distorted view of the savings that are available. But alongside that, equally they will also say, “The typical usage would also be this” and that will have to take into account the golden rule. Obviously it goes the other way, if you have a five bedroom family home—well, not a five bedroom home, perhaps that is a slightly wild example—or a

three bedroom family home that is occupied by a couple and three children, and perhaps you have young children in the house and a stay-at-home parent, you will get a different energy profile than if you have that house subsequently occupied by a single person who is out at work, clearly. But that person will know before moving in. There is full disclosure. They will know whether or not there are any financing charges, and will be able to know the rating of that home. They will be able to take a view, in exactly the same way that people say, “Well, I am not going to move into that house because the Council Tax is too high” or, “I am not going to move into that house because the rent is too high”, so there will be opportunities.

Q72 Barry Gardiner: Minister, in a perfectly functioning market, that would be a perfectly satisfactory answer. But it is not a perfectly functioning market, as you well know. The housing market—and particularly the private rented sector—is a market that is driven by compulsion, which is driven by shortage and therefore it is often the case—

Gregory Barker: I don't know about “driven by compulsion”.

Barry Gardiner: The exigencies of life I was talking about, not by you or me standing over somebody. People find themselves with a shortage of properties and, therefore, they are often forced to take deals that in a perfectly functioning market they would not take. That would be my response.

David Thomas: If I may, as the Minister said, that is why we thought about this very carefully during the design of the policy. That is why the golden rule is predicated on the typical savings to the property, not the actual people who are in it at the time. So if, in the examples the Minister described, you have lots of people crowded into a small home or the other way round, that will not influence the golden rule. The golden rule is based on the typical usage in the property. Therefore that is a core protection.

Q73 Barry Gardiner: It is a protection in one direction. I think you have accepted the principle that the typical usage may subsequently not be the actual usage.

I now want to get to the second point, and that is that here is a situation—and we are not talking about typical usage, we are talking about actual usage—where somebody is going to find that they are paying more than they should. They are not achieving the savings that were predicted for them. Let me put it that way. The fundamental point here is surely this. The landlord has a statutory duty to get that property up to the proper standard in the first place. Why is the tenant paying for this at all?

Gregory Barker: This is not a bypass for landlords' statutory duties.

Q74 Barry Gardiner: Well, it is. It is a way of a landlord meeting their statutory duty. Through the Green Deal they can install all the measures that they need to bring the property up to that level, and then happily transfer all the burden of it on to the tenants.

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Tracy Vegro: I suppose the principle, though, Mr Gardiner, is around the up-front cost of capital is stopping landlords doing that. As we have said, the golden rule is set relatively conservatively, it does not allow for inflation and energy prices and so on. Over time, if the tenant were coming in the very next day, and of course we might have to expect that, all the calculations we did—my economist colleague will correct me if I am wrong—absolutely tried to factor that in. In certain terms of the law on landlords, we are working with a big working group now about how we will go on to do the PRS regulations.

Q75 Barry Gardiner: Ms Vegro, tell me this, is it possible for a landlord to fulfil their statutory obligation—

Gregory Barker: Which statutory obligation are you talking about, Mr Gardiner?

Barry Gardiner: The statutory obligation, “To provide a dwelling free from a category 1 excess cold hazard under the Housing Health and Safety Rating System”.

Gregory Barker: How long has that been in force?

Barry Gardiner: I have no idea.

Gregory Barker: It is rather germane to the question.

Barry Gardiner: It is not actually. The point is a landlord can put a property on the market—

Gregory Barker: But it is very germane. If that is a new obligation on landlords, then you would have more of a point. If it is something that has been sitting on the statute book for years and has been observed in a breach, then this is a response to that. I would press you, Mr Gardiner, to tell me: when did that statute on which you are basing your case go on the statute books?

Chair: We may be able to find that information in the next few minutes, so we will come back to that.

Gregory Barker: A bit like Labour’s fuel poverty legislation that promised to abolish fuel poverty.

Q76 Barry Gardiner: I am not here to trade political insults with you. Mr Barker.

Gregory Barker: I am saying it is all relative.

Q77 Barry Gardiner: What I am asking you about is somebody with a property, which may be a rundown property, which has not been used for many years, that they then put on to the market in the private rented sector, and they can use the Green Deal to fulfil their statutory obligation to raise it up to a reasonable, habitable level. In fact, instead of them paying to do that, it would be the tenant who then comes into that property who would then be paying for the costs. Is that possible?

Gregory Barker: It is possible, but of course the fact of the matter is, if they did not do it through the Green Deal, the likelihood would be the landlord would simply recoup the cost of doing that through raising the rent.

Q78 Mr Lilley: No.

Gregory Barker: No, they would not do that by raising the rent.

Q79 Mr Lilley: Unless the market pays a higher rent for an improved property. It will be assessed by the market not by the landlord.

Gregory Barker: If this is a statutory obligation, which is universally imposed upon the entire market, then it would expect the whole market to price that into the rent and move up.

Q80 Mr Lilley: The whole market.

Gregory Barker: Which it is, particularly under—

Q81 Barry Gardiner: In a perfect market, Minister.

Gregory Barker: You just told me, Mr Gardiner, that it is not a perfect market. There is a property shortage. So if there is a property shortage, and there is an universal obligation, I would expect market rents to move up. You cannot have it both ways.

Q82 Barry Gardiner: Apparently the statute came in the Housing Act in 2004. It is immaterial to the question of whether somebody can put a property on to the market in the way that we suggested, and you have acknowledged this.

Gregory Barker: This is another example of Government passing legislation that has proven to fail to make a difference, because it has been in place for eight years.

Barry Gardiner: Minister, if you think about the example I was putting to you, the example I was putting to you was somebody who brought a property on to the market. Not somebody who was already on the market. That is the example I put to you, that is the question that I asked you, and that is why the date of the regulation itself was not material. Your own officials and you yourself have accepted it is quite possible that somebody could bring a property into use, into the private rented sector as a landlord, and fulfil their statutory obligation by means of the Green Deal.

Chair: We are going to have to move on.

Q83 Mr Lilley: First of all, I would hate you to get the impression from my colleague that I am against this policy. It is almost the only policy of DECC that I am not against. But I have a puzzle, and that is how can one tell for any individual property afterwards that it has worked? How can one tell that the change or lack of change of energy consumption in that property is due to the failure of the insulation? How would you ever know?

Gregory Barker: You are absolutely right. Because of behavioural change and because of impacts of externalities—like the weather, for example—it is more difficult, but it is predicated on like for like usage. The BRE and the Centre for Carbon Measurement rigorously test all products before they can become Green Deal accredited, so far as is possible, to ensure that they deliver.

Tracy Vegro: Minister, if I may, for the Energy Companies Obligation Ofgem are going to have to monitor the carbon saving estimates, and there is a set process for that. That is one of the things where the data monitoring should be better under the new programme because—

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Q84 Mr Lilley: But not house by house.

Tracy Vegro: No, but some of it will be on an area basis, so there are lots of levels. It is still to be decided at how frequently we report on some of this and how much we put into the public domain, because obviously the Office for National Statistics protocols and things will apply. Relatively there should be a lot more transparency. One of the other things we picked up, last year there was an Office of Fair Trading report into the insulation sector about how very few of the savings did materialise because work was not always done to the appropriate standard. Again, anything that is going to have a Green Deal plan has to be done to the set standard, so people have to be accredited. That should be an additional protection, and obviously the process we have we hope we will never have to use, but that would at least tell us if there were particular breaches or particular products seem to be failing.

Gregory Barker: You are absolutely right that it is difficult to be very precise to ascribe the savings that may come from Green Deal measures versus behaviour change or external impacts, such as the weather with cold winters. But common sense tells you, and experience of meeting people who have had this work done, that it does have an impact. It might be difficult to be absolutely precise, but one can be quite clear that people have measures done, and that is the experience of people I have met in like for like houses who have had these measures put in. You just have to make sure that you get the balance right.

Chris Nicholls: There will be some analysis that we can do at an individual measure level. The information that I mentioned earlier about the information provided by the energy suppliers to DECC, which gives information on each household's energy consumption over the last few years, we are able to match that to Green Deals taken out and the measures that have been taken out. So we will statistically be able to determine whether, in general, households are saving more money than they would be typically paying, and thus meeting the golden rule.

Chair: I am very sorry we are very short of time. We will have to pursue this in writing. There are a couple more questions that I want to deal with quickly.

Q85 Sir Robert Smith: When you are doing these calculations of carbon savings, will you be able to differentiate between the Green Deal and the ECO funded Green Deals?

Chris Nicholls: I am not sure what information is provided on the distinction between the ECO and the Green Deal from the Landmark information.

Tracy Vegro: We will clarify that. If I am correct, I think the answer is that the Landmark database should help us with that alongside the data that Ministers are directing Ofgem to collect. But we will clarify that later.

Q86 John Robertson: Minister, I am sure you will be pleased that I do not have time to have our usual to and fro conversation. If I could ask you some questions about fuel poverty and on the Energy Company Obligation, which I will call ECO just for the record. How do you respond to the concerns raised by Consumer Focus, Energy Bill Revolution, the IPPR

and National Energy Action that the Green Deal and ECO will not be enough to tackle fuel poverty?

Gregory Barker: "Enough to tackle fuel poverty" is quite a challenge because successive Governments—if we are honest, over decades—have not been able to crack fuel poverty. We are very clear that this will mark a distinct improvement on previous schemes, and that it will not only just involve chasing the gas price, which historically has been the main driver of fuel poverty. If you look at the fuel poverty numbers, they have just tracked the rise and fall in wholesale gas prices. By focusing on hard measures to improve the efficiency of the home, this will mean our policy is not just driving fuel poverty for a temporary occupant through subsidising their fuel bill, but will ensure that we are leaving a legacy that means that future tenants will—

Q87 John Robertson: I have a lot of housing that does not fit the bill for ECO. You cannot improve their efficiency because they are concrete blocks, and the amount of money that councils are going to have will be limited. In some cases cladding, which would be nice, will not happen.

Gregory Barker: That is a very real problem that you raise, Mr Robertson. Part of the frustration has been that, despite a lot of money being spent on fuel poverty in recent years, because of the way it has been spent—particularly through one monopoly provider—there has been very little innovation in the insulation sector compared to other sectors. There have been some welcome advances. It has not all been static. But what we are seeing now is that, by opening up the market, we could see a welcome leap forward, so properties that historically have been very problematic to treat, for example, large blocks of flats, are now seeing new products come forward. I was looking at an insulation product, I cannot remember what it is called, but I think Carillion are sponsoring a bespoke treatment for blocks of flats, which in the past would have gone untreated.

Q88 John Robertson: I appreciate that, and I am not attacking Glasgow City Council because I believe they have done more than probably any other council in the country.

Gregory Barker: They can only work with the products in the market.

Q89 John Robertson: They can only work with the money they have, as well, which is a problem. You mentioned something earlier about targets. You do not like targets. You do not want them because you feel it is a false target. But how can we measure the impact of the Green Deal and ECO on fuel poverty and other targets, if we do not have targets to basically call you to book on?

Gregory Barker: We do have obligations to reduce fuel poverty, and obviously the fuel poverty numbers will directly reflect our success. Obviously, they will be influenced not just by the application of the Green Deal and of ECO but also by other externalities, like if gas prices continue to rise or if they fall. It is quite possible that if we get to a point where we can drive down the gas price—through shale, for example—that

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will have a major impact on fuel poverty, and it would be wrong to be able to claim that all for the Green Deal.

John Robertson: That is another argument.

Gregory Barker: So there are a number of factors that drive fuel poverty, not just insulation. That is why we have asked Professor John Hills to come up with a definition, which we have been consulting on. We will be publishing a new fuel poverty strategy later this year, which will bring all of these different strands together, and it will be the first time that Government has updated the fuel poverty strategy since I think 2001.

Q90 John Robertson: Having a strategy is great, but you have to have a target for the strategy. You have to know where you are going and what you expect to get.

Gregory Barker: Yes, absolutely, and better definition. The key to targets is having a clear definition of what we mean. What we want is fewer targets, so that you have a better chance of meeting them, and a much clearer definition, which allows you to meet those targets more effectively and channel resources more appropriately to the people who need them the most and where they can be most effectively deployed.

Chair: For the avoidance of doubt, we are as keen as you are to see the Green Deal succeed, and the work of this Committee will be directed to try to help you achieve that goal. Thank you very much for your time. There are some issues that I think we are getting clarified now in writing, and there may be one or two additional points as well. I am sorry we have to cut it short. We have someone waiting for us down the corridor. Thank you.

Tuesday 5 March 2013

Members present:

Mr Tim Yeo (Chair)

Ian Lavery
Dr Phillip Lee
Mr Peter Lilley
Christopher Pincher

John Robertson
Sir Robert Smith
Dr Alan Whitehead

Examination of Witnesses

Witnesses: **Dr Nick Eyre**, Environmental Change Institute, University of Oxford, and **Dr David Kennedy**, Chief Executive, Committee on Climate Change, gave evidence.

Q91 Chair: Good afternoon and welcome. You are both familiar to this Committee, so we will not waste any time on introductions. Thank you very much for coming in. We have about 40 minutes for this part of the evidence session.

Given that saving carbon is one of the principal objectives of the Green Deal and the ECO, do you think that DECC's projections for the carbon savings from the Green Deal and ECO are sufficiently ambitious?

Dr Kennedy: The short answer is no. We have been pretty clear about that. There are three things that the Green Deal and the Energy Company Obligation should be focused on if you are interested in reducing energy consumption. Those are loft insulation, cavity wall insulation and solid-wall insulation. There is a reasonable level of ambition in the Energy Company Obligation for solid-wall insulation, but if you look at DECC's own projections for what they expect to achieve under the policies as regards loft and cavity wall insulation, they expect to deliver very low levels on both of those. In terms of a number, we have estimated the carbon gap—the difference between what DECC is projecting they will achieve and what they should be aiming to achieve—will rise to about 3 million tonnes of CO₂ in 2020. That is a problem not just from a carbon budget perspective. Lofts and cavity walls are key elements of the affordability story. If you do not insulate lofts and cavity walls, then you do not offset the impact of rising electricity prices and you exacerbate affordability impacts of the low-carbon programme.

Dr Eyre: Just to add to that, we have been doing some research on how the goals for the Green Deal and ECO relate to the previous policy framework. Based on the Government's own projections in the impact assessment of the Green Deal and ECO, each year of activity in the Green Deal and ECO will deliver about 13 million tonnes of carbon dioxide emissions reduction. That is a lifetime measure. Our estimate of what the CERT plus CESP plus Warm Front regime delivered is somewhere in excess of 40 million tonnes of carbon dioxide lifetime, so this framework seems to us to be a three-fold reduction in ambition in carbon emissions reduction.

Dr Kennedy: To take it back from carbon, I have some numbers here. We think—DECC agrees and the Government agrees in its recently published statistics—there are 6 million to 7 million cavity walls left to insulate, of which they project 2.7 million will

be insulated under the Green Deal and the Energy Company Obligation. There are 7 million lofts that could benefit from topping up of insulation—if not virgin lofts—and they project that we will insulate about 1.6 million of them. Those are pretty low numbers for delivery relative to potential.

Q92 Chair: Given the failures that you have both referred to, and particularly the comparisons between what is being done now and what was aimed for under the previous energy efficiency policies, is the Government watering down its ambitions, or is there some new emphasis, the purpose of which we are not quite clear about?

Dr Eyre: If I were to be charitable, it is fair to say that at some point—although it is not quite yet, as David's figures indicate—the scope for the low-cost insulation measures, loft insulation and cavity wall insulation, begins to run out. The main reason that the carbon emissions reduction ambition has gone down is this shift in focus, which David mentioned in his first answer, from loft and cavity to solid-wall insulation. It is essentially proposed to spend about the same amount of money in ECO as in CERT and CESP—suppliers may want to argue it is a bit more, but it is the same order of magnitude—but the cost-effectiveness in carbon savings is much lower, and therefore the carbon savings fall. We need to get the market for these new and more expensive measures up and running quickly, and I think that is the proposed strength of what is being introduced. But I agree: I do not think we need to see the precipitous fall from 0.5 million to 1 million a year down to 100,000 to 200,000 a year that is projected in the impact assessment for the low-cost measures.

Dr Kennedy: The previous Government had an ambition to insulate all lofts and cavity walls, so relative to that, if you look at these projections, clearly you could say there is a lowering of ambition. The response the Government—it is not for me to speak for them—have given me is that they are not setting any ambition for this policy; they are not setting any targets. It is a market-based approach that they are introducing and they are very optimistic about what it will deliver, but they do not want to go any further than that.

Q93 Chair: Should we be trying to distinguish between what the Green Deal does and what ECO does, in terms of the savings?

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Dr Eyre: I think the Government is right to look at assessing the two together, because the ECO ambition is fixed; it is an obligation. There will be Green Deal activity outside of ECO. We can speculate about what that might be and that depends on how effective you think a pure market mechanism will be in this area. There are areas of interaction. It is hoped that, essentially, customers' own money through the Green Deal will help the energy suppliers deliver ECO more cost-effectively than they would do if they had to subsidise every measure completely. That is the way that CERT has worked in the past, so there is some hope that that will be the case, although obviously the different mix of measures means that it is difficult to be certain about how much Green Deal money will help deliver ECO. I think assessing the two together does make sense.

Dr Kennedy: I agree. Certainly for solid walls, which is what we think these two policies together have the best chance of delivering, solid-wall insulation straddles the policies. It has driven the solid-wall insulation market through the Energy Company Obligation but it needs the Green Deal for co-finance. If we do not have co-finance, if we do not have people accepting some of the cost of solid-wall insulation, then the Energy Company Obligation is going to be very expensive to deliver. In the view of the Government it is the Green Deal and not the Energy Company Obligation that will deliver loft and cavity wall insulation. It is the view of my organisation that we can't be confident that the Green Deal will deliver that, and that this should be put back into the Energy Company Obligation as an extra flexibility in that mechanism. But it does make sense, for us, to look at the Energy Company Obligation and the Green Deal together.

Dr Eyre: I think the Government is giving a mixed message. The headline portrayal of the Green Deal says it will be very effective, but the impact assessment does not reflect that. I suspect there is some difference of opinion between the policy teams and the analyst teams in DECC. You would have to ask them that.

Q94 Mr Lilley: That more or less leads on naturally to my question, which is: aren't the Green Deal and ECO essentially part of what might be called a political con trick or a political sleight of hand, as I would call it, in three ways?

The Government, first, want to be able to say, "The net effect of all our climate change policies is not to increase your household heating budgets", whereas they are doing that by eliding two things: all of the renewables that do raise it, and these measures that you could have perfectly well without any renewables that produce it. You are merging two things so that one conceals the other.

Secondly, as you have pointed out, originally they made very optimistic projections for the Green Deal and ECO when they were producing their documents to show that it would not have any net effect on households. They have now reduced their estimates of both of these.

Thirdly, they are confusing, or merging, winners and losers. As I understand it, some 65% of households

will still be net losers, even on their optimistic forecasts of the outcome of the Green Deal and ECO, and an even higher proportion if it is less successful than they originally attempted. They are merging some people who will gain with others who will lose. Is all that true?

Dr Eyre: David can speak for the whole climate change programme, but certainly these are measures that save both carbon and money. There is not much doubt about that. Even at the higher end of costs that are being talked about, which is a cost of delivering in ECO of £120 per tonne of CO₂, the savings for customers are still bigger than that, so there is not much doubt these are sensible things to do irrespective of climate policy. On the winners and losers point, I think we are moving. The new framework is exacerbating that problem. ECO essentially saves some customers money by a charge on all customers. When a large number of relatively cheap measures were being installed, there were a larger proportion of winners than losers, but as you move to a smaller number of expensive measures that clearly is the tendency. In a sense, we are used to that in the energy industry. Rural customers, who are very expensive to distribute electricity to, do not pay a charge that reflects that. They pay the same charge as everybody else. There has always been some cost-sharing in the sector.

Dr Kennedy: On the narrative, I think you are right. The Government says, "Well, electricity prices will go up. There is energy efficiency improvement potential, which our policies will unlock. That will cancel out and you won't be any worse off. Actually you will be better off than you otherwise would be if we didn't have any policies". My organisation has been very careful to split those two out and say, "Let's be clear. Investment in a portfolio of low-carbon power generation technologies is going to cost people money through their electricity bills both in the residential sector and the commercial and industrial sectors. Let's be clear about that. We shouldn't pretend that it is not going to happen". We have put a figure on that. For example, for the typical dual-fuel household, bills will be £100 higher in 2020 relative to now because of the set of low-carbon policies, the Renewables Obligation, Electricity Market Reform, whatever. Then they say there is an opportunity for energy efficiency improvement. In technical terms it is more than £100 for the typical household, but there is a high degree of uncertainty, given the policies we have, as to whether we will be able to address that potential. We have been very clear to split those out.

In terms of the reduced estimates of the Government and whether they are reflected in their energy prices and bills analysis, I imagine they will be. I think that is coming out in the next week or two, so let's keep an eye out for that. I think you are right about the distributional impact. If we take the Energy Company Obligation, the pot of money there is about £1.6 billion or £1.7 billion a year to spend. A big chunk of that will go to the fuel-poor households. There are several million fuel-poor households among the 25 million households in the country. A lot of the rest of it will go to solid-wall insulation, and the aim is to do 1 million solid-wall insulations out to 2020. So you

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are looking at probably less than 5 million households benefiting from that pot of money that is levied on 25 million households. There is a clear distributional impact there.

Q95 Mr Lilley: One final question; on solid-wall insulation, I seem to recall seeing, a few months ago, a report that the German Government—I think under a Freedom of Information request—had had to reveal studies they had done on the effectiveness of solid-wall insulation. These studies showed it was remarkably ineffective, which is why they had been reluctant to publicise it. Are you aware of these studies? If so, can you point me back to them, because I have not been able to find them ahead of this meeting? If not, I will have to keep on looking.

Dr Kennedy: Can we follow up on that with you? Certainly the estimates of the effectiveness of solid-wall insulation have been changed over the last few years here. There has been a lot of analysis, there has been evidence collected, and the Government has become a lot more pessimistic than it was about solid-wall insulation. I still regard it as something that is cost-effective to do. The costs per tonne of emissions reduced are less than the projected carbon price. It is still a sensible thing to do as part of your carbon strategy. I think it is fair to say that there is a high degree of uncertainty over how effective solid-wall insulation will be, although from what we can tell it is a sensible thing to do in the medium term as part of your broader carbon strategy.

Q96 Mr Lilley: But you have not seen these German studies?

Dr Eyre: I am not familiar with a study to that effect. I would be surprised if that were the case because, as in this country, emissions from the household sector in Germany have been falling fairly substantially over the last seven or eight years. They do not have many walls with cavities so my guess is that that has been done largely through solid-wall insulation.

Q97 Sir Robert Smith: We are looking at monitoring the Green Deal and the ECO, so what do you think is the best way of tracking the carbon savings of the two policies?

Dr Eyre: I think ultimately that can be done through combining the two existing large data sets, the home energy efficiency database that essentially tracks each measure that is installed in each house—that is why it is a large database—and the national energy efficiency data framework that is essentially a database of fuel bills. If you cross-correlate those and compare the houses in which measures have been taken to those where they have not, that should be able to give you a pretty good estimate of the energy savings that are delivered. The problem of doing that is it is a substantial exercise and it will take some time, so we will probably be past the end of the current ECO commitment anyway before there is reliable data out of that.

I think that we need to track measures activity from the word go, and I also think that it would be very helpful to have research at a more detailed level, more of a case-study level, on the actual performance of

some of the more complex measures that are undertaken. One thing we have learnt in energy efficiency research is that the outcomes are very rarely equivalent to the ex ante assumptions. Unless you work out why that is, it is difficult to know how to respond. I think there is monitoring of effectiveness in terms of total energy, total carbon; but also more qualitative monitoring of what is going on and what is making a difference.

Dr Kennedy: In terms of the key measures, again I think there are 30-plus measures that are eligible for the Green Deal. If you are interested in emissions reductions and reductions in energy consumption, you will be focusing on solid-wall insulation, loft insulation and cavity wall insulation; not just the number of houses that you are putting those into, but also the cost is crucial. That is something we need to monitor. If you look back, we do not have good information about the costs associated with the various forms, of the supplier obligations of CERT, for example. I think there is a real concern that the cost of the Energy Company Obligation going forward could escalate because you have to pay people a lot of money to agree to have solid-wall insulation. We need to understand what is happening in that respect and possibly put safeguards in as well to protect against it.

Q98 Sir Robert Smith: DECC are planning to use the estimated savings as the calculation to start with. Would there be more realistic data available from the start?

Dr Kennedy: They have looked at all of the evidence available across the range of measures, and I think they have a good take on the available evidence, but, as Nick says, there is more to do in terms of getting a handle on what the real reductions are in energy consumption associated with particular measures. Solid wall is one example, and there are others.

Q99 Sir Robert Smith: Is there feedback already from the rebound effect of people taking the saving in more comfort, rather than just taking the saving in reducing their energy bills?

Dr Eyre: Yes. I think we are pretty much on top of that now through the cross-correlation of databases that I talked about earlier. The assumptions that are being fed into the savings for Green Deal and ECO, for example for cavity wall insulation, are that it will save, I think, 2.8 MWh a year per house insulated, whereas in CERT the ex ante assumption was 3.5 MWh a year, and that has now been reduced on the basis of the evidence. I think that is an area in which the Government has made very significant progress over the last few years.

Q100 Dr Whitehead: Could I clarify the question of targets or not targets? David, you mentioned the fact that no targets at all have been set. Is that right: there are none for Green Deal and ECO achievements; for monitoring purposes; no targets whatsoever?

Dr Kennedy: That is true. If you want to achieve something it is sensible to say, “This is what we want to achieve”. That is your target, and then you judge your success against it. The Government has been

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very clear in saying they are not setting targets for these policies.

Q101 Dr Whitehead: It says in the Carbon Plan, “Government’s current policy package will depend on the final design of the Green Deal and Energy Company Obligation. In the light of public consultations it is likely to result in all practicable cavity walls and lofts having been insulated by 2020 together with up to 1.5 million solid walls also being insulated”. Do you think that is a target?

Dr Kennedy: Does it sound like a target to you? I don’t think so, no. There is a lot of leeway in that.

Q102 Dr Whitehead: Is it an outline target? I struggle as to how one monitors—

Dr Kennedy: The way that we will monitor, in our organisation, is to say that there are 6 million-odd lofts that we should be trying to insulate and a similar number of cavity walls, and to ask how we are doing against that. That will be the target; that will be how we will report back to Parliament, whether or not the Government has set its own target.

Dr Eyre: I would suggest there are three ways to look at the overall deliverable. One is the one I outlined earlier. We can look at what has been done in the past; we know how successful that has been. It will be interesting to see how what happens in future compares to that. The second is against the impact assessment. Whether that is a target or not—I don’t do theology, I am inclined to say. The third is a new one, but I think the Committee should be aware of it. There are targets under article 7 of the new Energy Efficiency Directive for energy efficiency improvement. My fear is that this downgrading of ambition means that we are not on track to deliver those targets, but that is a guess at this stage. I am not aware of the Government having produced any documentation on it.

Q103 Dr Whitehead: As far as the Green Deal is concerned, that of course is calculated in terms of its doability, in terms of the Golden Rule. The Golden Rule itself is based on what energy saving can be calculated using SAP, or RdSAP to be precise. Do you think that is a reliable measure of estimating whether something is inside or outside the Golden Rule?

Dr Eyre: It is not intended to be. It is a misuse of SAP or RdSAP to expect it to project what will happen in each individual house. At the overall housing stock level it may well be rather a good predictor of what changes the adoption of particular measures will make, but the variation between houses and between years in the same house is very large, and this is to do with people. It is people that run the buildings that ultimately use the energy. There is no way that a model of the building that does not take into account people—and that is what SAP and RdSAP are and have to be—will ever be a good predictor of the actual energy performance of individual buildings.

Q104 Dr Whitehead: Right, but that is being used, however, as the predicate for in principle looking at whether something is likely to be inside or outside

the Golden Rule. Are you saying that is inherently something that should not be done?

Dr Eyre: The Golden Rule does not seem a very sensible rule to me. It seems to be responsible for a lot of what I think is wrong with the Green Deal, but simply expecting it to do what it is not designed to do is not a good idea.

Q105 Dr Whitehead: Do you think, on that basis, there might be a danger of people thinking they are saving money as a result of being inside the Golden Rule, and it turns out that they are not inside the Golden Rule and therefore they do not save money?

Dr Eyre: I think it is a bit exaggerated. Not many people would think that if they get their house insulated and then turn up the thermostat so it is five degrees hotter, they will have a lower energy bill. I don’t think people are that stupid. But that is the case—there is no way that the Green Deal provider can guarantee that the energy bill will change in a particular way, because it depends on the way the building is used.

Q106 Dr Whitehead: Are there other ways in which meeting the Golden Rule could be brought about? What might be the best way of doing that if RdSAP is not?

Dr Eyre: If the Golden Rule is designed to make sure that only cost-effective energy efficiency is supported, and that seems to be the intention, then that should be what is measured, and the Golden Rule will, as I read it, be successful in ensuring that energy services are cheaper. That is what we can say by insulating a building: that energy services will be cheaper. We can’t say whether the occupants of the building will want more or fewer energy services.

Q107 Dr Whitehead: No, but the Golden Rule, as I understand it, is it is a golden rule by elimination. If something appears to be outside the Golden Rule—i.e., the amount of money that is being put in through the Green Deal is greater than what you will supposedly save over a period of time—then you do not proceed. If the belief is that you do save more than you put in, then you do proceed.

Dr Eyre: That is right, and that is what I think is the problem with the design of the whole package, in that it means that the cheap measures are meant to be done within the Green Deal and all the expensive measures get lumped into the Energy Company Obligation, with the issues that we discussed with respect to Mr Lilley’s question.

Dr Kennedy: I don’t think you would be too worried about people doing cavity wall insulation and not getting paid back. Clearly it is cost-effective, and the same for loft insulation. The point is: are they going to borrow Green Deal money in order to insulate lofts and cavity walls? You wouldn’t have thought so. The financial aspects of loft and cavity wall insulation are not the main barrier. There is a whole range of non-financial barriers, and the Green Deal, as far as we are concerned, is not well designed to address those.

Q108 Dr Whitehead: If it is within the Green Deal, then you should not be applying the Golden Rule?

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Dr Eyre: I think the Golden Rule will stop a lot of good projects being covered by Green Deal finance, because it is making the mistake that major refurbishments are done for energy efficiency reasons. They are not. Most major refurbishments are done because people want a better bathroom or a better kitchen or a loft conversion or an extension. Those cost thousands of pounds, and those sorts of projects are never going to be covered in their entirety by Green Deal finance because of the Golden Rule. If you look at the way that policy works in, say, the German loan scheme, they allow much larger lending but with provisions to require energy efficiency improvement through that. They are looking to support energy efficiency as part of a refurbishment, rather than to get energy efficiency refurbishments done. People do not really do energy efficiency refurbishment.

Q109 Dr Whitehead: But in terms of monitoring, what you appear to be suggesting is that this looks like almost a built-in creep towards ECO in terms of the reality of things that might be done conceivably under Green Deal. In order to stay something like within the Golden Rule, a very conservative interpretation of what the Green Deal can provide would be undertaken, and then everything else that might conceivably be outside creeps towards ECO.

Dr Eyre: That is what I expect. I would expect most assessments to say, "You can do loft insulation and cavity wall insulation within the Green Deal, so you can borrow a few hundred pounds". Like David, I don't think that's the problem.

Dr Kennedy: If you have to say where you are confident the action will be, it probably will be in the Energy Company Obligation and not in the Green Deal. The Green Deal will be there as a co-financing mechanism for solid-wall insulation in the Energy Company Obligation. The Golden Rule is screening out things, by the way. I do not think it is the Golden Rule that will stop you doing loft and cavity wall insulation under the Green Deal. There is a whole range of other factors. The screening-out in the Golden Rule that we have identified as being problematic is heat pumps, which are a major part of a low-carbon future, and I think there is only limited finance available for heat pumps, which are expensive in terms of upfront costs. So, you worry that people who might invest in heat pumps, if there was more finance available under the Green Deal, will not do that.

Q110 Sir Robert Smith: Are you saying on a straight payback position, even though they are capital-intensive, to save money, heat pumps do not pay for themselves over a—

Dr Kennedy: They do not pay for themselves, and that is why we have the Renewable Heat Incentive that has to cover the cost differential with the gas boilers.

Q111 Sir Robert Smith: Could the RHI be built into the Golden Rule?

Dr Kennedy: No.

Dr Eyre: No. FITs and Renewable Heat Incentives are outside the Golden Rule. The issue is again this marginal cost versus total cost. The marginal cost of a more expensive heating system may well be cost-effective. That does not mean the total cost is financeable under Green Deal finance within the scope of the Golden Rule.

Dr Kennedy: Heat pumps will obviously have to pay themselves back, because otherwise nobody would invest in them. The reason they can pay themselves back is because of the Renewable Heat Incentive, and that is not allowed for when you calculate the Golden Rule, so you are short of upfront finance.

Q112 Ian Lavery: We had a briefing this morning on smart-meters, which was interesting and intriguing to say the least. As you are aware, smart-meters are to be rolled out to homes and businesses by 2020. They are going to hold lots and lots of data, for everything. How do you envisage the data in these meters contributing to monitoring the effect of the DECC programmes such as the Green Deal and the ECO?

Dr Eyre: The current problem is there is a mismatch in time scales. If you are asking if it will make these sorts of programmes much easier to evaluate after 2019, the answer is yes, but the level of penetration of smart-meters at the beginning of the programmes we are talking about here will be inadequate to be a good monitoring tool. I have wondered whether it would be possible within ECO to require the suppliers to install a smart-meter when they install ECO measures. You might want to ask the suppliers what the feasibility and cost of that would be. I genuinely do not know. But I do not see that that could be made to work for the Green Deal, because Green Deal providers are not the people who are responsible for energy meters and billing. The Green Deal will have to be monitored and evaluated without assuming that everyone has a smart-meter.

Dr Kennedy: On a related point on the timing, once people have smart-meters, presumably that will encourage them to look at the scope for improving energy efficiency. It could boost demand for stuff that might happen under the Green Deal, but it is a bit late, again, if we wait until the end of the decade. Having not done some of the key measures we should be doing over the next years, we will have a problem from a carbon budget and an affordability perspective. So, the smart-meters are not going to boost the market, and we need other things to fulfil that role.

Q113 Ian Lavery: What plans does your committee have for monitoring the Green Deal and the ECO?

Dr Kennedy: We have a comprehensive framework of indicators that covers all of the sectors. For the building sector, the key indicators for us are loft insulation, cavity wall insulation, solid-wall insulation and boiler replacement. We will continue to track those against the targets that we have. These are not the Government's targets but our targets, and I have said that they are 6 million to 7 million cavity walls insulated by 2020, 7 million lofts insulated to 2020 and in excess of 1 million solid walls. We translate those 2020 targets into annual insulations and annual

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boiler replacements, we assess progress against that and we report each year to Parliament on that basis.

Q114 Ian Lavery: So you publish the detail annually?

Dr Kennedy: Yes. We have done for the last three years and will continue to.

Q115 Ian Lavery: What specifically will you be measuring?

Dr Kennedy: Those things; they are the key things we measure. How many lofts have been insulated, how many cavity walls have been insulated, how many solid walls have been insulated, and how many boilers have been replaced? We can translate that into emissions reductions as well, which we do—so, energy consumption reductions and emissions reductions using the best evidence available, albeit we have said that there is some uncertainty around that evidence. But we look at all those different levels, measures, energy consumption and carbon emissions related to that energy consumption.

Q116 Christopher Pincher: Dr Kennedy, you said that ECO is where the action is.

Dr Kennedy: Is likely to be.

Christopher Pincher: It is likely to be where the action is and the Government has fairly modest ambition for the Green Deal component. I think you said of the 7 million lofts in scope, the Government's ambition is to insulate or top up 1.6 million of them.

Dr Kennedy: That is their analysis. They are very careful to say it is not their ambition. It is what their analysis says that the policy will deliver. They then say they are very optimistic, hinting that they will be insulating more lofts than that, but their analysis does not support that optimism.

Q117 Christopher Pincher: They have an optimistic analysis that 1.6 million lofts will be insulated?

Dr Kennedy: For them, the analysis is pessimistic relative to their expectations of what the policy will deliver.

Q118 Christopher Pincher: Is your view that it is a rather modest ambition—and I will use that term—to expect that 1.6 million lofts will be insulated or topped up?

Dr Kennedy: Absolutely, yes. If we think, there are up to 7 million lofts where it makes sense to top up the insulation, and the projection is that 1.6 million of those will be insulated in practice—that is a shortfall of 5.6 million—then there is a lot of energy efficiency improvement potential that you are not addressing. We have said we should look again at the design of the policies and strengthen incentives so that we have much higher rates of projected uptake.

Q119 Christopher Pincher: Given the incentives and given the Government's analysis, do you think the 1.6 million projection, and the other solid-wall and cavity wall insulation analysis optimistic projections that you have identified are likely to be met or are they likely to—

Dr Kennedy: We think those very low levels are credible analysis, yes. We think the incentives in the policy are not very strong for insulation of lofts and cavity walls in particular, and that is what the analysis reflects. That is why we have recommended that the Government should look again. It should look at complementary measures to strengthen incentives. Those could be fiscal measures, so stamp duty differentiation depending on energy efficiency performance of a house, local council tax differentiation, possible regulation that goes beyond the private rented sector or possible regulations related to building regulations. There is a whole set of things that can be done. Financial incentives in the form of cashback that can be given to people are something the Government has pursued. But those other things are still there to be seriously considered and, in our view, should be seriously considered to address all of this potential that is missing at the moment; and that I have called the carbon gap, but you could also call it the affordability gap.

Q120 Christopher Pincher: Given that the analysis is modest and given it is possible that even that modest analysis will not be met, do you think there is a very strong possibility, therefore, that the costs of ECO are going to spiral for the consumer to whom those costs will eventually be passed on, but who is not going to benefit from the Green Deal because the take-up is going to be very, very modest?

Dr Kennedy: I think that is a separate point. There is a risk that the solid-wall insulation cost will be higher than DECC has envisaged and assumed in its analysis. The question is: how much do you have to pay people in order to have solid-wall insulation? They have assumed that you will pay them a certain amount and then people will be happy to borrow money as well to get the solid-wall insulation. If you have to pay them significantly more, that will start to show up in much higher ECO costs—there are analyses that put some numbers on this—that will have impacts via energy bills and affordability impact. I think there is a risk there.

In order to address that risk, I do not think you can say, “We don't know how much people will need to be paid at the moment to have solid-wall insulation”, but in order to address that I think there are two things you can do. You can make the mechanism more flexible by opening it up to loft and cavity wall insulation, which are lower-cost measures. The second thing you can do is you can say, “There is a maximum amount that can be paid for solid-wall insulation under this policy”. So you would put some kind of cap, some kind of buyout mechanism, into the Energy Company Obligation as a safeguard to make sure that the costs do not escalate. That would be sensible to do.

Q121 Christopher Pincher: Do you think it is possible to quantify the risk of costs spiralling and what the costs of ECO might be?

Dr Kennedy: I have said there are analyses that do that. For example, there was a NERA analysis that was published in the last few months that gives estimates of the costs. I can't tell you what they are

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off the top of my head, but I can certainly send you the reference for that.

Q122 Christopher Pincher: When you looked at it, did you agree with it?

Dr Kennedy: I agreed that there is a risk. Again, you can't say at the moment. It is uncertain. We know how much solid-wall insulation costs to an extent, but there is uncertainty there. How much does it cost to put solid-wall insulation in a particular house? What kind of houses are we going to be able to put solid-wall insulation in? Who will accept it? Then the next level of uncertainty is: how much do you have to pay them in order to agree to have it, given the inconvenience that solid-wall insulation entails? You have all of those sources of uncertainty, so all you can say is we don't know how much the costs of solid-wall insulation are going to be, but they may well be higher than the Government has assumed. That would be a problem from an affordability perspective. It would be a problem from a value-for-money perspective, because if you are paying people thousands of pounds to have solid-wall insulation, you can't justify it as part of your carbon policy. First of all we need to track what the costs are, but, as I say, we need flexibilities and safeguards to feel confident that this is a coherent and sensible package.

Dr Eyre: The basic thrust of the NERA analysis was that the Government is relying on what is called stated preference techniques, i.e. asking people what they will be prepared to pay, rather than looking at what is observed in the market. That is probably all you can do in such an undeveloped market as solid-wall insulation. But all our experience is that that will tend to overestimate people's keenness to spend their own money on a particular measure.

Having said that, from memory the NERA estimate was that ECO would cost £1.7 billion rather than £1.3 billion a year, so I am not sure whether that is spiralling or not. I suppose it depends on your definition of spiralling. The real way to control costs in ECO would be to allow some loft and cavity wall insulation in the carbon-saving obligation bit of ECO. The fundamental problem that David has pointed out is that we are moving from a regime where suppliers have been offering very large subsidies for these measures—I am sure they will tell you in a few minutes how difficult it has been to do even with large subsidies—to a regime where people are asked to do this at an unsubsidised interest rate. It is difficult to believe that will not produce a big dip in the attractiveness of those measures.

Dr Kennedy: The other thing we have talked about is the distributional aspects. If you open up the Energy Company Obligation to loft and cavity wall insulation—we think there is potential for many millions in both of these—then the Energy Company Obligation will benefit a much larger number of households than if there is a very narrow focus on solid-wall insulation.

Q123 Christopher Pincher: I think you have made that plug about three times, so it has been heard. Can I ask you very quickly, because I know time is pressing, about the affordable warmth element of ECO

and its ability to tackle fuel poverty? DECC is suggesting that the net reduction of those suffering fuel poverty will be between 125,000 and 250,000 households by 2023. Given that the number of people in fuel poverty went up to something like 2.8 million between 2004 and 2010 and, although it dipped a little, it is likely to go up some more, do you think that that is a very modest number and do you think that it is unlikely, therefore, that the affordable warmth element is going to effectively tackle fuel poverty?

Dr Eyre: I do not have any reasons to doubt the analysis. Whether you think that is Government doing everything that is reasonably practical to eliminate fuel poverty by 2016 depends on how you interpret that phrase, I suppose.

Dr Kennedy: There are two aspects of this. One is that the Energy Company Obligation now, following the Hills Review, is designed in a way that says, "We are going to take this much money from the fuel poor in order to fund the Energy Company Obligation. There will be that much money that goes back again". So, in that sense, it does not take money away from the fuel poor, but it does redistribute within the fuel poor, certainly if you are looking at near time frames. If you are taking money off all of the fuel poor and you are improving the energy performance of a few of the fuel poor each year, then there is a distributional impact there that works itself through as long as you have this policy being implemented for many years. It does not work itself through in the next year, two, three years; it takes five, 10, 15 years for all other fuel-poor households to benefit.

Q124 Sir Robert Smith: You have mentioned quite often the need to top up people's loft insulation. I can think of two things. One is people are going to think, "I have had my loft done, therefore I have ticked the box", and suddenly we are coming along and saying, "Oh well, we did not do enough last time. Can we do some more?" How recently would people who have had their loft done still need it to be topped up, and how easy is it to ascertain that people need that top-up and to get them to initiate the contact to get that top-up?

Dr Eyre: Anybody who has had their loft done before the last two or so obligation periods, say the last 10 years, might benefit from top-up, but they are probably not the people we are really looking at. I would doubt the assumption behind the last part of your question, that it is an information problem. People often know that their loft needs topping up, but the thought of going up the loft ladder and taking everything out is just too much to contemplate. It is the serious practicalities of energy efficiency rather than the cost-effectiveness that is the problem. We need imaginative schemes that look at how lofts can be insulated when people move, when people clear lofts out. We need to work with the grain of the market there.

Q125 Dr Whitehead: As far as ECO is concerned and the question of the extent to which costs, as Christopher has mentioned, might run away and therefore the total number of treatments might thereby

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reduce, if one assumes that there is a budget for ECO—

Dr Eyre: That is not the way it works. It is an obligation. It is a fixed-obligation variable cost.

Dr Whitehead: Yes, but it is an obligation against an assumed budget of £1.3 billion per year.

Dr Eyre: No.

Dr Kennedy: There is an assumed budget, but if you have a carbon target that you have given to the companies for the Energy Company Obligation, they will deliver their target and they will escalate the costs, and that is the risk.

Dr Whitehead: Precisely, yes.

Dr Kennedy: You might want some flexibility in the target rather than all the flexibility being in the costs.

Q126 Dr Whitehead: What is the meaning of the budget under those circumstances, bearing in mind that ECO is not capped as opposed to, say, FITs or RO?

Dr Eyre: It is a best guess. Well, it is a guess. Different people might take a view on whether it is the best guess or not.

Dr Kennedy: There is a political view that the pot for the Energy Company Obligation should be no more than is the case for CERT, but there is no confidence around that we will be able to do the measures that are built into the target for the Energy Company Obligation within that pot of money.

Q127 Dr Whitehead: Assuming that those companies that can meet their obligation may be at a slightly runaway cost, the defensibility—if we can put it that way—of a £1.3 billion budget, which is what was announced originally as far as what ECO overall in all its different elements would come to, looks to be rather ephemeral. Is that right?

Dr Eyre: The whole idea of a budget for ECO, as for all the other obligations, is a bit misleading. You can ask your next witnesses to what extent they pass costs through. My guess is that they do not set tariffs with any reference at all to particular elements of costs such as obligations. The notion of there being a budget is not very helpful. It is an obligation. It will cost them what it costs them. They will pass through what they can.

Dr Kennedy: I do not think it is like the Levy Control Framework where there is a clear amount, a pot of money, and if you have exhausted it, you can't sign any more contracts. The way this is designed is if you have not delivered your target, you will carry on trying to deliver it, and if that escalates the cost, that

is what will happen. You have to be careful of that, though, because if you escalate them too much, you are pushing up against both affordability and value-for-money concepts.

Q128 Dr Whitehead: Except that ECO is, in the impact assessments, defined as putative tax and spend and therefore is identical in nature to various other things that are putative tax and spend that have been put within the Levy Control Framework.

Dr Kennedy: I am not arguing it should be in the Levy Control Framework, but I am arguing that you have to recognise the risk of cost escalation and have a story to tell about how you are managing that risk.

Q129 Dr Whitehead: I was just making the possible link: would a method of controlling that be to place it in the Levy Control Framework? Not that I would advocate that, but that appears to be a monitoring route, bearing in mind that the budget appears to have no actual meaning in terms of the route of the obligation.

Dr Kennedy: I do not think you want it crowding out investment in the portfolio of low-carbon technologies for power generation, which is what could happen. There are different ways of doing it, but I think it is sensible to have some kind of safeguard so that you do not escalate the cost and cause an affordability problem.

Dr Eyre: It would require a very different level of cost reporting from that which has gone on in earlier Energy Company Obligations in this area. There would be difficulties in defining what the eligible costs are. Are the costs marketing incentives? What exactly are the costs that are being measured?

Q130 Dr Whitehead: Since in reality we do not know what the obligation is going to produce in terms of costs to the consumer as a result of the processes we have just discussed, that in itself could be an issue, as opposed to the alleged budget.

Dr Kennedy: It is very important to understand what the costs are of this programme and to monitor them closely, and to make sure that it continues to be sensible to aim for the ambition that is set for the Energy Company Obligation. When I have said there is no ambition, there is no ambition for the Green Deal. There is a carbon ambition for the Energy Company Obligation.

Chair: Thank you very much indeed. We have to pass on to the next witnesses.

Examination of Witnesses

Witnesses: **Eric Salomon**, Energy Field Services Director, EDF Energy, **Simon Stacey**, Managing Director of Energy Services, RWE npower, and **Neil Clitheroe**, Chief Executive Officer, ScottishPower Retail and Generation, gave evidence.

Q131 Chair: Good afternoon. Thank you very much for coming in. We are running slightly behind time, so I will not go through formal introductions. We do know who you are, and I guess you probably know who we are. Some of you have suggested that the

costs of ECO could spiral if there is lower than expected take-up of the Green Deal. Why do you think that would happen?

Neil Clitheroe: The ECO obligations are made up of three different components, and the one that links to

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the Green Deal is the carbon reduction obligation. The target set for that is 20.9 million tonnes of carbon, and the estimated cost to deliver that from DECC is £1.37 billion. But what DECC have included in the impact assessment is that the companies will provide £780 million of that and customers will provide £500 million of funding for that through Green Deal, through customer contributions—whatever mechanism. The key question is whether customers will provide that amount of money. If they do not provide that amount of money—they only provide £100 million—then the companies have to make up the difference because we have a legal obligation to hit the carbon target. We do not have a cost obligation; we have a legal obligation to hit the carbon target, and that is how the two are intertwined.

Simon Stacey: I agree with that. It is instructive to look at NERA's impact assessment as well; all that Neil said, I think, is in that. In addition, there are a number of costs that we, as an industry, are incurring in being set up for Green Deal that are not in the impact assessment, which we believe will feed through in the systems to be set up and identifying the customers that will want Green Deal. Most customers today do not instinctively know what Green Deal is. There was a survey done just before Christmas, and 98% of the people did not know what it was. Therefore, it is going to be very hard to persuade people to part with their hard-earned cash, at a time when economic pressures are high, to invest in what is a fairly difficult technology. Solid-wall, which is predominantly what the carbon emission reduction targets are around, is quite intrusive. It is quite a difficult technology to fit into customers' homes. So I think for all of those reasons, npower, certainly, are very concerned about the impact of ECO on our customers' bills.

Eric Salomon: Clearly ECO and Green Deal from an EDF Energy point of view are the absolute right thing to do, no doubt about it. The nice thing with Green Deal is that we will engage with customers. Unlike CERT and CESP where customers are a bit passive, Green Deal will offer them the opportunity to engage. I think that is a challenge. That is our challenge as an industry, to maximise the customer engagement. About the £1.3 billion per annum, I think we should take that as an aspiration. I do not think it is a budget, because at the end of the day we have to meet our obligations and most of the costs will be on the customer bill, so again it is our duty to minimise this impact on the customer bill. It is right to say that we are concerned as well that these costs might be more expensive than £1.3 billion, because we have already started. The best thing to do is certainly not to look who was right or who was wrong but to monitor what we are currently doing. We have reporting in place, we reported the cost back at the end of February for the very first time, and I think it is now our job to monitor the level of take-up, the type of measure and the potential costs of ECO.

Q132 Chair: Do you share the concerns that DECC may have overestimated the willingness of large homes to participate? Do you think this is going to have an effect on delivering the ECO programme?

Eric Salomon: I think we will deliver the ECO programme, no doubt about it. The only question is: at what cost? Is that value for money? We saw that for CERT and CESP it was challenging, but we did it. Again, if we want to gain the trust back of our customers, we need to minimise the impact. So the real question is how we will deliver that, rather than if. It is all about the measure mix. The previous panel talked about including more loft and cavity insulation. We also believe it would be a reasonable thing to do. Even if, obviously, the market begins to be saturated, we have to work on the measure mix.

Neil Clitheroe: There are mechanisms, even within say a solid-wall estimate, for being able to keep that cost lower. For example, doing solid-wall on a tower block, doing solid-wall on a housing association, a wide number of properties at once, can bring the cost down. Doing individual solid-wall in individual houses obviously costs more, and then you get into the aesthetics of some of the larger houses, some of the Victorian houses, and the impossibility at times of putting solid wall on that because you just change the whole appearance of the house, so you would have to use other measures for that such as internal solid walls. There are different levels of properties that you can address to try to deliver the obligation at lowest cost. Obviously you will catch up with yourself. The more you do, the more you have to eat into those different parts of the housing stock.

Q133 Chair: Do you think that DECC may have underestimated the cost of ECO?

Neil Clitheroe: Our belief is yes. On affordable warmth, we think that the costs are quite accurate in line with DECC's estimate, and on the community obligation we think that is quite accurate as well. The key bit is the carbon obligation and whether this 43% of the moneys will be contributed by customers. In CERT, ignoring last year when there was a huge free insulation effort, the numbers historically were about 20% customer contribution. Under CESP I think the numbers were about 10% customer contribution. So if you are at those types of levels, which are the historic levels over the last five years, then you are relying on the underlying cost of the measures coming down to compensate for that. That is why the estimates we have looked at are in the range of £1.7 billion to £1.8 billion, rather than the £1.3 billion. Some of the numbers that are higher than that I think are questionable. We think that around that £1.7 billion to £1.8 billion, for the £1.3 billion, is a sensible estimate today, which we will then need to monitor closely over the next year or two years.

Simon Stacey: From an npower perspective, our range is very akin to the NERA range you heard from the earlier witnesses. I think they said about £1.7 billion. The actual range is £1.7 billion to £2.35 billion, and the npower number would be within that range, for the reasons that you have heard from Neil. So I do think they have underestimated the costs, and I do think they have underestimated the need to create more awareness in the UK around Green Deal and to make it attractive for consumers. We do not believe there is enough built into the costs for the awareness

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of the Green Deal, and to allow us successfully to generate leads in a cost-effective way.

Q134 Ian Lavery: NERA suggested that ECO could end up adding about £94 or even more to consumers' bills. Do you think this is an accurate estimate of the likely cost of ECO to the consumers?

Eric Salomon: This could happen; this is in the range of what I call the possible. It will not be a good outcome, but it is not completely unrealistic. At the heart of this assumption it is, of course, a customer contribution. If the customer contribution is huge, obviously the cost of ECO will go down and will probably be below £60. If the customer contribution is not really high, it goes up, probably approaching £100. The other big uncertainty as far as EDF Energy is concerned is the type of measure and the type of properties. When you look at the DECC assessment, there are a lot of what we call best-case scenarios, and of course we may find some of these properties in the proportion of the assessment; maybe not—that is clearly one of our doubts.

Q135 Ian Lavery: Is that the general opinion, £94 to £100?

Neil Clitheroe: I think there is a key point to recognise, and it is an obvious point, that there are two sides to the bill. There is the tariff side driven by the input costs, of which ECO is one, alongside wholesale costs, distribution costs and so on, but the other side is obviously consumption and the number of units that consumers are using. What we have seen over the last three years in the CERT and CESP is a fall in consumption of users across the UK from the 2009–2010 levels for gas, 16,000 KWh, down to 13,500 to 14,000 KWh today. So, that produces a saving across all those households in the UK that offsets the money has been invested in energy efficiency. That said, there is an obvious longer-term return from energy efficiency. You spend the money now—and a solid wall might cost you £8,000 to install—and you save £150 in energy for the next 25 years. So there is an investment to get that return in the end into the consumption levels. But if you keep repeating that investment year in, year out, and ScottishPower has been very supportive of these schemes for the last nine years, then consumption will drop. The input costs will go up slightly, but the consumption is dropping to offset some of that.

Q136 Ian Lavery: There are a number of organisations, like Focus and Which?, that have recommended that the ECO costs should be passed on according to units of energy used and not on a flat rate per customer basis. How will you be passing on the costs of ECO to your customers?

Simon Stacey: There are pros and cons of both methods, either the unit rate or a flat rate. Clearly with a unit rate, if you have a warmer or colder winter, then you can end up over or under-recovering your costs, so in a colder winter you potentially over-recover your costs. With a flat rate you do recover your costs, but then potentially those who are the lowest consumers would be disadvantaged by that. So, there are pros and cons of both. Clearly we are

looking at that all of the time to find out what is the most appropriate rate for npower.

Eric Salomon: Clearly our main challenge is to reduce this impact and also to be transparent about it. I believe we could improve the bill by, for example, telling the customers about that, because I am pretty sure that if we were to ask all our customers, they may not know that they might potentially pay £53 for ECO—if we can achieve that number of course. So, the transparency element regarding Green Deal and ECO is absolutely key, and also later on in the process, if the customers have a Green Deal measure installed, do they really know about the bill impact? There might be a misunderstanding by believing that the bill will go down. The tariff might change and the bill might not go down. The message will be, “Yes, but it would be better than if you hadn't any Green Deal”, and just communicating that message is a challenge.

I think collectively we really have to make an effort around this trust element, otherwise we will be the one the customers will call and say, “Well, I cannot trust you, you told me this, and my bill hasn't gone down”. So, we need to make a real effort in telling people what will happen. We discussed earlier the rebound effect; that is clearly at the heart of our concern. The other concern we have is the split between the gas and electricity bill. The Green Deal charge will be on the electricity bill, and customers will call and say, “I don't see any decrease”. “Well, you need to look at your gas consumption.” That in itself creates a massive trust issue that will be linked to the customer bill. The customers will not have any trust if they do not really understand what happened, regardless of the additional charge on the bill. For us, trust is absolutely key, regardless of the amount we charge.

Q137 Ian Lavery: You mentioned transparency, which is extremely important, and the need for the consumer to understand what they have paid. Will your bills or your annual statements show every consumer, exactly how much they have contributed towards your ECO costs and how it has been calculated? That obviously might be different to—

Eric Salomon: Yes, that might be different even if with the RMR there will be some sort of improvement and regulation for everybody. So, of course, regarding the Green Deal we will detail that, but I am talking about a wider communication that could include the cost of ECO, for example, and not only the Green Deal cost, so that we have full transparency and collectively we really know the cost of the programme.

Q138 Ian Lavery: Will your annual statements show how much consumers individually have contributed towards your ECO and how it was calculated? That was the original question.

Eric Salomon: Yes.

Ian Lavery: It will?

Eric Salomon: We will if we can, because, again, this is a highly regulated area and there is a very clear ruling about what we can put in the annual statement

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or not, but as far as we are concerned, yes, we will push for the maximum transparency.

Simon Stacey: I think from an npower perspective, clearly we want to be transparent; we want to make sure our consumers understand their energy. You mentioned Smart in the earlier session. That will certainly help consumers engage and understand their energy. Equally, we do a lot of work with our customers to find out what they like and what they don't like. One thing that they are not that bothered about—the feedback we get—is the components of the bill, so that is something we need to take into account. I think the other thing that is difficult is that the current accounting requirements for ECO are very complicated and they need to be done on a cash basis, which potentially means your ECO costs could go up one year, then down, then back up. That I think is going to create a lot of confusion for customers because they simply will not understand what is going on. Therefore, as part of a process to make sure that the customers understand what is going on, we need to work out what the right data are to provide them with.

Q139 Ian Lavery: Are you saying that this transparency will be too confusing, so you would prefer not to tell them?

Simon Stacey: Potentially it could be too confusing so it is about finding the right way to communicate the costs to them. I think the important thing, and the thing that we are focused on, is making sure that we minimise costs for our customers. The one thing they tell us all the time is they are focused on cost and they are focused on the control of their bill. Therefore, our overriding objective is to minimise the cost, hence it is important that we have clarity around ECO and what the cost of that might be. That is our overriding objective: how we best communicate that to them. We talk to our customers and find out what works for them and what they want to understand.

Neil Clitheroe: We put it on our bill as a breakdown that shows the wholesale energy cost, delivery cost—the cost of things like ROCs and feed-in tariffs are grouped together at the moment—and operating costs in terms of billing, metering and so on. That is all within every bill. On that bill you could break it down even further into individual-line items for ECO, for feed-in tariffs. That detail exists on our website but not on our bill at the moment.

Q140 Sir Robert Smith: You mentioned that the Green Deal is on the electricity bill, even if the saving is on the gas bill—if you are lucky enough to be on the gas main. How would the ECO costs appear between electricity and gas bills?

Eric Salomon: For the time being they are not completely reflected, so they are just part of our cost base, and they are, as far as we are concerned, split between the two.

Simon Stacey: I think that would be the same for the industry. We are obliged to pass costs through on a cost-reflective basis, and therefore it would be the same for us.

Q141 Mr Lilley: With CERT, what proportion of your costs arose from finding people who would be

willing to participate in the programme, and what such costs do you anticipate with ECO and the Green Deal? I have been told by a normally reliable colleague that up to 75% of the cost on CERT was the cost of persuading people to participate?

Simon Stacey: I think if you look in the round across the CERT programme, which lasted many years, in the early years it was relatively straightforward to identify these customers. I think we, as an industry, all experienced a lot of difficulties in 2012 with identifying super-priority customers in particular, and the lead generation cost there would have been substantial: three or four times the impact assessment, for npower. So it is significant.

Q142 Mr Lilley: Three or four times the impact assessment. What proportion is that?

Simon Stacey: Well, probably not far off your 75%.

Q143 Mr Lilley: What do you anticipate for ECO?

Simon Stacey: I think that is harder to say. It is early days. I think the tight restrictions that we have in some categories, for example things like affordable warmth, mean that the lead generation costs are going to be significant. Therefore, anything we can do to widen the scope of both measures, and of those households that are available for ECO, would help to reduce those lead generation costs.

Q144 Mr Lilley: Is it going to be a third, a half, three quarters?

Simon Stacey: It is hard to—

Neil Clitheroe: It is hard to say. Search costs are between £150 and £250 for affordable warmth, and it depends on the measures that you are installing. If you install a solid-wall, then that is £8,000 against that. If you install loft and cavity insulation, it might only be £400 against that. I think there is another point to make. The party obligation is the community obligation. There are very clear, defined geographies in the whole country, representing 15% of the country. So, while the search costs for affordable warmth might be high, I think DECC have done quite a good job on the community obligation of defining these 15% of areas, saying, “These are the areas; we want you to focus on the measures and go away and do them”. We know where those 15% are, and we can just—

Q145 Mr Lilley: But you still have to get permission for them, don't you?

Neil Clitheroe: Yes, we still have to get permission from the customer, but you aren't having to find them in terms of the benefits upfront. So there is a benefit in that obligation that DECC have brought out through the consultation that we went through for ECO.

Eric Salomon: I think we need to be careful with last year, because we reached some extremes with SPG, and you are right in saying that 75% might well have been the truth. At that time we spent £300 to acquire one customer to do a loft or a cavity, so the cost of searching the customers was higher than the measure itself, basically. But we need to be careful, because it was an extreme situation at the end of the programme. If you are doing the average, it is certainly around

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10% rather than 75%. So, just to put things in perspective—and not necessarily tied to the December SPG numbers—that will be the truth. We are expecting to face exactly the same challenge for ECO, especially around affordable warmth.

Q146 Christopher Pincher: There has been a fair bit of debate about whether take-up targets for the Green Deal should be employed. The Minister, Greg Barker, said in evidence to this Committee that by the early 2020s we will need to have done about 14 million homes, which is a roundabout way of issuing a take-up target. Affinity Sutton says that targets could lead to unscrupulous selling to meet those targets, so they are against setting them. Others say you need a target in order to identify what the likely benefits of the scheme are going to be and what the costs of ECO might be. What are your views on take-up targets?

Eric Salomon: Clearly, we want to maximise the number of Green Deals, so for us it is absolutely key. The Green Deal has the potential to be good for everybody, basically. The customers first; emissions; the bill; and also for us because, let's face it—I do not know what my two colleagues would say—the higher the Green Deal take-up will be, the lower the ECO costs will be. We have a very precise and challenging target for ECO, and regarding the Green Deal that is basically our opportunity to minimise the impact on the customer bill; so, for us, the more measures, the better.

Simon Stacey: I would agree with all of that. I think the Green Deal represents a great opportunity for the industry to start to improve its image and to engage better with customers and explain to them some options around improving the fabric of their home. So, I think that is a great opportunity. But, equally, I recognise there is a challenge around providing our customers with clear information, and I take your point around the nature of the sale. The Golden Rule in that debate is quite confusing and I could easily see customers being confused into believing that they are going to see significantly lower bills, when in reality their energy savings are just effectively funding the capital investment. Therefore, I think we need to make sure we have a very strong regime around becoming accredited, to make sure that the industry does not get tarred with a brush that other industries perhaps have had around mis-selling.

Neil Clitheroe: I agree, the more the better. It is very hard to predict actual consumer demand when it has only just started in the last few months. The ECO target is about 600,000 households a year to deliver the solid-wall, the hard-to-treat cavities and other installations across the UK, so there is a pretty clear number on that one. It moves a little bit with the RdSAP scores, but it is around that number. But in terms of Green Deal it is quite difficult to forecast the take-up. It will grow in time, and the more companies like ScottishPower push behind it and my colleagues push it, the more it will grow in time. It is happening in other jurisdictions. We have a company in New York that I worked at for a while, and one of the key things they were trying to implement was an on-bill financing mechanism for energy efficiency, using exactly the same basis of trying to get energy

efficiency into the energy bill, and paid through that, and to get the carbon benefit from it. So, it is a very strong principle, but it is going to take a while for that curve to grow and for customers to understand it and adopt it.

Q147 Christopher Pincher: Given that you all seem to accept that it is difficult to forecast what the take-up rate will be if left simply to the market, do you think that the Government should set some take-up targets and therefore drive the take-up?

Eric Salomon: We do not believe that, because we already have an obligation, and clearly the Green Deal is an opportunity rather than a target. If you are setting a target, then you have to have a penalty mechanism associated with that if people are not meeting the target, and if we were to do that, we are then at risk to spend more.

Q148 Christopher Pincher: So, what you are saying is that although you support take-up monitoring and you want to see that information provided, you do not want to see take-up targets set, which you then—

Simon Stacey: Not especially. I think there is some value, in particular, in identifying the Green Deal plans that are set and then do not get taken up. I think there is some value in that—in trying to understand why customers are not engaging. I would encourage the Committee to consider that. I think there is certainly value in that, but beyond that I would not necessarily want to see more targets. We have plenty of targets. The things that the Government can do to help concern awareness, having a mature debate about energy and explaining to customers that fundamentally, energy costs are likely to be increasing and therefore it is for us to be wise around consumption. I think those are the sort of things that would be helpful in driving the right sort of behaviours and creating the right climate for us to position Green Deals with our customers.

Q149 Christopher Pincher: Putting artificial targets aside for one moment, and accepting it is important to monitor take-up as opposed to setting targets, what is the best mechanism to collect the data on take-up?

Neil Clitheroe: I think the mechanisms are being put in place now. There is a Green Deal central co-ordinating body database that all Green Deal plans are going into, and then they link into our systems—npower's systems, EDF's systems—in terms of the transfer of the moneys on to the bills. There is quite a strong mechanism being put in place to track all of this by DECC, and the data should be available from those systems to provide the overall take-up of Green Deal and the numbers going through it.

Q150 Christopher Pincher: What about drop-out rates from initial inquiry, through to assessment, through to actual financing and installation?

Simon Stacey: That goes back to my point. The customer will originally get an EPC done when they first talk to us. That EPC will then get registered. It will be very interesting to look at the number of EPCs that are registered versus the number of Green Deal plans that ultimately get financed, to try to then

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understand, especially in the early days, why a customer is not in a position to take up the Green Deal plan. I believe that will help to identify some of the potential flaws with the scheme.

Q151 Christopher Pincher: Mr Stacey, you have said that you expect a considerable drop-out rate, or at least RWE npower has said it. What is “considerable” and what do you mean by it?

Simon Stacey: I think we have a concern that once customers understand the nature of the measures and what is involved, we could easily see a debate in the home such as, “Do we really want to clear the loft? Do we really want to have to move out for two weeks? Let’s not bother because ultimately we are only going to save £100 a year”. One of our concerns is, do they understand what a Green Deal is, and is the range of measures wide enough and attractive enough for most people in their homes? At the moment it is restricted to measures that, as I said in some earlier evidence, are reasonably intrusive, and therefore when people understand the actual practicalities of that they may switch off. I think that is our concern.

Q152 Christopher Pincher: Do you think that the key drop-out pinch-point is going to be after the point of assessment and before financing? Is that where it will be?

Simon Stacey: Yes. I think as they understand what the actual measure is and what needs to happen next, they will then ask, “Do we really want to go through this?” That is a concern, and hence we would like to see a wider range of measures being available. Perhaps if you could wrap a set of measures around some solid-wall as well, then, as a package, it becomes more attractive.

Q153 Christopher Pincher: What about the involuntary drop-out component where people apply for an assessment and are told that they are just not in the ball-park for the Green Deal? Do you think that is going to be significant?

Neil Clitheroe: It is really down to the measure, I think, and whether that measure meets the Golden Rule. The evidence from the earlier panel was pretty clear on that. If it is loft and cavities, then the return is pretty quick, and you can see the Golden Rule working fine on that. The more you get into some of the more expensive measures, then you have to finance some of it with the Green Deal and some of it through a direct customer contribution. At that point, customers may decide that, given the financing they need to put in, it is not worth doing and therefore they will drop out on that. That is going to happen for a number of different households with different measures.

Q154 Christopher Pincher: Do you think it is important, therefore, that that involuntary element be monitored, so you can see whether the Green Deal is effectively excluding a large number of people for whom it might be appropriate if it was wider, but they are being excluded because it is a very narrow focus of—

Neil Clitheroe: Simon talked about comparing the number of EPCs that have a Green Deal assessment with the number of Green Deals that go into the central database. I suppose it does capture everything, both voluntary and involuntary, but it does give you everything in terms of the fallout rate, and that will be a key measure in 18 months’ time, when we look at the stats of what has occurred.

Q155 Dr Whitehead: As far as you are concerned, how are you going to internalise that sort of data in terms of how you think the Green Deal is going, or are you reactively hoping that DECC will come up with the goods as far as the detail of monitoring is concerned? Will you be, for example, as Chris has mentioned, making a series of direct correlations between who moves from assessment to actual Green Deal and who thinks they are within the Golden Rule but turns out to be outside it? Who drops out at that point; at what point the ECO might come in to deal with that, and therefore the person looks like they have dropped out from Green Deal but has gone in a different direction, or maybe has gone in a different direction of assistance—how is that sort of detail of what is happening going to be dealt with as far as your companies are concerned? Will you be sharing that information, assuming you do get it?

Neil Clitheroe: For ScottishPower we have a central database control system for all ECO jobs, all Green Deal jobs. Where ScottishPower is a Green Deal provider, we will be assessing what the drop-out rates are for the ones that we do, what the conversion rates are, how efficient our Green Deal assessors are being, how effective they are being, and so on. We will share that data with this Committee, with DECC and with Ofgem, gladly. Obviously, one of the key aims of the Green Deal is not just to have the energy companies delivering energy efficiency but to widen it out to 30, 40 or 50 different providers across the UK. To get a true sense of Green Deal, you need to look at the whole of that market, which is what the measure we were talking about earlier does, rather than just individually what the energy companies do, to get a fuller picture of what is going on in this market.

Q156 Dr Whitehead: Presumably there is a distinction between you monitoring what you are doing as far as Green Deal is concerned in order to assess whether you are good participants, and then monitoring whether the elements of the Green Deal, as we discussed earlier, appear to be workable and therefore might influence policy in terms of changes in those elements. An example might be, which of the approved elements of the Green Deal turn out never to take part in a Green Deal programme?

Simon Stacey: I think it is important to state that from an energy efficiency obligation point of view, our priority is to make sure that we deliver our mandatory obligation, which is ECO. Green Deal is a very good method of, first, doing that and, secondly, engaging with our customers. So, I think that is the position that we would start from.

To the extent that we are seeing Green Deals within npower “fail”—let’s call it that—that would be either because the customer can’t find the finance, or perhaps

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we have decided we can't put enough ECO into it because we are able to discharge our ECO obligations through other means. Ultimately, from our overall customer base, our 6.5 million customers, we want to make sure we are doing that as cost-effectively as possible to keep their bills down, coming back to the earlier conversation. That is the equation that we would run through within our organisation to make sure we are getting that right for our customers.

Eric Salomon: As far as EDF Energy is concerned, we do not believe that the traditional reporting is an issue in itself. Of course, it would be very nice if everybody was to share that reporting, but for us it is very much business as usual. You have a conversion rate between initial lead assessment, and assessment versus number of measures installed. Our main concern is the very last step of the process, which is the conception reduction and the saving, because for this one the timing is not monitored at all. That is a key issue as far as we are concerned: an issue that could be played against us in terms of trust, because

we will be the one at the end of the system, the one who is sending the bill. We are very keen that it never happens that customers call us and say, "I don't understand; you misled me", and there is no reporting in place, for the reasons you have been discussing with the previous panel—the rebound effect, the number of people inside a house. All of this is incredibly complex and is not currently addressed. That is an area where we can collectively improve, in our view.

Q157 Dr Whitehead: Will you be, for example, monitoring the number of people who are ringing you up saying, "You are the worst company in the whole world because you misled me"?

Eric Salomon: We intend to conduct audits, to literally equip some houses with sensors, to get a sense of the reality.

Chair: Thank you all very much. That was a very helpful session for us.

Examination of Witnesses

Witnesses: **Peter Broad**, Policy Manager, Consumer Focus, and **Simon Osborn**, Principal Policy Adviser, Which?, gave evidence.

Q158 Chair: Good afternoon. Thank you very much for coming in. We are slightly behind time, so I will telescope the introductions. Could I start by asking you what you think the most important indicators of customer satisfaction with the Green Deal will be?

Simon Osborn: I think for us it is partly monitoring take-up, but we agree with the energy companies that it is as important, if not more important, to monitor where consumers have had assessments and then not gone on to take Green Deal finance. It is also important to look at the overall level of take-up, why it is that people have not had assessments at all, because maybe they do not find the Green Deal appealing enough. I think the key areas where we think there should be focus are on the overall consumer satisfaction with the process and with the documentation, whether they find it easy to understand and whether they were happy with the sales and marketing experience. Other areas that we see as important are perhaps checking through mystery shopping whether there has been pressure selling or inappropriate cross-selling and how that ties in with the consumer satisfaction. Another area is trying to get a sense of key Green Deal concepts, for example the transfer to new occupants, so looking at whether in practice Green Deals are being transferred to new occupants or whether the current occupant perhaps is being asked to repay the Green Deal charge early. If that is not working, then that is a core issue of the rationale for the Green Deal.

Peter Broad: Just to pick up on some of the points that Simon made there, one is the accessibility to the Green Deal for people who want to take out a Green Deal but can't, and that includes low-income consumers. At Consumer Focus we think that there might be a gap between those consumers that are eligible for affordable warmth ECO and those that will

pass the credit checks and so on and find the Green Deal, as a finance mechanism, attractive for them. Consumer satisfaction is also about monitoring consumer protection throughout the process, so including mis-selling, shopping around. Also, that the disclosure is done appropriately for consumers who come into the process when they inherit a Green Deal plan, and that the consumer who takes up the initial Green Deal plan and the consumer taking on the Green Deal plan is aware of the risks at that stage in the process.

Q159 Chair: You mentioned mystery shopping. Who should do this?

Simon Osborn: We think that the main responsibility should be on the Green Deal oversight and registration body. We do a lot of mystery shopping ourselves, and indeed we do plan to do some of our own mystery shopping of Green Deal assessors. For us it is critical, and critical for the Green Deal, because it is really the only way to properly assess sales and marketing practices, to pick up on what the salesman says in the home, to pick up on the sales patter, not just what is put down on paper, so it picks up any wild or exaggerated claims made around savings. In our mystery-shopping investigations in the past we have found that companies have tended to exaggerate savings. We think that the oversight registration body should be the one that does that, both of assessors and providers. A specific point of concern for us is that under the current framework the certification bodies are supposedly to mystery-shop assessors but in practice they are only required to do witnessed assessments. That is where the certification body official accompanies the assessor, which could be into the home. Clearly in that situation we think that that is a poor substitute for proper mystery shopping

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because the assessor is likely to be on their best behaviour. So, we think it is the oversight and registration body that should do it. It is an independent body with statutory responsibilities, unlike certification bodies which, in a sense, are competing for business and for members' fees.

Peter Broad: I think we would agree with Which? on that point. We have seen in the earlier sessions how concepts like the Golden Rule are very complex and need to be explained to consumers. It is important to mystery-shop to see how that is explained to a consumer in the home and also to assess consumer understanding of those concepts to ensure they are being understood. Mystery shopping is important because assessors will often be tied to Green Deal providers, so, while the Green Deal assessment itself should be impartial, they will not be fully independent. It is important to monitor through mystery shopping for that reason.

Q160 Chair: Should we be making special efforts to monitor the effect of the Green Deal and the ECO on vulnerable groups?

Peter Broad: Yes, I think that is very important. As I mentioned earlier, there will be a gap between those that are eligible for affordable warmth ECO, which is a quite tightly defined group, and those that may be eligible for Green Deal. So there is the accessibility issue; there are issues around debt and disconnection for people with the Green Deal plan. It is the first time where a charge, other than energy supply, has had the same status, in that a consumer can be disconnected for non-payment of a Green Deal charge. So we need to monitor cases where people are getting into debt or being disconnected, related to a Green Deal charge, although, as I said, accessibility for low-income consumers may limit cases where that happens. Mis-selling is obviously a particular risk for vulnerable consumers. The Green Deal incentives, which provide an upfront incentive for consumers, could distort decision making. We also want to monitor to make sure consumers who are eligible for affordable warmth ECO are not signed up for Green Deal plans, for instance.

Q161 Chair: How can we best monitor what happens when Green Deal charges are being transferred, where the occupier is going to ask for them to be cleared before they move in? You touched on it earlier. What is the best way of doing that?

Simon Osborn: We think that DECC needs to provide clarity on how it is going to do this, but all assessments on Green Deals will be lodged on a register. We would suggest that there be a form of consumer survey of Green Deal customers who have taken them up, and I think it should be possible, through that register, to work out where Green Deal customers have moved or changed address during that period.

Peter Broad: Also, in the past Consumer Focus has done monitoring of consumer reactions to the EPCs, where the consumers had been shown an EPC and had it explained to them—that is, the Energy Performance Certificate—and that will be the way in which the Green Deal charge is communicated to the consumer.

We think there could be mystery shopping done to show that that has been done in a clear way, and that the benefits of the Green Deal are explained to the consumer at that stage, so it is not just this charge that is there on the property. Also, transfer needs to be clearly explained to the consumer taking out the Green Deal plan. It needs to be made clear how easy it will be to sell the property with a Green Deal charge.

Q162 Dr Whitehead: Mr Osborn, Which? mentioned in your written evidence to us that you were intending to start looking at Green Deal finance and the relative costs of other forms of finance that could be applied to the same thing. How would you carry out that monitoring research and have you started it already?

Simon Osborn: As yet there are no actual Green Deal plans on the market, but when there are Which? and Which? Money magazine colleagues will be trying to do this. It is complex in that, unlike with a traditional unsecured personal loan where there are fewer terms to take into account. For the Green Deal the interest rate is a key factor, but it is not the only one. For example, the amount of ECO subsidy and the amount of Green Deal cash back are also complicating factors. But I think what we would do is to point out to people the pros and cons of each of the financing options. For example, consumers who have a mortgage and have quite a low loan-to-value ratio might be able to finance energy efficiency improvements in the region of 2%. Nationwide has issued a new additional borrowing top-up mortgage for energy efficiency improvements just recently. For consumers who might want, for example, to finance through credit card, you can do that at 0% up to certain balances and provided you have active balance management. But each method has its pros and cons—for example, through adding to the mortgage, if house prices fall, then that is more of a risk. I think for each of those there are pros and cons.

It does get quite difficult with the ECO subsidy brought in, so for us that is a key element, and the ECO costs in particular. We will be endeavouring to do a comparison, but it is very much going to depend on the consumer and their individual financial circumstances.

Q163 Dr Whitehead: You will be publishing that as a tracker or as a—

Simon Osborn: We already have an online guide, but we will be expanding that with the advice on the different options. The difficulty is that for the individual consumer it is going to depend on what measures they want, what their financial circumstances are, so we may only be able to give advice at the generic level on the pros and cons.

Q164 Dr Whitehead: Set against that is the question—and this is really a question for both of you—of the extent to which looking at a Green Deal investment against the Golden Rule may or may not produce something that does benefit you subsequently. An assessor may come along and say, “Yes, you are definitely within the Golden Rule, and this is the path you should go down and invest in this”, and that turns

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out not to be the case. How worried are you that that is going to be a widespread factor, particularly in terms of the sort of monitoring you are suggesting?

Simon Osborn: It is a worry, and one key reason that it is a worry is because we think that a lot of assessors will be commercially tied or linked to Green Deal providers. Therefore, although they need to conduct the assessment impartially, there is nothing to stop them from doing that and then—and it might be pretty much straight away—one and the same person putting their sales hat on and doing the hard sell around their Green Deal provider's plan and quote. We think that that is a risk, given that there have been examples of mis-selling in this sector before.

To give a couple of examples, SSE was successfully taken to court by Surrey Trading Standards in 2011 for doorstep mis-selling and fined £1.25 million, and after that each of the big energy suppliers has now suspended doorstep sales. The OFT has recently found some issues in the energy efficiency sector and has opened an investigation, and we have done three mystery-shopping investigations in this sector in the last couple of years. We did one for solar thermal in 2010, and each of these, I should say, was only one house, so it is only a small snapshot. But in that case 10 out of the 14 companies investigated made misleading claims about the savings that could be made, and double glazing giant Everest claimed that savings would be about six times larger than our expert estimated. We looked at solar photovoltaics in 2011. There again, eight out of 12 companies underestimated the time that the system would take to pay for itself, and two companies offered discounts in a way that breached the industry's consumer code. The final one is, we looked at cavity wall insulation in 2011, and there all eight companies said that our property was suitable for cavity wall insulation, when our expert said that it wasn't.

We are not saying that you can extrapolate those nationally, and clearly it is good that there is a Green Deal consumer protection framework there, but I think our point would be that it is not enough to have standards on paper. They need to be enforced. They need to be backed up by effective skills and training. We hope that this consumer protection framework will work, but we have seen examples in the past where it has not, and we are particularly worried, given the tied assessor link that I mentioned.

Peter Broad: We would agree with the consumer protection point, coming into markets that do have low levels of existing trust. Regarding the Golden Rule specifically, we think it is a misnomer that it is described as a rule. We think there needs to be clear guidance to consumers about the Golden Rule, and again it is important to monitor how in practice that is put across to consumers and how consumers understand that. It is a question of communication. I think there have been mixed messages about how guaranteed the Golden Rule is, including from Government. We need to be very clear that it is a guideline based on standard occupancy, which is what you require when the loan will transfer from occupier to occupier. We need to make sure there is enforcement throughout the process with the assessment and the installation to ensure that the

savings are made. As has been mentioned in the earlier sessions, you are guaranteeing or providing for savings in the cost of energy services, not reductions in your bills. But we do think that the Golden Rule should be monitored on an aggregate level and then fed back into the assessment process so that it can be relied on by consumers.

Simon Osborn: Just to add one point if I may. With the Golden Rule, the amount that can be lent also is based on the typical standardised household usage, rather than the personalised usage. So, although consumers will be given a personalised occupancy assessment, our worry is that either that won't be explained properly to them or they won't fully understand it. The amount that can be lent is based on the typical standardised household. We have already heard from Nick Eyre and others how much individual variation there could be, so I think there is a particular risk for low users that they might not fully appreciate that. Although in practice they are asked to give a written acknowledgement, that could be one of many things that is buried in the terms and conditions, perhaps.

Q165 Dr Whitehead: Which? have mentioned the idea of a panel of financial experts to look at value for money in Green Deal. How would that work?

Simon Osborn: What we think is important is that there is some effort to do an assessment of whether the Green Deal is working. That could be through a combination of energy assessors and some financial advisers. We think energy assessors are needed because they can try to make an estimate of whether the savings actually have been made, allowing for adjusting the baseline, for example excluding occupants whose circumstances have changed. We do think that it would be important, given the importance of the policy and that this is a flagship energy policy, to ensure that there is at least some attempt made, using financial advisers, to assess whether consumers are being given the best package for them, not just one that meets the Golden Rule. Are they being advised on the optimum package, the one that is the best value for them?

Q166 Dr Whitehead: Is it really crucial that we get on top of this, because how this market starts will dictate how it is going to grow?

Simon Osborn: We think it is crucial because consumers are going to be wary already of this complex and novel product. There are so many complexities—and I think DECC has tried to put a consumer protection framework in place, but clearly there are things that can go wrong—and to have some form of monitoring to see whether the Golden Rule is being met should reassure everyone. It should be in everyone's interests, because at least then there is some reassurance that you are getting the savings you were promised, whereas without that consumers are being asked to take it on trust, and trust in this sector and of energy suppliers is fairly low. We find consistently it is among the lowest of all sectors. I think at the moment in our most recent survey—and it changes by month—gas and electricity suppliers were

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ranked at the bottom, joint with car dealers. So I think we have to take it in that sort of context.

Peter Broad: Just to come in on that, there has been a conflation throughout the process of Green Deal finance with the market for energy efficiency, which in general has been the Government's flagship scheme, but I think that makes the success of the Green Deal key. If there are problems with confidence in the Green Deal, it will undermine confidence in the market for energy efficiency more widely, when the Green Deal is just one way to pay for energy efficiency measures.

Q167 Ian Lavery: The first two questions are actually on monitoring. If the Green Deal take-up is lower, it has been suggested by both your organisations that costs could actually spiral. How do you think that the costs of the effect of the Green Deal take-up could be monitored?

Peter Broad: I think there are more provisions in the Energy Company Obligation than there have been in previous obligations, like CERT and CESP, for Ofgem to require the suppliers to provide information on the costs of fulfilling those obligations. Under CERT and CESP there was a lack of transparency. Under ECO there will hopefully be more transparency. We want to see that information, which will be provided by Ofgem to DECC, being shared more widely so the policy can be scrutinised. We want there to be a review of the costs of ECO after a year to ensure that they don't spiral. We also want measures to be put in place to keep those costs down—data-matching to limit the costs of finding customers, for example—and also measures more generally to encourage take-up of energy efficiency, such as incentives that could help deliver the carbon saving obligation.

Simon Osborn: For us the costs of ECO are a very big worry, and I think the issue was well explained in the first session by David Kennedy. We would agree with the Committee on Climate Change that ECO should give some support for loft and cavity wall insulation to ensure it is more effective. I think that under CERT there was no way of telling how much consumers were paying for CERT through their bills, and we strongly urged DECC to ensure that that does not happen again. It is not yet clear what monitoring there will be of ECO costs.

We have been urging DECC for some time to ensure that the energy companies are required to report—it does not have to be publicly but it could be to Ofgem—on the amount that is passed through to consumers' bills. It has been agreed—DECC have said that the delivery costs of the suppliers will be monitored, but for us that is only half the story. We want to see what costs are passed through to bills, whether it is £1.3 billion or £2.9 billion of ECO, as some estimates have suggested. We are clear that it has to be the costs passed through to bills that have to be monitored. It is a big concern.

Peter Broad: And not just the aggregate costs but the costs per consumer bills, whether they are passed through on a per household basis or an energy consumption basis, which was discussed by the energy

suppliers earlier. ECO is already a regressive policy, being funded through bills rather than taxation, and if it is funded on a household basis, rather than a consumption basis, then that will make it more regressive still.

Q168 Ian Lavery: You were both sitting there when the previous panels were on. We have discussed the flat rate per customer, or the units of energy used, and I see that both Which? and Consumer Focus have recommended that the ECO costs should be passed on according to units of energy used and not as a flat rate per customer, so that low users don't end up paying more than their fair share. How easy will it be to tell how suppliers are coping with these costs?

Peter Broad: At the moment there are no provisions for DECC or Ofgem to require those players to provide that information, and we think those provisions should be put in place. At the moment it is up to suppliers to provide transparency on that, which we believe they should. The policy was changed at the consultation stage so that the overall obligation that a supplier got was based on the units they supply rather than on a per household basis. We think it is in the spirit of the policy that that be passed through to consumers on a bill basis, rather than a household basis.

Simon Osborn: DECC has not said for the moment what. I was reassured to hear one of the energy suppliers say earlier that they will report that transparency if they can.

Ian Lavery: If they can.

Simon Osborn: Under CERT we have no idea how much consumers were paying for the policy. The last assessment was years ago. We just have no idea.

Q169 Chair: We are running out of time. I am sorry to wind up, but just say what you think the three most important indicators of Green Deal progress are.

Peter Broad: For us, I think Green Deal is not as important as take-up of energy efficiency in general, and it worries us that the Government does not have a target for how many cavities, lofts and so on it wants to achieve. A clear target in terms of EPCs for the energy efficiency market is what we would like to see. Apart from that, just monitoring of consumer protection, ECO costs and fuel poverty would be important things for us.

Simon Osborn: I think for us number one would be consumer satisfaction, and that could be measured through a combination of mystery shopping, spot checks on installations, a consumer survey and an expert panel. The second would be whether the core Green Deal concepts are working properly, being transferred to the occupants, and whether the Golden Rule is giving you the savings you were promised. The third would be the costs of ECO being passed through to consumers' energy bills.

Chair: Sorry we have to abbreviate it a bit, but thank you very much for being patient. It is much appreciated.

Written evidence

Written evidence submitted by the Department for Energy and Climate Change

GOVERNMENT MEMORANDUM TO THE ENERGY AND CLIMATE CHANGE COMMITTEE'S INQUIRY INTO GREEN DEAL WATCHING BRIEF

I welcome the opportunity to provide input to the Select Committee's call for evidence of 6 December. The Green Deal, including the new Energy Company Obligation (ECO), is the Government's flagship programme for energy efficiency and, like the Committee, I fully recognise the importance of tracking progress on delivery. The Green Deal and ECO will help bill payers make improvements to keep their homes warm and more energy efficient. It will benefit the UK by:

- potentially saving 4.5 million tonnes of CO₂ per year by 2020 through the Green Deal and ECO: saving carbon is the principal objective of the programme;
- boosting the low carbon economy—in particular, now that Loft and Cavity opportunities are declining, Green Deal will be supporting new jobs in the developing Solid Wall insulation sector;
- empowering consumers—providing new ways of funding and more options for making a wider range of energy efficient home improvements;
- empowering businesses—enabling them to compete for energy efficiency opportunities in new and innovative ways;
- leveraging in new private investment to improve energy efficiency in UK properties;
- benefitting an extra 100,000 households in low income areas each year—making a total of around 230,000 households; and
- ensuring that robust consumer standards are met—creating a market that balances consumer protection and burdens on businesses.

I very much hope that DECC will be able to engage further with the Committee as your inquiry develops. We already have plans in place to gather an extensive set of data from delivery partners as the Green Deal is rolled out. These include:

- the managers of the Energy Performance Certificate database who will provide important information on assessments undertaken and Green Deal plans agreed;
- OfGem as the administrator of the Energy Company Obligation;
- The Energy Saving Advice Service who are providing impartial advice to consumers and businesses and who can provide valuable feedback on the volume and nature of calls received;
- The administrator of our Green Deal Cashback Scheme that will provide £125m of incentives for early take up;
- The Oversight and Registration Body who will provide important information on registered Green Deal participants and their areas of activity; and
- The Green Deal Ombudsman who will deal with claims for redress where it is sought.

In collecting and analysing information against indicators, it is important to recognise some of the time lags involved. In some cases, this is because data only becomes available over longer timescales—such as the National Energy Efficiency Database, which reports on changes in actual energy use. In other cases, such as when building evaluation evidence, this can only be considered to be representative and robust when collected over a longer period of time.

1. *What is the best way of assessing the level of uptake of the Green Deal?*

We will track on a regular basis trends of:

- (i) Numbers of assessments carried out.
- (ii) Number of Green Deal plans taken out and overall value.
- (iii) Numbers and types of energy efficiency measures installed.
- (iv) Take up of the cash back incentive scheme that will launch in January 2013.

We will also want to understand how potential for take up is progressing by tracking the extent to which consumer interest is rising. We can do this through various means. For instance, analysis of calls to our national Energy Saving Advice Service and experience from our Core Cities and Pioneer Cities early demonstration schemes. We are also funding a specific evaluation study that will track awareness of Green Deal and appetite for installing energy efficient measures amongst consumers over a period of time.

2. *What is the best way of assessing the level of energy savings being delivered?*

3. *What is the best way of assessing the carbon savings being delivered?*

In the Green Deal and ECO, energy savings translate into carbon savings: indicators on one will directly relate to the other. At present, our estimates of the amount by which energy use will be reduced—translating into how much carbon can be saved—are based on a combination of current scientific estimates of the thermal properties of energy efficiency measures that could be installed under the programme, alongside our projections of the quantities and types of these measures that will be installed.

Once data becomes available, we will calculate overall savings based on expected performance of the different measures we know to be installed and over time add to our understanding of actual savings data both through more research on the performance of the measures and more actual energy use data (eg from the National Energy Efficiency Database and Smart Meters).

4. *What is the best way of assessing whether the Green Deal is delivering value for money to consumers?*

The Green Deal has been designed to achieve value for money for consumers over and above that which has been obtained under historical approaches to delivering energy efficiency improvements. This is through putting in place a market based approach: effective competition and well informed consumers working together so that those companies that win business are those that offer the best value and deals to consumers (ie those that most closely deliver to consumers what they want). This means that how well the market is functioning will be an important indicator of the value consumers are getting.

Specific indicators that could help us to understand whether the market is functioning well include:

- analysis of the supply conditions in the market—including concentration, analysis of entry and barriers to entry to the market for actual and potential Green Deal participants—gathered through evaluation research;
- the extent to which consumers are able to make informed and effective decisions—including how well the consumer protection regime is functioning and whether it is helping or hindering value for money for consumers;
- other indicators that competition is promoting innovation or putting downward pressure on costs such as analysis of trends in the cost of manufacturing and installing solid wall insulation;
- comparisons of different methods of financing, for example comparing the costs of a Green Deal to home improvement loans;
- analysis that the measure installed achieves the energy savings used in the repayment calculation—taken from the scientific research being carried out; and
- that the measures installed are of good quality—with information on any issues like mould and degradation over time gathered through complaints and uptake of warranties.

However, since this is a new market it will take time to develop, and such indicators can only be properly evaluated once it is more established.

In addition to this, we will analyse the extent to which the new Energy Company Obligation, specifically targeted and operating alongside the Green Deal, offers value for money as compared to a continuation of historical policies such as the Carbon Emissions Reduction Target. We will have a much improved understanding of the costs of delivering ECO from energy suppliers via OfGem. We will also have valuable information on ECO through the brokerage arrangements.

5. *What is the best way of assessing whether the Green Deal is being effectively delivered?*

The Green Deal will be delivered directly by new companies operating in a new market but with high standards of consumer protection, which will be monitored and enforced by the appropriate regulatory bodies including the Green Deal Oversight and Registration Body (ORB) and OfGem. The Green Deal Code of Practice sets out publicly the standards to which all Green Deal participants must adhere. The ORB will publish an annual report on the extent to which all participants have followed the Code and other relevant professional standards. Similarly, we will monitor information on complaints and consumer satisfaction, through surveys and data available from the ORB. Organisations responsible for dealing with complaints in the Green Deal—such as the Ombudsman Services—will also publish annual reports.

By its very nature, the policy design is encouraging effective delivery through competition, value for money and innovation. The indicators set out above for tracking whether the policy is delivering value for money for consumers will largely allow us to understand the extent to which delivery has been effective.

6. *What is the best way of assessing customer satisfaction with the Green Deal?*

Feedback from the Energy Saving Advice Service will be valuable as will regular analysis of complaints dealt with by the Ombudsman. Our evaluation research will also enable us to track satisfaction at different parts of the consumer journey.

7. *What is the best way of assessing whether everyone who wants to is able to access the Green Deal?*

The Green Deal is a market that we expect to grow over time as more companies with new offers join. This will increase the options open to consumers which is key as the programme is heavily based around consumer choice. Assessments, for instance, may encourage consumers to take out Green Deal plans for some or all of the feasible measures or they may choose to finance them through alternative means; either way an increase in energy efficiency has been achieved.

We will though support consumers so that, whenever possible, they are able to take advantage of this innovative funding mechanism. The Oversight and Registration Body and the Energy Saving Advice Service will make sure consumers, as well as other Green Deal participants, have clear information on the areas covered by individual Providers, Assessors and Installers as well as on the particular services they can provide. In addition to this, through an analysis of both operational data and through survey evidence, we will pay particular attention to the extent to which particular consumer groups are able to access the programme:

- those consumers living in remote or rural locations. As the numbers of assessors and installers registered with the ORB increases, we are tracking their geographical coverage—in particular to ensure that, where we know early demand will exist (such as in Core Cities areas) this can be met; and
- those who are least well placed to afford energy efficiency measures but potentially most in need. We will undertake analysis of operational data relevant to fuel poor consumers, including carbon saving communities, on a more detailed and frequent basis level than under past obligations.

January 2013

Supplementary written evidence submitted by the Department of Energy and Climate Change

RESPONSE TO THE ECCC QUESTIONS

The Committee raised a number of questions in and after the Green Deal watching brief hearing on the 6 February. Detailed below is DECC's response to these questions.

1. *DECC's current targets for the Green Deal/ECO, (eg, no. of jobs to be created, level of energy savings, etc)*

DECC has set carbon emissions reductions and bill savings targets in legislation, which together comprise the Energy Company Obligation (ECO). These targets are set out in the ECO order. They are set to deliver lifetime carbon emissions reductions of 6.9 MtCO₂ from the Carbon Savings Communities obligation, and 20.9 MtCO₂ from the Carbon Savings obligation; and lifetime notional space and water heating bill Savings of £4.2 billion from the Affordable Warmth target. These savings result from energy efficiency measure installations. DECC has not yet set targets beyond March 2015.

DECC has not set targets of the number of measures which should be installed, nor the number of jobs which should be created by the Green Deal and ECO. Energy Suppliers are free to meet their obligations through any mix of eligible measures (as defined in the ECO order) they choose. This is to allow energy companies to deliver as flexibly and cost effectively as possible.

In the Green Deal and ECO final Impact Assessment we present our central estimate of the most cost effective path of delivering the ECO targets on the basis of the available evidence, however these projections are not to be taken as targets. On the basis of our central delivery projection, the Green Deal and ECO are expected to support between 39,000 and 60,000 jobs in the insulation sector alone by 2015 (up from 26,000 in 2011).

2. *DECC's current estimates of the carbon savings likely to be achieved under the Green Deal/ECO, and the extent to which these estimates have been reduced from previous estimates. (Please see excerpt of transcript below—Qs 55–58—showing the exchange between DECC officials and Mr Gardiner on this issue during the evidence session of 6 February.)*

By 2020 the Green Deal and ECO are predicted to reduce emissions from British businesses and homes by 4.5MtCO₂ per year (source 2012 DECC emissions projections, see table below). The analysis underpinning the Green Deal and ECO final Impact Assessment feeds into the Updated Emissions Projections (UEP) publication 2012, which reports DECC's estimated policy impact on emissions.

This estimate updates the 2011 emissions projections' estimate of 5.6MtCO₂ (see table below), which was based on a strictly illustrative scenario. Analysis underpinning the Green Deal Primary Impact Assessment (Dec 2010) fed into the 2011 UEP publication. The change reflects the process of consultation and final policy design, and the improvements to the modelling and evidence base. For example since the 2011 projections consultation on the policy framework has resulted in the earmarking of funds to tackle fuel poverty through the Affordable Warmth program, a key part of the Government's response to fuel poverty, which is expected to lead to an increase in carbon emissions in non-traded emissions mainly from people switching from electric

to gas heating in their homes. Additionally, updates to the evidence base on SWI savings mean we now estimate smaller carbon savings per SWI installed than were used in the 2011 publication.

	2012 UEP	2011 UEP
Domestic Traded	2.0	2.1
Non-Dom traded	0.9	0.6
Domestic, non-traded	0.7	2.2
Non-Dom, non-traded	0.9	0.6
Total	4.5	5.6

BREAKDOWN OF ESTIMATED CARBON SAVINGS FROM GREEN DEAL AND ECO: 2012 UEP AND 2011 UEP PUBLICATIONS

Whilst our estimate of domestic non-traded carbon savings had reduced from 2.2MtCO₂ to 0.7MtCO₂ in the most recent update, non-domestic non-traded and both sectors' traded savings estimates are similar or have increased since our 2011 estimate.

3. *Details of whether DECC will monitor separately the carbon savings achieved under the Green Deal and those achieved under ECO, and if so how. (Please see excerpt of transcript below—Q85—showing the exchange between DECC officials and Sir Robert Smith on this point during the evidence session.)*

DECC will monitor in detail the carbon savings associated with the Green Deal and ECO. It will use information from a variety of sources to identify these savings. They will come in two stages:

- Estimated energy & carbon savings made through measures installed will be available through information collected on Energy Performance Certificates and through the ECO system.
- Actual energy & carbon savings made through measures installed will be available by matching information collected on Energy Performance Certificates and through the ECO system to energy consumption data. This data will be analysed in a similar way to the current CERT scheme.

In the short term, DECC will be able to collate and analyse the estimated energy and carbon savings. In the longer term, with actual energy consumption data from households, DECC will be able to look at actual energy and carbon savings.

4. *DECC's projections for the savings and costs expected to result from its environmental policies. (Please see excerpt of transcript below—Qs 50–54—showing the exchange between the Minister and Mr Lilley on during the evidence session.)*

The costs and savings a household might achieve through installing a measure under the Green Deal are very dependent on the household's particular circumstances and the property's construction. The Green Deal Assessment allows these factors to be taken into account. The latest summary information can be found in the pack DECC has provided to the Green Deal Supply chain:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69753/InformationSupplyChainFINAL.pdf

Whilst DECC cannot guarantee savings, the Green Deal Framework has been designed to help increase confidence for consumers and promote the installation of fit for purpose products. RDSAP is used by the Green Deal assessors to calculate the energy savings from different measures at an individual property level. In-use factors are invoked at the end of the calculation to adjust for the difference between measured and modelled savings from measures.

An occupancy assessment is undertaken by a Green Deal assessor at each property to check whether the energy use by the current occupants meets the predicted energy use from the Green Deal assessment. This information is then shared with the bill payer so they understand how the estimated savings from measures have been calculated. It is then the choice of the bill payer if they wish to continue to get the measures installed.

5. *Details of all the indicators that DECC will use to monitor the progress of the Green Deal and of how this monitoring will be done.*

DECC is monitoring implementation of the Green Deal and ECO, focusing initially on the development of the supply chain as that has been where the first hard numbers are. We have also started to put in place our plans for longer term evaluation and have already undertaken one survey of the domestic consumer experience.

More specifically, we will be looking for indicators of:

- capacity that responds to demand, through levels of installers, assessors and providers;
- flexibility to respond to consumer demand, including geographical coverage;
- real choice for consumers of packages and providers; and
- consumer trust in assessments and products, and confidence in the overall experience.

We've established clear data-sharing agreements with organisations at the heart of the system to ensure that we can gather information as it operates. Many of these are our contractors:

- Landmark- providing information on Energy Performance Certificates to monitor the number of assessments and measures installed under a Green Deal in England and Wales.
- Central Charge Database—recording the number of Green Deals and finance packages taken out.
- Oversight and Registration Body—recording organisations accredited to deliver the Green Deal.
- Incentives administrator—recording the amount of money provided through the cash back scheme.
- ECO administrator (Ofgem)—recording the measures installed under ECO and the costs associated with delivery of the obligation.
- Energy Savings Advice Service (ESAS)—recording the number of calls answered relating to Energy efficiency including Green Deal, and the number of affordable Warmth ECO referrals to energy companies.

DECC will release from March, monthly fully quality assured statistics on Green Deal assessments, plans and measures installed under Green Deal and ECO, with a more detailed quarterly statistical release in June.

In addition, DECC's initial response provides a wide list of indicators and early thoughts for monitoring plans:

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenergy/writev/greendeal/m12.htm>

6. If not covered in questions 5 and 6, details of whether DECC will be monitoring the effects of the Green Deal/ECO on fuel poverty, and if so how

Through monitoring and evaluation of our policies we will know which types of households are getting support, the type of support provided and how much the ECO costs to deliver. Fuel poverty is measured on the basis of how much energy households need to heat their homes to an adequate standard. Because it is measured in this way we are able to estimate relatively accurately the impact that measures like insulation and efficient heating will have on required energy.

Professor Hills's review highlighted serious flaws with the way in which fuel poverty is being measured. As a result, we have committed to moving away from the current definition of fuel poverty, and proposed adopting the indicator suggested by Professor Hills which found 2.7 million households to be fuel poor in 2010. We recently consulted on that approach and will publish our response to the consultation shortly. We have announced that we will be publishing a refreshed strategy for tackling fuel poverty in 2013.

March 2013

Written evidence submitted by Affinity Sutton

Affinity Sutton Group is one of the largest independent providers of affordable housing in England, with over 57, 000 homes in more than 120 local authority areas throughout the country.

We are supportive of the Government's agenda to improve the energy efficiency of the housing stock and the "pay as you save" approach to funding. As a national Registered Provider, Affinity Sutton is committed to improving the energy efficiency of our homes to reduce their environmental impact and to assist in preventing fuel poverty amongst our residents.

We welcome the opportunity to respond to this call for written evidence, particularly in light of our FutureFit project, an extensive piece of research on retrofit and the Green Deal that we are very close to completing.

This £1.2 million internally funded project involved the retrofitting of 102 homes selected from 22 common property archetypes with each receiving either a high (£25,000), medium (£10,000) or low (£6,500) package of works based on budgets rather than carbon savings. Measures ranged from air tightness works, ventilation and new boilers to floor insulation and solar PV. We then worked with half of this group along with an additional 50 households, delivering lifestyle advice on reducing energy use in the home. The focus was not on technological solutions but on identifying the practical implications, real costs, potential funding mechanisms and actual savings achieved. All homes in the project have been monitored post-intervention and the majority also have pre-intervention data. A final report will soon be released showing any savings made and the impact of lifestyle advice, as well as the longer-term impacts of retrofitting which are felt in the two years following any works or advice.

Key FutureFit findings so far:

- A lot of the basic work has already been done in social housing: since 1990 we have already achieved an estimated 24% carbon reduction across our General Needs stock via ongoing boiler replacement and cavity and loft insulation programmes.
- Retrofit costs more than desktop studies specify, but economies of scale could bring costs down.

- Projected energy savings only cover half of these costs resulting in a £130 million funding gap if Affinity Sutton were to apply a low package of works across all 40,000 of our General Needs stock.
- Engaging people in this topic is challenging and dropout is significant: FutureFit had only a 4.8% initial response rate and 23% of people withdrew permission for works.
- The measurement tool for energy savings (SAP) is not accurate.
- There is a knowledge gap in the industry around retrofit: the whole supply chain, from surveyors and installers to resident-facing staff, require up-skilling to cope with the energy efficiency agenda.

We would be happy to share the results of the final report with the Commons Select Committee in advance of publication (under embargo), since the findings could offer extremely useful evidence and insight for the development of the Green Deal.

The outputs and experience gained from this award winning project, as well as other surveys and research we have carried out with our residents, have been used to inform and shape our response to this request for written evidence.

Please treat figures used in this response as confidential since not all of them have been released publicly.

What should be the key indicators for tracking the progress of the Green Deal?

1. Take-up figures and demographics

Evidence: FutureFit found that despite being offered energy improvement works free of charge by their landlord, out of 900 residents around the country only 4.8% responded. It will be key for the Green Deal to understand if take-up is going to be an issue and if so, what steps need to be taken to overcome this. In contrast to FutureFit, Gentoo Green has had different results with highly successful take-up rates for their project. Understanding who does take up the Green Deal could be very useful for future success of the scheme. Our recent survey to a representative sample of over 1,000 residents gathered behavioural information around energy saving and attitudes to credit as these indicators could help us to target those most likely to participate in something like the Green Deal. Since embarking on the FutureFit project we have undertaken a customer segmentation exercise and found that family groups were the least likely to take up our FutureFit offer. Older people and single person households were over-represented in the group that participated in the project. Gaining customer insight such as this in the early stages of the Green Deal will be essential for targeting the scheme and making the best progress possible.

2. Repayment statistics including numbers, frequency and timeframe of any arrears

Evidence: Our research shows that Welfare Reform is expected to have a serious impact on our residents' ability to pay their rent with 65% of our residents in receipt of benefits. Even before the welfare cuts a quarter of our residents have concerns about paying their rent and 42% of our residents are worried about money issues. Although the Green Deal is largely targeted at the owner-occupier market it will still be vital to understand the success of this repayment system and whether, in a time when household budgets are increasingly stretched, there is an increase in Green Deal repayment arrears.

3. Whether the Golden Rule is being met (projected energy savings are achieved)

Evidence: The final FutureFit report will show whether this was the case in the 102 homes that had works specified by the full SAP methodology. We would be happy to share these results as soon as they are available. The first FutureFit report showed that SAP was specifying works for properties that were not viable (such as less than 1kwp of PV for a single house). The in-use factors applied to Green Deal measures do acknowledge this gap between actual and projected performance and we acknowledge that the SAP methodology has been improved since FutureFit. However, since the Green Deal relies on projected savings being achieved, monitoring this will be a crucial indicator of its efficacy in practice.

4. The impact of lifestyle: major changes in household (new family members, people moving out)

Evidence: Anecdotal evidence from FutureFit is already showing that significant lifestyle changes can result in projected energy savings not being achieved. For example, one household had a baby during the year and has reported using much more energy. If this is going to be the case it must be fully understood so that Green Deal customers can be made aware of this in advance.

5. Any unintended consequences: specifically around ventilation

Evidence: During the post-works period, where FutureFit households gave direct feedback, 17% reported issues of damp and condensation and 27% reported issues related to the ventilation systems, often with households reporting these in tandem. This was despite an energy hierarchy approach being taken with the works and appropriate ventilation being fitted to every property. Findings show that people were unwilling to interact with new ventilation systems or, before the air tightness works, were living in a way that created

moisture which their draughty homes could cope with. After the works, issues arose to the extent that in one FutureFit property we had to return to remove all the works despite intensive engagement around lifestyle. It is stated in the Code of Practice that installers must minimise the risk of inadequate ventilation and build up of condensation. It is not clear how this will work in practice since the Green Deal is consumer and finance-led and rests on measures that meet the Golden Rule, not those which will ensure appropriate ventilation. It will be vital to monitor unintended consequences such as this after any Green Deal works have been installed so that further requirements and guidance can be added if necessary.

6. Tenancy turnover and success of re-let/resale of GD homes

Evidence: Out of the 150 FutureFit homes, 14 changed tenancy during the monitoring period. For all landlords (social and private) it will be important to track the extent of this issue and how straightforward the re-let process is. Re-sales will also be of interest and any impact of the Green Deal on these.

What is the best way of assessing the level of uptake of the Green Deal?

7. How many people express an interest (voluntarily, when offered soft sell, when offered hard sell)

Evidence: See indicator 1.

8. How many people have an assessment

Evidence: See indicator 1.

9. How many people take up a GD

Evidence: See indicator 1.

10. How many people progress to the works (do not drop out during cooling off period)

Evidence: From the start of engagement to the end of the FutureFit works, 23% of residents withdrew their permission to continue, citing time, health and disruption as issues. Even during the process residents required up to 20 visits to maintain engagement in the scheme. This needs to be monitored so that relevant measures can be taken to do this during the process in a cost-effective manner.

11. In what circumstances people take up the GD ie trigger points

Evidence: See indicator 1. Our impact assessment submitted in response to the Green Deal consultation shows that social housing providers are in an excellent position to drive down costs by as much as £1,660 per property by incorporating a Green Deal programme into their planned works. These are carried out annually on an estate-basis where contractors will be on-site meaning overheads and preliminaries can be lower.

12. How people hear about the GD

Evidence: See indicator 1.

13. Which industries have been the most popular providers (who the customer trusts)

Evidence: See indicator 1.

What is the best way of assessing the level of energy savings being delivered by the Green Deal?

14. Meter readings before works and a year after installation taken by installer/Green Deal provider or GD customer

15. Energy companies sharing bill data via the Data Transfer Service and historic energy bills

Evidence: Obtaining past energy bills for pre-works energy usage in the FutureFit properties was hugely time-consuming and in some cases was not made possible by the energy companies, despite us owning the properties and having written consent from all tenants. Although provisions have been made for Green Deal Providers to use the Data Transfer Service, it is not clear whether any historic usage figures will be available. Equally the Occupancy Assessment does include reference to gaining past energy data but this will be complementary rather than obligatory. Energy companies must be more open to sharing energy usage details (with consumer consent), beyond the DTS.

16. Householder perceptions of savings

Evidence: If energy bills rise, any Green Deal savings might be less apparent to the consumer if they compare their own before and after energy bills. A mild winter could have a similar effect. Energy savings may need to be emphasised to customers to avoid poor reception of the Green Deal programme. Indicators 14 and 15 must be compared to this Indicator in order to assess where people actually recognise a saving. The final FutureFit

report will make this comparison. As a market-led mechanism the image of the Green Deal and the savings that can be achieved are arguably as important as the savings themselves.

What is the best way of assessing the carbon savings being delivered by the Green Deal?

17. Whole country use of energy converted into carbon (eg figures used for UK Carbon targets)

What is the best way of assessing whether the Green Deal is delivering value for money to consumers?

18. Comparison of actual energy use to Golden Rule predictions

Evidence: See Indicator 3.

19. Monthly repairs/defects figures

Evidence: FutureFit logged a number of repair issues in the year following the works. 16% of the properties that gave direct feedback reported problems related to installation. During the works themselves an issues log was kept and 49% of these were technical. These two figures illustrate the importance of monitoring knowledge gaps in the industry that need to be addressed. Also several repair call-outs from FutureFit residents were down to a lack of understanding of how to work ventilation or zoned heating systems. We acknowledge that there is a great deal of certification for Green Deal installers to try to ensure quality, but the contractors involved in FutureFit also worked to high industry standards. In its early stages in particular, any repairs must be monitored following Green Deal installations so that any extra costs or industry knowledge gaps can be accounted for and addressed. Under current regulations, the Green Deal Provider is responsible for the repair of Green Deal components. This results in a potentially complicated scenario for the householder who may have to go to different parties to repair different elements of their home. It is important to understand how well this process works.

20. Impact on private rent or sales value for Green Deal properties

21. Householder perception of whether it has been value for money: they have saved energy/money; improved their home; improved comfort; increased their home's value

Evidence: During FutureFit, resident liaison officers reported that participants were more interested in the expected increase in comfort and warmth in their homes than the monetary savings. If this can be recorded it might show whether customers would be more willing to accept a break-even Golden Rule or even one which results in them paying an excess. It might also provide valuable insight for engagement strategies.

22. Monitoring any miss-selling

23. Monitoring of any upfront charges to consumers (eg at assessment stage): level and frequency of charge, uptake/customer response

What is the best way of assessing whether the Green Deal is being effectively delivered?

24. End-to-end householder experience (including warranty, repairs and understanding of financial mechanism)

Evidence: FutureFit participants reported satisfaction with the level of disruption during the works, suggesting that the actual delivery of the improvements was effective and well-received. However, there were lower scores for resident understanding of the systems being installed. Also, as evidence already stated suggests, the retrofit (and therefore Green Deal) experience goes beyond the works period. For this reason we feel it important to monitor the Green Deal customer's experience from the start until at least one year after the works to ensure a positive legacy for the policy.

25. Landlord experience (social and private rented)

Evidence: Landlords are likely to be key stakeholders in this programme. Currently only a few Registered Providers (social landlords) have signed up to be Green Deal Providers. Others are yet to state their position. This would imply certain barriers. Monitoring why landlords do not engage, and how those who do engage have found it, could provide valuable information for the development of the Green Deal in this sector.

26. Tracking installation costs to show any reduction due to high uptake (as with solar panels)

27. Report from Oversight Body on delivery failures/GDPs not meeting requirements

28. Assessment of different delivery mechanisms (their effectiveness) eg Green Deal Finance Company vs Local Authority prudential borrowing; community based vs market-led

Evidence: At the time of submission it is still acknowledged that financing the Green Deal will be challenging and a number of routes forward are being investigated. Monitoring the progress of these different approaches will be useful to show how the Green Deal could work for different providers.

2. *If your home has felt warmer, are there any elements of the works that you have found particularly effective?*

Yes:

No:

If yes which one and why: _____

3. *Has your home felt less draughty since the works were installed?*

1

2

3

4

5

Comments: _____

4. *Do you feel that you have saved money on your bills since the works were installed?*

1

2

3

4

5

Comments: _____

5. *Have you changed your habits or behaviour around the home at all as a result of the works? If yes, how?*

Yes:

No:

Comments: _____

6. *Have you noticed any other changes in your home since the works were installed?*

Yes:

No:

If yes, what changes: _____

7. *Are there any elements of the works that you have found particularly effective in making your bills cheaper?*

Yes:

No:

If yes which one and why: _____

8. *Are there any elements of the works that you find easy to use?*

Yes:

No:

If yes which one and why: _____

9. Are there any elements of the works that you find hard to use?

Yes:

No:

If yes which one and why: _____

10. Have you had any issues with any part of the works since they were installed?

Yes:

No:

If yes which one and why: _____

11. Was there anything installed which you now think should not have been?

Yes:

No:

If yes, what and why: _____

12. Was there anything that was not installed which you think should have been?

Yes:

No:

If yes, what and why: _____

13. Do you feel that since the project you have increased or decreased your use of heating? If yes, which one and why?

Increased:

Decreased:

If yes, why: _____

14. Do you feel that the project so far has been worthwhile?

1

2

3

4

5

Comments: _____

Any other comments:

Written evidence submitted by Which?

INDICATORS FOR TRACKING THE PROGRESS OF THE GREEN DEAL

SUMMARY

1. Which? welcomes the Committee taking a watching brief on the Green Deal and this opportunity to provide our views on this important area. A successful Green Deal programme should be measured not only by the number of Green Deal plans taken up, but by the proportion of Green Deal customers satisfied with their plans, seeing value for money and the energy savings that they were promised.

2. Assessing the energy savings resulting from Green Deal is crucial. It is the only means of determining whether consumers are better off than they would have been without their Green Deal plan. The Golden Rule provides no guarantee of savings and some form of check is needed to ensure that consumers are getting the savings they were promised. This will show whether the Green Deal is providing a good deal for those customers and help identify any changes needed to the assessment procedure to ensure more accurate savings estimates.

3. However, assessing energy savings will not be straightforward. The evaluation will need to be carefully planned and Which? recommends establishment of an expert monitoring panel to assess a sample of Green Deal installations, report on energy savings and value for money of the Green Deal plans. Expert monitoring could be accompanied by a consumer satisfaction survey to inform a range of indicators we suggest below.

4. Government and a number of other parties already have Green Deal monitoring responsibilities. Which? recommends that DECC develop a monitoring framework to provide much greater clarity on who is responsible for what and how these bodies will work together to ensure a robust monitoring regime. It would seem sensible for the Green Deal Oversight and Registration Body¹ to take the lead role.

5. The Energy Company Obligation (ECO), must be included in Green Deal monitoring, particularly the cost of the ECO on consumers' bills. The ECO is inextricably linked with the Green Deal and its costs could be considerably higher than predicted. The less attractive the Green Deal to consumers, the higher the cost of ECO because the share of the cost of the measures that will need to be subsidised through the ECO, rather than through Green Deal finance, will be greater. This will lead to higher energy bills for all consumers. This makes it even more important to monitor the success of the Green Deal as it affects even those consumers who are not at all interested in the Green Deal.

What should be the key indicators for tracking the progress of the Green Deal?

6. We suggest a range of indicators below following the order in the Committee's Terms of Reference, rather than in order of importance.

(A) Uptake—number of Green Deal plans, and number of Green Deal plans compared with number of Green Deal assessments

7. Clearly it is important to record the number of plans taken up. In addition, recording the number of assessments carried out enables determination of the percentage of interested consumers who did not proceed to take out Green Deal finance. It is as important to understand why households who have had a Green Deal assessment then fail to take up the finance. A short follow-up survey with these consumers would help identify why they did not take up the Green Deal and provide valuable learnings to feed into DECC's "one year on" review (see paragraph 30 below).

(B) Assessing energy savings—comparison of energy consumption and energy bills pre- and post Green Deal

8. Which? agrees with the significant numbers of respondents to the Government's consultation who wanted DECC to monitor pre- and post-actual household energy consumption to enable a full assessment of whether the Golden Rule² is working. DECC stated in June 2012 that it will be monitoring actual energy consumption³ but has not yet, so far as we are aware, given further details on how this is to be done. A monitoring plan is urgently needed because whether energy savings are exceeding repayments is a key consumer outcome.

9. But, first, the consumer cannot be *sure* that the Golden Rule is being met because:

- (a) The Golden Rule is not guaranteed, it is merely a principle.
- (b) The amount that can be lent is determined by estimates based on typical, standardised households through the Energy Performance Certificate methodology, not the actual energy usage. For many consumers, particularly low energy users, estimates of savings could therefore be significantly

¹ <http://www.greendealorb.co.uk/>

² The Golden Rule is the principle which limits the amount of Green Deal finance that a provider can attach to the electricity bill to the estimated energy bill savings that are likely to result from the installation of measures under the Green Deal plan.

³ The Green Deal and ECO: Government response to the November 2011 consultation, 11 June 2012, page 88.

different from actual savings post-refurbishment.⁴ This is one of Which?'s major concerns with the Green Deal.

10. Second, assessing the “before” and “after” to quantify the savings resulting from the Green Deal is necessary to determine whether the consumer is better off than they would otherwise have been. However, this will not be easy because calculating these savings is not as simple as comparing pre- and post-energy consumption from energy bills. The savings depend on wider factors such as:

- Weather—for example the 2013–14 winter might be warmer than the 2012–13 winter. This cannot be looked at nationally but requires local data.
- Changes in occupancy or circumstance—tenants may have changed, the owners might have retired, the owners might have had a baby. Sampling should be used to ensure that a subset of Green Deal customers can be identified with broadly similar before and after circumstances.
- The “rebound” effect—such as where the occupier turns up the thermostat because they consider they can now afford to do so (direct) or where the money saved is spent on an overseas holiday (indirect). It might be possible to apply a broad, compensating factor but quantifying rebound effects is challenging.⁵

11. Energy bills may also have changed because of changes to energy tariffs or energy prices.

12. Expert analysis will therefore be required. Which? recommends that independent expert assessors be commissioned to monitor a sample of households including a reasonable number whose circumstances and occupancy have not changed. “Before” and “after” consumption from energy bills could be compared using tailored analysis. Monitoring will need to span at least the first year of the Green Deal plan to account for seasonal variation. Results could be used to inform any changes needed to the assessment procedure to ensure more accurate savings estimates.

(C) Value for money for Green Deal customers and for the taxpayer

13. Which? is concerned that the high rates of interest that have been mooted, with DECC's June 2012 impact assessment estimating a range of 6.5% to 9.5%, may not be attractive to consumers. When Green Deal plans come out, Which? intends to assess them to compare them with other financing options that offer lower interest rates. However, comparison will be complicated by Green Deal cashback and ECO subsidy: it is not sufficient to compare the interest rate alone. The expert monitoring panel that we suggest could include financial experts who can evaluate this.

14. Additional monitoring of the impact (and merits) of the use of public money would be welcome, whether by the Public Accounts Committee or the National Audit Office. Public money to support this product that is (in theory but not in practice) market-based is significant and includes:

- £200 million Green Deal launch incentives funding, including the cashback scheme of £125 million, with the first £40 million now available; £10 million for Green Deal pioneer councils and £12 million for seven cities to kickstart the Green Deal;
- DECC budget of £30.4 million in 2012–13, £25.9 million in 2013–14 (indicative), £19.5 million in 2014–15 (indicative), ie £75.8 million over three years;⁶ and
- Potentially, financial support from the Green Investment Bank—details and the amount of any loan are as yet unknown.

(D) Value for money for all consumers—the costs of ECO on people's bills

15. The ECO is funded by the energy bills of all consumers but yet is inextricably linked with the Green Deal as key parts of it are designed to support the Green Deal. ECO subsidy will drive demand for solid wall insulation, in particular, through the Green Deal (solid wall insulation cannot meet the “golden rule” without ECO subsidy). DECC's central estimate of annual ECO costs is £1.3 billion. However, DECC's Impact Assessments recognise that there is considerable uncertainty here. In November 2011 DECC estimated that costs could be as high as £3.09 billion/year; a recent report by NERA for Energy UK estimated that costs could be £2.35 billion or even higher.⁷

16. The less attractive the Green Deal is, the higher the cost of ECO because the share of the cost of the measures that will need to be subsidised through the ECO, rather than through Green Deal finance, will be greater. Energy suppliers will pass on to consumers in the form of higher energy bills all the costs of meeting their ECO obligations. This makes it even more important to monitor the success of the Green Deal as it affects even those consumers who are not at all interested in the Green Deal.

⁴ See Annex 2 of the Which? Green Deal consultation response of 18 January 2012 for examples of large discrepancies between SAP/RdSAP estimated usage and actual usage after refurbishment. Available at <http://www.which.co.uk/documents/pdf/the-green-deal-and-energy-company-obligation-which-response-277262.pdf>

⁵ *Estimating direct and indirect rebound effects for UK households*, Chitnis, Sorrell, Druckman, Firth and Jackson, The Sustainable Lifestyles Research Group, Working Paper 01–12, 2012.

⁶ Hansard HC Deb, 9 July 2012, c24W.

⁷ *The costs of the Energy Company Obligation*, NERA for Energy UK, November 2012.

17. DECC is currently considering what information requirements should be imposed on energy suppliers. Which? maintains that it is important that, in addition to reporting delivery costs, suppliers are required to report to Ofgem on the costs passed through to consumers on bills. Otherwise there is no way of knowing how much consumers are paying for the ECO. We would welcome the Committee highlighting this important issue and the importance of including ECO costs in key indicators.

(E) Whether the Green Deal packages offered are the optimum packages for the consumer

18. A successful Green Deal is one that provides *the* most appropriate package of measures for the consumer. However, the Green Deal framework only requires assessors to be impartial not independent. There is a real risk that assessors tied to providers may focus more on maximising profit for the provider, rather than ensuring the consumer is on the best package. For example, by selling other goods and services that the consumer may not want or need.

19. Which? recommends that the detailed, expert assessment of a sample of Green Deal customers include evaluation of whether the plans represent *the* very best package that consumer could have been offered in terms of energy savings (measured, where possible, against the preferred payback period of the customer). If possible, there should be a comparison between advice from tied and independent assessors.

(F) The percentage of Green Deal assessments provided by assessors who are commercially tied to Green Deal providers

20. Monitoring of how many assessors are tied and how many are independent should also be established. It is difficult to see how independent providers can make money from Green Deal assessments and, as such, we consider it likely that most Green Deal assessors are likely to have commercial ties to Green Deal providers. The assessor and the Green Deal provider's representative could often be one and the same person creating a potential conflict of interest between the assessor and the consumer.

21. A survey of assessors could be conducted by the Oversight and Registration Body which is responsible for ongoing monitoring of Green Deal Participants against the Code of Practice (see further paragraph 32 below). Again, the Oversight Body has a key role in monitoring the Green Deal.

(G) Effective delivery—quality of installation

22. Monitoring the incidence of problem from poor quality installation is important. For example, Ofgem monitors failure rates of a sample of measures under CERT. We consider that the Green Deal Oversight and Registration Body, with installer certification bodies where appropriate, should monitor a sample of installations.

(H) Effective delivery—quality and accuracy of advice, sales and marketing and quotes

23. It is important that the Green Deal Oversight and Registration Body and the assessor certification bodies conduct robust mystery shopping of Green Deal assessors. This is the only way to test the claims made by assessors in practice. Assessor self-certification alone is not sufficient, particularly given the poor track record in the energy sector. Three recent Which? mystery shopping investigations (cavity wall insulation 2011, solar PV 2011, solar thermal 2010)⁸ have all found problems with the quality of advice, such as assessors recommending that the house was suitable for cavity wall insulation when our expert said it was not and overstating the savings from the solar thermal system. It is critical that mystery shopping is done early to identify and address any problems. Which? also plans to do some mystery shopping of our own.

24. Our concern at the risk of mis-selling is heightened by the inadequacies of the Green Deal rules on assessments (paragraph 9 above) and by the existence of many important terms that might be buried in the small print (hefty early repayment fees, warranties shorter than the repayment period, risk that repayments exceed savings etc).

(I) Proportion of Green Deal plans passed on to new buyers

25. Transfer of the charge between occupiers is a key part of the Green Deal's rationale. Yet if new occupants are requiring the Green Deal to be repaid before they move in this brings into question the feasibility of one of the central tenets of the Green Deal which is that it is attached to the property not the individual to enable transfer between occupants. The consumer survey should identify a subset of consumers in this category even though the sample size is likely to be small.

⁸ Video footage of each investigation at <http://www.which.co.uk/energy/saving-money/guides/how-to-buy-wall-insulation/cavity-wall-insulation-damp-problems/>, <http://www.which.co.uk/energy/creating-an-energy-saving-home/guides/how-to-buy-solar-panels/how-to-buy-solar-pv/> and <http://www.which.co.uk/energy/creating-an-energy-saving-home/guides/how-to-buy-solar-panels/how-to-buy-solar-water-heating-panels/>

(J) *Consumer satisfaction—level of satisfaction of Green Deal customers overall, owner occupiers, private tenants and social housing tenants*

26. It is important to survey private tenants and social housing tenants, not just owner occupiers. Our concern is that private tenants may end up worse off than owner occupiers. Where a landlord takes out the Green Deal their incentive to ensure that the assessment is accurate, that the Golden Rule is likely to be met and that the package chosen is appropriate is likely to be lower than for an owner occupier. The tenant may feel obliged to consent too.

27. Satisfaction could be measured by a survey of a statistically representative sample of Green Deal customers across geographical regions with questions including:

- Whether consumers believe they are seeing the energy savings promised in the Green Deal Advice Report (Energy Performance Certificate and Occupancy Assessment). However, it will only be possible to measure consumer perception in this way, not the actual savings resulting from the Green Deal as that could be influenced by other factors (see paragraph 8 above). Nor may consumer perceptions be accurate. The Pay as You Save pilot review found that “most of the householders said they were not checking bill savings from energy bills against the predicted savings from their report”.⁹ For these reasons expert analysis is also required (see paragraph 10 above);
- Whether consumers were happy with the sales and marketing practices eg whether they felt pressured into purchase, were pushed to sign up on the spot or to purchase other non-Green Deal products and services. This should preferably include a comparison between tied and independent assessors;
- Whether consumers found the assessment, quote and installation process straightforward and easy to understand;
- Whether consumers experienced problems with customer service, advice or installation, and whether issues or complaints were resolved to their satisfaction; and
- New occupants’ attitude to fairness of Green Deal transfer in change of occupancy (owner occupiers and tenants) situations—whether or not the Green Deal was actually transferred (see paragraph 25 above). Questions could include whether new occupants were made aware of the Green Deal charge and its implications.

(K) *Access to the Green Deal*

28. We recommend that the main consumer survey identify a subset of low income and vulnerable consumers to assess the level of take up in this group and satisfaction with the outcome and sales and marketing practices. Our main concern is to ensure that the Green Deal is not sold inappropriately to fuel poor, low income and vulnerable consumers. In many cases it might not be a suitable product because:

- It might not be appropriate to sell them a commercial, profit-making product at a high rate of interest, particularly when the risk of repayments exceeding savings is higher for consumers who use less energy than average (see paragraph 9 above);
- Early repayment fees could be substantial for Green Deal plans of 15 years or more. Warranties are unlikely to cover a boiler breakdown after the first five years but yet the consumer would still have to make the Green Deal repayments. Low income consumers might not be able to find the money to pay for repairs or a replacement boiler; and
- There are many ways through which the consumer could be overwhelmed with complex information. Many key terms could be hidden and/or not understood. This risk is greater for the poorest and most vulnerable in society.

(L) *Impact of Green Deal and ECO on fuel poverty*

29. Given our concerns above, the fuel poor may benefit little from the Green Deal. Also, the ECO could push more consumers into or further into fuel poverty, given the very uncertain scale of its costs and that it is likely to be regressive in nature, hitting the fuel poor hardest. Low users may well be charged the same amount as higher users, as the energy suppliers are free to pass on costs how they wish and this will be a larger share of their income too. Which? recommends that the ECO costs be passed on according to units of energy used, not as a flat rate per customer.

THE ROLES OF THE VARIOUS MONITORING BODIES—GREATER URGENCY AND CLARITY NEEDED

30. DECC clearly has an important role in monitoring. In June 2012 DECC stated that it proposed a One Year Review in the immediate period post-the framework becoming operational (“one year on”), ie end-2013 to mid-2014. DECC also proposed a medium term Interim Evaluation (2015–16) and then a Final Evaluation (2017–18) and stated that evaluation research in the first six months would cover a range of issues, but the consumer experience and value for money were not mentioned.¹⁰ We are not aware of DECC having announced more details and these are urgently needed.

⁹ Home Energy Pay As You Save Pilot Review, DECC and EST, September 2011 at <http://www.decc.gov.uk/assets/decc/11/meeting-energy-demand/microgeneration/2670-home-energy-pay-as-you-save-pilot-review.pdf>

¹⁰ The Green Deal and ECO: Government response to the November 2011 consultation, 11 June 2012, page 32.

31. This review is critically important given the huge uncertainty over how consumers and businesses will react to the Green Deal and the complexity of this novel financial product. Which? considers that the review should focus on whether consumers are being given good advice and sold appropriate and good value products and on the operation of key tenets such as the accuracy of Golden Rule estimates and fairness of transfer to new occupants. Which? would also welcome a commitment from DECC to make changes quickly if consumer problems are identified.

32. The Green Deal Oversight and Registration body is responsible for ongoing monitoring of Green Deal Participants against the Code of Practice and gathering evidence of non-compliance.¹¹ It is required to produce an annual Green Deal report and DECC must use this as an important input for its evaluations. Green Deal certification bodies are responsible for certifying that installers and assessors meet certain standards. In turn, UKAS is responsible for assessing these certification bodies. The Ombudsman is responsible for investigating complaints and Ofgem has reporting and monitoring responsibilities as the administrator of the ECO. This is a complex set of responsibilities. It would seem sensible for the Oversight and Registration Body to play the lead role in monitoring and reporting to DECC. Which? recommends that DECC develop a monitoring framework to provide clarity on who is responsible for what and how these bodies will work together when appropriate.

Should there be annual take-up targets for the Green Deal?

33. No, not at this stage. It is hard to determine firm targets when demand is so uncertain. However, Which? would like to see a clearer indication from Government of what they consider to be a realistic aspiration. Previous aspirations expressed by Ministers in 2011, of 14 million homes by 2020, have clearly been unrealistic.

34. Rather than setting targets the emphasis should be on ensuring that the product is working for consumers and providing value for money. We welcome the Committee's interest in helping ensure that this is the case.

January 2013

Written evidence submitted by the Residential Landlords Association

ABOUT THE RESIDENTIAL LANDLORDS ASSOCIATION ("RLA")

1. The Residential Landlords Association (RLA) is a national landlords association operating in England and Wales. We have over 16,000 members. Our members own or control over 150,000 units of accommodation. Primarily our members are landlords in their own right but a number are managing and letting agents, some of whom are also landlords. Our members operate in all sub-sectors of the Private Rented Sector (PRS). Properties are rented out to families, working people, young professionals, the elderly, students and benefit customers.

INTRODUCTION

2. This Response concentrates on tracking the progress of the implementation of the Green Deal in the PRS.

3. Landlords in the PRS are, uniquely, to be subject to compulsion as regards improving properties. It is anticipated that from 2018 onwards a property cannot be met unless it meets at least E on an energy performance certificate (EPC).

4. At the outset, therefore, we would like to make the important point that in our view it is essential that as much encouragement as possible is given to affected landlords to improve their properties on a voluntary basis, before the onset of compulsion. Otherwise there will be a last minute rush which could well result in properties being left vacant because there is a lack of available resources at that time to carry out the necessary improvements. We believe that the best way forward is to try to maximise voluntary uptake so that as few properties as possible are left to be dealt with under the compulsion provisions from 2018 onwards. Otherwise there could be very considerable disruption to the housing market and the PRS in particular. Currently, there are no signs that the major shortfall in housing provision is going to be addressed even by 2018. Indeed the reverse is likely to apply because of the growing population and an increased demand for renting properties in the PRS because of all the current problems besetting owner/occupation, obtaining mortgages and the shortage of accommodation in the social sector.

5. Therefore, we consider that it is vital that special attention is paid to monitoring the progress of implementation of the Green Deal in the PRS.

6. For these purposes when we talk of the Green Deal it is important to note that a considerable amount of improvement work may, in fact, be undertaken via the Energy Company Obligation (ECO). As this will achieve the same objective the use of ECO funding to effect improvements in the PRS also needs to be monitored to gather information regarding the uptake.

7. Separately, improvement works may be privately funded. Particularly where only a small amount of work is undertaken, PRS landlords may prefer to self fund without recourse to either Green Deal finance or ECO.

¹¹ See <http://www.greendealorb.co.uk/>

This may have an impact but it is, of course, difficult to measure; nevertheless, it is important to try to gauge this uptake because of the resulting beneficial impacts.

8. Of course, this is not all about compulsion. Some properties may well be improved that are already at E on an EPC and, again, this needs to be monitored. Nevertheless, in the context of the PRS, it is bringing properties up to the minimum standard which is key in view of the advent of the compulsion provisions later on.

9. It is not, however, just about monitoring it is about taking initiatives to address the situation should the uptake be disappointing. One needs to learn from experience; one of the key problems at the moment is certainty that an upgrade to an E on an EPC will be sufficient for these purposes. We have urged Government to put into place the necessary regulations to implement the relevant provisions of the Energy Act 2011 so that landlords know well in advance what will be required of them from 2018 onwards. Without this certainty landlords will sit on their hands and not take any action. Unfortunately, PRS landlords have learned from past experience that the goal posts can often be changed, even very late in the day. We are pleased to report to the Committee that the Department for Energy and Climate Change (DECC) have listened to these representations and have now put in place measures to start consulting with interested parties, including representatives of landlords, regarding the implementation of these provisions. Nevertheless, because of various regulatory requirements it is a long timetable and it will take until 2014 before the relevant regulations are passed. We are concerned about this and would hope that DECC would be able to review this timetable with a view to making these regulations at the earliest possible opportunity, without, however, adversely affecting the need for a full and open consultation, as well as ensuring that the regulations are properly drafted.

MONITORING PROGRESS/THE EPC

10. We see the EPC as being at the heart of this process. There should be a “before” and “after” EPC produced where works are carried out. This will show a number of things but importantly the resulting change in categorisation.

11. Monitoring the number of EPCs prepared for the purposes of carrying out a Green Deal assessment is also important because it will reveal the number of enquiries made where no further action is taken it is just as important to know the number of cases where thought has been given to carrying out the work but has not proceeded in, in order to identify the reasons why no further action has been taken. In particular, this will help identify problems with the system as well as impediments to improve properties under Green Deal.

GREEN DEAL PARTICIPANTS

12. If the Green Deal is a success then the number of participants will increase significantly to take advantage of the business opportunity. This should be a good indicator of the health of the Green Deal. This will include things such as:

- The number of Green Deal providers.
- The number of assessors.
- The number of installers.

13. Leading on from this it is important to identify the sectors in which those involved as participants are willing to work in:

- Domestic sector.
- PRS domestic sector.
- Non domestic sector.

14. Additionally, one needs to look at the extent of the involvement of participants geographically as follows:

- Nationally.
- Regionally.
- Central urban areas (there can be problems of access and parking, eg in Central London for example which could be a problem).

15. This will enable areas where the number of participants is disproportionately low to be identified. Clearly as monitoring can take place through the accreditation schemes although these will not always show who are particularly active. Some participants may simply register because they do occasional work, eg as part of a major project.

MONITORING OF DATA

16. It is important that separate data is obtained for the domestic sector, PRS domestic and non domestic sectors. We are particularly concerned based on past experience that there has been a reluctance on the part of participants under existing CERT and CESP schemes to engage with the private rented sector. They have been very keen to get involved with the social rented sector but have perceived the PRS as having obstacles to involvement.

17. By keeping a record of the number of assessments carried out and the number of plans confirmed it should be relatively easy to ascertain the uptake level.

QUESTIONNAIRES

18. We can see no way other than separate questionnaires to households who have had Green Deal assessments carried out but have failed to have plans confirmed to establish a number of things:

- Whether they have in fact carried out the works recommended without getting involved with Green Deal finance.
- The reasons why they have not proceeded.
- Their perceptions of the process and, again, whether this played a part in any decision not to proceed.

19. Likewise, it would be important to have follow up questionnaires to those who have had works carried out to establish their experiences. In particular, it will be necessary to identify cases where only part of the necessary works have been carried out to establish the reasons why some work has been done and other work not carried out. Again, it will be useful as part of this process to follow up on the financing methods to see whether the works were financed by ECO, Green Deal finance or privately.

REASONS FOR NOT PROCEEDING

20. When collecting data, carrying out surveys or issuing out questionnaires it is important to establish in the cases where work has not been done (or where part only of the work has been done) why that may be. This could include for example:

- Failure in credit rating—see further below.
- Inability to obtain consents, eg from landlord or the bill payer where the tenant is the bill payer but the landlord is undertaking the work.
- Difficulties in securing planning permission where required.
- Any issues arising under building regulations as a result of the need to obtain these.

21. It would be important to obtain evidence of the reasons for the refusal if possible. Otherwise the information given in reply could be anecdotal and, for example, some tenants who do not want the upheaval could simply say that their landlord refused to agree.

EASE OF GENERATING INFORMATION

22. As indicated above, an EPC will be generated when an assessment is carried out and another new EPC will be generated once the works are completed where works are carried out. In cases where works have been undertaken this should enable much of the necessary data to be generated on update works and savings without too much difficulty, so long as the EPC software is sufficient for these purposes.

23. EPC's also carry a list of optional works where either Green Deal or ECO should be available to fund the works.

24. Likewise, the EPC (before and after) should show standardised energy usage and costings and therefore provide information regarding energy, its cost and carbon savings, although this will be on a standardised basis.

CREDIT SCORING/ASSESSMENT

25. Whilst we have continuously raised this issue during consultations regarding Green Deal it has only just become clear that normal financial assessments will apply in accordance with Office of Fair Trading requirements. Hopefully, of course, the savings generated by energy efficiency measures should be offset by a reduction in energy costs. However, this will be approached on a standardised basis. DECC and the OFT have made it clear that this is not enough and an individual credit assessment is going to be needed. This could bear down particularly in the PRS which increasingly is having to house more and more less well off people in the community as social housing waiting lists expand and less social housing is provided. As indicated above, therefore, it is very important to capture information regarding the number of applications which are declined due to adverse credit rating. Presumably this is information which Green Deal providers could be required to provide. Indeed, we are worried that this may prove to be a significant problem for uptake of Green Deal in domestic PRS. There may, on occasion, be issues with credit scoring for landlords also if landlords themselves undertake the works and have to be credit scored.

PRS TAKE UP

26. Specifically, we feel that information is needed in relation to the specific take up in the PRS, as indicated above, including failed take ups. As suggested above this could include a number of factors:

- Tenant not willing to consent.
- Poor credit scoring for tenant.
- Poor credit scoring for landlord.

27. Coupled with this there needs to be a record of:

- The number of properties in the PRS where at least one measure is installed under Green Deal and ECO.
- Take up of the various different types of ECO in the PRS.
- As also mentioned above the number of those involved where there is providers, installers or assessors who are willing to work with the PRS.

TARGETS

28. At this stage, we do not feel that any target would really assist. Targets have to be achievable and, at the moment, there is insufficient experience to set realistic targets.

ECO

29. In our view, and also as indicated above, it is just as important that information is kept in relation to how ECO is rolled out. The same considerations do not necessarily apply, eg there would be no credit scoring if the project was solely funded by ECO. We believe that ECO has an extremely important role to play in the PRS. PRS stock is generally older and therefore they it will be harder to treat properties for which ECO is, in part, designed. We have also welcomed the decision of the Government to provide ECO for affordable warmth on an area basis. Therefore, uptake identifying the number of properties treated and the areas involved as well as the types of property and measures installed would be important in order to monitor the impact of ECO in bringing about energy efficiency improvements.

COSTINGS

30. Information needs to be collated from Green Deal providers and installers as to the cost of various measures so that comparisons can be made. This is very much dependent on market forces, cost of materials and labour etc. Only when this information can be gathered can a judgment be made as to whether the Green Deal is giving value for money for consumers. It is suggested that sampling is undertaken so as to establish the costings; not just based on estimates but on the final cost of the works undertaken and delivered to the consumer.

CUSTOMER SATISFACTION

31. We feel, at the end of the day, the best way of measuring customer satisfaction is by questionnaires to those who have had works completed and sample follow up surveys to dig down to obtain further information as well as to try to verify the general outcome of information received from questionnaires. Small prizes could be offered to people who answer questionnaires for example.

CONCLUSION

32. The Association very much welcomes this Inquiry because it is important that a body such as the Select Committee makes recommendations as to the parameters to apply in relation to this very important topic of monitoring progress regarding the implementation of Green Deal. This is a novel project so it is important that lessons are learned and proper information is kept and maintained from the outset.

January 2013

Written evidence submitted by EDF Energy

ABOUT EDF ENERGY

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy is a wholly-owned subsidiary of the EDF group. In France, around 6% of the Group's electricity production is generated through hydropower. Together with its nuclear portfolio, this enables the EDF group in France to produce over 95% of its electricity without carbon dioxide emissions, and helps make an essential contribution to the country's security of supply.

We support the Government's ambition to achieve a step change in the demand for energy efficiency measures. Green Deal working in conjunction with the Energy Company Obligation is an innovative new approach to incentivising the uptake of such measures. There are a number of issues where there is still a lack of certainty as to how these schemes will be delivered. Key uncertainties include the consumer demand for taking out finance against their property for such measures and related to this the interest rate offered to them.

We have successfully met all the obligations placed on us to promote the installation of energy efficiency measures under the CERT and CESP schemes. The Energy Company Obligation (ECO) replaces these and provide free or subsidised heating and insulation measures to those who are vulnerable or live in homes which are more expensive to insulate.

The economic consultancy NERA was commissioned by Energy UK to carry out an independent analysis of the Government estimates of the cost of the Energy Company Obligation (ECO), which has now been published. NERA found that the annual cost of ECO could be £2.35 billion or more, significantly greater than the DECC estimate of £1.3 billion a year.

NERA stated: “*The Green Deal and Energy Company Obligation (ECO) are twin policies which seek to promote energy efficiency investments in Great Britain...The two policies are interdependent: the success of the Green Deal in financing customers’ installation of energy efficient measures is a primary driver of the costs energy suppliers will face in meeting their targets under the ECO*”.¹²

Whilst we support the objectives of Green Deal and ECO we are very concerned that DECC has significantly underestimated ECO delivery costs and therefore the impact this obligation will have on consumer bills.

EDF ENERGY’S RESPONSE TO YOUR QUESTIONS

Q1. *What is the best way of assessing the level of uptake of the Green Deal?*

1. EDF Energy supports Government’s ambition to achieve a step change in the provision of energy efficiency measures through the implementation of Green Deal and ECO. To achieve this consumer buy-in will be required to generate sufficient demand. However, there is currently very little public awareness of either Green Deal or the benefits of energy efficiency measures such as insulation. Monitoring should include the demographic spread of Green Deal Plans should be reviewed to ensure that all those who could benefit from energy efficiency measures are aware and benefiting from the measures.

2. Along with monitoring the number of Green Deal Plans which are taken out by consumers, consideration needs to be given as to how consumer awareness can be increased.

3. As a minimum there should be sufficient uptake of Green Deal Finance to enable ECO to be delivered cost-effectively. The ECO is separated into three different aspects where different rules must be followed to meet delivery targets. One such aspect is the Carbon Emissions Reduction Obligation (CERO) which represents more than half of the estimated cost of delivery. To achieve this, suppliers must promote the installation of hard to treat cavity or solid wall insulation measures. Where possible other insulation measures can be installed alongside these core measures. It is expected that customers will contribute to the cost of these high cost measures through the uptake of Green Deal Finance. Their contribution is capped at a level intended to ensure they save money overall, with suppliers paying the rest.

4. Suppliers should only need to subsidise such measures to the point where customers save money overall. A key determinant of assessing the level of uptake of Green Deal would be whether this has been achieved.

Q2. *What is the best way of assessing the level of energy savings being delivered by the Green Deal?*

5. There are two aspects to this 1) ensuring that whole house packages are being installed and 2) ensuring that estimated savings are being realised. Green Deal design is predicated on the fact that consumers will take out packages of measures to upgrade the energy efficiency of their homes and therefore reduce energy costs. The Green Deal Report should clearly outline to consumers the measures they can benefit from to incentivise them to maximise the number of installations. Such Green Deal Reports use estimated savings, with an Occupancy Assessment which should accurately estimate the savings that can be expected by a particular householder. If it is found that these are not being performed accurately this could negatively impact on the reputation of the scheme and therefore consumer acceptance and therefore uptake.

6. DECCs modelling of the cost of ECO assumes that energy suppliers will be able to deliver CERO measures in larger than average off gas homes. This would result in high levels of energy and carbon savings where insulation measures are delivered; this would therefore reduce the cost of meeting the CERO target. This is a key determinant on the cost of delivering CERO due to the dependence on high cost insulation measures (hard to treat cavity wall and solid wall insulation).

Q3. *What is the best way of assessing the carbon savings being delivered by the Green Deal?*

7. The response to Question 2 is relevant to both energy and carbon savings.

Q4. *What is the best way of assessing whether the Green Deal is delivering value for money to consumers?*

8. The Green Deal framework involves two innovative aspects: a) the requirements for a full assessment of the property to be undertaken which recommends the best approach to increasing the energy efficiency of that property and b) the provision of finance to pay for the upfront costs of measures.

¹² NERA Economic Consulting, “The Costs of the Energy Company Obligation”, 2012, page 3.

9. If either the cost of assessment of interest rate required for Green Deal Finance are not competitive then the framework will not deliver value for money for customers. Therefore we would recommend the committee reviews both these aspects in detail on an ongoing basis.

10. In exploring this issue we would urge that the Committee explores whether Green Deal is delivering value for money for all consumers, whether they have directly accessed Green Deal or not. ECO is ultimately financed by energy bill payers. It is important the DECC ensures that actual costs are consistent with its estimate of £1.3 billion per annum.

11. As we have outlined in our response to other questions, DECC have modelled delivery costs. This modelling has assumed that suppliers will not have to completely finance measures and suppliers will be able to focus delivery on those households where the highest savings can be gained most cost-effectively.

12. Achieving such outcomes is partly reliant on the success of Green Deal in incentivising demand for energy efficiency measures, and specifically for hard to treat cavity wall and solid wall insulation. Therefore a key measure of the whether Green Deal is delivering value for money should be a review of the ECO delivery costs.

Q5. What is the best way of assessing whether the Green Deal is being effectively delivered?

13. If, as DECC expect, the Green Deal result in a step-change in the provision of energy efficiency measures then consumers should benefit from cost efficiencies as this market matures. If this does not happen then it is questionable whether the Green Deal is being effectively delivered.

14. As we have outlined above, a key deliverable of Green Deal should be to mitigate the delivery costs for ECO. If effectively delivered then as the solid wall insulation industry grows, through support from ECO, then cost reductions should be achieved. This should then allow lower levels of subsidy to be required protecting consumers who are providing such subsidy through their energy bills.

Q6. What is the best way of assessing customer satisfaction with the Green Deal?

15. In assessing customer satisfaction a key determinant is consumer protection and quality of workmanship. Therefore if there are instances where this is not manifest then the Committee should review the reasons and explore potential remedies. To achieve scale of installations then a positive customer journey with full consumer protections is required. This will help to ensure consumers access Green Deal as the scheme gains a positive reputation.

16. Our experience of delivering challenging obligations to promote energy efficiency schemes is that one of the most persuasive drivers to incentivise action from consumers is recommendations from friends, family and other trusted sources. If quality installations and positive customer journeys are achieved then Green Deal beneficiaries will recommend the scheme to others. Such word of mouth recommendations are a demonstrable output of customer satisfactions with the Green Deal.

Q7. What is the best way of assessing whether everyone who wants to is able to access the Green Deal?

17. As we outlined in our response to Question 1 the demographic spread of Green Deal Plans should be reviewed to ensure that all those who could benefit from energy efficiency measures are aware and benefiting from such measures. This should also explore the range of measures being installed.

18. If Green Deal is only used where supplier promote activity to meet their challenging ECO targets then this will demonstrate that there are a wide range of customers who are not benefiting from the scheme. As we outline above the key aspect of ECO which is open to all householders, the carbon Emissions Reduction Obligation, can only be accessed where hard to treat cavity or solid wall insulation measures have been installed.

19. Therefore, if householders are not accessing other energy efficiency measures then there is a question as to whether Green Deal is providing a solution to all householder to enable the energy efficiency of their property to be improved.

Written evidence submitted by RWE npower

1. RWE npower is pleased to submit evidence to the Energy and Climate Change Committee's inquiry into the Green Deal. We fully support the aims of the Select Committee to determine some key indicators to track the progress of Green Deal, given its status as the Government's flagship policy to deliver improved energy efficiency to the UK's building stock (both domestic and non-domestic), and also given that it is a new, untested and radical programme compared with anything that has been undertaken in the UK to date.

2. We support the aim of the Select Committee to track the progress of the Green Deal and we would urge the Committee to consider robust indicators for the Energy Companies Obligation (ECO) given the explicitly co-dependent nature of the two schemes. The value and benefits of the Green Deal must include ECO; given the function that ECO provides in cross-subsidising certain Green Deal measures.

3. The Green Deal's success can be measured in the main by the level of customer uptake. However, ECO is different, as it is partly reliant on Green Deal uptake for success, but only those Green Deals that are eligible for ECO support. ECO's status as a supplier obligation is an important factor; the implication being that the ECO targets will be delivered, therefore its success can only be measured in part by uptake. The likely costs of ECO and how consumers can be protected from an uncapped liability should feature highly in the assessment of Green Deal, as any future success of Green Deal may simply be as a result of higher than anticipated levels of subsidy from ECO.

What should be the key indicators for tracking the progress of Green Deal?

4. We see it as a high priority for Government to track the cost-effectiveness of Green Deal and ECO as well as the assumed carbon, energy and cost savings associated with the schemes.

5. Cost data should be kept at a high level (ie the total cost to deliver Green Deal and ECO) to ensure that the cost of demand creation is captured. Demand creation is our primary area of concern regarding the total cost to deliver the ECO. We therefore encourage the Committee to look at the cost of demand creation as a specific area for review.

6. Wherever possible the indicators that track progress should be sourced from data that is available from a central point, such as Ofgem, the Central Charge database (CCdb) or the EPC registers (Landmark Information Group for properties in England and Wales and the EPC Register Scotland for Scottish properties). In addition the data should be provided from sources that are available from the launch of Green Deal and ECO. These principles will ensure data consistency and also reduce the administrative burden of reporting and collating data.

7. We believe the exemplar questions contained within the Call for Evidence provide an appropriate basis to determine the best indicators for tracking progress for the Green Deal. Our concern is simply, how will DECC (or other relevant departments) ensure that this Management Information (MI) is captured by the appropriate parties and is available for verification, given that participation within Green Deal can be delivered via a diverse range of Green Deal Providers and suppliers. Also, other key stakeholders such as the Oversight and Regulatory Body (ORB), Landmark Information Group and the EPC Register Scotland will have a significant role to play in providing this information but they may not have factored in the need to provide this MI into their existing business plans or information systems. The Select Committee could play a significant role in ensuring this potential oversight is rectified as soon as possible.

8. It is imperative that cost data for ECO (and Green Deal) is available and collected from the start of the scheme, thereby enabling a comprehensive picture of overall costs from the launch of the schemes to the end of the first ECO period (31 March 2015). This is because there may be different cost drivers at different periods of the obligation. For example; following the launch of the scheme, additional costs may be incurred in marketing and familiarizing stakeholders and customers with regards to the new obligation, as well as other costs to stimulate demand (eg the Government cash back incentive scheme for Green Deal). Neither suppliers nor Government know whether the demand creation and installation costs will rise or fall as a result of the increased the volume of work required to deliver the very challenging ECO targets by 2015. There may also be increased costs as the obligation scheme deadline approaches; (such as were incurred by suppliers in meeting their Carbon Emissions Reduction Target (CERT) Super Priority Group costs and Community Energy Saving Programme (CESP) costs during the final months of these schemes).

9. The regular collection and tracking of ECO costs by Ofgem throughout the duration of the scheme will result in a transparent body of evidence of actual ECO costs. This will enable Government and other key stakeholders to assess the actual cost impacts upon the wider customer base as well as its overall cost effectiveness. These outputs should be used as the basis for the setting of any future ECO targets post March 2015, to ensure that any new targets are cost effective, offer value for money and do not disproportionately impact upon customers' bills.

What is the best way of assessing the uptake of the Green Deal?

10. We believe the best means of assessing the uptake of Green Deal will be the number of Green Deal plans signed by consumers. The most cost effective way to quantify the uptake and value of Green Deal plans is via the Central Charge Database (CCdb), where the Green Deal plans are lodged and managed. This will

provide information as to the final number of successful plans where costs are being billed via the customers' electricity bills.

11. However, the CCdb will only contain details of those plans which have completed. Our expectation is that there will be quite a considerable drop out rate from the initial volume of Green Deal assessments undertaken compared to the total volume of Green Deal plans that actually result in measures being installed within the property. It is critical that these metrics are also captured, so as to be able to collect and analyse the key stages on the customer journey that result in customers' failing to complete their Green Deal plan and the likely reasons for the drop-out. This additional information can be provided through the number of Green Deal Advice Reports (GDARs) produced and lodged on the Landmark (for properties within England & Wales) and the EPC Register Scotland (for Scottish properties).

12. Using these EPC databases will enable Government to track how many properties started the Green Deal journey and how many completed, as following the installation of any measures a revised EPC must be lodged at the appropriate register as part of the Green Deal journey.

13. Unfortunately, for work undertaken which was part subsidised by ECO monies and/or supplemented by non-Green Deal finance, or for work fully subsidised by ECO monies then there would be no record on the CCdb. For some installed measures, an EPC will be produced, but not for all. However, in every case, suppliers will report to Ofgem on the type of measure, associated carbon and or cost savings delivered. This data is reported within one month of the measures being installed.

14. By utilising the MI from these agencies, Government will be able to track the number of households that start the Green Deal journey (by getting a GDAR from an approved assessor) as well as the number of households that complete a Green Deal and also the assumed carbon and energy savings.

What is the best way of assessing the level of carbon and/or energy savings being delivered by the Green Deal?

15. This will be captured through the information provided on the revised EPC which is a required step in the Green Deal process. For those properties which have fully funded measures installed via ECO, Ofgem will be able to provide an up to date assessment of the carbon and or energy savings delivered, and indeed it is a requirement under the ECO Order to provide this information to the Secretary of State on a regular basis.¹³

What is the best way of assessing whether the Green Deal is delivering value for money to consumers?

16. We do not believe that this question can be considered separately from the costs of ECO. Therefore, we believe that the Select Committee should urge DECC to take further action to assess the costs borne by the six larger energy suppliers who are obliged to deliver the billing and collections functionality for Green Deal for both domestic and non-domestic customers. The cost of delivering significant changes to IT infrastructure and business processes, as well as associated personnel costs should be captured and assessed in the round. This would include an average cost per administered Green Deal plan. These costs have been significantly increased by the consistently poor project management and governance provided by DECC, which has resulted in multiple last minute changes to the technical design specification, both increasing the costs and diverting staff and resources from other regulatory requirements.

17. Given the ongoing, unresolved issues with domestic Green Deal, we believe that it would be sensible if the non domestic Green Deal launch was postponed, particularly if current industry prognosis for a low non-domestic Green Deal take up are realised. Delaying the launch until after the domestic Green Deal is working effectively would allow suppliers and other stakeholders (including DECC) to benefit from the lessons learned and enable stakeholders to allocate their resources more effectively, as well as to minimise development and delivery costs.

18. In light of our assessment of the likely costs to deliver ECO, we have key concerns as to whether the Green Deal will offer for value for money when it is subsidised to a greater or lesser extent by ECO monies. We would urge the Select Committee to consider the average carbon delivery costs for basic insulation measures (such as loft and cavity wall) against those for Solid Wall insulation and also the economic impacts of the programme, such as the number of people directly employed through Green Deal. We are also concerned that due to the very tight eligibility criteria for Affordable Warmth customers, there will be significant costs associated with targeting and engaging with these customers, which represents a very inefficient use of resources and is expected to account for a large proportion of the total costs associated with the Affordable Warmth and Carbon Saving Communities rural safeguard targets.

What is the best way to assess whether the Green Deal is being delivered effectively?

19. We believe the best metric to assess whether the Green Deal is being delivered effectively will be whether the costs of ECO are being controlled effectively (and remain in line with the £1.3 billion central cost estimate assumed by DECC). We believe that the main pressure on ECO costs will be associated with demand creation. The obligated energy suppliers cannot rely solely on latent market demand for Green Deal as this

¹³ ECO Order Article 22, (5).

will not be adequate to fulfil their ECO targets. We note the recent publication of a survey undertaken by YouGov on behalf of the Electrical Contractors' Association at the end of December 2012, which found that 98% of the British public says it does not fully understand the Green Deal and how it will work, and that 62% have never even heard of the scheme, despite it being the government's flagship energy saving initiative.¹⁴

20. Our expectation is that the cost to generate demand for qualifying ECO measures will flow into the ECO regardless of who delivers the eligible measures. This will also include any trades on the ECO brokerage mechanism. If properly functioning, the brokerage mechanism should help determine the market price for ECO points associated with both carbon emissions and cost saving measures.

21. An ongoing comparison between the numbers of households starting a Green Deal journey versus the number of households that take up measures under Green Deal will provide a means of assessing the effectiveness of the overall policy and the means by which it is delivered. There may be merit in benchmarking the delivery costs of Affordable Warmth measures against the costs of delivering similar measures under the tax payer funded schemes such as Warm Front scheme in England, the NEST scheme in Wales or the Scottish Energy Assistance Package in Scotland.

What is the best way of assessing customer satisfaction with the Green Deal?

22. The Oversight and Registration Body (ORB) will be responsible for overseeing the activities of all accredited Green Deal providers and Green Deal Assessors. Part of ORB's role will be to track and assess the level of complaints made against the Green Deal supply chain, (presumably on the basis of benchmarking complaints to total numbers of Green Deal plans or Assessments undertaken). Therefore in the absence of any pre-agreed MI to be provided, we believe that the proportion of customer complaints against the total number of customer interactions could provide insight into levels of customer satisfaction.

23. However, whilst we believe knowledge of the proportion of customers complaining (at specific stages of the Green Deal journey) has the potential to provide important quantitative data and insight into levels of customer satisfaction, we believe it would also be valuable if DECC commissioned regular independent research into customer satisfaction levels, for both those who complete the Green Deal process and for those that start a Green Deal journey but do not complete it.

24. There will also be customers who inherit a Green Deal plan who do not want one (ie a bill payer who is not the Improver). This could include tenants in private or social housing (where the landlord has initiated the installation of measures), as well as new occupants of a property with an existing Green Deal plan. Their level of satisfaction with the Green Deal may be significantly different to those who actively choose to proceed with a Green Deal and this would need to be assessed via rigorous and independent research.

What is the best way of assessing whether everyone who wants to is able to access the Green Deal?

25. We are not convinced that this should be considered as a key metric on its own, as there may be multiple reasons behind a householder's inability to access the Green Deal. It may be that there are no Green Deal Providers operating within their area, or that it is simply not cost effective to deliver appropriate measures for that house. It is important to ensure that there is no false expectation made to the general public about the availability of finance to deliver measures. Whilst ECO funding may be appropriate to help certain technologies meet the Golden Rule (such as solid wall insulation or hard to treat cavity wall insulation), this can not be guaranteed, as suppliers are required to discharge their ECO obligations as cost effectively as possible. This could mean that some householders with hard to treat properties do not qualify for sufficient ECO funding and may not or can not provide their own funding to ensure that any measures installed meet the "Golden Rule" in order to qualify for Green Deal finance.

January 2013

Written evidence submitted by Consumer Focus

ABOUT CONSUMER FOCUS

Consumer Focus is a statutory consumer group established by the 2007 Consumers, Estate Agents and Redress Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland.

We operate across the whole of the economy, persuading businesses, public services and policy makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice. We don't just draw attention to problems—we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

¹⁴ <http://www.sourcewire.com/news/75845/british-public-in-the-dark-over-the-green-deal-says>

1. Uptake targets

2. It is important to differentiate between energy efficiency measures in general, Green Deal finance and the Energy Company Obligation. We do not consider that there should be annual targets for take-up of Green Deal finance. This is a private sector loan instrument which may be useful for some consumers, but is only one way of paying for energy efficiency measures and may not be suitable for many consumers. Targets could lead to overselling, including by government, which could result in long-term detriment for consumers. Consumers will take up Green Deal finance if they think it offers them a good deal.

3. We consider instead that Government requires a clear, long-term, target for domestic energy efficiency installations. The Green Deal framework, including ECO, seeks to deliver on a number of fronts: to help fuel poor households; kick start solid wall insulation; open up a competitive energy services market; and deliver carbon savings. However, Government's own predictions are that the Green Deal and ECO will only help 3.6 million homes, and will fail to meet its carbon and fuel poverty goals. Government should set out a clear vision for the existing housing stock, set targets that give notice to consumers and the property market, be prepared to continuously improve the Green Deal framework by learning from problems as they arise, and provide adequate resources to meet its goals.

4. Consumer Focus advocates the development and delivery of a strategy to improve all homes to target standards of EPC band B, or in the case of "hard to treat" homes, EPC band C. The standards were developed in the research behind our 2009 report "Raising the SAP". Use of a minimum EPC band is attractive for its simplicity, but it is a target that will be more difficult for some homes to meet than others. We successfully advocated the use of the EPC as part of the Green Deal advice programme, to start building a clear and consistent cross-Government tool to communicate the value of energy efficiency to consumers.

5. Energy Company Obligation delivery

6. As the Energy Company Obligation is funded through consumers' energy bills it is crucial that the scheme is delivered in a cost-effective way. With its predecessor, CERT (the Carbon Emissions Reduction Target), there was a lack of transparency and accountability regarding the costs of the scheme and how those costs were recovered from consumers. DECC has recognised this and committed to improving transparency under ECO.

7. Under Article 23 of the ECO order,¹⁵ companies must provide information requested by the scheme administrator¹⁶ in relation to:

- (a) the supplier's compliance with, or proposals for compliance with, the requirements of the order; and
- (b) the cost of achieving the obligation.

8. As well as the total cost this can include information on the breakdown of costs, which will be important in assessing the effectiveness of the policy and how it can be improved.

9. It will be important to monitor marketing and search costs. There is evidence that under CERT the cost of finding suitable consumers in the Priority and Super Priority Groups has added significantly to the cost of the scheme, and the same problem could continue with the Affordable Warmth component of ECO (AW ECO). Supporting policies could be introduced to reduce these costs, for instance data-matching using the Department of Work and Pensions data, or measures that increase demand for domestic energy efficiency in general.

10. It will also be important to monitor the level and sources of co-financing for each ECO installation. DECC's impact assessment for Green Deal and ECO assumes that under the Carbon Saving Obligation (CSO) of ECO measures will be co-financed up to a certain level, for instance by householders taking out Green Deal finance. If consumers are unwilling to take out Green Deal finance, or to co-finance measures through other means, the cost to all energy consumers of delivering the obligation will increase. In such a case, the government should take additional steps to ensure ECO targets can be met without additional cost to energy consumers. This could be done through measures that increase demand for domestic energy efficiency in general, for instance, a council tax rebate or other incentive, or measures that help overcome barriers specific to solid-wall (and hard-to-treat cavity wall) insulation.

11. Suppliers should also be required to provide information on how the cost of the scheme is recouped from consumers, although such a requirement is not currently covered by Article 23 of the ECO order. In response to the Green Deal and ECO consultation, DECC set each supplier's total obligation on a "per unit" basis, rather than a fixed-cost per household. However, there is no regulation on how suppliers recoup the costs from individual consumers in practice. This is an important public policy decision and should be made transparent. If the evidence shows suppliers are recouping costs from households on a per household basis,

¹⁵ The Electricity and Gas (Energy Companies Obligation) Order 2012.

23.—(1) The Administrator may require a supplier:

- (a) to provide it with specified information, or information of a specified nature, about a supplier's proposals for complying with any requirement under this Order;
- (b) to produce to it evidence of a specified kind demonstrating it is complying with, or that it has complied with, any requirement under this Order;

(2) A supplier must provide to the Administrator such information as the Administrator may require relating to the cost to the supplier of achieving its obligations under this Order.

¹⁶ OFGEM.

regulation should be introduced to ensure costs are collected on a per unit basis, in line with the spirit of the policy.

12. It will be important to monitor the spread of ECO across geographical areas. Unlike Warm Front, Affordable Warmth ECO does not have “hard to reach” and “hard to treat” targets. Rural areas in particular may lose out because suppliers will find it cheaper to meet their targets in urban areas with large concentrations of low income consumers. It is also important to monitor the number of off-gas consumers who get heating measures installed under AW ECO.

13. *Consumer satisfaction in Green Deal and ECO*

14. While we do not advocate targets for the take-up of Green Deal finance, both Green Deal and ECO must be monitored to ensure they deliver consumer satisfaction and can be accessed by all consumers who could benefit from them. Consumer confidence in the Green Deal will affect consumer confidence in the market for energy efficiency more broadly, including the cost of delivery of ECO. As the government’s flagship energy efficiency policy it will be easy for the public to conflate the Green Deal and energy efficiency measures more generally.

15. Potential causes of consumer detriment and dissatisfaction with the Green Deal relate to:

- (a) interactions with a number of participants potentially leading to confusion over redress;
- (b) complex and overlapping regulations and regulators;
- (c) complex calculations related to the cost of measures, the potential savings, the occupancy assessment, and the cost of finance;
- (d) the related trade-off between short, medium and long-term incentives and between current and future bill payers;
- (e) potential for confusion over the extent to which the scheme is government-backed and on the relationship between the Green Deal and the Energy Company Obligation (ECO);
- (f) the likelihood of cold-calling and doorstep-selling (including of non-Green Deal products or services) and risk of pressure selling; and
- (g) potential difficulties for consumers wishing to move home or settle early.

16. The potential for consumer detriment is increased because consumers can be disconnected for non-payment of Green Deal because it has the same status as energy bill payments.

17. To understand the impact of these factors, and respond accordingly, we have recommended that DECC and/or the Green Deal Ombudsman and Registration Body (ORB):

- (a) review misselling and inappropriate cross-selling during the early stages of the Green Deal;
- (b) mystery shop the Green Deal sales process, including how advisers signpost consumers ECO eligibility;
- (c) test consumer experiences of, understanding of and reaction to the Green Deal sales process, including the ability to shop around and awareness of different sources of finance, awareness of key rights and protections, and understanding of the terms and conditions;
- (d) monitor the experiences of consumers accessing redress for Green Deal or Green Deal-related goods or services, including those using other non-Green Deal finance, for instance through monitoring enquiries to the Energy Saving Advice Service (ESAS) and Citizens Advice about the redress process;
- (e) monitor disconnections for non-payment of Green Deal charges;
- (f) monitor the number/value of defaults on Green Deal charges; and
- (g) monitor issues relating to transfer of debt once the Green Deal is live.

18. Key to the success of the Green Deal will be the response of the property market to the Green Deal charge. Current consumer research suggests consumers are likely to ask for any Green Deal charge to be cleared or will look for a property without the charge, undermining the unique selling point of Green Deal finance, the charge being attached to the property. If this remains the case, paying off the charge could be an unexpected cost for the occupier and uptake of Green Deal finance will be reduced. There should therefore be monitoring of consumer attitudes to the charge, and by the Green Deal ORB collecting information on the number and level of early repayments and the reason for early repayments.

19. Consumer satisfaction with Affordable Warmth ECO should be monitored. Unlike Warm Front, which AW ECO replaces, there is no requirement to carry out consumer satisfaction surveys of AW ECO post-installation. There is also no independent scrutiny of AW ECO delivery, as provided by the Warm Front Delivery Advisory Board with respect to Warm Front. This is particularly significant as AW ECO could be less consumer-friendly than Warm Front in number of ways. For instance, there is: no obligation on suppliers to provide two years free boiler service to AW consumers; lack of clarity on boiler warranties; a less thorough inspection regime; no obligation on suppliers to offer consumers a standardised package of measures, which will make it difficult for advice workers to give clear advice to low income consumers.

20. *Access for all*

21. There are a number of groups we consider could be at risk of exclusion from the Green Deal and/or ECO, and whose experiences should be monitored.

22. Private tenants: the private rental sector has some of the least energy efficient properties and our consumer research shows that renting is one of the major barriers to uptake of energy efficiency measures. The Green Deal could help increase installations in this sector by overcoming the barrier of split incentives, however, consent is required from the landlord and tenant and it is unclear how the sector will respond to the scheme.

23. Leaseholders and freeholders may need multiple consents, and may find work is blocked due to the need to apply the Green Deal charge to individuals' energy bills, where it may be more appropriate to apply it as part of the service charge.

24. Financially-stressed consumers: in our 2010 *Access for All* report we found there are 2.5 million consumers who are not in fuel poverty but are financially stressed, and this number is likely to have risen since. This group will not be able to access ECO but may not meet the responsible lending rules. Monitor complaints and enquiries from financially stressed consumers who want to improve the energy efficiency of their home, but cannot access Green Deal finance or ECO support.

25. Park homes: Park homes do not require an EPC under EPBD legislation, and therefore the Green Deal is not currently applicable. DECC recognise our concern about these properties, recognising there a high proportion of occupants are in fuel poverty. Monitor the number of park homes taking up ECO and enquiries and complaints from park home owners regarding access to energy efficiency.

26. We share DECC's view that PPM customers should not be discriminated against as their payment of energy bills is reliable. However, we are concerned about this group as they are particularly vulnerable due to their ability to self-disconnect. We are also concerned that they will not have the Green Deal charge, the benefits of measures, and the continuing importance of managing energy use adequately explained to them by landlords or salespeople. Monitor number of PPM customers taking up Green Deal, complaints and enquiries arising from this consumer group, survey customers for impact on self-disconnection and management of energy use.

27. *Consumer engagement*

28. Consumer Focus has not specifically researched consumer awareness of the Green Deal, partly because market research shows that naming a product or service "Green Deal" is unlikely to attract consumers; instead, we expect providers to name and brand their products and services in a way that appeals to their target consumer segments; some may use the Green Deal in their branding but many will only use Green Deal as required by the framework regulations to signal accreditation of advice, installation and finance services.

29. We are more concerned about consumers' lack of motivation to install energy efficiency measures in general. The Green Deal is a finance and accreditation framework, and as such only goes a small way to addressing the barriers to take-up of energy efficiency measures. As mentioned above, low consumer engagement in energy efficiency would be likely to increase the cost of delivering ECO.

30. In November 2011 we surveyed 1,127 consumers and found that only 32% would be interested in getting energy efficiency advice. There are multiple reasons for consumers not wanting to get advice, including barriers that relate to knowledge or awareness; lack of motivation; and physical or legal barriers; only a small proportion of cases will be addressed by the Green Deal. The survey found that more consumers thought they had done all they could to make their home energy efficient than actually have in practice, when compared against to national figures on insulation levels.

Q. Why are you not interested in getting advice on saving energy?

*Base: All not interested or are unsure about getting advice on saving energy
(October 2011; weighted base: 722)*

I have done all I can to insulate my home and cut my energy bills	40%
I rent my home and do not have the power to make any changes such as installing insulation	20%
Too much hassle to have work done	8%
Too expensive	8%
I do not see the need to save energy	5%
I'm planning on moving house soon	4%
I/we can do my/our own research/I/we can look into it myself/ourselves	2%
Am sceptical about it/think it's a con/don't trust them/don't know who to trust	2%
I/we know about this/I/we know everything (already)	1%
I'm a leaseholder and the freeholder will not allow the installation of insulation or other energy saving measures	1%
DIY/I/we can/will do this work myself/ourselves	1%
I/we can do this ourselves (unspecified)	1%
I have already had advice/been advised before	1%

Q. Why are you not interested in getting advice on saving energy?

Base: All not interested or are unsure about getting advice on saving energy

(October 2011; weighted base: 722)

Too old	1%
Not interested	0%
Another reason	3%
Don't know	8%

January 2013

Written evidence submitted by National Energy Action

Work over the last fifteen months by Parliamentarians, the Department of Energy and Climate Change (DECC) and a range of other Government departments, trade bodies, charities, NGOs and other statutory agencies has focused on designing the Green Deal and the Energy Company Obligation (ECO). NEA, along with many other concerned groups, has worked hard to ensure the policy provides appropriate access, levels of support and direction to ensure that all households (especially those vulnerable on grounds of age, health or severe financial insecurity) have equitable access to affordable warmth and support in reducing their carbon emissions.

NEA would highlight that Government proposals mean that the delivery of domestic energy efficiency and fuel poverty programmes are being “out-sourced” to energy suppliers. Therefore, NEA has argued that these programmes must be subject to both oversight and prescription to ensure equitable delivery to rural and deprived areas and to low-income households more generally. NEA remains concerned that the Department has failed to clarify how it intends to track delivery and intervene if Green Deal and ECO fail to ensure equitable access to, and take up of, energy efficiency measures by financially disadvantaged and vulnerable households.

The purpose of this note is to focus attention on those areas that will need to be monitored (and addressed) if the Green Deal and, more crucially, the ECO are to be made more effective in tackling fuel poverty and this requires a brief consideration of the current fuel poverty landscape:

- Government funding for heating and insulation measures for low-income and vulnerable households in England (the Warm Front programme) terminates at the end of March 2013. England will then be the only UK nation providing no direct financial support to enable vulnerable and financially disadvantaged households to improve heating and insulation standards in their homes.
- From the start of this year, when Warm Front, the Carbon Emissions Reduction Target and the Community Energy Saving Programme are replaced by the Energy Company Obligation, expenditure on heating and insulation programmes to alleviate fuel poverty will be approximately half of the level in 2010–11.
- Scotland, Wales and Northern Ireland have all continued to maintain or even expand, their tax-funded energy efficiency programmes.
- Recent analysis by the Hills Review Team confirms that policies to improve the thermal efficiency of the housing stock targeted on low-income households occupying the least energy efficient properties would achieve optimal results in reducing both fuel poverty and carbon emissions

As noted below, there are serious concerns that these issues will only become more acute as domestic consumers face additional cost burdens resulting from continuing high global energy prices and Government proposals for a low-carbon energy industry.

REDUCED SCALE OF RESOURCES TO BE DIRECTED AT LOW-INCOME AND VULNERABLE HOUSEHOLDS

The Energy Act provided no detail on the level of resources that would be available to assist low-income and vulnerable consumers post-2012. Without such detail Parliamentarians were unable to determine whether the scale of future programmes did represent, as claimed, a step change in ambition. However, the Government did regularly offer assurances during legislative proceedings that the introduction of the Green Deal and the ECO would significantly increase financial support to combat fuel poverty.

During the consultation period, NEA was unable to accurately assess how much of ECO would be directed to low-income households or the amount the Government would assume would be delivered to low-income and vulnerable groups through Green Deal Finance. Following an announcement by the Deputy Prime Minister in April, and the Government's response to the formal consultation process, this has been clarified.¹⁷

Eligible low-income households will benefit from the Affordable Warmth obligation (worth an estimated £350 million per year), closely targeted on low-income vulnerable households in the private sector and

¹⁷ On 11 April 2012, Nick Clegg, Deputy Prime Minister said: “It is shameful that the UK still has so many families unable to heat their homes” The Deputy Prime Minister was announcing that at least £540 million of the government's home energy efficiency programme—worth £1.3 billion per year—would support financially disadvantaged households.

delivering a wide range of heating and insulation measures. In addition, a new Carbon Saving Communities Obligation targeted on financially and materially deprived areas (worth an estimated £190 million per year) will deliver a range of basic energy efficiency measures. Finally, 15% of the Carbon Saving Communities target must be delivered on behalf of low-income vulnerable households in rural communities. In total, from next year, annual expenditure on heating and insulation programmes for fuel-poor households will reduce from approximately £1.1 billion (including Warm Front, the Community Energy Saving Programme and Carbon Emissions Reduction Target priority groups) in 2010–11 to around £540 million.

Whilst NEA recognise the difficulty of securing additional expenditure for fuel poverty programmes during this CSR period, it is imperative that the relevant Department track the implications of this decision (increased health costs at a local and national level, increased levels of fuel debt, reduced numbers of contactors employed within the energy efficiency industry and the expected increases in fuel poverty levels) and the resulting economic consequences that are likely to ensue.

CONSUMER EQUITY

The ECO will be funded through a consumer levy and all consumers will pay regardless of their financial circumstances. From 2012–13 all Government-mandated programmes to address fuel poverty in England will be funded through levies on consumer bills. In the context of fuel poverty, NEA along with many respected stakeholders, has emphasised that this approach is both regressive and perverse. By spreading the cost across all energy consumers, there is a disproportionate impact on the most financially disadvantaged. Those households that do not take up measures (or are unable to) will see their bills increase; while those taking up measures (including measures subsidised for comparatively affluent households) should see their bills decrease.

Because the scale of ECO funding was not known during the passage of the Energy Act, the impact on disadvantaged energy consumers was equally unclear. Despite Government recognition of the regressive effect of this funding mechanism, and that low-income households are disproportionately penalised, the policy still fails to provide appropriate access and direction to ensure equitable entitlement to benefit from the carbon saving obligation. This means that energy consumers (including poorer households) will subsidise measures for more affluent households to the extent of £760 million per year. There are also serious concerns that this regressive approach to funding social and environmental programmes will continue and increase.

In addition to the inadequate level of funding for fuel poverty programmes, there is concern that financially disadvantaged households may be directed towards a Green Deal Finance Arrangement—a mechanism that the Government concedes is not appropriate for such households. Energy Minister, Greg Barker, made this point explicit from the outset: “*As I said in my opening remarks, we are considering completely rewriting the nature of the supplier obligation post-2012 to ensure that it reaches those parts, particularly in relation to the fuel poor, where the vanilla green deal will not work*”.¹⁸ Despite these assurances NEA is extremely concerned at the prospect that the majority of low-income and vulnerable households will only be able to access the benefits of energy efficiency through a funding mechanism that is both untested and inappropriate to their circumstances (the market-based Green Deal Finance Mechanism).

There is an urgent need for the Government to monitor how ECO funding and entitlement is being signposted at the assessment stage. NEA would also welcome clarification on how the Government intends to monitor take-up of Green Deal arrangements in the private rented sector. We are concerned that landlords may discharge their legal duty to provide a dwelling free from a Category 1 Excess Cold Hazard under the Housing Health and Safety Rating System by initiating a Green Deal arrangement that would impose a financial burden on future (possibly low-income) tenants.

ECO leakage in Carbon Saving Target

During the passage of the Energy Act, NEA emphasised the risk of allowing the new ECO to be used to defray the cost of Green Deal measures in hard-to-treat properties. NEA expressed concerns that this limited resource could disproportionately serve as a “crutch” for the Green Deal Finance Mechanism where the cost of measures and the comparatively modest financial savings meant that the “Golden Rule” principle could not be met. This, NEA argued, would represent an unacceptable situation where disadvantaged households were subsidising comparatively affluent households whilst, possibly, themselves being excluded from any assistance. NEA was extremely concerned that the legislation allowed for a potentially open-ended disbursement of ECO resources to able-to-pay households.

The Government response to the Green Deal and ECO consultation noted that higher bill savings resulting from interventions in larger properties means more cost-effective carbon saving for energy companies seeking to meet the ECO targets and that, as such, occupants of these properties were likely to benefit from higher subsidies. In addition, energy suppliers will be able to deliver both solid wall insulation and non-standard cavity wall insulation under the ECO Carbon Saving obligation. Where energy suppliers are delivering either of these measures they will also be able to score further accompanying measures which reduce heat loss from a property, such as loft insulation, glazing and draughtproofing (adding to concerns about inequitable disbursement of this limited funding).

¹⁸ Second Delegated Legislation Committee, 26 July 2010.

NEA believes that environmental imperatives and social equity can be assured through a programme of energy efficiency improvements to dwellings occupied by financially disadvantaged households. For example, extensive solid wall insulation in social sector housing would reduce fuel poverty, deliver large-scale installation of an embryonic technology and thereby achieve economies of scale while refining and developing the necessary technical skills and expertise. This approach might also result in “niche” energy efficiency technologies becoming mainstream and sufficiently cost-effective (Golden Rule compliant) to become a conventional offering under the Green Deal. There are currently no indications that the Government will prioritise such work on behalf of low-income and vulnerable households. Yet this approach would make a significant contribution towards meeting both social and environmental objectives.¹⁹

NEA believes that there is a strong case for highlighting this issue and determining in a regular way, through rigorous monitoring, how successful the programme is in supporting financially disadvantaged households in hard-to-treat housing as opposed to subsidising much more affluent households.

Delegation of responsibility to energy suppliers

Despite improved reporting requirements, and a general recognition that energy efficiency and fuel poverty programmes delivered by energy suppliers should be subject to oversight and direction to ensure proportionate benefit to rural and deprived areas, energy suppliers (or their contractors/agents) will still have discretion to determine the extent of support they will provide to households and the measures they choose to install. Measures can be delivered in “any order” on the basis that there are “natural incentives” for energy suppliers to deliver the most cost-effective measures first, and not to deliver a number of measures at one time. NEA has strongly argued that the shift of responsibility for delivering energy efficiency and fuel poverty programmes to energy suppliers must be managed through a prescriptive approach. There is a strong rationale for believing that the current approach will give rise to a number of market failures unless addressed and resolved through pro-active monitoring and analysis.

Work undertaken in individual properties under the Affordable Warmth element of ECO should seek to maximise the energy efficiency (and hence affordability) outcomes through adoption of the whole-house approach *ie* implementation of a full, whole-house package of energy efficiency measures. As well as tracking the extent to which fuel-poor households receive multiple measures, the Department of Energy and Climate Change should also undertake an in-depth analysis and subsequent consultation on the implications for low-income and vulnerable households of exclusive delivery of energy efficiency and fuel poverty programmes through energy suppliers. As well as illustrating any benefits, this analysis should investigate the risks, the distributional impact of additional costs to the energy consumer (compared with Exchequer-funded schemes) and any uncertainties presented by this approach. The Government should also undertake an analysis of the costs of introducing subsidised whole-house energy audits for all low-income households who sit outside of the Affordable Warmth eligibility criteria but are currently within the CERT Priority Group.

Ability to write-off “inherited” Green Deal Finance charges

Apart from generic disclosure procedures, there is seemingly no provision to enable low-income and vulnerable households to write-off inappropriate “inherited” Green Deal Finance charges assigned to their meter as a result of the actions of a previous occupant or landlord. DECC will create a dedicated Green Deal Ombudsman service rather than integration with the Financial Ombudsman Service and the Energy Ombudsman Service. This is a welcome move, but there remains a need for clarity on whether this body will have the power to write-off inherited charges where, for example, the new occupant of a dwelling meets the Affordable Warmth eligibility criteria.

It is also unclear to what extent the Green Deal Ombudsman will seek to monitor instances of disconnections resulting from default on a Green Deal charge or where existing fuel debt problems have been compounded by a Green Deal charge. One final concern relates to whether the Government will monitor whether interest is paid for arrears (where a property has a Green Deal charge). Despite interest typically being paid for defaults on other financial products such as non-secured personal loans, this has not been common practice in relation to energy debt. It remains to be seen whether finance companies investing capital in Green Deal finance arrangements will maintain such a reasonable approach.

Disclosure and Assessment

DECC has ensured that consumer protection has been strengthened through revised policies on assessor impartiality and cold calling, as well as new “protections” for lower than average energy users. DECC will require that where a lower than average energy user wishes to take out a Green Deal Finance arrangement, the Green Deal Provider must obtain a written acknowledgement of customers’ awareness that, based on their energy use, the Green Deal charge may not be fully offset by their energy savings. DECC has also increased the time limit to 90 days to allow for greater consumer protection, especially for more vulnerable consumers who may not be able to challenge non-disclosure as readily. It is asserted that these generic procedures will be sufficient to enhance consumer protection.

¹⁹ The Impact Assessment for the Energy Bill stated: “As of 2007, 33% of fuel poor households lived in homes built before 1919 and 43% of the fuel poor households lived in homes without cavity wall insulation (defined as cavity walls in less than half the dwelling). It is likely that a large proportion of fuel poor households will fall into the ‘hard to treat’ category”.

NEA believes these protections are still inadequate. It is clear that the “Golden Rule” will be based on standard heating and occupancy patterns. As a result, although an occupancy assessment will be undertaken, it is clear that this will be very much a secondary consideration. Thus any household that under-consumes or under-occupies potentially faces significant increases in their energy bills if they take out a Green Deal finance arrangement. It is conceivable that such circumstances could lead to default on repayment of the finance arrangement and, ultimately, disconnection from supply.

These issues strengthen the need for further clarity on the issues raised above: (power to write-off inappropriate “inherited” Green Deal Finance charges); how DECC will insist (and monitor) that ECO funding is signposted at the assessment stage (through a mandatory benefit entitlement check); and written acknowledgement that a householder is aware that (based on their energy use) the Green Deal charge may exceed energy cost savings.

Future requirements under a revised Home Energy Conservation Act

There is an additional need to ensure that ECO is structured in such a way as to maximise benefit and minimise cost. NEA believes that the optimal approach must be based on community-scale delivery (whilst not excluding individual households in exceptional need) and with local authorities as key partners.

The Act provided no detail on how the obligation should be delivered or by whom and did not provide clarity on how future requirements under a revised Home Energy Conservation Act would ensure that local authorities are equipped to take a central role in attempts to reduce both domestic carbon emissions and fuel poverty.

NEA responded to an informal consultation on the revised HECA framework. NEA welcomes recognition that: “local authorities can play a significant role by setting themselves related [fuel poverty reduction] ambitions and that they are uniquely placed to assess the needs of their areas and local residents and act as catalysts for change.” We also noted and welcomed the explicit encouragement for Energy Conservation Authorities to: “implement energy efficiency improvements cost-effectively in residential accommodation by using street by street roll out”.

In addition, NEA was encouraged by the emphasis that the Home Energy Conservation Act is much more than a bureaucratic exercise and that it will deliver real change, improvement and practical action: “HECA recognises this [the unique position of local authorities] and requires authorities to use their position to improve the energy efficiency of all residential accommodation (owner-occupied, privately rented and social housing) in their areas.” NEA considered that introducing a “duty” on local authorities indicated a serious commitment to meeting existing statutory obligations contained in the Climate Change Act and the Warm Homes and Energy Conservation Act.

However NEA notes that subsequent guidance is much less robust and introduces seemingly optional and discretionary elements to the reporting process. As such, we were disappointed to see a number of areas where the guidance is much weaker and utilises language implying that Energy Conservation Authorities “may” wish to adopt specific actions. Foremost among related concerns is the suggestion that: “... an ECA may wish to develop a separate Affordable Warmth Strategy. ECAs may also consider the role that local Health and Well Being Boards and local health partners might play in supporting any plans”.

As a minimum, NEA believes that the Department should monitor all Energy Conservation Authorities by requiring them to draw up Affordable Warmth Strategies, and track whether effective engagement with the health sector is included as a crucial element of these Strategies. If, as anticipated, it transpires that this highlights major disparities, ie some local authorities are prioritising these issues in a strategic manner and others are not, the word “may” should be replaced with the term “must”. NEA also noted and disagreed with the “*laissez faire*” approach to reports. We believe that the Department of Energy and Climate Change should develop an appropriate template for use by all Energy Conservation Authorities to ensure consistency in form and content.

January 2013

Written evidence submitted by ScottishPower

INTRODUCTION

(i) We are committed to playing our part in promoting and facilitating the Green Deal approach enabling consumers to fund energy efficiency measures for their homes through energy savings. However, customer enthusiasm for Green Deal offers, which will clearly be of critical importance to the success of the programme, is as yet unknown. For the Green Deal to succeed, high levels of consumer awareness about how the scheme operates and appreciation of its benefits will be vital. Positive word-of-mouth communication from early adopters could be particularly helpful, so it will be important that the programme runs smoothly from the start. While Green Deal Providers will independently promote Green Deal Plans, DECC has a key role to play in promoting the Green Deal on a national scale and encouraging up-take. The importance of this is underlined

by a recent YouGov poll commissioned by the Electrical Contractors' Association (ECA)²⁰ revealing that 98% of the British public say they do not fully understand the Green Deal and how it works; whilst 62% have never heard of the scheme.

(ii) Energy efficiency programmes have been in existence in the UK since 1994 and whilst progress has been made, the energy efficiency market has required high levels of subsidy to stimulate demand. The demand from consumers alone has not created a self-sufficient market. In the last 12 months of the existing CERT programme, it has proved particularly challenging to encourage customer take-up and we have had to fully subsidise cavity wall insulation to help us to meet our obligations. Indeed, even when the measures are offered for free, many consumers are still not taking up the offers. The unwillingness to invest in energy efficiency improvements appears mainly due to:

- A lack of understanding of why the measures are needed and the benefits that they could bring;
- A perception of too much hassle or disruption;
- A desire for quick, significant bill savings and antipathy to lengthy payback periods, especially if combined with high upfront costs before savings can be realised;
- Doubts about whether energy efficiency improvements will add any value to the home.

(iii) Recent consumer research has indicated that one of the particularly significant barriers to uptake of energy efficiency improvements is the upfront cost issue. The Green Deal finance mechanism offers a potential solution to this challenge: provided the Golden Rule principle is robust, householders should be in a position to benefit from up-front finance and repay the costs through savings made on their energy bills. However, it is difficult to predict how the market will evolve, particularly in the current economic climate where householders have a general reluctance about taking on additional loans. In this context, monitoring will be useful in tracking the direction of the Green Deal scheme and assessing where support is needed to deliver success.

(iv) Issues around the level of take-up of the Green Deal will also have important implications for the ability of energy companies to deliver their carbon saving targets under the new Energy Companies Obligation (ECO) within the Government's projected cost total of £1.3 billion a year. This is because the Government appears to have used ambitious assumptions in its Impact Assessment modelling on the contribution of Green Deal packages towards the overall cost of delivering ECO. It will, therefore, be necessary to monitor Green Deal uptake closely with a view to reviewing ECO obligations over time if the overall costs of the ECO scheme are not to be driven higher than projected.

(v) We set out below our responses to the Committee's questions, recognising that some of these questions may be directed more at the Government or other delivery agents.

RESPONSES TO QUESTIONS

What should be the key indicators for tracking the progress of the Green Deal?

- *What is the best way of assessing the level of uptake of the Green Deal?*
- *What is the best way of assessing the level of energy savings being delivered by the Green Deal?*
- *What is the best way of assessing the carbon savings being delivered by the Green Deal?*
- *What is the best way of assessing whether the Green Deal is delivering value for money to consumers?*
- *What is the best way of assessing whether the Green Deal is being effectively delivered?*
- *What is the best way of assessing customer satisfaction with the Green Deal?*
- *What is the best way of assessing whether everyone who wants to is able to access the Green Deal?*

1. The Green Deal scheme is still very much in its infancy and this should be taken into account when considering ways of assessing the success of the scheme. It should also be noted that delivery under the Green Deal and the Government's new Energy Companies Obligation (ECO) are closely linked, at least in cost terms. Thus, DECC's cost projections for ECO appear to assume a significant contribution from consumers taking out Green Deal packages so as to limit the subsidy needed from obligated suppliers under ECO. However, we consider that there is a risk that Green Deal payments will only account for 15% or less of the cost of the carbon savings targets under ECO.

2. This is especially so given the highly ambitious emphasis on delivery of solid wall insulation ("SWI") under ECO. We think that SWI may be less attractive to customers than cavity wall insulation because it has the possibility of causing significant disruption and/or changing the appearance of the home. We consider that take-up of internal SWI with current technology will be low because of the loss of floor space and the disruption involved in installation. External SWI may prove unattractive to many owners of traditional properties because of the visual change involved though we see a stronger potential in the social housing sector and with some owner-occupied properties of non-traditional construction. Given the uncertainty around uptake and on future cost projections, we consider that there is merit in planning for a review towards the end of the first year of ECO to assess the overall position going forward. In any event, getting the monitoring and administration of both schemes right is essential, including allowing for sufficient flexibility for this to develop over time as appropriate.

²⁰ Press release of 21 December 2012
<http://www.eca.co.uk/training-news-and-events/eca-press-releases/eca-press-releases/consumer/>

3. As regards the Green Deal, it would seem sensible to monitor the number of customers having measures installed in their properties under a Green Deal plan and the overall numbers and types of measures being installed. This will require a robust data collection and assessment process. For example, we can reasonably assume that if 100 people register their interest in the Green Deal scheme, only a portion of these will actually realise the installation of energy efficiency measures and an associated Green Deal plan. A number will fail to agree a finance arrangement and a further group is likely to be deterred by the scale of the home assessment or disruption perceived by the installation of the measures. This is why it will be important to use the Green Deal Central Charge Database to understand the actual number of Green Deal plans that have been taken out and the related savings that have been identified as achievable under these plans. It will also be valuable to monitor whether the savings identified as part of the Green Deal report are actually realised by consumers.

4. Thus, a number of key indicators will be needed to help to monitor delivery including: the number of enquiries about Green Deal plans; the number of assessments being carried out by Green Deal Providers; the number of those assessments that proceed to installation (and whether funded with a Green Deal plan or otherwise); and the number and type of measures being installed in properties. It would also be helpful to monitor the types of properties in which measures are being installed and the post code areas where installations are taking place. This should help to build a picture of uptake and access to the Green Deal across the range of property types and localities.

5. In all of this, consideration has to be given not only to how many customers have taken up the Green Deal, but also how many customers are aware of the scheme and how many found the scheme appealing. Regular assessment is also needed of how many customers started to investigate the scheme but did not complete a Green Deal plan—including why customers did not complete the take up of a plan and whether the measures were abandoned or funded by some other means. However, high level monitoring of numbers alone will not help to provide a true picture of the success of the scheme. Further complications in monitoring the number of customers taking out Green Deal finance packages will be calibrating those customers who choose to finance energy efficiency measures through means other than The Green Deal Finance Company. As many Green Deal Providers may choose to access other sources of finance it will become more difficult to monitor take up levels as there will be no one central database or testing of the “Golden Rule” principles.

6. Thus, to fully understand the position, it is not enough to simply monitor numbers of Green Deal plans and measures installed. In addition, the Government needs to assess consumer reaction and opinions through quantitative and qualitative methods such as polling, surveys and focus groups. It would also be valuable for such research to consider consumer experiences of the assessment and installation process as a factor affecting the take-up of the Green Deal scheme. In this context, it will also be helpful to understand consumer attitudes and perceptions amongst those who move into properties that already have a Green Deal plan. Specifically, it will be interesting to understand whether the presence of a Green Deal plan had any positive or negative impact on their decision to acquire the property and whether they felt they continued to make savings—particularly in a situation where the occupancy characteristics of the property have changed.

7. As regards, the process for assessing the energy savings and carbon savings being delivered by the Green Deal, we consider that this needs to mirror the approach being taken by ECO, most specifically linked to the rating of properties through the SAP/RdSAP methodology and the use of Energy Performance Certificates. In monitoring heating cost and carbon savings, reporting should be conducted on a regular and proportionate basis.

What sources of data are available for measuring your suggested indicators?

8. We consider that a ready source of complete data does not appear to currently exist that would provide easy and manageable reporting on the indicators for success discussed above. Given this, and in order for the Green Deal and ECO to be monitored effectively avoiding unnecessary duplication, we suggest that consideration is given to having one comprehensive and specifically designed database which might be used to monitor, evaluate and report performance. Such a database could in principle allow for more accurate monitoring of live performance. However, it would be important to ensure that the database is robustly designed and managed to suit the purposes of the programme and to deliver effective data security. This would need to include a clear set of permissions and rules, including on data sharing procedures.

Should there be annual take-up targets for the Green Deal and if so what should they be?

9. The success of the Green Deal programme ultimately relies on customers wanting to take out a finance agreement to cover the costs of energy efficiency measures and being willing to undertake potentially intrusive changes to their homes in order to install those measures. Clearly, customers cannot be required to take-up Green Deal packages.

10. Moreover, in the current economic climate, where householders are reluctant to take on additional loans, it could be difficult to generate enthusiasm for the Green Deal, especially given the existing evidence from the previous CERT and CESP schemes showing that even where we can identify customers who may benefit from energy efficiency measures, customer take-up of these measures is low, including where the measures are free and relatively easy to install.

11. We therefore consider that there is not enough information at present for the Government to set itself annual take-up targets. Any such targets should only be considered once there is sufficient experience of the scheme to set them on a meaningful basis.

12. The Government should however seek to play a leadership role in encouraging consumer “pull” for Green Deal via a clear engagement strategy, aimed at communicating the benefits of the Green Deal scheme and building trust among consumers. In this context, we welcome DECC’s commitment to spend £1.9 million to assist in the promotion of the Green Deal. However, we would suggest that further consideration should be given to providing additional commitment to marketing and promotional activity, as the scheme develops, where needed. In particular, demand could be greatly enhanced by this engagement process if energy efficiency could be increasingly seen as a “home improvement choice” that can add value to the home. It is as yet unclear whether consumers and property owners will be prepared to subscribe to this view.

January 2013

Written evidence from the Insulation Industry Forum

1. EXECUTIVE SUMMARY

1.1 The Insulation Industry Forum is made up of over 70% of the £700 million a year insulation industry. The IIF is entirely supportive of the Government’s goals for the Green Deal and the Energy Company Obligation (ECO), which it wants to see succeed.

1.2 However, the IIF has major concerns about the Government’s plans for transition for insulation measures from the CERT/CESP regime to Green Deal and ECO, the general readiness of the Green Deal and ECO and the appetite of consumers to take up Green Deal.

1.3 We welcome the opportunity to respond to the Energy and Climate Change Committee and would suggest that there are a number of criteria which would be pertinent for the committee to assess the success of the Green Deal.

1.4 These include:

- The availability of Green Deal Finance.
- The distribution of ECO funds.
- The number of homes taking up the Green Deal.
- The savings made through taking out a Green Deal.
- Insulation supply chain capacity and level of supply chain engagement in other Green Deal “trigger point” industries.

2. POLICY CONTEXT

2.1 The Government has set out a policy ambition to improve the UK’s ageing building stock; the aspiration is to retrofit 14 million homes by 2020. The IIF believe there are five inter-linked elements which all need to be in place if the aspiration is to be considered realistic.

2.2 These are:

- *Finance*—through *Green Deal*, low cost private finance to be made available to those wishing to retrofit their property at no, or reduced, up-front cost
- *Subsidy*—the *Energy Company Obligation (ECO)* to assist with installation costs where measures are not cost-effective for individual householders but offer a societal benefit (socially cost-effective) such as “solid wall insulation” or “hard to treat cavity wall insulation”.
- *Real renovation performance*—while energy bill savings resulting from a property refurbishment can’t be guaranteed, there must be a reasonable degree of confidence that predicted bill savings at the assessment stage are realised after measures have been installed. This is true for both homeowners who must pay Green Deal charges to cover the cost of installed measures and institutional investors considering purchasing Green Deal bonds (householder Green Deal repayment default rates will likely be higher if they don’t realise the expected savings).
- *Supply chain capacity*—an adequate number of assessors, installers and products with suitable accreditation, certification and warranties to deliver real performance
- *Demand drivers*—The points above enable someone who has already made the decision to improve their home or building to do so with a degree of confidence and financial support. Mechanisms must also be put in place to persuade people to take that decision to improve their property in the first place—we are not aware of a large body of people waiting for the right opportunity to improve the energy efficiency of their whole home.

3. MEASURING THE SUCCESS OF THE GREEN DEAL

3.1 At present these five elements are all at varying degrees of readiness. This means that there are significant risks to the success of the Government's policy ambitions.

3.2 We set out below our concerns for each of these elements and why we believe the Green Deal will be delayed in its implementation as a result.

3.3 We then go on to suggest a number of ways in which the Committee on Energy and Climate Change could look to monitor the success of the Green Deal and elements it is intrinsically linked to.

4. FINANCE

4.1 *The Issue*

4.2 There is a need for low cost private finance for those wanting to retrofit their property at no, or reduced, up-front cost; essentially the Green Deal element of the Government's policy.

4.3 The IIF understands that Green Deal Finance (which was due to be available from 28 January 2013) will now not be widely available until April 2013, and there will be lead-in-times in generating consumer demand and installations thereafter. The Green Deal Finance Company is the only private finance provider looking at a universal Green Deal lending model and faces serious hurdles to meet the 28 January Green Deal go-live date.

4.4 We are therefore concerned that consumers will be unable to access the finance that they need in order to access a Green Deal. By measuring the following, it would be possible to assess whether finance is readily available across the board and whether the Green Deal Finance Company are able to have successful bond issues.

4.5 *Measurements*

4.6 We would suggest that the following data is collected on a monthly basis by the Committee.

- The finance being offered by the Green Deal Finance Company (TGDFC) to Green Deal providers.
- If they can offer finance—at what volume, at what interest rate and under what limitations (ie will all householders through any accredited Green Deal Providers have access to that funding or will there be constraints around householder credit worthiness for example)?
- How many other lenders are offering Green Deal Finance?
- If the high street banks aren't yet ready to offer Green Deal finance, do they plan on offering it? If so when? If not, why not?
- If Green Deal finance is available, how swiftly are Green Deal finance providers aggregating Green Deal debt and able to get it off their balance sheets through securitization?

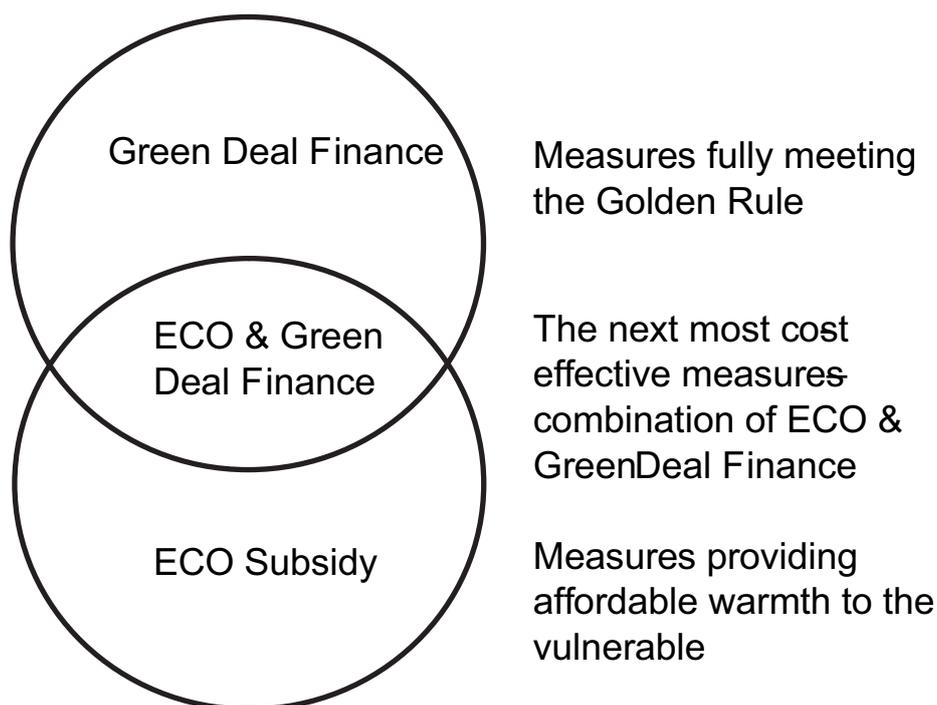
5. SUBSIDY

5.1 *The Issue*

5.2 Government has decided that where energy efficiency measures are not cost effective for individual householders, but offer a societal benefit (socially cost effective) eg Solid Wall Insulation or Hard to Treat Cavity Wall Insulation, energy suppliers will be obliged to "enable" householders to take up these measures under the Energy Company Obligation (ECO). In reality, this means energy suppliers covering part or all of the installation cost—potentially even offering cash incentives above the installation cost—to incentivise take up.

5.3 High levels of ECO subsidy per house will mean the scheme is operating sub optimally as all energy bill payers will have to cover the cost of energy suppliers delivering their ECO obligation. A large part of the ECO is therefore designed to run in tandem with private Green Deal finance with installers of solid wall insulation or other eligible measures incentivised to persuade householders to take out Green Deal finance along with the ECO subsidy. If Green Deal finance is not available, or limited in availability, there will be higher ECO delivery costs for energy suppliers which will ultimately be passed on to us all through our energy bills.

5.4 The remaining part of ECO will fully fund energy efficiency measures in fuel poor homes although this element runs outside of the Green Deal focus of the committee's investigation.



5.5 Subsidies for low cost standard cavity wall insulation and loft insulation are not allowable under the ECO and Government is assuming that households will have these measures carried out through the Green Deal or simply pay a “normal price” for them outside of the Green Deal. It is important therefore to test this assumption by monitoring the number of low cost cavity wall and loft insulation installations carried out under the Green Deal and in the open market in comparison to under the previous CERT scheme.

5.6 Measurements

5.7 We would suggest that the following data is collected on a monthly basis by the Committee.

- Is Green Deal finance available to Green Deal Providers installing ECO eligible measures?
- What proportion of the average cost per install is covered by Green Deal finance and what is covered by ECO funding? An alternative to receiving this information directly from suppliers either individually (or aggregated due to commercial sensitivity or restrictions through competition laws) would be tracking the price per tonne of CO₂ (CO₂ is the metric which energy suppliers are required to report to Ofgem in delivering the ECO while a price will be publically available once the ECO brokerage system is up and running) and should give an indication of how successful Green Deal finance is in displacing ECO subsidy.
- The percentage of Solid Wall Insulation installations carried out under ECO that form part of a Green Deal Package with associated finance (cross referencing addresses received through Ofgem with those with Green Deals attached to them should offer this figure).
- The number of low cost, standard cavity walls and lofts insulated under the Green Deal in comparison to the installation rate under the CERT scheme.

6. DEMAND DRIVERS

6.1 The Issue

6.2 Whilst finance and subsidies will help someone to improve their home, there needs to be a mechanism in place to persuade them to take the action in the first place. The stronger the demand drivers, the easier it will be to persuade householders to take up the measures and be willing to take out Green Deal finance. It will also reduce the cost to energy suppliers of delivering the ECO—a cost that will ultimately be passed to all energy bill payers.

6.3 We welcome the Government’s commitment to marketing the Green Deal through their £2.9 million investment for digital and traditional engagement to encourage those considering home improvements to take up the Green Deal.

6.4 We also welcome the announcement of £125 million in Green Deal cashback incentives to encourage uptake of whole house energy efficiency improvements. This scheme offers householders cash back when they install measures such as new efficient boilers and insulation. It also requires householders to ensure they install minimum levels of installation if they wish to claim cash back on a new boiler for example.

6.5 However, we believe that this alone will not provide enough of a driver to encourage Green Deal take-up. Government appeared to agree when, in April this year, DCLG proposed in a consultation to require all householders installing a new boiler, extension or glazing to improve the energy efficiency of their home. However, following a tabloid press back lash, the policy has been dropped for homes but no demand driver of equivalent impact has replaced it.

6.6 *Measurement*

6.7 We would suggest that the following data is collected on a quarterly basis by the Committee.

- How many Green Deal assessments have taken place assessed through Energy Performance Certificate lodgement?
- Of these, how many Green Deal plans are taken forward by householders?
- How many Green Deal plans are taken forward using Green Deal finance assessed through green deal repayment charges lodged on energy meters?
- What proportion of Green Deal assessments are realised every quarter based on assessments for other home improvements eg new boiler, double glazing etc?
- What proportion of Green Deal assessments are realised through other trigger points eg estate agent or pension adviser initiation?
- Proportionally, which tenures are taking out Green Deals ie owner occupier, private rented, housing association or local authority owned properties? (This data could be collected through a combination of energy supplier and Green Deal provider records and local authority reporting through the Home Energy Conservation Act).
- How many warranties for cavity and solid wall insulation have been lodged measured on a quarterly basis (eg CIGA and SWIGA and equivalent)? This would give a picture of ongoing activity.
- Measure the quantity and value of ECO funded jobs done with no green deal cash and where the cash over and above ECO came from, and what the interest rate was.

7. REAL RENOVATION PERFORMANCE

7.1 *The Issue*

7.2 In order to convince those investing in whole house energy efficiency retrofit—both home owners and institutional investors—whole house renovation must offer confidence the energy bill savings proposed at the Green Deal assessment stage will be realised.

7.3 DECC has set in place a comprehensive accreditation process and built conservative penalty factors into the predicted savings in the Green Deal assessment software for each energy efficiency measure.

7.4 DECC is also considering a mechanism to reward those products and installation processes that are able to demonstrate better performance in realising energy bill savings against their competitors and against Green Deal software predictions.

7.5 This should ensure that no gross errors are made in savings predictions and the supply chain is incentivised to innovate. However the whole supply chain must accept that the reputation of Green Deal will be damaged by only a few bad headlines

7.6 *Measurements*

- What protocols have Green Deal providers put in place to ensure predicted savings outlined at Green Deal assessment stage are realised?
- What safeguards have Green Deal providers/DECC/Ofgem put in place to ensure these protocols exist across the market?
- What level of compliance with building regulations has occurred? This will monitor whether jobs have been done with the correct approval

8. SUPPLY CHAIN CAPACITY

8.1 *The Issue*

8.2 In order for the Green Deal and Energy Company Obligation to be successful in delivering the aspiration set out above, there needs to be an adequate number of assessors, installers and products available with suitable accreditation, certification and warranties to deliver the level of “real performance” described above.

8.3 The key metrics of success are; to what degree has the Green Deal engaged those supply chains not involved in the recently closed carbon reduction schemes (the Carbon Emission Reduction Target or CERT and the Community Energy Saving Programme or CESP)—the boiler, glazing and extension install businesses.

8.4 The other key part of the supply chain is insulation installers themselves. With declining demand, loft and cavity wall insulation installers will struggle to stay in business and manufacturing plants will struggle to remain at capacity, and subsequently not be able to continue with their current investment levels.

8.5 The Association for the Conservation of Energy carried out research on the impact on jobs in the insulation industry. The research shows that full-time employees currently employed in the loft, solid wall and cavity wall insulation industry will fall from 36,000 in 2012 to a worst case scenario of 20,000 in 2013—a drop of 45%.

8.6 Research carried out in the insulation industry by the IIF shows that to date, over 1,700 people have lost their jobs, with a further 1,200 having been placed on notice for redundancy.

8.7 This is only the beginning of the problem and with expected delays to financing and concerns over take-up, many more jobs are expected to go in the coming weeks and months. In fact, the numbers are currently rising on a daily basis.

8.8 The phasing and rate of installations under the Green Deal and ECO will have a significant bearing on continuity and sustainability of work for companies and associated planning and investment. For example a slow uptake in the early months of the ECO followed by a major increase in demand in 2014 could cause difficulties for the industry as has been experienced with CERT and CESP.

8.9 *Measurements*

- Necessary number of assessors, installers and products available with suitable accreditation, certification and warranties.
- Supply chain links made with the heating and glazing industries.
- Rate and phasing of delivery of ECO carbon savings and insulation installation rates. This can be monitored through the monthly reports Ofgem will provide to DECC.

9. CONCLUSION

9.1 In order to effectively monitor the success of the policy, we believe there are five key criteria which should be tracked by the committee. Together these five elements, if fit for purpose, would allow the policy ambitions of the Green Deal to be realised.

9.2 The IIF is fully supportive of the aims of the Green Deal and we would like to see it succeed. We believe that through effective monitoring, it would be possible to identify the areas which there may be potential problems, and address them as soon as possible.

9.3 We would be very happy to provide the committee with further information either in writing or in person.

January 2013
