The Green Deal and ECO consultation

British Gas response

January 2012

Executive Summary

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British Gas supports Government's vision for the Green Deal and new Energy Company Obligation (ECO). Working together, we believe these programmes can be transformational in delivering energy efficiency measures into Britain's homes and businesses.

In order to maintain momentum and ensure an October 2012 launch remains feasible, we would urge speedy decisions on key elements of the programme. These include the detail of the ECO framework; ensuring the financing arrangements are fit for purpose; and establishing the baseline functionality of energy supplier systems and processes.

We are concerned that we are unable to reasonably forecast the ECO delivery cost without more clarification on carbon scores. We note the consultation estimates the actual delivery costs could be up to £3bn per annum. Further consultation will be needed to agree the detailed ECO framework, and prior to our agreement to take on a new supplier Obligation.

We consider that industry CERT extension targets and CESP obligations were set at unrealistic levels and could not, and will not, be met by suppliers by the 31st December 2012 deadline. A managed transition to the Green Deal and ECO is now a crucial challenge and should include a carry-forward of undelivered CERT and CESP activity into the first ECO period.

The ECO must be set in a fair and achievable way and needs to reflect both consumer demand and supply chain capacity, which previous energy efficiency programmes have proven to be an obstacle to successful delivery. The levels of targets being suggested are aspirational and Government should therefore plan for a scenario of faltering consumer demand for Green Deals where ECO targets would not be delivered, and put in place a safety net to allow targets to be fairly renegotiated.

We do not consider it appropriate to continue to fund an Energy Company Obligation through energy bills at levels commensurate with previous programmes. Given investment and carbon savings will also be delivered through the Green Deal, we believe that funding a smaller programme through customer bills should now be considered.

The Carbon Saving target should be proportionately much smaller, and eligibility broadened to other insulation measures including where the Golden Rule would not otherwise be met and potentially basic insulation measures, as well as support for communal heating schemes. Consideration should be given to how the development of innovative and future energy saving measures could be funded through ECO.
A higher proportion of total support should be given to vulnerable customers through the Affordable Warmth element of the ECO. However, the current eligibility criteria is too narrow and should be broadened to include delivery into social housing, customers on a wider range of benefits, referrals from trusted agencies like the NHS, and holistic community-led schemes.

Despite a broadened eligibility, it will still be challenging for suppliers to identify enough eligible households, since there is a diminishing pool of appropriate homes meaning they are harder to find. We therefore propose an early expansion of data-sharing, and Government help with establishing a referrals system. This will ensure a wide range of vulnerable customers can access support, allow search costs for Affordable Warmth support to be reduced, and enable the ECO to be delivered most cost-effectively.

To ensure continuing demand for basic insulations and enable a smoother transition for the insulation industry, continuing support should be given to cavity and loft insulations in the able-to-pay sector. This could be through the Carbon Saving target, or from a carry-over of un-delivered CERT and CESP activity into the early phase of the new programme.

We support the introduction of a brokerage mechanism if designed correctly, but do not support allocating 50% of our Obligation to the brokerage mechanism as this would introduce an unacceptable level of delivery risk. We would voluntarily commit up to 20% of our Carbon Saving target into the brokerage mechanism, providing that the same proportion of our Obligation was also transferred so we would no longer hold the associated delivery risk.

Whilst Green Deal providers will take a leading role in delivering the programme to consumers, Government has a key role to play including in maintaining high standards; in raising consumer awareness of energy efficiency; and in driving demand through a range of fiscal and regulatory drivers. Microgeneration is a key driver of demand for the Green Deal and these technologies, supported by FiTs and RHI, should be fully financeable under a Green Deal.

Every opportunity to engage with customers should be taken, including at the smart meter install when consumers will be focused on the energy they are using and receptive to energy efficiency messages. Impartial Green Deal advisers, paid for by providers, should be allowed. Common industry-wide explanations on new concepts such as the Golden Rule should be established.

The cost of finance is a barrier for many people and we believe the Green Investment Bank (GIB) has a key role to play in keeping the interest rate for Green Deals low through early support for Green Deals. We would welcome early clarity on the role the GIB will take, and believe any necessary state aid approvals should be sought as early as possible.

High standards for providers, assessors, installers and technologies remain important to ensure customer trust in Green Deal products, processes and people, ensure carbon and energy savings are met, and avoid accidents. However, a balance needs to be found between protecting consumers and ensuring a workable Green Deal.

Introduction

British Gas supports Government's vision for the Green Deal and new Energy Company Obligation and believes the programme could be transformational in delivering energy efficiency measures into Britain's homes and businesses. We agree that the Green Deal has the capacity to drive innovation, investment and economic growth.

British Gas welcomes the engagement we have had with Government to date as the Green Deal and ECO frameworks have been developed.

Energy companies have a successful track record in delivering energy efficiency measures into Britain's homes and businesses. Successful delivery of CERT and CESP obligations has necessitated the establishment of complex delivery structures, with numerous programmes and channels, and through a multitude of partnerships including local authorities, charities, housing associations, community groups and retailers.

We have been hugely successful in encouraging a mass take-up of energy efficiency products by both households and businesses. We have stimulated technology and product innovation and encouraged consumer behaviour change through our innovation work with leading consumer facing companies such as Sony and Sky.

Suppliers have competed with each other and there has been much innovation which has led to significant energy savings, delivered at least cost. We believe these programmes can provide a foundation for successful delivery in the future, and that their best aspects should be transferred to new programmes.

Despite the successes to date, we recognise that the level of ambition identified for the Green Deal and ECO programmes means that a step-change in delivery will now be required. We believe a wide range of stakeholders including Government at all levels, the energy industry, and community organisations can, and should, play a role in raising consumer awareness of the benefits of energy efficiency and the opportunities the new programmes afford.

Whilst much progress has been made in developing a Green Deal and ECO framework, the lack of detail in some areas is concerning. In order to ensure the Green Deal programme can successfully launch in October 2012, and support is available under the ECO from January 2013, maintaining momentum in both programmes is crucial.

In particular, we would urge speedy decisions on the ECO framework including the notification of carbon scores, which will require a further round of consultation, and ensuring the financing arrangements are fit for purpose, including clarifying the role of the Green Investment Bank and the timetable for any necessary state aid clearance. Urgent decisions are also needed on the required data flows that will allow systems and processes to be put in place to allow the collection and transfer of Green Deal payments from customers to Green Deal providers.

British Gas intends to be at the forefront of delivering these new programmes and in anticipation we are investing heavily including in:

- Recruitment and training for our 10,000 engineers, assessors and installers;
- A new insulation business, capable of delivering cavity, loft and solid wall insulations;
- A go-early Green Deal customer offering, so that we can best understand how to market the Green Deal to our customers.

However a transformation in energy efficiency delivery to the extent anticipated cannot be delivered overnight. Consumers need to be educated about the benefits of energy efficiency and supply chains, and infrastructure needs to be built. It is likely to be some months or years before industry can operate at peak capacity. Managing the transition from current energy efficiency programmes, and managing the sustainable growth of new energy efficiency businesses is a crucial challenge.

ECO

British Gas supports the continuation of an Energy Company Obligation. We believe this support will be crucial in delivering energy efficiency measures into vulnerable households, tackling fuel poverty and improving the UK housing stock. The ECO will also play a key role in supporting energy efficiency measures in the able-to-pay sector when combined with a Green Deal package. This will maximise carbon savings and at the same time allow the energy sector to grow in a sustainable way.

We are concerned that we are unable to reasonably forecast the ECO delivery cost without more clarification on carbon scores. We note the consultation estimates the actual delivery costs in a wide range of between £0.5bn and £3bn per year. Further consultation will be needed to agree the detailed ECO framework, and prior to our agreement to take on a new, and fundamentally different supplier obligation.

The scale of investment suppliers are being asked to make in the ECO is material, especially when seen in the context of customers' bills and therefore the programme needs to be affordable. In the current economic climate, therefore, we do not consider it appropriate to continue to fund an Energy Company Obligation at levels commensurate with previous programmes and believe a smaller programme should now be considered.

We estimate that, when taken in isolation from the energy efficiency savings ECO supported measures will deliver, the Obligation will make up around 5% of the average domestic dual fuel energy bill. This is around the level of the price decreases companies like British Gas have recently delivered for electricity customers. Furthermore, it should be recognised that if the Green Deal is as successful as anticipated, the level of carbon savings can be maintained with a smaller supplier obligation.

There is a continuing need to target vulnerable customers with energy efficiency measures in order to deliver against fuel poverty objectives. We consider that within the parameters of a smaller programme, a higher proportion of support should therefore be given to vulnerable customers through the Affordable Warmth element of the ECO. The eligibility criteria for this target should be broadened considerably so that the maximum number of vulnerable customers can be helped, and should:

- Allow delivery into social housing and to customers on a wider range of benefits, more akin to the CERT SPG segment;
- Allow referrals from trusted agencies like the NHS;
- Encourage holistic community-led approaches in areas of deprivation building upon the delivery models of the current CESP scheme;
- Include uplifts to make solid wall insulation feasible;
- Encourage the installation of low carbon heating where appropriate through the installation of heat pumps and communal biomass heating schemes.

Suppliers will be looking for opportunities in a diminishing pool of prospects. To maximise the identification of eligible households, and to reduce search costs and deliver the programme as cost effectively as possible, Government must play a full part in better targeting of eligible customers for the Affordable Warmth target.

We would welcome the early expansion of data-sharing to allow us to directly make offers to eligible households, and to increase the use of referrals from trusted parties such as the NHS. This is in the interests of both customers and industry, allowing providers and suppliers to deliver support where it is most needed as soon as possible.

A smaller proportion of the total Energy Company Obligation should be available to the able-to-pay sector through the Carbon Saving target, reflecting the need to move away from subsidising cost-effective measures in non-vulnerable households. We consider that the excessive focus on solid wall insulation to deliver this target is unrealistic given the current industry capacity. Government anticipates that around 380,000 solid wall insulations will be installed over the first ECO period against a current installation rate of only around 25,000 in 2011.

British Gas therefore considers that in addition to supporting solid wall insulations, the Carbon Saving target should also support a wider range of insulation measures and innovation including home energy management systems. We suggest that the requirement for at least 50% of the property to be treated with solid wall insulation prior to other measures being supported is removed. Levels of support should be set at the minimum required to bring forward cost savings in the future through the use of uplifts. Thought should also be given to how area-based projects can be encouraged. Evidence from CERT and CESP shows that such projects are key for community engagement and will be vital in the future.

We are concerned that no support is anticipated for cavity and loft insulations in the able-to-pay sector. CERT subsidies have proven extremely effective in delivering cavity and loft insulation into millions of UK homes and we believe it is unrealistic to expect households to continue to take insulation at previously seen levels without some level of continuing support. This support could be tapered as Green Deals take off, and could be delivered through a broader Carbon Saving target, or from a carry-over of un-delivered CERT and CESP activity into the early phase of the new programme. Without some continuing support, carbon savings will not be delivered in this sector and as a consequence there is a risk that UK carbon targets will not be met.

We consider that industry CERT extension targets and CESP obligations were set at unrealistic levels and could not, and will not, be met by suppliers by the 31st December 2012 deadline, despite concerted and sustained efforts.

Managing the transition from current energy efficiency programmes to the Green Deal and ECO later this year is therefore a crucial challenge. Without changes to the deadline for delivering current programmes, there will be a significant and costly investment in the insulation workforce and supply chains, followed by a significant decrease as the new scheme starts and demand reduces whilst Green Deals are promoted. The insulation industry capacity is currently around 1.2m installs a year. Over 2m installs will need to be delivered in 2012 if the CERT target is to be met in full, capacity which will then be almost completely redundant under current plans. We do not consider that to be either efficient or feasible.

Furthermore, attempting to meet challenging targets in the prescribed timeframe is driving unnecessary costs onto customer bills as suppliers increasingly offer insulation for free, and the market cost of carbon delivery increases. Continuing to promote free insulation also undermines the Green Deal as consumers will suddenly be expected to pay the full cost of their installations.

British Gas therefore strongly supports a managed transition into the new schemes and supports introducing a carry-forward of undelivered CERT and CESP activity into the first ECO period. As previously mentioned, this would also contribute towards a soft landing for the loft and cavity insulation industries, helping to ensure that resources are efficiently allocated and carbon savings can continue to be made.

The ECO must be set in a fair and achievable way and needs to reflect both consumer demand and supply chain capacity, which previous energy efficiency programmes have proven to be an obstacle to successful delivery. If the market doesn't develop as anticipated, and consumer demand is less than expected there is a very real risk of under-delivery, as has happened with CERT extension targets and CESP obligations. Government should anticipate this possibility in advance and clarify early how targets can be renegotiated in a way that is fair to all stakeholders.

We support the introduction of a brokerage mechanism and, if designed appropriately, believe it could help to improve access to ECO funding for non-obligated Green Deal providers. We do not support allocating 50% of our Obligation to the brokerage mechanism and consider that this would introduce an unacceptable level of delivery risk. We would voluntarily commit up to 20% of our Carbon Saving target into the brokerage mechanism, providing that the same proportion of our Obligation was also transferred so we would no longer hold the associated delivery risk.

We agree that it is fairer to lower consuming customers if the costs of ECO are set on consumption rather than per household. Forthcoming changes to retail energy tariffs being driven by Ofgem's Retail Market Review will provide further encouragement to allocate the cost of ECO in this more equitable way. However, there would be severe unintended consequences of moving to a pure consumption model through a greater share of the ECO burden placed on gas accounts rather than spread equally as currently happens, with consequential impacts for fuel poverty. We therefore propose that allocation of ECO is split 50:50 between gas and electricity customers, with allocation within gas and electricity being based on the amount of energy supplied to residential customers. This would ensure a fairer allocation mechanism for ECO costs whilst avoiding the potentially damaging impacts placing an increasing burden on to a single fuel would have.

CERT and CESP have shown that allowing innovation and flexibility maximises the potential of energy efficiency schemes and we would support designing the new framework to reflect this. Conversely, caution should be exercised before introducing design features that could limit innovation and flexibility: interim targets are an example, and are a particular concern for solid wall insulation delivery where the supply chain needs to be built up and delivery is necessarily back-ended. Another example is the introduction of sub-targets which limit flexibility to deliver. A better way to encourage the desired outcome would be to offer uplifts.

Where appropriate, lessons need to be learnt. Much can be done to make the new framework simpler and easier than previous energy efficiency schemes. The current process for verifying and scoring measures, for example, is too long and too difficult, and a simpler approach to allocating scores under ECO points should be found.

We believe that Ofgem should administer the ECO scheme. They have the experience of managing CERT and CESP and the systems and processes in placed to continue to do so. We believe replicating these processes in DECC would be an unnecessary cost with no perceivable benefit to customers.

In our view proposals to move to monthly ECO reporting are unnecessary and will add costs to consumer bills. We do not support proposals to mandate the reporting of supplier ECO spend and believe this will reduce competitive drivers to limit costs to consumers.

Green Deal

British Gas is investing in our systems and processes to allow us to meet our statutory obligation as a Green Deal collection agent. The timetable for making necessary changes is extremely tight and is, to an extent, dependent on further clarification on Green Deal finance flows. We expect to be able to be compliant by October 2012, allowing customers to register for Green Deals from that time. However in light of the tight timescale we welcome proposals for the Green Deal to be launched in October with baseline functionality, and are committed to working with DECC and others in the industry to ascertain how that could work in practice.

Over and above our statutory duties as a Green Deal collection agent, British Gas intends to be a leading Green Deal provider, offering a fully comprehensive package to our customers. We have invested in our employees and in technologies, and in July 2011 launched a pilot Green Deal programme called the British Gas Home Energy Plan.

Our experience in delivering both the British Gas Home Energy Plan and other energy efficiency propositions, supported with ongoing customer market testing, has given us significant insight into customer challenges around the Green Deal.

The Green Deal programme will need to be positioned carefully and Government has a key role to play in that. The “Green Deal” name is not attractive to consumers and we support this brand being used as a mark of quality rather than as a national campaign. We also agree that nationwide brands, local businesses and community organisations should compete to deliver the best proposition for the customer.

We support the appointment of an independent body to monitor and oversee the activities of the different participants in the Green Deal, and welcome the establishment of a Government supported remote advice service, which will also give advice on wider energy efficiency topics. Government does have a role to play, however, in taking proactive measures to help raise consumer awareness of energy efficiency and the Green Deal, and we would urge further thinking to be undertaken on how that could best happen.

Government support to drive consumer demand is crucial. Whilst Green Deal providers will take a leading role in marketing the programme to consumers, our current experience shows it’s difficult to engage customers on energy efficiency, even when measures are offered for free. In addition to helping raise awareness of the benefits of energy efficiency, Government can help to drive consumer demand in a number of ways including through ensuring a wide range of measures can be accessed, allowing blended financing, and supporting a range of fiscal and regulatory drivers including stamp duty rebates and bringing forward minimum standards in private rented properties to 2016.

We welcome the £200m of new funding announced in the 2011 Autumn Statement to boost the take-up of the Green Deal in the early phase, and will be working with DECC to recommend how that funding can most effectively be spent.

We understand that Treasury is open to proposals for “carrot” incentives for inclusion in the March 2012 Budget and welcome this commitment. Should the Green Deal fail to take off as quickly as anticipated, we would urge Government to introduce further fiscal and regulatory drivers.

Every opportunity to engage with customers should be taken. The opportunities for direct customer engagement in discussions on energy efficiency and Green Deal are rare. Suppliers should be able to promote the Green Deal and offer to arrange assessor appointments when they are in the home installing smart meters. Smart meters alone will not reduce energy consumption but they can act as a catalyst for consumer behavioural change by making customers aware of the energy they are using.

There has been a very productive engagement with DECC and other stakeholders in developing a Smart Metering Installation Code of Practice. We believe the current version of the Code protects consumers from mis-selling whilst maximising energy efficiency, and agree that selling energy efficiency measures should not take place. We are therefore concerned that the latest smart meter consultations from DECC seek to forbid smart installers from marketing or promoting energy efficiency during installs, and would urge this to be reviewed as a matter of urgency.

Green Deal advice should be impartial, but does not in our view need to be independent. The market for paid-for advice is likely to be small. There is a place for independent advice, but most consumers won’t pay upfront fees and don’t trust commission. Impartial Green Deal advisers, paid for by providers, should therefore be allowed. We do not believe that requiring the assessor to disclose the nature, amount and source of any commission to be beneficial to the customer experience. Green Deal providers will compete on price and service delivery capability. We believe focussing unnecessarily on potentially very small incentive payments will inadvertently influence the take-up decision of customers and could affect the success of the scheme.

Microgeneration and renewable heating systems will be a key driver of demand for the Green Deal. Many customers have a leading interest in solar and the interest in this technology can be harnessed to drive Green Deals. Microgeneration, supported by FiTs and RHI, should be fully financeable under a Green Deal. This would also tend to increase the average size of the loan, making Green Deal finance cheaper to administer and finance.

The cost of finance is a barrier for many people. We believe the Green Investment Bank (GIB) has a key role to play in keeping the interest rate for Green Deals low through early support for Green Deals. Once a track record and credit rating is established, subsequent loan aggregations could be sold at cost-competitive rates to the capital markets. We are encouraged that Government has suggested the Green Deal should be an early priority for the Green Investment Bank (GIB), and would welcome clarification on the role the GIB will take, and the seeking of any necessary state aid approvals, as early as possible.

We welcome the formation of the Green Deal Finance Company (GDFC) aggregator project, and have been active participants in its feasibility plan. We see its timely development as key to the successful establishment of the Green Deal from October 2012, and urge Government to give the GDFC its full support.

The Golden Rule is hard for customers to understand. We would support a common industry-wide explanation, promoted by Government. The Golden Rule needs to be applied in a transparent and trustworthy way. We believe this should not depend on assumptions about future changes in interest rates or energy prices but should give customers savings from day one.

We do not support proposals to require Green Deal providers to offer insurance-backed warranties for the entire repayment period and consider this to be impractical and non workable. Although technically possible, it is not available today and would weigh so heavily on the Golden Rule calculation that it would restrict market take up. As an alternative, we believe customers should be given the option to further insure or warrant a Green Deal measure post its manufacturer's warranty.

High standards for providers, assessors, installers and technologies remain important to ensure customer trust in Green Deal products, processes and people, to ensure carbon and energy savings are met, and to avoid accidents. Without this, customer confidence in the scheme can easily be undermined. We strongly welcome Government commitment to strong consumer protections including a Government backed system of accreditation for impartial assessment, reliable measures and quality installations.

Whilst high standards are important, however, a balance needs to be found between protecting consumers and ensuring a workable Green Deal. Whilst understanding and supporting the need for high protection for current and future bill-payers it is crucial that the Green Deal framework is not so onerous that it undermines consumer appetite. Examples of this are:

- Potentially onerous codes of practice and penalties associated which could make being a Green Deal provider very unattractive, and risk restricting the market to a small range of providers;
- The proposed surety bond mechanism which would add additional cost to each Green Deal as the risk is offset through a third party;
- Proposals to ask customers to obtain three quotes for a Green Deal plan in excess of £10,000;
- Proposals to require Green Deal providers to offer insurance-backed warranties for the entire repayment period.

Finally, it is vital that suppliers are able to treat Green Deal debt as energy debt, and thus retain the right to both object to customers withdrawing without first settling unpaid amounts and, in extreme circumstances, disconnect the customer for non-payment. This will ensure that the settlement of Green Deal payments will proceed smoothly, reducing risk throughout the process and operating within the established safeguards energy debt regulations provide.