Department of Energy and Climate Change

The Green Deal and Energy Company Obligation Consultation

Response by E.ON

Summary of key points and priorities

Timescales

The consultation period has not allowed enough time for a fully considered response on all issues and does not meet DECC’s usual criteria for consultations. DECC should continue to engage with industry and other organisations after the consultation closes on the detail contained both within the consultation document itself and the supporting documents (e.g. the Green Deal Arrangements Agreement (GDAA), supplier licence conditions and codes) to ensure the Green Deal is a workable scheme. Furthermore, delivery of the Green Deal to the October 2012 deadline is tight. If the scheme is to be implemented by this date, DECC needs to facilitate a coordinated delivery between all parties of the end to end scheme.

Suppliers have already invested in initiating the implementation of industry as well as internal systems based on key assumptions generated in DECC workshops to date. If the consultation were to change the current understanding of the core principles of the scheme, such as recovery via the electricity bill, pari passu liability model or alignment with suppliers’ business as usual processes, the October deadline would be unachievable.

Our central forecast of the cost of ECO is around £2bn per annum, with a significant risk of higher costs for energy consumers. The targets need to be much more flexible and the available measures widened.

The ECO targets are based on extremely optimistic assumptions about the rate of growth of solid wall insulation capacity and the potential benefits of boiler replacement in the affordable warmth element. The assumption of a 43% customer contribution is also not credible at present and we would not expect any significant contribution until solid wall insulation and the Green Deal are fully established. Central case assumptions should be used even if this means costs to energy consumers can only be held to £1.3bn per annum through a reduction in the targets.

Even with revised assumptions there will be substantial risk arising from the step change from CERT to ECO and the Green Deal, the inherent uncertainty in the key assumptions and the short first period of ECO. The latter is particularly disappointing as Government had set expectation of a longer term scheme which would give confidence to develop longer term partnerships. To provide a
balance between Government’s need to make adjustments and the market’s need for stability, the ECO Statutory Instrument should always cover two periods.

To reduce the risk of ECO costs spiralling, Government should allow energy suppliers to have greater flexibility in how they meet targets over time, with a defined consequence that a shortfall in one period means that more has to be delivered in the next period – we propose twice the amount in the following ECO period (or 50% more between the first and second ECO periods if the targets are not adjusted to central case assumptions).

Widening the range of measures to include hard to treat cavities, underfloor and flat roof insulation would avoid the anomaly of some households meeting neither the Golden Rule nor being eligible for ECO support.

Widening the eligibility for Affordable Warmth to fuel poverty at risk groups and, whilst the Green Deal is in its early stage, to all low income customers with unfilled cavities and lofts, would increase equity as well as reduce the risk of ECO costs being much higher than forecast.

Planning

Government must make local authorities aware that the wider implementation of solid wall insulation is a key Government policy objective and ensure that local authorities apply a consistent and positive approach to solid wall insulation under planning regulations. Our experience to date suggests that some local authorities are antagonistic to the measure. If this is not addressed, planning regulations and the attitude of local authorities may substantially restrict the level of delivery.

Requiring the Green Deal Provider (GDP) to countersign the Green Deal plan for the finance element when this was provided by a different party (e.g. The Green Deal Finance Company (TGDFC)) creates a balance sheet concern for GDPs.

Current drafting in chapter 3 that requires GDPs to countersign the Green Deal plan for energy efficiency works and finance over complicates the process and leads to balance sheet impacts which will deter GDPs from entering this market.

Customer protection lies at the heart of Green Deal success.

Customers need to be confident that they are not being mis-sold packages and that the Green Deal will deliver the intended results. However, if the Golden Rule is interpreted too conservatively, insufficient measures will be installed to achieve the Government’s policy goals. A balance will need to be reached between the two goals. It will instil confidence in consumers who will be understandably nervous of participating in such a new concept and will protect the scheme from
unnecessary costs incurred as a result of non payment of both Green Deal and energy charges as a result of disputes. A robust governance and strong redress process that delivers timely decisions is essential. A strong kitemark that is easily identifiable to customers will also be of benefit.

**Creating demand is fundamental to Green Deal success**

To unlock demand we need to create awareness of what the Green Deal is and build trust in the scheme. We believe this will require very active Government and industry effort. We see opportunities to drive demand by integrating the Green Deal with other schemes such as the SMART meter roll out, engaging customers at a time when they may be more receptive to energy efficiency given the visibility of consumption that a SMART meter would provide. We welcomed the announcement in the Autumn Statement 2011 that £205M will be available to incentivise the Green Deal in the early years. Below we provide suggestions on how we believe this money would be best spent.

**The assessment must be robust and fit for purpose.**

Customers must trust the assessment process and the process must deliver. SAP must be fit for purpose and Government should ensure this is fit for purpose ahead of the launch of the Green Deal.

**The requirement for warranties should not be mandated.**

We believe the market should determine if there is customer demand for warranties and Government should allow the market to deliver this, rather than adding complexity and cost to the scheme by mandating them.

**Non-domestic Green Deal needs strengthening**

There is a lack of clarity of how the Green Deal will work for the non-domestic sector and more work is needed to ensure it translates into this area.

**Payment collection model must follow business as usual practices or supplier costs will increase.**

Energy suppliers must be allowed to follow existing business practices or costs will increase substantially, making Green Deal customers expensive for suppliers to bill. This may be especially true for smaller suppliers who have the option to opt in. If Green Deal customers are seen to be unattractive to them then this may affect competition in the energy supply market.

**The Green Deal and industry regulatory requirements must be aligned**
DECC and Ofgem should together ensure that practices and policies for the Green Deal, particularly in relation to the role of suppliers in recovering the Green Deal charge, are aligned with Ofgem’s Retail Market Review and consideration of what information needs to be on the energy bill.

**Responsible lending to protect customers and energy suppliers**

Customers who are already in debt should not be encouraged to sign up to a Green Deal plan if they are unable to make repayments easily. In addition, where a customer takes out a Green Deal plan and has existing debt with their electricity supplier, monies collected must be allocated to the outstanding electricity debt first.
Introduction

1. E.ON is one of the UK’s largest power and gas companies, generating electricity, and retailing power and gas to around 5.3 million electricity and gas customers nationwide, covering domestic, small business and industrial markets. We are very supportive of the Green Deal concept and this, alongside the ECO, will be an important tool to reduce carbon dioxide (CO$_2$) emissions from buildings and lift people out of fuel poverty.

2. Emissions from all buildings accounted for 43% of all UK CO$_2$ emissions in 2009. The majority of cost effective measures in the domestic and non-domestic sectors are those to improve the efficiency with which energy is consumed and these must be encouraged as a priority. It is therefore important to deliver the most cost effective energy efficiency measures in a property before installing more costly renewable heat and electricity measures.

3. We support a whole-building approach, combining the delivery of energy efficiency and renewable heat and electricity measures to provide the most efficient mix of measures for each property, with the market taking advantage of the various Government schemes to achieve the best result. We continue to investigate ways to improve the building fabric and we are currently undertaking a number of trials related to energy efficiency measures. We are also investigating the costs, challenges and technology performance of different types of solid wall insulation and trials are also focusing on advanced heating control systems.

4. In the mid to long term energy prices are likely to continue to rise, and to counteract these increases it is important to increase the adoption rates of energy efficiency measures and the installation of low carbon technologies to help minimise costs for customers, allowing customers to lower their energy usage and control their bills. Critical to this is the need to help those less able to help themselves, including both the fuel poor and those living in hard to treat properties. This is why the ECO is of key importance and the Green Deal should support the delivery of ECO as well as unlocking customer demand in other segments. We believe that to engage customers in the most effective way in respect of both the ECO and the Green Deal, energy companies will need to work with communities and those more active citizens who understand the people that live in their area.

5. Since 2010 E.ON have been active in activities which inform our responses. These include:
   a) Our market launch of Energy FIT where we marketed the concept of Energy Fitness to customers and introduced those engaged enough, to participate in a 20 minute on-line self assessment of their energy situation, and set energy related goals.
b) Trialling sales of home assessments and reports (at differing price points) through our “HEAT – Home Energy Action Team” proposition for residential customers and our “BEAT – Business Energy action team” proposition for small businesses

c) Building Green Deal Trials – the first two which launched in Jan 2012. These aim to replicate the Green Deal as practically as possible testing response to customer need driven propositions (‘Love your loft’ provides a clearance and boarding service to enable a loft insulation measure, and ‘Efficiency from Day 1’ targets customers as they move into their new property, with a range of Green Dealable measures). Building these trials mean that we have built a hand-held assessment software, we have defined how we will present reports (on-line and physically), we have trained assessors and we have gone through the complexity of CCA and VAT around pricing measures. We are using our own capital to support this. As customers come on on-line we will also be looking to replicate manually collection through the bill via an existing direct debit in place for the customer’s energy account

6. Our CESP experience also shows that it is very difficult to obtain contributions from the social or private markets and that a short obligation period, as proposed for the first period of the ECO, will encourage this situation to prevail. The only funding we are currently able to secure in terms of customer contribution is for aesthetic, as opposed to energy saving improvements. Obligation periods need to be longer to encourage a higher customer contribution.

Points not covered by the consultation

7. Our responses to the consultation questions are set out below but there are a number of important points not fully covered by the consultation questions which we wish to draw attention to here:

Green Deal Provider Counter signing the Green Deal plan for the finance element when this was provided by a different financial party creates a balance sheet concern for GDPs.

8. Chapter 3 requires that the Green Deal Provider (GDP) is required to countersign the Green Deal plan, including the finance agreement, even where they are not involved directly in providing the finance (e.g. The Green Deal Finance Company (TGDFC) has provided the finance package). We believe that the majority of organisations intending to be GDPs are those that will have strengths in selling and installing energy efficiency measures, rather than those whose business purpose is to provide finance, i.e. retail organisations, rather than banks. Requiring the GDP to be the counter signatory for both finance and energy efficiency unnecessarily complicates the financing process and has significant adverse balance sheet and
credit rating implications for the GDP, which will make the role of GDP unattractive, thus reducing the number of GDP competitors. We believe this is likely to have a very significant and negative impact on this future market.

9. The customer’s contractual relationship for the provision of finance would be with the GDP, not the bank/financial institution. We understand from discussions with DECC that the GDP is the only party that signs this document, and therefore the bank / financial institution plays no role in this contract. In some circumstances the customer may not be notified of any back room arrangements.

10. “Once a property has been assessed and tailored energy saving recommendations have been given, the customer can contact a Green Deal Provider to obtain a quote and agree to the Green Deal plan. The Green Deal Provider is the counter signatory, with the customer, to the Green Deal plan for the provision of finance and energy efficiency works. Therefore the contractual relationship sits between the Green Deal Provider and the customer.”

11. It further notes that the GDP can subcontract some of the different activities but that “they must always be counter-signatory to the Green Deal plan”.

12. Provision of numerous relatively small value long term loans to consumers is unlikely to be the core business for prospective GDPS and in many cases it is an inappropriate use of resources.

13. Whilst we understand that it has been argued that such loans could be transferred from the GDP to other parties, it is extremely unlikely in our view that this could be achieved without any recourse to the GDP. In our view, the transfer of Green Deal liabilities to the bank/financial institution will not solve this issue. For example, given the wording of the consultation, TGDFC is intending to allow the GDP to assign the Green Deal plan receivables to TGDFC at par without notification of the customer. This means that the GDP would remain the legal owner of the Green Deal plan receivables but would not retain any economic interest in them. The GDP would remain the customer’s point of reference (and would retain its obligations to the customer in respect of product warranties and Consumer Credit Act obligations). This results in recourse to the GDP, and our view credit agencies will view this as being on balance sheet.

14. A structure involving the transfer of liabilities from the GDP is inefficient and adds risk to the GDP and cost and complexity to the process, whilst not creating added value.

15. A relationship between the GDP and the consumer for the provision of finance in this instance means that the GDP would assume the role of a “finance lender” even though it was never its business purpose to act as a “finance lender”. This we believe could also lead to legal issues regarding the requirement for the GDP to hold a banking licence along with stringent
regulatory requirements. Apart from this, requiring the GDP to sign up to a Green Deal Plan that combines the provision of finance with energy efficiency works puts disproportionate risk on the GDP.

16. Requiring the GDP to counter-sign the financial arrangements within the Green Deal plan goes beyond normal consumer finance practices. Typically the retailer is good at selling the product but not the finance, and this is usually provided by a third party. For example, if a customer wanted to purchase a new car from a car dealership, but required finance to complete this transaction, the dealership would sell the customer the car recognising the sale immediately, but their affiliated finance provider would enter into a financial agreement with the customer for the car loan (a financial lease) and the customer would repay the finance provider over an agreed period of time; this would be regulated under the Consumer Credit Act. If DECC believe that the equivalent of this in the case of the Green Deal is that the GDP is the finance provider (i.e. the bank or other finance lender) and that the lender will simply subcontract out all the energy efficiency works, we believe the market for GDPs will be small as this is not a bank’s ‘business purpose’. It is important to allow organisations to undertake the role that they have confidence in carrying out effectively, i.e. the energy efficiency works or the finance, and we expect that the number of organisations able and willing to do both roles will be limited.

17. We do not see why the Green Deal needs a different approach. In a number of cases the GDP will sell the Green Deal package – assessment, installation and any after care as applicable, but will not wish to directly provide the finance. They will however facilitate the provision of finance which could be via TGDFC or another third party provider (e.g. a relationship bank or local authority funding). We expect the rules proposed in the consultation will deter many companies from entering the Green Deal market.

18. Based on this, there should be two separate and distinct contractual relationships with the customer to ensure a non recourse structure:

A The contract between the GDP and consumer for the provision of the energy efficiency measure;

B The contract between the bank/financial institute and the consumer for the provision of finance for that measure.

19. The customer still needs only one Green Deal plan, but it is now signed by two different parties.

20. The Appendix sets out the implications of requiring the GDP to countersign the finance element of the Green Deal plan.
Creating demand is fundamental to Green Deal success - making best use of the £205M incentive pot

21. We believe that incentives (sticks and carrots) are needed to create demand within the Green Deal market to encourage customer take-up, especially in the early years. As such we welcome the announcement in the Autumn Statement 2011 that £205M for incentives will be made available. We believe this money should be split between supporting the early capital costs (for example by subsidising the loan, perhaps in the form of a grant) of a Green Deal and promoting the Green Deal to the consumer (for example through advertising and marketing).

22. Unlocking demand will require raising of awareness, building trust in the scheme and generating interest for customers to find out more. With something this complex a Government campaign should aim to raise awareness and also build a base level of understanding which industry can build on.

23. Through creating awareness of the Green Deal and generating interest we would expect the Green Deal to become common language amongst consumer groups and lead to an increase in overall demand for measures. A small and limited Green Deal market would also affect the energy supplier’s ability to deliver against its ECO carbon obligations in a cost effective manner.

The Non-domestic Green Deal needs strengthening

24. There is a lack of policy detail for the non-domestic sector. Many of the proposals within the consultation fail to translate easily to the non-domestic sector. We would like more detail on how this will apply in the non-domestic arena.

25. The implementation of the provisions within the Energy Act 2011 to make it illegal to let properties with an F or G rated EPC rating must be conducted in a manner that is sensitive to the complexities of rented commercial property. The detailed regulations must also be set out well in advance of implementation so as to provide clarity and certainty to the market on what will be required. A mandatory roll-out of non-domestic energy performance certificates (DECs) to all commercial property (that is sensitive to cost burdens) could help to raise landlord and tenant awareness about energy use, generate interest in energy efficiency and increase sharing of information between landlord and tenant.

26. We suggest that DECC monitors Green Deal take up by building type and section of non-domestic property (schools, retail, office etc) to identify those property types most and least likely to take up the Green Deal in order to seek lessons learnt and identify sector and building type specific challenges.
27. The existing rights and obligations of landlords and tenants of non-domestic properties may create complexities when trying to facilitate a Green Deal. Often in the commercial sector the tenancy arrangements are more complex, with a number of relevant ‘landlords’ and the landlord is not always based in the UK, which may make it more complex seeking their approval for a plan to be undertaken.

28. The Government may also like to explore new avenues for reaching industry such as including information about the Green Deal with the new business rates, facilitating an online resource for those with experience of the Green Deal to share experiences, extending the SuperHomes network to cover commercial or non-domestic property and the production of a Green Deal toolkit.

Energy Supplier Issues

A  Payment collection model must follow business as usual practices or costs will increase.

29. Keeping transactional and operating costs as low as possible is essential. Government should allow energy suppliers, who are mandated to collect Green Deal repayments and also fulfil their obligations under ECO, to do so under existing business as usual practice.

30. Recognition of the added complexity involved in the collection of Green Deal payments from non domestic customers must be acknowledged. Multisite billing, volume related contracts and future dated contracts (sometimes contracts can be signed more than 12 months in advance) will be complicated to administer and DECC should work with suppliers on resolving the practical issues to ensure that solutions are fit for purpose.

31. We welcome the early indication from Government that collection will be via electricity bills only. In addition to the analysis in the Impact Assessment, there is a major benefit once smart meters are readily available from 2014 that suppliers will almost always be able to offer prepayment as an option for households and hence there is no potential discrimination against lower income areas or private rented property. We are also quite sceptical of the relevance of the cognitive link, believing that most households will have confidence in their decision to take out a Green Deal (which assessment is not affected by the billing method) and capability to recognise the benefits in their ongoing energy bills (where these are separate for gas and electricity).

B  The Green Deal must also be aligned with wider regulatory requirements

32. For example Ofgem is currently reviewing the simplification of bills as part of the Retail Market Review and Green Deal requirements must be compatible with this, or vice versa.
C Responsible lending to protect customers and energy suppliers

33. Suppliers will be required to invest significantly in order to create the infrastructure for and support the Green Deal. The large majority of these costs will be passed on to energy consumers especially if the administration charge is not adequate to cover true costs. Given that suppliers cannot object to customers having a Green Deal and therefore cannot control the risk associated with irresponsible lending, the accreditation and governance of Green Deal Providers must be robust in order to protect consumers and minimise costs within the scheme.

34. Whilst E.ON as an energy supplier does not believe it is our role to prevent a customer from taking out a Green Deal plan if they have debt above the £200 threshold, we do urge providers to ensure they follow responsible lending practices so that customers are able to manage any additional debt.

35. We also believe that in order to retain agency status in our role as collection agent, where a customer takes out a Green Deal plan and has existing debt with their electricity supplier, monies collected must be allocated to the outstanding electricity debt first. Applying payments to oldest charges first is usual accounting practice. Balances due to being on payment plans such as direct debit will not be required to be repaid first based on the collection process proposed by suppliers.

Financing the Green Deal plans

36. Government should work with the Green Investment Bank (GIB) investment committee to bring forward financial support for the Green Deal. Significant time and resource has been invested in developing the detailed finance plan of TGDFC, which was submitted to DECC in December, and which we have supported throughout. We are concerned that, without such an aggregated model, affordable finance will not be available for the Green Deal, especially in the early years. If the finance is not seen to be available, the supply chain is unlikely to invest. Furthermore, without cost effective financing, we will not meet the 57% average supplier contribution and therefore this will have an adverse impact on suppliers’ ability to meet the ECO at the anticipated cost to the consumer.
Consultation questions

Assessment

Q1. Do you feel the proposed requirements on Green Deal assessors set out in the main body and at Annex A of the Code of Practice are clear and robust enough to support the Green Deal assessment?

1. Yes. The proposed requirement and Code of Practice as set out, establish the parameters for a robust programme. The role of the Green Deal Assessor (GDA) is key to the success of the programme; the level of expertise, knowledge and interaction will enhance or detract from the customer experience and thereby their trust in the programme. The accreditation and training need to establish a very high benchmark so that customers (householders and businesses) can feel confident that their best interests are being considered as part of the programme.

2. The link between the impartial assessment and GDP sponsored element of the customer experience needs to work for both customers and GDPs if the programme is to be a success. Part of the GDA training should consider the impacts of being independent or linked to a Green Deal Provider to ensure a consistent approach across the industry.

3. The consultation picks up on the requirement for GDA to have both technical and softer skills. Domestic Energy Assessors (DEA) are historically technically competent and very able to complete the EPC component of the Green Deal assessment. As part of the additional training, development is required to ensure the softer interpersonal and customer focused skills are in place to undertake the occupancy and behavioural elements of the assessment in an appropriate manner.

4. To ensure the quality of the customer experience meets the standards set out, we would expect accreditation bodies to undertake random evaluation of GDA in the field to ensure they are delivering the experience to the high standards expected. While this will drive cost into the programme it is imperative the customer experience is of the highest standard to drive consumer confidence and the long term viability of Green Deal.

Q2. Can you think of any requirements that Green Deal assessors will need but that may not be covered by the suggested approach, combining National Occupational Standards (NOS) and Accreditation of Prior Experiential Learning (APEL)?

5. We agree with DECC that there is no existing framework in place to support assessor training to deliver all Green Deal assessment components. To facilitate the Green Deal assessment
only we feel that the proposed approach is sufficient pending clarification of the contents of the standards.

6. We have been consulting with Asset Skills on the development of the NOS for Domestic and Non Domestic Energy Assessors. We agree with the content of the NOS as it stands today. It needs to be flexible enough to be updated to accommodate additional requirements that changes post consultation may bring. The APEL route needs to be carefully and robustly monitored to ensure that assessors qualifying for accreditation through this route are able to demonstrate they have completed the additional learning required to meet the Green Deal standards. The DEA+ qualification based on NOS will have additional elements that an experienced DEA will not be able to demonstrate through prior experience (including the enhanced EPC).

7. The quality of customer experience, the assessor’s ability to educate customers on green deal, energy efficiency, energy use, in home behaviour and its impact, finance and the likely success of potential measures is critical to the success of Green Deal. These need to come through from the NOS into training and qualifications extremely strongly to emphasise the importance of communication and customer service within the assessor role. In many respects these will be more important than the technical and process knowledge of the assessors to the success of Green Deal.

8. The key in APEL will be assessing these capabilities and the additional knowledge required and in general ensuring that accreditation to perform assessments reflects the critical of these skill sets and behaviours. The selection and monitoring of training, qualification and awarding /accreditation bodies is vital as well to ensure the consistency and standard of assessments. A mechanism needs to be in place to ensure there is national visibility of quality training providers that are accredited to deliver training and qualifications and monitored regularly for quality standards. This will happen through the awarding bodies but needs to ensure that the consistency of training, qualification and accreditation is upheld.

9. Furthermore, the cost to assessors / organisations needs to be controlled to minimise the additional cost to assessments. What will the reaccreditation cycle be for Green Deal assessors (i.e. other qualifications have refresher requirements every few years)? Will the same mechanism be in place for assessors to ensure their knowledge, standards and processes are still up to date? How will continuous professional development of assessors be handled, as technologies, innovations and products are introduced/improved? How will assessors become aware of them, have their knowledge refreshed so that they are able to give the most up to date advice and the industry/consumers are confident that they are being
accredited/reaccredited against the most up to date information, standards and processes? We would ask that these questions are clarified.

10. As part of the programme the assessor will review the Green Deal Advice Report with the survey recipient, they will discuss behavioural change, and explore which package of measures is suitable for the premises and the customer’s choice. While the Green Deal assessment is impartial there needs to be a clear direction, from the Green Deal structure, for recipients to firstly insulate their property, then moderate their energy consumption and, having addressed these, finally consider generating their own energy.

Q3. In proposing to allow for the market to determine payment of assessors and cost of assessment, are there any further requirements we should be placing on assessors or providers in relation to (a) payment of assessors, (b) the cost of the assessment, or (c) declarations from the assessor

11. We believe that the costs and payment process should be left at commercial market rates so that it can be built into the Green Deal financing or not as appropriate.

12. Whilst the payment of assessors by GDPs brings into question the impartiality of assessors towards the services proposed for the householder, any assessor receiving a payment from any GDP should declare this as an “interest” to the householder and this should be recorded within any documentation. It is essential that the assessor collects all information to cover all of the property and eligibility data to carry out a full Green Deal and ECO proposal to the householder. Data capture needs to be carried out at this first point.

13. Where a customer is likely to require an ECO assessment only this process could be slimmed down to avoid unnecessary cost as if the measure is not eligible under ECO, there would be little merit in carrying out additional assessment work. This is because the householder is clearly in the position where they would neither have nor be able to access the resources necessary to undertake measures, and it would have a negative impact and cost implication to carry out a full assessment of the property’s potential.

Q4. Do you agree with our proposed approach to third party assurance and enforcing compliance for those providing Green Deal assessments?

14. Yes. The assessor will be the first face to face contact for the customer journey and therefore is critical in the householder’s perception of the programme. Additionally the data collected will be the foundation for all of the calculations and a potential long term financial commitment for the parties involved. Therefore it is essential that the assessor’s role is a highly assured position within the value chain and that there is very strong control over both the companies
and their individuals who are permitted to undertake this role and their methodology to ensure continuous quality and consistency of approach and advice.

15. We would not only agree that third party assurance is essential, but also suggest that an ongoing compliance and audit regime is introduced to maintain the necessary high levels at this stage of the process.

Q5. Should the current EPC validity period for property transactions be used for Green Deal purposes or is a shorter validity period more likely to meet the needs of the Green Deal process?

16. Any prospective Green Deal customer will need a Green Deal assessment to identify the maximum finance available under the Golden Rule. At this point we would expect that the assessor would review if there had been any further changes to the property since the EPC was carried out. Assuming this is up to date and there have been no further changes to the RDSAP model then there seems no reason to shorten the validity period. However, it is important that the EPC process is robust and produces accurate assessments of the property in question so that the consumer has the most accurate picture and that Green Deal plans are realistic, so if changes have been made to any of these processes this will need to be considered when determining if the current EPC validity period is suitable.

Q6. Do you think that the approach to identifying and assessing non-domestic buildings, based upon the requirements and tools for EPCs, will capture all non-domestic buildings and business sectors for which the Green Deal is relevant?

17. Yes, we believe that the SBEM methodology will capture the non-domestic buildings and property sectors for which the Green Deal is relevant. Furthermore, we recognise that there is not an assessment tool to capture all the variation in the non-domestic sector. Therefore we support the approach of using a recognised assessment methodology supported by the option to supplement the generalist assessment with further specialist assessments to capture the customer’s actual energy tariff and energy savings for specific energy saving installations.

Q7. Are there alternatives to the simple approach to providing running cost savings in the non-domestic assessment that we should consider?

18. We are not aware of alternatives to the simple approach and support the option to allow a specialist assessment of a customer’s actual energy tariff to calculate a more relevant expected energy saving resulting from the measures installed.
Green Deal

Q8. Which measures should be added to the list of qualifying measures in Annex A for non-domestic properties, and what evidence is there that these measures improve the energy performance of buildings?

19. The list of qualifying measures in Annex A is comprehensive and we support the Government’s intention to include low energy lighting, systems and controls in the non-domestic sector. We also believe that low energy lighting, systems and controls should be available to the domestic sector, as lighting contributes significantly to electricity consumption. Low energy lighting also makes a visible energy efficiency statement, supporting customer engagement. Payback periods for low energy lighting are relatively short, helping to support the achievement of the Golden Rule when included as part of a package. LED fittings could be installed in internal solid wall homes and LED ceiling fittings installed in roof insulation that helps engage customers in energy efficiency as visible benefit and fits in with the whole house approach. Inclusion of lighting and controls is consistent with and matches the range of Green Deal measures proposed for the non domestic sector.

Q9. Will the existing Appendix Q process, which will allow new measures to be added to the Green Deal assessment tools, and to the list of qualifying improvements, support innovation in the market and how could the process be improved? In particular, what support could SMEs benefit from?

20. It is important that the Green Deal has a broad range of eligible energy efficiency measures to provide customers with the best options for their premises. Limiting the measures available under the Green Deal will reduce overall take up.

21. One of the main problems that we observe in the microgeneration sector with SAP is the difficulty in getting new products, especially innovative products, through the Appendix Q process. At present the process is shrouded in ambiguity, with manufacturers unclear of the exact testing required, the cost of undertaking this route and the length of time needed to complete the process. DECC needs to set up a complete review of the difficulties manufacturers experience in bringing new products to markets and the negative effect this will have on achieving carbon and energy targets.

22. To encourage innovation it is necessary to be able to add new products to Appendix Q and this process needs to be much quicker, less expensive and more transparent.

23. Some additional uncertainties and risks around the process which need further consideration include:
a) The application and evaluation process is lengthy and we are concerned that this may discourage manufacturers. We would like to see service level agreements in place for the introduction of a new measure or technology to achieve a guaranteed level source, plus a specified frequent review of existing measures to confirm if improvements are being made and the additional cost or carbon savings that this brings.

b) The process is quite costly, which may be a barrier for smaller manufacturers and will slow down bringing their innovations to market.

c) Is the system able to cope with high demand?

d) It is important that there is an ongoing review process that is able to track the performance of products and changes to costs, as this will impact the savings a customer can achieve.

e) SAP assessment must be technology neutral.

Q10. What innovative ways can the Government use to encourage uptake of a package of measures and could our existing proposals support this?

24. We were pleased to see the Government’s commitment to Green Deal cemented with the £205M incentive fund to be made available to encourage customers to take out a Green Deal plan; we would like this to be partly used for contributing to the capital costs of the Green Deal (with one idea suggested in the paragraph below) and for creating awareness of the Green Deal amongst consumers. The Green Deal is a completely new concept, a new and innovative way of purchasing and financing products. In order for take up of the Green Deal to be sufficient to meet its objectives, there will need to be both market-led and Government-led nudges to encourage customers to take up the Green Deal. It will be for individual companies to decide what position they wish to take in this market place and what additional incentives they might offer to customers to support their own Green Deal proposition. However, additional Government-led incentives will also be required to increase confidence in the Green Deal.

25. Many consumers tend to want immediate gratification on purchases, but energy efficiency is often not a tangible purchase and the benefits are long term. One way to overcome this hurdle could be for Government to set aside some of the £205M incentive fund to offer early adopters a reduction in their plan whereby the first X number of months is free, e.g. buy now, pay nothing for six months. This is very consumer friendly language. It would need to be made clear that this is effectively a grant and the Government fund would pay the loan for that period (i.e. the interest isn’t add on resulting in greater repayments).
26. Other options Government could consider include lowering, or eradicating VAT on energy efficiency\(^1\), measures to the extent that this is allowed under EU law, even if only as a temporary measure, and amending Council Tax or Stamp Duty so that it rewards energy efficient properties and buildings and incentivises less efficient properties to undertake measures.

Q11. Please provide views on the potential inclusion of hard-to-treat cavities (and potentially other measures of a similar type), and proposals for how properties might be accommodated in the ECO without excessive complication or perverse consequences.

27. We strongly support the inclusion of hard to treat cavities and other borderline economic measures in ECO. There are three compelling arguments in favour and we believe there are practical solutions to the risks described in the consultation.

28. Firstly, there is an issue of fairness. Hard to treat cavities have remained largely untouched under previous schemes (CERT, and Energy Efficiency Commitment (EEC)) as the householder has been unable to achieve an adequate return, given that financial assistance has been based on lower cost cavities (and other measures). If these are now passed over under the Green Deal and ECO these properties will never be improved condemning them and their occupants to high energy costs and carbon usage for the remainder of the properties’ useful existence.

29. Secondly, insulating hard to treat cavities is potentially more cost-effective than solid wall insulation, so that their inclusion would reduce the overall cost of ECO to energy consumers.

30. Thirdly, ‘hard to treat’ cavities are a significant proportion of outstanding cavities\(^2\). The risks and costs of addressing them will be lower as an extension to current cavity wall insulation activity.

31. We propose that only those cavities meeting specific criteria at the time of survey are eligible (for instance, narrow cavities of less than 50mm and uneven cavities constructed of stone

\(^1\) Lowering VAT to 5% for all energy efficient measures will allow more measures to meet the Golden Rule and make all measures equal. Below we indicate the difference between measures:

- Heating controls are 5%
- Boilers are 20%
- Boilers with heating controls are 20%
- Boarding and clearance for loft can be 5% if they are sold as part of an insulation package; but additional boarding would be 20%

\(^2\) 2.75M total (Source: Dead CERT. Association for Conservation for Energy. September 2011) less a proportion which would be eligible under the Affordable Warmth target.
where the material would snag, properties at risk of flooding, or those with rubble in the cavity). This would be carried out after the Green Deal assessment and therefore additional monitoring would be required. In turn this would require the ECO subsidising party to the contract (a supplier, their agent or the brokerage administrator) to ensure these checks were carried out, which might have the effect of reducing access to the market to larger installers. This would seem to be an acceptable overhead.

32. We do not believe that the hard to treat cavity volume should be capped; demand will be as a consequence of Green Deal surveys and unlikely to ‘run away’. Given the insufficient solid wall insulation capacity and our view that the currently proposed ECO targets are much more costly to deliver than estimated by DECC, the scheme must in any case become more flexible.

Q12. We propose that the ECO carbon saving obligation should be achieved primarily by promoting and installing solid wall insulation. Should any other measures be support, and how would these be defined?

33. Yes. Any measure which does not meet the Golden Rule should be eligible. Measures such as flat roof, sloping roof and under floor insulation all help to meet longer term carbon saving targets and, with some support from ECO, can play a part in widening access to Green Deal offers. There is little risk that volumes will be such as to challenge the focus on solid wall insulation or that there is a potential for perverse consequences. Broadening the range of measures to include all those that do not meet the Golden Rule will also help broaden take-up by households which are under-heating their home.

34. As new technologies are developed these should be promptly added to the list of eligible measures (without necessarily waiting for the next ECO period).

Q13. For the ECO carbon saving obligation, we propose that any other carbon saving measures should only be eligible when delivered as part of a package with solid wall insulation. Do you have any suggestions for the criteria by which eligibility within packages should be restricted, explaining why you think any such restrictions should be included?

35. It is highly desirable that a whole house solution is implemented and also that households are given the maximum encouragement to take-up solid wall insulation (an example scenario would be an offer to private owners of solid wall insulation within an area-based scheme: the inclusion of additional measures could provide the extra nudge needed). We support the potential inclusion of any measure included in a Green Deal advice report or otherwise recommended by a chartered surveyor. This should include LED lighting systems, fittings and controls as these are all part of a potential whole house solution. We note that the draft SI
allows this and therefore is more flexible than implied by paragraph 45 of the consultation document.

36. The proposed method of reducing the risk of additional measures being disproportionate to the level of solid wall insulation is too restrictive. It effectively forces the household to place a single contract for home improvement (as a single decision is required and there is administrative complexity in managing the six month rule) and gives no encouragement to households wishing to treat a room at a time (which could be the most successful means of securing take-up of internal solid wall insulation, and the only means in private rented properties). We recommend that the limits are amended to (a) 25% of available external walled area with a safeguard that the savings are no more than the carbon saving from the solid wall insulation and (b) without time limit if 75% of available external wall area is insulated.

37. As discussed in Q10 and Q11 we strongly support the inclusion of other more difficult insulation measures, such as hard to treat cavities. However, the arguments above for encouraging take-up of the core measures by also allowing whole house implementation do not apply as the costs are lower and there is no single decision point (to join an area-based insulation scheme). We recommend that initially it is only solid wall insulation which leads to an entitlement for additional, whole house, measures to qualify for ECO.

38. We accept that Government’s aim is to focus activity on harder to treat properties and lower income households, but note that this will likely lead to a fall off in installation of more cost-effective measures, including loft insulation and the replacement of old inefficient boilers. At the least there needs to be some flexibility in the early years of ECO as it will take time for a full range of Green Deal propositions to be developed and widely available. CESP experience shows that it takes months to get projects off the ground.

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3 We propose in Q56 a means of giving providers confidence that ECO is a longer term scheme, whilst also giving flexibility to respond to new information. In this context we would see Government’s commitment to allow subsequent measures to only last to the end of the second ECO period. Providers would need to take the risk on a ‘without time limit’ offer, or qualify it.
Q14. We propose that any measures should be allowed under the Affordable Warmth obligation, provided it allows eligible households to heat homes more affordably. If you disagree, or feel there are risks to this approach, please explain and set out any restrictions you believe should be put in place.

39. We broadly agree, although not fully, with the principles set out in paragraph 53. The portability of measures should not be a criterion, but the criterion should be whether a measure makes heating more affordable (more economic or to reduce need). However small the measure, it still helps alleviate fuel poverty. If it turns out that the Affordable Warmth obligation can be delivered in the first ECO period at lower cost by helping the majority of fuel poor customers a little, rather than to provide greater help to a few, then that is as effective in alleviating fuel poverty (in fact more so, as the adverse effect of the costs of the scheme would be reduced). Moreover in practice there is very little prospect of the policy intent being diluted. The challenge of identifying and engaging eligible customers dictates that major insulation and heating measures will predominate.

40. Guidance is required over the implications of Clause 11(4) of the draft ECO SI. We would agree with an interpretation which excludes measures which reduce bills without making warmth more affordable, but not the exclusion of community based loft insulation programmes.

Q15. Do you have any suggestions for whether and how we should score, boiler repairs under the AW obligation, such that where repairs are most cost-effective than replacement systems, without significant impact on efficiency, these can be promoted?

41. The difficulties of scoring boiler improvements are demonstrated by the draft proposal for a deemed score for boiler replacement which greatly exceeds the true benefit, as would be calculated by a Green Deal assessment (SAP). This needs to be addressed to ensure due weight is given to insulation measures and to avoid a barrier to Green Deal assessments and whole house solutions for Affordable Warmth eligible customers. These difficulties would be compounded by including boiler repairs, which can only be given a deemed score.

42. Scoring would be more difficult still as there can be no established norm for the life a boiler repair. Indeed some might only be effective for a few months, or less, leading also to an issue of verification to avoid each successive boiler repair being scored. There would also seem to be a clash with the ‘additionality’ principle (Clause 11(4)(a) of the draft ECO SI), as boiler repairs will generally be an emergency which households would fund themselves. Additional complications would be the need to verify private ownership, as landlords would be responsible for private tenancies, and to ensure that there was no disincentive to taking out a central heating care policy.
43. There is also a question of fairness. Extending the scope of ECO Affordable Warmth to include boiler repairs would mean that energy consumers are paying for house maintenance. There are distress cases where a household cannot afford to repair a modern boiler, but these might be met through a supplier trust fund as part of the Warm Home Discount.

Q16. We are proposing that any heating measures should be allowed under the AW obligation, including for households off the gas grid, and extra incentives should not be put in place for air or ground source heat pumps. Do you have any evidence to bring to bear on the performance of heat pumps to improve the ability of vulnerable households to heat their homes affordably?

44. The Impact Assessment (paragraph 4.1.1) highlights that one of the principal reasons that intervention is required, through ECO, is that fossil heating does not include the cost of carbon. For gas this can be partly corrected for within ECO by allocating the obligation on the basis of gas volumes. This would be equivalent to a £20/tCO$_2$ cost of carbon.

45. Even so, gas prices would not fully reflect the central case cost of carbon of £58/tCO$_2$ in the first ECO period, whilst oil, LPG and solid fuels would have no cost of carbon. There is a strong case for providing additional incentives within the RHI for low carbon means of heating such as heat pumps to compensate for this.

46. However, it would add complexity to ECO to modify calculated savings from Green Deal assessments and we recommend that the appropriate incentives are built into the Renewable Heat Incentive.

Q17. To what extent can existing product lists, such as the list of Microgeneration Certification Scheme compliant products be used as the starting point for the Green Deal products list?

47. Assuming that the criteria for product inclusion on any list is consistent with the Green Deal product list criteria, we believe that using existing products lists as a starting point for the Green product list is a sensible and pragmatic approach. Where inclusion criteria are consistent this will avoid unnecessary costs and time intensive resubmission of products by manufactures. However, where product inclusion criteria are materially inconsistent, there may not be an easy way of short circuiting the product submission process. Consumer trust is vital to underpin demand for GDs, and therefore is it critical that all products meet robust and appropriate inclusion criteria.
Q18. Do you agree that allowing enhanced product performance to be recognised in the Green Deal financing mechanism is useful? Do you have any specific views on how this approach could be implemented?

48. Yes, we support the proposal that enhanced product performance is recognised in the Green Deal financing mechanism as this will enable more measures to achieve the Golden Rule, providing greater consumer choice and energy efficiency benefits. Furthermore, we propose that measures already acknowledged as having improved performance in CERT are recognised as such in Green Deal and ECO.

Green Deal Provider and plan

49. Please see the attached Appendix which sets out our concerns about the countersigning rules for the Green Deal plan.

Q19. Are surety bonds the most effective, efficient way to ensure customers are protected in the event a GDP becomes insolvent or has their license revoked? What should be the minimum requirements of a Green Deal surety bond and how much should GDPs be required to insure?

50. Our understanding of the contract between the GDP and the customer would be that the customer is already protected by law or agreed securities. We do not see the reason for a surety bond where the customer has a contract with a well rated company. A surety bond would increase costs for the GDP and make the Green Deal more expensive. As well as being more expensive, a surety bond would reduce efficiency as an additional contract would need to be concluded.

51. In our view, consumer law already provides sufficient protection for the customer. In this context, the cover provided by the GDP should be limited to the measures being installed properly, and working technically according to the contract. The GDP cannot ensure that certain savings are achieved (i.e. that the Golden Rule is achieved) as this depends on several factors that the Green Deal Provider cannot influence such as higher energy usage by the customer.

Q20. Does our proposed approach to authorisation and oversight of GDPs ensure the necessary standards of consumer protection and proportionate redress without creating barriers to entry in to the market?

52. Yes, although it is important this redress process is set out clearly in the Green Deal plan so that consumers are clear of how to take forward any complaints.
53. Given that suppliers will be obliged to continue charging customers for their Green Deal in the event of a dispute and that customers are unlikely to make full, if any payments, during the period of a dispute it is also crucial that redress is timely in order to ensure repayment of energy charges are not put at risk due to complaints against GDPs.

Q21. How much weight should be given to the argument for placing financial responsibility for late payment with the payee?

54. Whilst we appreciate that it is normal for the financial community to charge interest on late payments, we do not think that charging interest is feasible for the Green Deal for a number of reasons. Suppliers do not charge interest on electricity arrears and to do so would result in very significant changes from business as usual practices. Such a change would involve energy suppliers having to rewrite their billing engines and bill formats as the interest charges on late payments would have to be displayed separately on the bill.

55. Furthermore, and very importantly, we believe that customers would find this confusing, given that they have never seen this before on their electricity bills. In addition this would also be inconsistent with the current industry / Ofgem objective to simplify bills and tariffs. It would be complicated to administer, a customer in genuine difficulty may miss a payment but then call their energy supplier to agree a payment plan. In this case, would interest still be calculated on the outstanding amount even if they are paying regularly to catch up?

56. Recovery of payments via the electricity bill ensures a very low default and write off rate compared to unsecured loans which would limit the impact of socialising across all Green Deals, therefore the risk to the finance community is already low, and as such it is our view that this additional step in unnecessary.

57. At present we offer a 3% discount to customers who pay promptly on receipt of their bill. Ofgem’s proposals under the Retail Market Review would prohibit this on a standard tariff and it is unclear whether we would be able to make this a late payment charge. Even if this was possible, it would not be practicable to make this a more sophisticated charge which covered interest charges. We would also not apply this charge if the customer switched promptly to prepayment, as will almost always be possible with (electricity) smart meters.

Q22. What are your views on the Government’s proposal of requiring GDPs to offer insurance-backed warranties for the entire repayment period?

58. The policy proposed around warranties and maintenance requirements is not very clear within the consultation and we ask that this is clarified.
59. We do not believe mandating additional insurance backed warranties are required and that this should be for the market to determine. The economics of meeting the Golden Rule are already very constrained and any further regulation here is likely to add significant cost and ultimately limit the success of the scheme. If consumers believe there is benefit in such a product the market will deliver this where there is demand and, for customers not wishing to undertake this extra financial cost, it provides greater choice. However to protect subsequent occupants we propose that, when a Green Deal is disclosed, it should also be a requirement to disclose whether or not an extended warranty / maintenance has also been taken out. This allows the incoming occupant to determine if this needs to be factored into their purchase (or rental) decision and allows time to request an extended warranty to be purchased at that point.

Q23. What are your views on the Government's proposals regarding changes to the CCA for Green Deal plans?

A. EARLY REPAYMENTS:

60. The proposal that the GDP has the ability to be compensated where consumers choose to repay their plan early should allow a fair charge for administration of the early repayment as well as allowance for saved administration costs of the ongoing scheme. However, in effect it could add significantly to administration costs and possibly deter GDPs who are not used to more flexible financing arrangements. We note the frequency of early repayment is as yet unknown, but we consider that this could be high (for example, on remortgaging a property).

61. There is a risk that customers might not understand the costs associated with early repayment and therefore, this may result in the increased likelihood for challenge when in fact determined. The process for calculation of this (with the ability of “the higher of the two”) should be made clearer at the outset and give more certainty for both consumer and GDP in order to limit this risk.

62. Given that the payment obligation is envisaged to pass to any new occupant and therefore not required to be repaid by the original debtor, there is no incentive for early repayment.

63. The proposal that partial repayments are repaid towards the upcoming instalments, rather than to reduce the term of the plan or the amount of remaining instalments is unclear. Is it envisaged that partial repayments act as, in effect, an upfront repayment for the following ‘x’ months, after which repayments would commence again. We would suggest that this could add significantly to the administration of a plan, mechanisms would need to be in place to implement future payments when they next fall due and the process would need to be clearer.
64. Partial (and early) repayments would, under the current proposals, require such payments to be made to GDPs. As this is not via the energy supplier (as all other payments are) separate collection arrangements will need to be set up. The process for this will need to be clear to all parties to prevent customers claiming confusion and/or making mistakes in respect of payments being made. Customers will need to have access to both supplier for instalments repayments and GDP for partial/early repayments and costs.

65. In addition, where partial repayment is made, the mechanism for informing the energy supplier of when instalments would next fall due would need to be obtained/considered and a mechanism be in place to deal with this. This is not clear and has not been addressed in the consultation paper.

B. STATEMENTS AND INFORMATION:

66. Suppliers will send arrears notices to customers, GDPs will not be doing that. The reason for this is the potential confusion that could be caused by the customer receiving two notices regarding the same missed payment. However, GDPs will have to send periodic statements and we would suggest that there is a similar risk of confusion that would exist here too. In addition, the terms in respect of arrears may differ as between energy supply and Green Deal account with respect to interest accruals and charges on arrears. Whilst these will be provided in the credit agreement, there is no proposal for how this will be addressed and mechanics will need to be in place for this. GDPs will need the ability to monitor and address arrears.

67. The mechanism in respect of arrears requires further consideration as the proposals do not address the fact that energy accounts are calculated (in most cases) on estimated meter reading. Given that energy consumption is estimated, any deviance from the 'actual' reading would need to be paid in full to prevent arrears under the Green Deal plan. Whilst the concept of estimated readings is generally accepted in the sector, such could impact on the Green Deal plan and therefore result in arrears on the Green Deal plans, potential charges/interest accruals to customers and administrative costs and burden to suppliers.

C. COLLECTION OF PAYMENTS:

68. The proposals that suppliers will not need to be licensed under the CCA because they are already regulated by OFGEM create the need for clearer obligations on suppliers in such circumstances. The reason being that GDPs will be placed under an obligation to ensure that suppliers keep up with those aspects of the CCA that differ from the OFGEM regime with which they are familiar and there is no certainty in the ability to action this.
69. The obligations on suppliers need to be clear in order to ensure Green Deal plan payments received from customers are forwarded within set timescales etc. Given that GDPs must record the date of payment to the supplier as that being the date of receipt, such mechanisms need to be in place/obligations on suppliers to ensure - how is this verified or known by the provider? Obligations on suppliers will need to be stringent to ensure compliance by all parties with the CCA regime.

70. Given the nature of energy bills the proposals do not account for any element of certainty around repayments. See B2 above in respect of estimated readings.

71. The proposals do not account for the varied payments methods available to customers (for example, prepayment meter). Certain methods may require a separate credit account payment mechanism to be set up, which goes against what is contemplated under the proposals and therefore consideration of this is required.

D. CCA REGIME (GENERAL):

72. The proposals do not go far enough to clarify the position in respect of other important matters that will create problems to creditors when complying with the CCA regime:

   I. The GP plan passes with the property, therefore the OFT lending guidance/CCA regime practices and procedures will be carried out as against the original debtor and not subsequent occupants. There needs to be a clearer process for new occupants. The proposals do not currently refer to any form of assignment of rights or obligations and a prescribed process should be considered more fully.

   II. Given that the CCA regime requires documentation to be addressed to the debtor, there needs to be a clear process for the notification of changes as between GDP and supplier, as documentation addressed to "the occupier" is unclear.

   III. The proposals provide a recommendation to repay if a plan moves from being non-CCA to CCA and we would suggest that such an ability should be available to GDPs in certain circumstances when there is a new occupant.

Q24. What are your views on the Government’s proposals regarding consumer protections for those agreements which do not fall within the scope of the CCA?

73. If a plan is sold to a business, and then this plan is transferred to a domestic consumer, there is a consumer protection risk as a plan sold to a business does not fall under the CCA. Given that some business premises could easily be converted to domestic premises, we would suggest it
would be better not to impose the obligation on GDPs to "take all reasonable steps to ensure that the type of Green Deal Plan they sign a customer up to is likely to remain appropriate throughout the length of the Plan" at the outset, but rather to specify a process for converting Green Deal plans in the event of a change of property use/occupant type.

The Golden Rule

Q25. Is it necessary to afford consumers additional protections and extra comfort where they take out Green Deal plans in excess of £10,000? If so, is the proposed protection of reducing the saving estimate appropriate and is the 5% figure the correct adjustment?

74. No, we do not believe that additional protections are required for Green Deal plans in excess of £10,000. If the assessment methodology and assessor Codes of Practice are robust these should provide enough comfort that consumers are protected. To have differing protection levels only suggests less confidence in the processes in place which would be detrimental to the perception of the Green Deal programme.

75. In addition, there is no link between Green Deal Plan Value and the measures installed; two customers could have fitted the same £12,000 solid wall insulation, but if one decides to pay a £3,000 deposit they would not be offered additional protection, whereas the customer choosing not to pay a deposit would despite having the same measure and therefore having the same risk.

76. If the saving estimate were reduced by 5% this would not reduce the cost of the measure, only increase the amount of deposit a customer may have to pay in order to meet the Golden Rule, so, given that the customer still has the same costs, it does not offer any protection.

Q26. Do you agree with the approach to the Year One charge that can be used in a Green Deal plan?

77. Yes. We support the approach of year one charges in the Green Deal Plan as it protects the initial bill payer from paying more than they would save in the early years which may happen should future savings be allowed within the Golden Rule calculation.

78. We support the approach taken where the household may be under-heating the property. We have two concerns for private tenants: (a) that their degree of under-heating may not be acknowledged and (b) they may not be offered the best possible Green Deal package (with the landlord taking some benefit from the package). However, these risks would seem to be covered by the obligations on GDPs for responsible lending and by general law together with the extensive audit trail required by the Green Deal process.
Q27. What would be the benefits of allowing GDPs to vary the interest relating to a Green Deal plan in line with the most appropriate component of the fuel and light index?

79. The sole benefit is to allow a larger savings message at the point of sale, but this comes at the cost of significant increase in complexity and risk of customer confusion. Nor does it seem likely that GDPs will be sufficiently attracted to offer a fully competitive rate, although in theory a proportion of indexation might be attractive to some bond purchasers.

80. We would not be able to automatically index payments without an investment in our billing systems which we cannot do for Green Deal launch\(^4\), so it would need to be implemented on an annual basis with communication to customers managed by the GDP.

81. We doubt that an indexed charge can be sold fairly, with customers fully informed of the consequences of their energy mix differing from the average, the potential risks of rebasing of the index and of any lead or lag in the indexation.

Q28. Do you agree with the proposed approach to how the charge can vary in subsequent years of a Green Deal plan?

82. No. As stated in response to question 27 above, we are concerned that varying the interest rates in later years complicates the process and may deter consumers from taking out a plan. Whilst some businesses may be better equipped to respond to such a change, we are concerned that some businesses, especially SMEs, may not be protected by this variation.

Q29. Is £150 or 5% of the total Green Deal package (which is the least amount) an appropriate limit on the amount of cash incentives which can be offered by GDPs?

83. We agree that cash incentives can help stimulate demand, but note that they are only likely to be relevant for lower cost measures such as cavity and loft insulation. More expensive measures will likely involve a degree of ECO funding and be capped by the Golden Rule (i.e. any cashback is paid for by ECO, not Green Deal repayments). The amounts need to be meaningful (5% of a £400 cavity wall package is only £20) and also simple (able to quote a fixed sum, not to caveat in case the final quote comes in over £3,000). We propose a £100 cashback is to be allowed. For consumer protection it will need to be explained to the

\(^4\) The demands of the Retail Market Review may make 2014 a more realistic date to make any changes to accommodate indexation
customer the interest rate charged on the cashback and the total cost (e.g. £142 for a 10 year package at 7% interest rate).

84. We agree with the other proposed inclusions (e.g. associated services such as free re-decoration or loft clearance services) and that there cannot be a notional “hassle cost” additional cashback.

Q30. Do you agree our proposed approach to the Golden Rule principle strikes the right balance between ensuring the necessary consumer protection mechanisms are in place whilst not unduly stifling ambition and investment into the Green Deal?

85. Yes, consumer protection is vital to maintain long term confidence. There will be some measures which will have cosmetic and amenity benefits (for example double glazing and full loft boarding) that consumers will wish to pay for and consumers should be aware that the measure as installed does not meet the Golden Rule.

Delivering equitable support and tackling fuel poverty through the Green Deal and ECO

Q31. Do you agree that eligibility for AW measures should be restricted to households who are in receipt of the benefits and tax credits similar to the CERT Super Priority Group and who are in private housing tenures?

86. We support the objective of ensuring that support is targeted on those in greatest need, but we also believe that the opportunity of a new, ten year, scheme should be taken to consider the means of doing this.

87. There are a number of factors:

- The Hills Fuel Poverty Review provides new insights into which customers are most in need. If the 2016 fuel poverty target is to be met, more flexible approaches will be required than a simple ‘eligible benefits’ test. Suppliers (and other providers) will be encouraged to develop new techniques for identifying those most in need if advantage is taken of the Energy Act 2010, a concept of a ‘fuel poverty risk group’\(^5\). This is a much more flexible definition than one simply based on benefits (and arguably better targeted). Such customers are recognised as eligible for the Warm Home Discount, if suppliers are able to show how eligibility may be verified. Given a SAP assessment is likely to be carried out, we believe the fuel poor could be

\(^5\) Energy Act 2010 Clause 15(5)
identified using combinations of criteria, for example those on very low income not claiming benefits living in a solid wall property.

- It will be more equitable for the ECO obligation to be allocated on the basis of gas volume (see Q58). The majority of low income customers would benefit, particularly those off the gas grid who are the most severely fuel poor. To give low income households in the worst housing heated by gas the opportunity to avoid higher costs, help should be available from the start of ECO. This may not happen if Affordable Warmth eligibility is inflexible. The substantive nature of any required measures will justify the additional cost of verification.

- It will take time for providers to develop Green Deal propositions attractive to all customer groups. Indeed it may never be attractive to offer a Green Deal to rented property in a low income area unless a smart meter is fitted (the credit risks being too great, particularly with payment on demand).

- Our experience of CERT is that Super Priority Group households are very hard to identify, even with the potential incentive from the £120 Warm Home Discount. Further subsidies may not be effective, or well-targeted, and it will be some time, if at all, before data-sharing is shown to be cost-effective and new legislation justified. We propose in Q56 a mechanism for reducing the risk that the challenge of the Affordable Warmth group will lead to higher costs for energy consumers, but also see the flexibility proposed below as useful to managing risk.

- The number of potential Affordable Warmth customers who still require the major measures specified within the consultation cannot be predicted with any confidence. An overestimate will greatly increase the risk of much higher costs as suppliers have to find a higher proportion of a smaller number of customers. This will be particularly wasteful if, with a little more time, these households would have been approached through an area-based scheme or a referral scheme.

88. We propose the following structure will best ensure support is well-targeted on the most severely fuel poor customers, but also give fair access to other vulnerable customers, particularly very low income customers:

- Households in a ‘fuel poverty at risk’ group are eligible for Affordable Warmth. The principles for approving such a group are as set out for the Warm Home Discount (i.e. a supplier must make a case to Ofgem), but 100% verification of eligibility is required (with the standards of verification being approved by Ofgem).
• The current Priority Group\(^6\) is eligible for Affordable Warmth for a temporary period, to 31 March 2014.

89. We agree with the arguments against using area-based criteria. They are not necessary to secure a focus on area-based delivery (as the most efficient and most able to engage community support) and would perpetuate the unfairness of CESP in denying access to those severely fuel poor customers who do not live in the lowest income decile areas.

90. We agree that social housing should not be fully included within the Affordable Warmth scope, as this could delay support to the most disadvantaged and reward social housing providers who have been slow to complete their Decent Homes programme. However, there are some substantive improvements such as fitting central heating to off-gas grid properties which are high cost, essential to eradicating fuel poverty and a potential source of unfairness if these are allowed for solid wall properties (as a whole house solution) but not for other properties. We recommend this area is considered further and perhaps included in an updated SI for the second ECO period (which would allow carry forward and so not preclude measures starting before March 2015).

Q32. We propose seeking a voluntary agreement with ECO obligated companies as to how they commit to following up referrals. Do you have any suggestions as to what this commitment should consist of?

91. We and other ERA members have worked closely with DECC to build on the success of the ‘Home Heat Helpline’ to ensure that the referral scheme is attractive to consumers. One learning from the challenge in following through with referrals from Energy Assistance Scotland is that Government should invest in a speed-dial telephone transfer, so that customer interest can be maintained.

92. We would be more than willing to work with any referral agency that is able to provide high quality referrals at reasonable cost. However, there can be no guarantee that all referrals will be accepted –it would increase the overall costs of ECO if referrals were of insufficient quality or led to higher administration or support costs.

Q33. Do you have any evidence of views to put forward on whether the benefits of ECO as a whole, or of the carbon saving obligation within it, are or are not likely to be distributed equitably to all income groups? If so do you think regulatory intervention is necessary to

\(^6\) Over 70s with incomes over £16,000 a year might be excluded
ensure a more equitable pattern of delivery and, in particular, do you have any comments on the likely effectiveness of setting a 'distributional safeguard' as a means of achieving this?

93. Our experience of CESP is that solid wall insulation programmes are likely to be small scale, area-based, with a core element of social housing. We believe these principles are likely to continue into the first period of ECO. Our experience of CESP is also that private owners are ready to join these programmes. Although measures are currently offered free, the Green Deal should transform the range of propositions which can be offered (beyond the obvious that no capital is required, for instance, a period of offset of Green Deal payments, and even nil contribution for a period). No-one can therefore say what groups will be most likely to take up ECO measures. Our instinct is that the dominant driver will be a closeness to an area-based scheme, with the potential for community support and the visibility of example properties being as much a factor as cost saving.

94. The pressure of the multiple and short term targets will place a premium on local authority supported schemes in the first period of ECO and hence mean that the benefits of ECO may initially tend to go to social housing tenants and their neighbours, although will also likely mean that any household, and any community, who voluntarily seeks support is likely to be given an attractive offer. The latter driver may be particularly effective in rural areas, although it will also be necessary for the RHI to be well structured (see Q16) and for flexibility to support all severely fuel poor customers (see Q31).

95. However, we question whether equity between groups is a critical factor in designing ECO. Most households will not benefit directly from ECO measures and for them, fairness is for ECO to be delivered at lowest cost.

Consent, disclosures and acknowledgement

Q34. Do you think the framework for consent for the Green Deal charge and measures provides effective protection for the parties involved?

96. Yes, we believe that the framework for consent offers effective protection for all parties.

97. We would like to raise the importance of the timings of consents in their relation to the Data Protection Act. It is important that consent from the bill payer is gained in order to use their consumption data as part of the personal usage assessment and it must have absolutely been gained prior to a GDP initiating a Green Deal on the Central Charge Database (CCD), otherwise suppliers will be providing debt information on a customer who has not yet given their consent for us to do so.
98. Suppliers must be confident that consent has been gained by the bill payer and we believe this can be managed via the GDAA. GDPs must sign a contract in which they agree that all consents will be gained prior to them creating a record on the CCD. Suppliers can then assume that consents have been gained and there is also a route for redress against the GDP where consent was not gained.

Q35. What is the best way to draw the future bill payer's attention to the acknowledgement wording?

99. One suggestion could be to add a ‘tick’ box which new tenants / owners have to acknowledge when signing the sale or tenancy contract. In addition to this another option may be to require the Green Deal kitemark to be clearly visible on property particulars (sale and tenancy).

Q36. What will property professions need to do to assist with the effective discharge of the disclosure and acknowledgement obligations? If property professionals assume a duty to discharge these obligations on behalf of property owners, should they face the same consequences as the owners, where they fail to do so?

100. Disclosure: The proposal that the existence of a Green Deal plan should be revealed on an Energy Performance Certificate (EPC) should ensure that the plan is disclosed to prospective buyers and tenants at an early stage in the transaction. The strengthening of the Energy Performance of Buildings (Certificates and Inspections) (England and Wales) Regulations 2007, which is due to come into effect in April 2012, is already set to increase the role of property agents in ensuring effective disclosure, since they will need to ensure that a copy of the first page of the EPC is attached to written sales and letting particulars (we assume that the Green Deal plan will be referred to on the first page).

101. Government should therefore ensure that the EPC Regulations are being adhered to, and encourage local authorities to increase enforcement efforts in this area if necessary. A question should be added to the standard enquiries raised by buyers' and tenants' solicitors ("Commercial Property Standard Enquiries") as to whether a Green Deal plan is in place in relation to the property being bought/let. For added peace of mind, proposals to broaden access to the central EPC register should be expedited, to enable conveyancers to check for themselves whether a valid EPC exists in relation to a property, and obtain a copy (therefore revealing the existence of a Green Deal). We would be interested in whether the suggestion that a notification of a Green Deal plan be lodged at the local authority, and therefore revealed via the usual enquiries made by a conveyancer of that local authority, proves to be possible.
102. **Acknowledgment:** Although, on the current proposals, it will be essential in order for liability to transfer that conveyancers include the relevant acknowledgment in sale contracts/transfers/agreements for lease/leases (as the case may be), it would appear to be hard to justify a departure from the normal position of a solicitor only being liable in negligence to their own client. There would appear to be no other area where conveyancers can be made directly liable to compensate a third party who is not their client (other than in the context of undertakings routinely given to facilitate the conveyancing process).

103. We can see that a buyer's conveyancer could potentially be put in a difficult position if he or she were aware of the existence of a green deal, but the seller's conveyancer (who is normally responsible for drafting the documentation) had omitted to include the green deal acknowledgment. The buyer's solicitor might feel that their duty to act in the best interests of their client meant that the omission should not be pointed out, with the result that liability for the plan would not transfer. A comprehensive publicity programme should be undertaken to ensure that the obligation to include information about the Green Deal in conveyancing documents is disseminated to solicitors and other conveyancers.

104. We would recommend that the Law Society and other appropriate professional bodies such as the Council for Licensed Conveyancers and the Institute of Legal Executives should prepare guidance. Standard form sale contracts, such as those incorporating the Standard Conditions of Sale Fifth edition could also be amended to include Green Deal wording in square brackets which could be deleted or incorporated as appropriate.

Q37. **Are there any other situations in which disclosure and acknowledgement should be required which might fall outside the proposed framework?**

105. We believe for sales and rentals the consultation framework has captured the key disclosure and acknowledgement requirements. However, if a property is repossessed further thought may need to be given to ensure the banks are aware of a Green Deal charge attached to the property. Will the mortgage provider need to consent to a Green Deal charge applying to the property? Furthermore, it is also likely that the building insurer will also need to be informed of such a charge to the property, as in the event of the property needing to be demolished you would claim against the insurance policy for outstanding payments.

Q38. **Do you think 30 days after receiving the first electricity bill is an appropriate time limit within which someone can dispute disclosure of the Green Deal?**

106. As part of suppliers' business as usual processes, any new customer taking over responsibility of an electricity supply will receive a welcome letter. This letter will set out an energy
supplier’s terms of agreement, electricity charges and Green Deal charges. We believe that the time limit should be related to this document (for the SI it might be described as the first communication from the electricity supplier) which we will always seek to send whereas for prepayment and direct debit there may not be a statement (it is not called a bill) for some months. This document may not be sent in the case of rented property where the payment method is ‘on receipt of bill’ and neither the old or new tenant has informed us of the change of occupier. In this case the first communication from the supplier would be the first bill, and it would normally be within three months, although the bill would be addressed to the previous bill payer.

Q39. Do you agree with the Government’s approach to allowing GDPs to require early repayment in certain circumstances?

107. Yes, we agree with early repayment for certain circumstances. Where consumers could be at risk of paying for a Green Deal which they are not receiving the benefit of the measures charged for, for example a house with a Green Deal which is subsequently turned into flats and where the risk of non repayment is significantly increased such as planned demolition.

108. However, consumers must also be protected from forced repayment in full where events such as non planned disconnection (result of house fire) occur. We believe consumers should be offered payment terms in the event that avoiding payment was not premeditated.

Installations

Q40. Are there any Government backed and accredited scheme standards which operate at present (in addition to the Microgeneration Certification Scheme and Gas Safe), that could be considered as meeting the new Green Deal standard already?

109. All programmes need to be brought in line to ensure they meet the appropriate accreditation standards for the programme and, if we can streamline the accreditation process, this would open up the market as costs of entering can be very prohibitive if companies have to go through all the accreditation processes separately.

110. Fensa Glazing Industry and CIGA Insulation Industry should also be considered as already meeting the new Green Deal standard.

111. MCS is the main body for accrediting microgeneration technologies in the UK, but we would like MCS to also be able to accredit installers on specific sub-sectors of technologies (e.g. if they only install one type of solar thermal system). In addition, as part of its remit MCS could engage with the wider trade audience, both in the UK and internationally so that the UK is
known as a market leader in this field. Annex IV of the Renewable Energy Sources Directive (2009/28/EC) allows for accredited installers qualified in one country to do business in other Member State markets. This would be one way to open up the market to products that already meet the Green Deal standard.

112. There is the opportunity to create a single independent quality mark for the whole Green Deal which can build on the success of the MCS and schemes like REAL. Monitoring standards must be clear and consistent to provide an effective independent assurance standard for the microgeneration market in the same way that the GasSafe brand has done for the boiler industry. The Green Deal quality mark should be fully endorsed by Government.

113. We have been working with Asset Skills, Construction Skills and Summit Skills on the development of NOS and qualifications that will, hopefully, lead to Green Deal accreditation. We are supporting and consulting with the Green Deal Skills Alliance (GDSA) to ensure that the qualifications and accreditations we feel are appropriate are considered for Green Deal. We and other energy suppliers/potential GDPs have requested from GDSA that limited scope qualifications are also created and considered eligible for Green Deal accreditation. These would enable flexible delivery methods for both Green Deal and ECO, i.e. limited scope roles working together with fully qualified technical roles to approve/commission works. This could be very valuable to the Green Deal/ECO providers in delivering measures such as solid wall insulation and micro-generation where the work can be broken down into component parts to be delivered more efficiently and cost effectively, without compromising quality or safety standards (a good example of this in practice in other parts of the industry is metering limited scope activities in gas particularly; for example, a gas engineer does not need to be fully qualified to exchange a meter). This also enables more entry routes to the industry for potential Green Deal apprentices.

114. As noted earlier in the response, qualifications and training need to be quality assured to ensure they can be confidently used as routes to competence under Green Deal accreditation. A clear guide for industry illustrating all qualifications and training providers could be produced under the single quality mark to support GDPs in selecting the right installers to work with through recruitment or procurement processes.

115. It is also critical that a quality assured training/qualification provider route offers choice, flexibility and competition, and not a ‘closed shop’. It is important that providers can interact with qualifications and apprenticeships that can be utilised effectively in modularised ways, as the qualifications framework has been intended to work, and not be unnecessarily stifled by ‘traditional’ methodologies and provision. This needs to be done within the controls of a
quality assured provider network that is accessible to new entrants to maintain quality and safety standards.

Q41. It is not yet clear what the accreditation requirements for Green Deal/ECO will be and how they impact on incumbent firms in the market. Further work is being carried out to understand and quantify the nature of the impact of these, particularly for those firms that are micro-businesses. We welcome views from incumbent CERT installers on what the potential implications of changes to accreditation would be.

116. It is imperative that all installers are accredited to the correct and appropriate level within their industry to install the measure specified. However, in most cases, this exists in some form. The more detailed question is whether this accreditation should sit with the individual carrying out the installation or the company who employs them. This must be consistent across the Green Deal and at present for most technical CERT installed measures it sits with the individual.

117. Changes will imply additional costs, a reduction in installation capacity and also more administration and processes necessary to maintain training levels and accreditation registers.

118. To ensure success over the next decades it is imperative that the supply chain operates at a level of capability that drives consumer confidence in the programme. DECC needs to set the standards to ensure that ‘rogue tradesmen’ cannot survive for long in the market.

Q42. Do you agree with our proposed debt thresholds? If not, please suggest alternative thresholds with appropriate supporting evidence.

119. We agree with the debt thresholds as noted in the consultation document which are consistent with the existing threshold for prepayment meter arrears when switching suppliers. We also support the proposed threshold of £400 in the case of micro-businesses. However, for larger organisations we believe the £400 threshold may have little meaning and recommend that the GDP takes a case by case view, due to the typically greater levels of consumption and their more heterogeneous nature.

120. We support the data infrastructure requiring the GDP to acknowledge positively the continuation or the cancellation of a Green Deal after the initial creation of the Green Deal record. Where the automated check has indicated that a domestic customer has an outstanding debt on their electricity account of more than £200 this acknowledgment will be proof that the GDP has considered the information provided and made an informed choice as to whether or not to lend to that customer. It also acts as an audit trail of the outcome of this consideration, in the event of an investigation, and allows for continued competition in the
energy market, as, while the MPAN retains a Green Deal flag, small suppliers who have not opted into the Green Deal collection mechanism will not be able to supply electricity to the customer. Cancellation of the Green Deal will remove the flag.

Q43. Do you believe that electricity suppliers as well as GDPs should have the right to prevent customers from taking out a Green Deal finance arrangement if these thresholds are exceeded? Please give reasons for your answer.

121. Energy efficiency savings, and therefore financial savings, are a key aspect of the Green Deal. However, where the energy savings equate to the Green Deal charge (i.e. the limit of the Golden Rule), there will be no financial savings which could be channelled to repay any outstanding debt more quickly. In order for a Green Deal to support faster repayment of any outstanding debt, the full charge allowable under the Golden Rule calculation cannot be applied, which is expected to restrict the number of measures available e.g. cavity wall and loft insulation are expected to be more cost effective. However, this may not be the case where the customer is eligible for Affordable Warmth ECO funding, or the package of measures is eligible for Carbon Saving ECO. ECO eligibility should have been picked up at the assessment stage and when the Green Deal Provider provided a quote to the customer.

122. We do not feel it is critical for the electricity supplier as well as the GDPs to have the right to prevent customers from taking out a Green Deal finance arrangement if the proposed debt thresholds are exceeded. As long as the GDP has the right to veto, we believe that their code of conduct and their sustainable commercial model should promote them to only offer finance responsibly. Any risk of non payment is shared by the GDP and the electricity supplier, and therefore we expect our interests to be aligned so that the right of veto is not required by the electricity supplier in this instance. It is important however that we have right to fit a smart meter as a condition of a Green Deal, so that we can be confident that the debt situation will not deteriorate.
123. We also believe that in order to retain agency status in our role as collection agent, where a customer takes out a Green Deal plan and has existing debt with their electricity supplier, monies collected must be allocated to the outstanding electricity debt first. Applying payments to oldest charges first is usual accounting practice. Balances due to being on payment plans such as direct debit will not be required to be repaid first based on the collection process proposed by suppliers.

Q44. Do you think additional infrastructure is required to facilitate payment remittance?

124. We do not believe that infrastructure in addition to the Central Charge Database is required to facilitate payment remittance. Our assumption is that payments collected will be remitted to GDPS or their nominated financiers by BACS transfer and fall within business as usual practices.

Q45. Do you agree with the proposed 72 hour period for the transfer of payments? If not, please suggest an alternative with appropriate supporting evidence.

125. It is not possible to agree with the above proposal without further understanding of the anticipated accounting model. Receipt of monies will initially be into a combined energy and Green Deal account, which is the only way in which a single bill for the two charges can be achieved. When the payment is applied to the customer’s account a calculation will occur to identify Green Deal funds from energy, and these will then be accounted for separately.

126. A realistic timescale for the transfer of monies has to take into account the accounting processes as, until the process has completed, suppliers will not know what proportion of the payment received is due to the GDP.

Q46. During this 72 hour period, should the electricity supplier maintain an account balance at least equal to the total value of Green Deal payments being held?

127. As we set out in our response to Q45, we do not believe it is possible to comment on the proposal that suppliers should maintain an account balance that is at least equal to the total value of Green Deal payments being held, until the accounting model for the Green Deal has been set. Is the suggestion that suppliers hold Green Deal payments in a separate bank account or creditor code and that this will enable better visibility of the charges that have been paid or are still outstanding?

128. We do not believe that a separate bank account is required for Green Deal monies; a supplier’s credit rating should be enough to provide comfort that monies are secure for 72 hours without the requirement to post to a separate account.
Q47. Do you have an alternative suggestion for reducing the burden on smaller suppliers that would not lead to a potential reduction in the number of electricity suppliers available to Green Deal customers?

129. If smaller electricity suppliers are to be encouraged to opt into the Green Deal collection mechanism the administration fee must be representative of costs. Suppliers with fewer customers may not be able to pass on unrecoverable costs in full as it may result in them being uncompetitive. An administration fee reflective of true costs will allow them to act within the Green Deal framework without risking their market position.

130. We support the provision of a voluntary, quick and simple ‘opt in’ process for smaller suppliers at launch and any time subsequently to enable them to join the Green Deal mechanism quickly in the event that a customers value may bring greater benefit than cost to opting in.

Q48. Do you agree with the proposed threshold for the smaller supplier opt in? If not, please suggest an alternative threshold with appropriate supporting evidence.

131. We do not agree with the argument that the exemption for ECO should be linked to the threshold for supplier opt-in to Green Deal repayments. Each requirement should be taken on its merits. We discuss the principles for ECO in Q58. For the Green Deal, the considerations are quite different. Customers will be disadvantaged by their exclusion from new entrant offers; new entrants would have additional costs from the need to change billing systems. The balance between these two issues will change as more households take up Green Deals and as larger suppliers resolve any teething issues with Green Deal implementation. We recommend that the threshold is initially set at 250,000, but that Government declare the intent to reduce it from 2015.

Q49. Do you agree with the proposed level of the annual administration fee? If not, please give reasons for your answer and, if relevant, provide additional evidence of likely cost impacts.

132. We believe that Green Deal customers should not be less attractive than customers without a Green Deal as this will discourage small suppliers entering the market as Green Deal collection mechanism and will restrict the choice of supplier to such customers.

133. If the administration fee offered for the collection of Green Deal monies is not representative of suppliers’ costs, Green Deal customers will be less attractive and small suppliers will not opt into the collection process.
134. An unrepresentative administration fee also disadvantages suppliers who have a greater share of the Green Deal customer market than they have a share in the energy customer market as they risk being uncompetitive if they have to pass on more costs to fewer customers.

135. Increased risk of non payment due to Green Deal should also be recoverable via the admin charge. Suppliers have no option not to accept customers with a Green Deal so are unable to mitigate themselves against increased risk due to the Green Deal, if costs are incurred due to non payment of energy in the event of a Green Deal dispute, suppliers should be adequately compensated.

136. We do not believe that £3 per annum covers the true cost of administering a Green Deal customer. The below table outlines the costs that are additional to a supplier and recognises where no additional cost will be incurred if Green Deal charges are integrated into suppliers’ business as usual processes.

<table>
<thead>
<tr>
<th>Cost</th>
<th>Type</th>
<th>Additional</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation</td>
<td>One Off</td>
<td>Yes</td>
<td>Medium/ High dependent on solution</td>
</tr>
<tr>
<td>System Maintenance (Data sharing, cash transfer)</td>
<td>Ongoing</td>
<td>Yes</td>
<td>Medium/High (dependent on process)</td>
</tr>
<tr>
<td>Charges for provision and maintenance of shared systems</td>
<td>Ongoing</td>
<td>Yes</td>
<td>Small</td>
</tr>
<tr>
<td>Increase in debt risk due to not being able to manage which customers take a GD</td>
<td>Ongoing</td>
<td>Yes</td>
<td>Dependent on how careful GDPs are in their lending policy</td>
</tr>
<tr>
<td>Initiating Green Deal</td>
<td>One Off</td>
<td>Yes</td>
<td>Small</td>
</tr>
<tr>
<td>Notification letter</td>
<td>One Off</td>
<td>Yes</td>
<td>Small</td>
</tr>
<tr>
<td>Confirmation letter</td>
<td>One Off</td>
<td>Yes</td>
<td>Small</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------</td>
<td>-----</td>
<td>-------</td>
</tr>
<tr>
<td>Billing with energy</td>
<td>Ongoing</td>
<td>No</td>
<td>None (unless Green Deal adds pages to the bill)</td>
</tr>
<tr>
<td>Billing without energy (vacant properties)</td>
<td>Intermittent</td>
<td>Yes</td>
<td>Small</td>
</tr>
<tr>
<td>Debt Management with energy debt</td>
<td>Intermittent</td>
<td>No</td>
<td>Small (dependant on liability model)</td>
</tr>
<tr>
<td>Debt Management without energy debt</td>
<td>Intermittent</td>
<td>Yes</td>
<td>Medium</td>
</tr>
<tr>
<td>Debt Management vacant properties</td>
<td>Intermittent</td>
<td>Yes</td>
<td>High</td>
</tr>
<tr>
<td>Customer queries</td>
<td>Ongoing</td>
<td>Yes</td>
<td>Medium/High (dependent on process)</td>
</tr>
<tr>
<td>COT</td>
<td>Ongoing</td>
<td>No – unless non disclosure</td>
<td>None</td>
</tr>
<tr>
<td>COS</td>
<td>Ongoing</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>Complaints</td>
<td>Ongoing</td>
<td>Yes</td>
<td>Medium (dependent on process)</td>
</tr>
</tbody>
</table>

137. Based on the above table we believe that the £3 per annum is not a true reflection of costs that will be incurred. We will provide separate data to DECC on a confidential basis to indicate what would be a more reflective cost, based on what we expect energy suppliers to incur.

138. Suppliers will still incur costs that will not be recoverable via the administration fee due to the proposed mechanics of the fee payment. As the fee is only payable to the supplier for the days which they have responsibility for Green Deal charges, any activity prior to the plan going live
may not be recoverable as the plan may be cancelled before this point. This includes activities such as initial validation, Green Deal acknowledgment letters and confirmation letters and any queries around resolving rejections. It is also possible that the supplier who carries out these activities is not the supplier on the date which charges start so again would have no means to recover these costs via the fee mechanism. In order to minimise these unrecoverable risks, GDP accreditation and the GDAA should be robust with sufficient redress to incentivise good Green Deal Provider process and practices and minimise the risk of complaints and rejections.

Q50. Do you agree with retaining the existing £200 arrears limit (including Green Deal repayment arrears) for prepayment customers with a Green Deal plan? If not, please suggest an alternative limit with appropriate supporting evidence.

139. We support retaining the existing £200 arrears limit (including Green Deal repayment arrears) for prepayment customers with a Green Deal plan. A £200 debt transfer threshold for prepayment customers was developed by Ofgem, and we support maintaining consistency with this approach.

140. Ofgem are currently looking at how best to encourage prepayment customer to switch, although we understand that this may focus on drivers other than the changing the arrears limit. Consequently, we do not see any benefit at this time in changing the current limit.

Delivering the Green Deal and ECO

Q51. Do you agree that stipulating strict regulatory quotas for partnering with specific types/numbers of third party delivery agents might be unduly burdensome and the development of a brokerage mode may be a more effective means of achieving the desired outcome?

141. Yes. Mandating suppliers to contract in a particular way places producer interests above those of consumers. As ECO is so different from CERT it is impossible to say what the range of providers might be, or how it might change over time Suppliers are in a highly competitive market and will be interested in working with any provider who offers them potential advantage. For Government to seek to define the market structure through a series of quotas is likely to be highly inefficient.

142. As ECO must be a stable, longer term policy to achieve the goal of a diverse and competitive GDP market, it is very important that Government seeks to anticipate risks now. Our assessment of those (in the consultation document and from the Brokerage Steering Group) which are relevant to the issue of a brokerage are:
<table>
<thead>
<tr>
<th>Risk</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Suppliers disproportionately prefer in-house activity</td>
<td>Not a substantial adverse risk – or disadvantages supplier in energy market – and risk of intervention – in-house delivery may deliver best value for energy consumers. But see E. below</td>
</tr>
<tr>
<td>B. Suppliers prefer large providers</td>
<td>Valid - supplier skills may not extend to managing numerous small providers and verification requirements can inhibit aggregator model. A low cost, easy to use brokerage with standard contracts could make it easier for smaller providers, although this group are already served by the Independent Managing Agent sector.</td>
</tr>
<tr>
<td>C. Suppliers prefer reliable providers</td>
<td>Valid, and understandably: quality, service and delivery are important. The Green Deal framework should mean that all providers meet quality standards without need for supplier supervision; a blind brokerage could remove the barrier of supplier concerns that service failings will lead to complaints directed to them; flexibility between ECO periods could reduce the premium on reliable delivery, with a brokerage providing additional flexibility depending on its design.</td>
</tr>
<tr>
<td>D. New entrant providers inhibited by need to contact, and contract with, suppliers</td>
<td>Potentially valid, but a brokerage may not help. Suppliers will need to explore all delivery channels to meet the ECO targets, but the real issue here is what types of contract will be most suitable for ECO. If standard contracts are effective then providers should easily be able to get a direct quote from suppliers; if contracts are bespoke then a brokerage would have high costs. In CERT this barrier is resolved by the Independent Managing Agent sector and we would expect this sector to evolve with ECO and deliver similar benefits to smaller providers as might be obtained from a brokerage.</td>
</tr>
</tbody>
</table>
E. Too complex to simultaneously arrange Green Deal finance and ECO contract

Potentially valid, and providers may also be concerned at revealing information to potential competitors (if a supplier has in-house delivery). A brokerage would need to guarantee volume could be placed (and providers to accept some market price risk, or cost inefficiencies would rebound on consumers). However, there may also be the same objections as D. – standard contracts can be placed through six phone calls; bespoke contracts may not be suitable for a brokerage.

F. Tenders for large-scale retrofit inhibited by need for prior ECO contract

The real barrier here is the short timescale and firm targets of ECO, which make it difficult for housing providers to negotiate with suppliers and then place a tender. Some flexibility between ECO periods would reduce this barrier. There would be a benefit of a brokerage if the costs of transactions are lower than direct negotiation with suppliers, although this would only seem likely if standard contracts were practicable.

143. Our conclusion is that a brokerage model is not required. Clearly, we would welcome and would use any route to market that provides a secure and cost effective solution to delivery of the obligation. We believe this can be achieved through energy suppliers working with local suppliers and providers to deliver the lowest cost and most effective delivery of the obligation, rather than establishing a formal brokerage system and associated infrastructure at further significant cost to the industry and in turn the energy bill payers. As it is in the interest of energy suppliers to work with GDPs where they offer cost effective delivery, we feel that market forces will ensure competitive access to ECO, and that a brokerage is an unnecessary burden on a new market.

144. If DECC are minded to pursue a brokerage model we would be prepared to support its development, but no assumption can sensibly be made as to how much of the market it might capture.

Q52. Do you agree that it is desirable that energy suppliers should have to fulfil some or all of the (carbon) obligation by spending money promoting measures through those organisation who are able to provide the most cost effective delivery options?

145. No. Forcing suppliers to purchase from particular providers will create inefficiencies in the market, which increase costs to energy consumers. If they are genuinely cost effective then in
a competitive market suppliers will contract with them, therefore eliminating the need for any mandated approach. If DECC believes that the energy supply market is not sufficiently competitive to ensure cost effective purchasing the appropriate remedy would be a referral to the Competition Commission.

146. We agree with the sentiment that there are barriers in the market which may increase costs, but these can only be addressed by removing the barriers (please see Q52), not by favouring some producers over others.

Q53. Do you agree that we should seek a firm commitment from the ECO suppliers that they will use brokerage for a defined and significant percentage (e.g. 50%) of their obligation? If so, what level do you consider this should be?

147. It is unclear whether a brokerage can reduce costs for energy consumers, but, if it has sufficient potential to do so, we agree that all parties should give it a try. On a supplier’s part this will mean putting some volume through the market and, if it is a success, being prepared to take additional volume. Government must ensure that there are no barriers to the use of the brokerage, in particular to ensure consistency between the design of the brokerage and the flexibility in the ECO targets, so that use of the brokerage does not lead to untoward risk.

148. The exact details of a supplier commitment to use the brokerage will depend on the design of the brokerage. At most a commitment to offer 6% of volume to the brokerage would seem sufficient to test it (the value of business would be about £100M per annum and the risk to energy consumers, if it was not that competitive, should not be undue). We would be surprised if suppliers did not bid a much higher proportion of their volume into the brokerage, as the consequences of allowing competitors an advantage of lower costs are substantive, but whether this led to 25% or even 50% of volume being contracted through the brokerage really depends on whether standard contracts are practicable and cost-effective and preferred by providers to bespoke arrangements.

Q54. Do you have any further comments on the detailed design of a brokerage, or any alternative mechanism that ensures the most cost effective delivery?

149. The brokerage is not an essential part of ECO (as evidenced by the success of CERT and CESP), but can be a useful addition if it is a cost-effective means of simplifying contracting between parties, particularly if this opens up the market to smaller providers. It is important therefore to see the brokerage as a trial which can evolve and grow. Assuming that the initial set-up is practicable we are willing to play our part by bidding for volume from the brokerage, so long as this does not lead to a risk of non-compliance with our obligation or place us at a competitive
disadvantage with other suppliers. If the brokerage is a success and providers find the brokerage to be an attractive means of supporting combined Green Deal/ECO packages we would expect to bid for substantial volumes.

150. The details of the brokerage are being established through the Brokerage Steering Group (where our trade associations are represented). In our view some critical requirements are that:

a. A standard contract is developed early in the process. It will greatly affect the design of the brokerage if parties do not support this and believe there is a need to vary the terms of the standard contract.

b. If the brokerage is based on a commitment to install, the key issue will be how delivery risks are made transparent and how they are managed. It would neither be proportionate for a provider to forfeit their Green Deal accreditation for late delivery or for a supplier to have a compliance risk for that late delivery. The latter might be managed by any non-delivery within an ECO period just being carried forward to the next period; the former by an ‘e-bay style’ metric of past performance which could be expected to affect the price a purchaser would pay.

c. If the brokerage is based on completed installations, the key issue will be how to give providers’ confidence that prices will not crash, whilst retaining a market mechanism which passes the benefits of competition through to energy consumers. We have separately provided a detailed proposal to DECC.

d. There are no additional verification requirements i.e. that registering a Green Deal with the Central Charge Database is sufficient proof of installation and of the carbon savings. As well as reducing administration costs, this will allow more flexibility in the brokerage design, including that contracts are blind for provider and supplier (with the brokerage as intermediary).

e. Administration costs should be charged to the contract, not smeared across all parties. This, and the preceding feature to reduce costs, will allow the brokerage to develop without distorting the market. Our ideal is that costs can be made low enough to support a wider variety of activity, including individual whole house refurbishment by smaller providers.

151. If the brokerage concept is successful it will reduce costs to energy consumers and give providers confidence that they can secure access to ECO. We strongly recommend that the brokerage is allowed to develop at its own pace and no attempt is made to accelerate the
process by favouring the provider interest of a guaranteed outlet over the energy consumer interest of competitive prices.

Q55. Do you agree that the Energy Ombudsman should have a role in helping customers secure redress in the Green Deal? If yes, what further powers will the Energy Ombudsman need to investigate compliance by GDPs and householders? If no, please explain why not.

152. We support the Energy Ombudsman having a role in the redress process when it relates to a direct energy billing issue.

153. The redress process must be clear and manageable, with no onus on the energy supplier to manage redress issues that are the responsibility of the GDP or financier (if different). In a situation of dispute, whilst the customer is still expected to continue paying green deal repayments, there are likely to be instances where this does not happen and suppliers (and customers) need confidence that the redress process will provide a speedy resolution so that this does not harm the energy supplier / customer relationship. If the Energy Ombudsman is able to provide support here this would be beneficial. Strong rules will deter rogue tradesmen.

Q56. Do you agree that targets of 0.52 million tonnes of CO2 per year saved, and the £3.4 billion reduction in notional lifetime costs of heating by March 2015 represents the correct balance between ensuring high levels of delivery and minimising costs that could potentially be passed through to consumers?

154. These targets are unbalanced. They will lead to higher costs than estimated (see Q57), with a significant risk of very much higher costs. The critical issues are:

- We believe a customer contribution of 43% to ECO cost saving to be highly optimistic. There is no basis\(^7\) for assuming private owners are prepared to take-up solid wall insulation at or near the limit of the Golden Rule (CESP experience is that, although savings can be £400 per annum, any customer contribution has been in support of additional improvements such as new soffits) or for assuming that social housing providers will make a substantial contribution;

- The rate of increase in capacity in the solid wall insulation industry, from around 30,000 per annum to 150,000 per annum is too challenging, increasing risk and, even if achievable, would be likely to lead to supernormal profits in the supply chain;

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\(^7\) ‘Scaling the Solid Wall’. Consumer Focus, November 2011 provides a comprehensive analysis
The implications of the Affordable Warmth target are opaque. The £3.4bn lifetime saving is based on assumptions of artificial savings levels (see Q15 and Q59). Without these assumptions (or if the specific circumstances in which they arise are fewer than assumed) many more than 325,000 households would need to be assisted, whilst identifying and engaging even this number of households within the Super Priority Group will be challenging.

155. We therefore expect the costs to significantly exceed £1.3bn per annum (see Q57) with a strong likelihood without further policy changes that they will be over £3bn per annum. Such a cost may not be incompatible with Government’s objectives, as energy efficiency would still be the most cost-effective means of reducing carbon emissions and severe fuel poverty needs to be tackled, but it would be a concern that it was the risks arising from ECO’s design which increased costs unnecessarily. It is also a concern that the potential risks may immediately feed through into the energy supply market (40% of a suppliers’ target is determined by market share at 31 December 2012).

156. We propose elsewhere in this response a number of steps which reduce the risk that ECO is less cost-effective than it could be (see Q11, Q12, Q31, and Q54), but these will be insufficient without some flexibility between ECO targets.

157. Flexibility should not undermine the policy objective of delivering carbon saving and affordable warmth. We recommend therefore that any shortfall in the current period should result in an overall increase through a changed future obligation.

158. For instance (using the example of the carbon targets):

- Each tCO$_2$ per annum shortfall to an interim minimum target increases the period target by $\frac{1}{2}$ tCO$_2$ per annum
- Each tCO$_2$ per annum shortfall to the period target increases the next period target by 2 tCO$_2$ per annum
- Mandatory requirement to meet 70% of the first period target (also, illustratively, 80% of the second period target, 90% of the third period and 100% of the fourth period target).

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5 These assumptions are used to show how a ten year programme can end with no outstanding volume. In practice, ECO might be a rolling ten year programme and the third and fourth year factors, which would not be set until 2015 and 2017 respectively, should allow some flexibility.
159. The mechanism would work as shown below, leading to around 20% greater carbon saving in the longer term (478.4/400) (and around 7% more over the ten year period) and significant penalty on the supplier:

<table>
<thead>
<tr>
<th></th>
<th>Reference</th>
<th>Illustrative, delayed delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target/Actual</td>
<td>Target</td>
</tr>
<tr>
<td>Period 1</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Period 2</td>
<td>100</td>
<td>160</td>
</tr>
<tr>
<td>Period 3</td>
<td>100</td>
<td>164</td>
</tr>
<tr>
<td>Period 4</td>
<td>100</td>
<td>132.8</td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Discounted (at 8%) = cost to supplier</td>
<td>307</td>
<td></td>
</tr>
</tbody>
</table>

160. The same principles should apply to the Affordable Warmth target. It is a concern that using the flexibility to avoid escalation in costs means that there is some delay in benefit to some customers, but we believe this is outweighed by the benefit of help being provided to an additional household (as well as the reduced cost to energy consumers).

161. Note that this structure is designed to manage the risks of delivering ECO, to avoid the costs being higher than they might have, by reducing wasteful expenditure on deadweight and less cost effective actions. The introduction of some flexibility should not be a means of compensating for overoptimistic target setting, but, if this is the effect, the rule should be that each tCO₂ per annum shortfall to the period target increases the next period target by 1.5 tCO₂.
per annum. Applying this rule to the first ECO period and a 2 tCO$_2$ per annum rule to subsequent periods (recognising that there should be a more robust basis for target setting in subsequent periods) would, if used to the maximum extent, secure 15% greater carbon saving.

162. We question whether there really is a disadvantage from accelerated delivery which justifies additional sub-targets, but if the current structure is retained would suggest the following flexibility:

- Each tCO$_2$ per annum excess to an interim maximum target increases the period target by ½ tCO$_2$ per annum.
- Up to 130% of the period target suppliers’ excess tCO$_2$ per annum are valued at the current period methodology; above 130% only at the new period’s (if indeed they are different).

Q57. Do you agree with the estimated costing of the scale of ECO at £1.3 billion per annum as set out in the Impact Assessment? Do you have any additional evidence on the costs and benefits of the proposed targets for consideration in further analysis?

163. No. The estimates for the cost of the carbon target (75% of the £1.3bn per annum) and for the Affordable Warmth target (25% of £1.3bn per annum) are quite separate, but we believe both are too low.

Carbon Target

164. The narrow range of measures eligible for the carbon target mean that the robustness of the forecast depends almost entirely on the assumptions for the dominant measure, solid wall insulation. We do not believe an installation rate of 150,000 per annum is credible for 2013 or 2014. Current capacity is around 30,000 per annum. The barriers to rapid expansion of capacity include the challenge of training professional installers and ensuring the high standard of workmanship essential to secure public support for the Green Deal. The report for Consumer Focus “scaling the solid wall” discusses the challenges in detail.

165. We believe the high case assumptions for the Energy Bill Impact Assessment, which would amount to around 260,000 installations in the first ECO period, are challenging. Our own view is that 200,000 installations over the period would be more realistic.

166. An assumption of 260,000 installations (plus some allowance for hard to treat cavities) would only support a carbon target of 0.37MtCO$_2$ per annum. This, however, is a high case assumption and some margin must be built in. We agree with DECC’s assumption that this might be available from the potential for additional measures as part of a whole house
package, but this is only valid as a means of managing risk: it is not a basis for setting a higher target. Consumer acceptance of solid wall insulation and confidence in the Green Deal will grow overtime, but it is wildly optimistic to assume a 43% level of customer contribution. We have assumed a 15% customer contribution. We estimate the cost of a carbon target of 0.37MtCO\textsubscript{2} per annum to be £1.1bn per annum.

167. It is very hard to say what the cost of a higher carbon target might be as the means by which it could be achievable are hard to evaluate – at the least there would need to be a massive increase in training capacity and a significant increase in wage levels. There would be a premium on those area-based schemes which could be delivered most easily and it would be essential to engage those private householders within such areas. Contribution levels would probably be negative (i.e. ECO subsidies exceed the costs) – with social housing providers and private owners both able to secure additional benefits. The cost might be £2bn per annum.

**Affordable Warmth**

168. The critical assumption underpinning the forecast that a target of £3.4bn per annum will cost about 25% of £1.3bn per annum is that the value of each of c250,000 boiler replacements is derived from a comparison to electric heating (and that the annual saving is over £800 per annum). This saving assumption is artificial (see Q60) and we do not believe it is a robust basis for setting the target. If either the saving assumption is made more realistic or fewer boilers meet the criteria which might justify such an assumption the cost of the Affordable Warmth element of ECO would be much higher. The increase in costs would be compounded by the need to find an impossibly high proportion of eligible customers.

169. We believe there is a significant risk that the cost of the Affordable Warmth element of ECO could be as much as £1bn per annum. This risk will be reduced by the measures we propose in Q31 to improve the fairness of ECO (potential to support ‘fuel poverty at risk’ groups and for a period offer cavity wall and loft insulation to low income customers), but it will still be essential to ensure that the savings assumptions for boilers are robust.

**Summary**

170. Without significant change to the targets and scope of ECO we therefore believe a more reasonable central estimate of costs is around £2bn per annum (£80/household) with a significant risk of costs of £3bn per annum.

**ECO Duration**
171. ECO is intended as a ten year or longer scheme, but the statutory instrument is proposed to cover only the period to 31 March 2015. This creates a barrier to contracts which go beyond 31 March 2015. For instance, area based activity may be most effective in a long term partnership with a local authority or social housing provider, a referral scheme for house refurbishment may be based on a partnership with a firm of architects or a landlord. The restriction of ECO to short contracts will further increase costs by placing a premium on those schemes which are without additional risk, such as may arise from individual decisions by planning officers. The adverse consequence will increase the longer into the ECO period the rules for the following ECO period are delayed.

172. Setting out the structure of the second ECO period now would give all parties more confidence to negotiate longer term contracts.

173. Government would still have the freedom to change the targets (much as the CERT targets were changed by the SI 2009/1904) and also to respond to unforeseen developments by changing the detail of the scheme (just as the Secretary of State may conduct a review of the Warm Home Discount, SI2011/1033 Para 31).

174. Changes to the detail would potentially affect contractual relationships, but the explanation by the Secretary of State of why change is necessary should ease any legal challenge.

QS8. The division of the overall ECO between energy companies could be based on share of customer accounts, or sale volume. Do you have a preference as to which metric should be preferred, taking into account possible impacts on distributional equity? Please provide evidence for your views?

175. We note that this question covers three distinct issues: should costs be weighted to gas? Should allocation be by accounts or volume or a hybrid? What form should the small supplier threshold take?

Electricity v Gas

176. Placing the obligation on gas volume can help support policy objectives and increase fairness to customers. An underlying benefit would be to, roughly, add the equivalent of £20-30/tCO$_2$ to the cost of gas usage, and part compensate for the externality of continuing emissions.

177. Such a structure would also improve:

- the economics of more measures supported by ECO, reducing the overall cost;
the targeting of ECO costs on where efficiency savings may be made (insulation & heating), whereas raising electricity prices is inefficient (as lighting and appliances are excluded);

* fairness, as there would be no additional cost to electricity-based houses (electric heating & [Code 5] housing) who are already paying for a reduction in their emissions;

* fairness, as households with gas heating are less likely to be fuel poor\(^9\), with a side benefit to households with inadequate heating who use supplementary electric heaters;

* the practicality of a move to volume related allocation before smart meters, as there is no reconciliation in gas and allocation would be simply determined by “share of AQs” at 31 December.

178. The shift from the current methodology to one based on gas volume would lead to some changes in electricity and gas prices, but small compared to the movements arising from wholesale energy costs.

**Accounts, volume or hybrid**

179. The greater the allocation by volume (enhanced in a hybrid model) the fairer ECO will be to energy customers. As discussed above gas usage can partly reflect the environmental externality. As shown by the Fuel Poverty Advisory Group there will be greater equity between income groups. The increased incentive to take-up measures will reduce overall costs. Allocation to units also supports customer preference for standing charges to be lower\(^{10}\).

180. The substantive concern over allocation by gas volume (or a hybrid) is the impact on severely fuel poor households with gas heating. However, the impact is relatively small (£80\(^{11}\) for a household with gas usage double the average) and the number of households is also small\(^{12}\). What is more important for these households is that there is a full range of support measures available through ECO and that there are no distortions (for instance a bias towards support for households without central heating – see Q59).

\(^9\) Table 44. Annex to the Annual Report on Fuel Poverty Statistics 2011. DECC. Proportion of households in fuel poverty: gas 16%, electricity 25%, oil 30%, solid fuel 50%, no central heating 53%.

\(^{10}\) E.ON Research. Customers were shown a number of different means of recovering fixed costs. A £40 standing charge was second only to no standing charge at all (which might actually be economically robust with a hybrid method), whereas an £80 standing charge was seen as less attractive than primary and secondary unit rates, despite their complexity.

\(^{11}\) From E.ON estimate of the costs of ECO, £2bn/y.

\(^{12}\) Understanding ‘High Use Low Income’ Energy Consumers. CSE report to Ofgem. November 2010
181. We cannot see any reason for delaying a move to allocation by gas volume (or a hybrid), but, if the obstacles are greater than we have assessed, we recommend a new methodology is applied for the second ECO period.

182. We support the proposal from a number of parties for the reduction on VAT on all energy efficiency products to remove a barrier to take-up, but note that if this is not achievable due to EU regulations a hybrid proposal could have a similar effect without increasing average gas bills. A £90 credit to each gas customer recovered through unit rates would roughly lead to 15% increase in gas unit prices.

Small supplier threshold

183. The current relevant EU Directive\(^\text{13}\) sets the small supplier threshold as 75 GWh energy (or <10 employees or €2M per annum turnover). Different rules have been applied for CERT and CESP, but experience with these schemes has also now demonstrated that there is no obstacle to outsourcing the obligation. It will be easier still under ECO to outsource through local authorities acting as GDPs and through the brokerage scheme.

184. The exclusion of small suppliers also raises issues of fairness to customers as new entry has predominately been biased towards internet users and committed environmentalists. The costs are therefore borne by other groups – small, but a factor to consider in the Equality Impact Assessment.

185. The proposed Energy Efficiency Directive seems likely to amend the small supplier threshold and our proposals below are based on an assumption that the threshold is 200 GWh.

186. Small suppliers above 200GWh should be obligated for a share of the carbon savings target (which is supported by the brokerage), but exempt from the distributional safeguard.

187. The adverse impact on small suppliers who rise above the 200GWh threshold might be mitigated by allowing exemption for the relevant ECO period if a supplier is under 200GWh at 31 December 2012 (and equivalent dates for subsequent ECO periods).

188. The case for a graduated obligation, so that there is no step change as a supplier exceeds the threshold, depends on a number of factors: the administration costs of ECO; the degree to which the Green Deal is a success and providers are readily able to offer schemes; whether to

\(^{13}\) Directive 2006/32/EC on energy end-use efficiency and energy services Article 3(r)
a brokerage or to a supplier. Note that the net margin on 200GWh might be €400k per annum, which would seem to easily cover the cost of 1 – 2 people to engage with a brokerage. A potential model is:

<table>
<thead>
<tr>
<th>GWh Range</th>
<th>Carbon Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;200 GWh</td>
<td>no carbon target</td>
</tr>
<tr>
<td>200 GWh – 0.5 TWh</td>
<td>1/3 of carbon target</td>
</tr>
<tr>
<td>0.5 TWh – 1.5 TWh</td>
<td>2/3 of carbon target</td>
</tr>
<tr>
<td>1.5 TWh – 4 TWh</td>
<td>full carbon target</td>
</tr>
<tr>
<td>&gt;4 TWh</td>
<td>full ECO obligation</td>
</tr>
</tbody>
</table>

Q59. We propose that savings calculated through the SAP-based Green Deal assessment methodology be used as the basis for ECO targets and scoring. Can you envisage any undesirable or inadvertent effects that this approach might result in? If so, please provide details and evidence.

189. The benefits of the Green Deal assessment methodology being seamless with ECO scoring are substantial. It will provide easier access for all GDPs to ECO contracts; a potential brokerage system; reduced administration of ECO; reduced risk of verification uncertainties and delays.

190. There will still be an overhead for Affordable Warmth installations which do not justify a Green Deal assessment and for a carbon saving installation if a Green Deal assessment is not sophisticated enough (for instance with some house refurbishment, or unusual properties). This overhead could make such measures be less attractive, but would also provide all parties with an incentive to seek improvements to the SAP methodology and also lower cost means of verification.

191. There could be a material problem from similar properties in respect of their external construction having different SAP ratings due to differences in other factors e.g. heating system. A generic proposition (notably for area-based initiatives) will have additional risk. Contracts for future delivery will be more complex. Smaller GDPs may be disadvantaged, being unable to spread the risk over a number of projects. The brokerage model may be restricted to supporting bespoke quotes.

192. The SAP methodology should not affect deemed scores, as may be appropriate to lower cost installations including any carry-over from CERT. More flexibility should be given to Ofgem to approve deemed scores than is implied by SI Article 15(2), for instance to say “an alternative
methodology may be approved if the Authority is satisfied that it provides a reasonable assessment of the carbon savings or cost savings of a qualifying action”.

193. We recommend Government do not incorporate deemed scores into the statutory instrument. To the extent that these scores are clearly reasonable, there is no need as we would expect Ofgem to approve them without delay, whilst, if there is some doubt over the methodology, time should be allowed for this to be resolved. Specifically we have concerns over the very high assumptions behind the Impact Assessment for when central heating is installed in a property without effective heating. These seem to be based on the hypothetical assumption that the house is in fact heated throughout by electric bar fires. Such an exaggeration of the actual benefit should not be necessary to support increased installation of central heating (not least as the increase in property value would seem to lend itself to more innovative Green Deal arrangements), but has risks of exaggerating the whole house benefit if solid wall insulation is also fitted and of distorting the economics of boiler repair or even of fraudulent damage to boilers.

Q60. Should targets and scores for the carbon obligation and/or the AW obligation be expressed on the basis of the annualised savings of measures or the lifetime savings?

194. We believe the arguments are finely balanced. For the carbon target an annual measure will lead to a bias towards whole house improvements involving boiler replacement and possibly to shorter life boilers. This could lead to less area-based activity and also a perception of unfairness if better off households have subsidised heating systems. The only substantive downside of a lifetime metric is if the need to develop evidence of lifetime inhibits product development, but this could be overcome by allowing some flexibility in lifetimes (i.e. an initial assumption which is updated as evidence accrues, although this would only be suitable for more novel measures given the risk it places on meeting targets). On balance we recommend a lifetime metric.

195. For the Affordable Warmth target, lifetime saving supports the delivery of sustainable alleviation of fuel poverty (particularly relevant to owner occupiers, who may stay in the same property for many years) but may be less effective in delivering the greatest immediate alleviation of severe fuel poverty. An annual metric would be incompatible with including boiler repairs (which would only have a one year warranty). Assuming that boiler repairs are excluded (see Q15) and that the issue of exaggerated savings for boiler replacements is resolved (see Q57 and 59), we would support an annual metric.
Green Deal monitoring and evaluation and ECO administration

Q61. Is there other information the Government should collect in order to enable effective monitoring, evaluation and reporting on the performance of the Green Deal and ECO?

196. No, we support the proposals outlined.

Q62. Should DECC be responsible for administering the ECO, with technical functions outsourced to the private sector, or should Ofgem administer the scheme? Please provide evidence to support your views.

197. We would support Ofgem being responsible for administration of ECO. Ofgem has been responsible for the administration of EEC and CERT, which has been heralded as a cost effective model of delivery. This indicates that the use of a regulatory body working to agreed legislation would be preferable. However from the recent CESP experiences it is highly important that the criteria being worked under are clearly outlined from the outset and that the regulator has limited “interpretation” or “discriminatory” abilities and has sufficient competent resource once programme set up is started.

198. If a new administrator is appointed we would ask that the first ECO period is extended to December 2016 (with the targets appropriately scaled) so that there is at least as much time as was given for CESP (where the challenge of administering a new scheme has been a substantial contributor to the current time pressure and escalating costs).

General comment

Q63. In addition to the specific questions asked throughout this consultation document, do you have any other comments on any aspect of our proposals?

199. We have set some of these issues out above before answering the specific questions.

200. In particular we refer concerned that by requiring the GDP to counter-sign the Green Deal plan, including the provision of finance even where this is not a liability held by the GDP, it will limit the market. We propose that the GDP only countersigns the part of the plan they are responsible for (i.e. the sale of the package) and that the financier, where different from the GDP, countersigns the finance section of the plan. if it was not Government’s intention that countersigning the Green Deal plan should be any different to other consumer finance, we urge them to revise the wording in chapter 3.
Planning Issues

201. Government must make local authorities aware that the wider implementation of solid wall insulation is a key Government policy objective and ensure that local authorities apply a consistent and positive approach to solid wall insulation under planning regulations. Otherwise planning regulations and the attitude of local authorities may substantially restrict the level of delivery. We had two projects in Hackney where the council refused planning permission on the grounds of liking the existing look of the properties and a desire to keep them the same. The properties in question were not in a conservation area and did not have any special architectural features. This prevented 1347 properties from having external solid wall insulation. In ECO terms this would amount to about 3% of a supplier’s obligation.

Licence Conditions

202. The licence conditions look to dictate the design of suppliers’ bills. Stating that Green Deal charges should be ‘on the first page’ or ‘same page’ as electricity charges. This is far too restrictive to allow for the sensible presentation of data to customers in certain circumstances. Suppliers always summarise or collate charge information in a single place as it makes most sense to their customers to see all charges together, but where a customer is being billed for gas, electricity and Green Deal this may not be easily condensed onto a single page. Such a constraint would result in the requirement for small font or larger pages, which we do not believe was the intent of the legislation.

203. We do not believe that savings messages should be included on routine bills and statements. The savings as set out in the assessment are based on average consumption for an average property. This is unlikely to be reflect the customer’s usage. The messages will also mean little to future tenants as they have no previous usage at the property to translate what the savings set out at the start of the plan mean to them.

204. Further additional information on bills/statements would also be confusing for customers which is contradictory to the work being carried out by Ofgem to simplify bills as part of the Retail Market Review.

Green Deal Arrangement Agreement

Administration Fee and the allocation of risk between the Supplier and Green Deal Provider

205. We understand the Administration Fee is intended to cover all the costs associated with the Supplier’s collection and remittance obligations under the Green Deal. However, in carrying out their obligations under the GDAA the Supplier is exposed to a degree risk which could have
significant financial consequences. In an ordinary commercial transaction the Supplier would ‘price’ this risk into its Administration Fee and then tender that to the Green Deal Provider or, if it felt it could not price that risk competitively, withdraw its tender. The Supplier has neither the option to bid its required price or refuse its collection and remittance obligations under the current proposal.

206. Part of our concern could be addressed by an increase in the Administration Fee, but an alternative could be to take a more ‘user pays’ approach. For example, a schedule of charges could be developed for various tasks undertaken by a Supplier and levied against individual Green Deal Providers, such as costs arising from incorrect information being provided by a Green Deal Provider.

207. We are in favour of clause 9.2.3 (indemnity to Suppliers for errors by Green Deal Providers).

**Liability of Green Deal Provider**

208. On one view, there should be no need to impose standards of performance and liability on Suppliers as they are already incentivised to collect outstanding payments for electricity Charges. The Green Deal Provider is assured of receiving a proportion of any outstanding payments received and so is protected. Our concern is that by imposing a standard of performance (e.g. best endeavours) which requires a Supplier to prioritise one group of delinquent customers above another, this could have unintended consequence which would discredit the Green Deal generally.

209. In addition, having to pursue a class of customer more rigorously than another will also involve amendments to existing processes which obviously involves increased cost to Suppliers.

210. With respect to clause 16, we do not support any indemnities by Suppliers in favour of the Green Deal Providers. Any damages or costs need to be established through the dispute resolution process.

211. We also feel consideration should be given to a cap on a Supplier’s liability to a Green Deal Provider with respect to any one claim or series of related claims.

**Disputes**

212. A Supplier could face a number of claims from various Green Deal Providers at any particular time. The cost of administering and disputing those claims could amount to a significant sum and, under the current proposal, the Supplier only has the Administration Fee to cover those costs. For example, in a claim under clause 11.5.5, the onus will be on the Supplier to prove
that they had used best endeavours and this is likely to result in the Supplier expending more than the claimant in determining the case. However, Clause 23.3.4(l) states that the parties shall bear their own costs. This is inequitable in our view as there is little disincentive for a Green Deal Provider not to make a claim. Where a party is successful in defending a claim, we propose that they be entitled to recover costs associated with that defence.

213. Harsh penalties should also be included for Green Deal Providers who make spurious or vexatious claims against a Supplier.

Jurisdiction of Disputes Committee

214. As we understand it, the effect of Clause 23.1 is that the Disputes Committee could determine, in addition to claims for breach of the GDAA, claims for negligence (and other claim in tort) and restitution. We’d question whether the Disputes Committee would have the expertise to resolve a claim of this nature given the legal principles involved.

215. The Disputes Committee could also look at cost-sharing approaches, such as using the equivalent of court appointed experts (rather than an expert engaged by a party). Rather than leave the disputes Committee to simply regulate its own procedure, these methods should be expressly included in the GDAA.

Miscellaneous comments

216. We believe that clause 11.1.2(b) needs to be reviewed. It is not clear what is meant by “Suppliers to ensure that this Agreement comprises provisions to facilitate... to be followed by a Supplier...” Is it the intention that Suppliers develop a document for inclusion in this Agreement?

217. We feel Clause 11.4.3 would be better expressed by exception, rather than by exhaustive list.

Work already carried out in conjunction with DECC, the ERA and MRA

218. We have been involved in and support the work carried out by the ERA and MRA in proposing solutions to the implementation of the Green Deal. Substantial work has already gone into initiating process design and procurement of systems. This work was enabled by working assumptions set out by DECC such as recovery via electricity bills, pari passu liability model and utilisation of suppliers business as usual processes. Considerable changes resulting from the consultation to these current understandings would require significant re-work and delays to the implementation of the systems needed to support the administration of the Green Deal incurring further costs to the scheme.
219. We would also propose that DECC continue to support parties in progressing the development of the solution. Given the tight timescales suppliers require early confidence on key issues to continue development given the risk of significant changes and the cost that this would incur.

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APPENDIX

The balance sheet implications of being a Green Deal Provider.

1. It is E.ON’s intention to find a non-recourse solution to funding the Green Deal if it is to be a Green Deal Provider (GDP) and we are concerned that as it stands, principals in the Green Deal consultation do not allow for this. One of the principal reasons E.ON has been involved in the Green Deal Finance Company (TGDFC) work from the outset was to find a workable solution to many GDP concerns that they did not have the balance sheet capacity to provide loans directly but would be a very able provider for the customer. We are disappointed that the consultation indicates a further set back here.

2. We fully support Government’s aspiration that the Green Deal structure should offer a smooth customer journey, which is easily understood and in which the customer is protected from mis-selling and poor installation. Finance is integral to the Green Deal offer and as such we agree that it must be presented in a way that makes the customer experience clear and as uncomplicated as possible.

3. We do not believe it is always necessary that the GDP should provide the finance directly and where a GDP is able to work with a third party agent (be this a relationship bank, TGDFC or another financing party) which is willing to accept the usual financial liabilities of loaning money, the GDP role for providing financing should be limited to that of an agent. Essentially we ask that the principle should be the same as for consumer finance, even though, in the case of Green Deal the loan would be based on the property rather than on the consumer. In other words, the GDP would fulfil a facilitation role, making a contact with a bank/financial institution for a consumer finance product offered by that bank/financial institution. The bank/financial institution would then be able to carry out their own credit assessment (if required), and the contractual relationship entered into would be directly between the bank/financial institution and the customer.

4. As currently drafted we believe the proposed contractual arrangements for a GDP results in unintended consequences and urge Government to reconsider these when finalising the Green Deal scheme.

5. Implications of countersigning the Green Deal plan (chapter 3)

6. Within 3.2.5 of the DECC Consultation document, as currently drafted, the contractual relationship for the provision of finance would not be between the bank/financial institution and consumer, but between the GDP and the consumer.
7. “Once a property has been assessed and tailored energy saving recommendations have been given, the customer can contact a Green Deal Provider to obtain a quote and agree to the Green Deal plan. The Green Deal provider is the counter signatory, with the customer, to the Green Deal plan for the provision of finance and energy efficiency works. Therefore the contractual relationship sits between the Green Deal provider and the customer.”

8. It further notes that the GDP can subcontract some of the different activities but that “they must always be counter-signatory to the Green Deal plan”.

9. The following model is a simplified version of the proposal within the consultation of the Green Deal set up when the GDP does not directly provide the finance to the customer, but acts as an agent.

10. This would lead to the following issues for the GDP and in our view would make the role of GDP unattractive, thus reducing the number of GDP competitors.

**What is the issue?**

11. In accounting terms, under the model proposed by Government, it indicates that a finance lease is likely to be present, with the GDP being the lessor and the customer being the lessee. Under IAS 17, the indicators of a finance lease are as follows:

   a. The lease transfers ownership of the asset to the lessee by the end of the lease term. The green measures installed will become the ownership of the green deal customer at the end of the lease.

      In the proposed Green Deal model this condition is met.

   b. The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for
it to be reasonably certain, at the inception of the lease that the option will be exercised. The green deal customer will not have this option.

In the proposed Green Deal model this condition is not met.

c. The lease term is for the major part of the economic life of the asset even if title is not transferred. The lease term will be for a major part of the economic life.

In the proposed Green Deal model this condition is met.

d. At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. It is expected that the PV of MLPs will substantially equal the fair value.

In the proposed Green Deal model this condition is met.

e. The leased assets are of such specialised nature that only the lessee can use them without major modifications. The leased assets could be used in other households.

In the proposed Green Deal model this condition is not met.

12. If there is a finance lease present, the leased asset will need to be recognised on the balance sheet and depreciated over the life of the lease. A finance lease liability will also be recognised. Therefore, this leads to grossing up of assets and liabilities on the balance sheet. Furthermore, if a finance lease is present, the income from the customer (received through the energy supplier) would have to be split between finance income and capital income.

13. Take for example a situation where the GDP has sourced finance on behalf of the customer from the bank / financial institution and is able to pass this liability onto the bank / financial institution, there could still be grossing up of assets and liabilities on the balance sheet. There needs careful consideration of how this liability will pass from the GDP to bank / financial institution and further analysis is needed. If the agreement is set up in a way that the GDP provides the finance and then passes this on to the bank / financial institution there is a risk that the GDP may need to gross up its assets and liabilities in the balance sheet. The asset would be the amount due from the energy supplier (which has been received from the customer) and the liability would be the amount due to the bank / financial institution.

14. Under IAS 32, “to offset a financial asset and a financial liability, an entity must have a currently enforceable legal right to set off the recognised amounts.” If the contract demonstrates that there is a clean sale of liabilities to the bank / financial institution with no
recourse to the GDP, then it would not be necessary to gross up the assets and liabilities. However, if there is any form of recourse, then an assessment needs to be made of how much needs to be shown on the balance sheet.

15. The maintenance/warranty contracts also need to be considered here. If the GDP holds any responsibility for warranties and maintenance then a further provision would be needed on the balance sheet, unless they are fully insurance backed with no excess.

16. It is our view that steps taken to transfer Green Deal loans from the GDP to other parties after the plan has been countersigned will not be achieved without recourse to the GDP. The transfer of Green Deal liabilities to the bank/financial institution, as proposed by The Green Deal Finance Company (TGDFC), will not solve this issue and Government should reconsider the need for the GDP to countersign the finance element of the Green Deal plan. The provision of numerous relatively small value long term loans to consumers is not likely to be a core business for the majority of potential GDPS, nor do we believe it is likely to be an appropriate use of resources.

17. Under the proposals the GDP would take additional credit risk beyond the principle of pure agent, therefore it would have to service the finance for the underlying loans it has incurred regardless of whether the consumer pays interest/principal amounts due under the consumer loan.

18. If the underlying intent of the proposal is that the GDP will sell the liabilities on to a bank/financial institution on a non-recourse basis, why would the bank/financial institution not be willing to take up the liabilities straight away? A structure involving the transfer of liabilities from the GDP is inefficient and adds risk to the GDP and cost and complexity to the process, whilst not creating added value.

19. A relationship between the GDP and the consumer for the provision of finance means that the GDP would assume the role of a “bank”. It is not the business purpose of a GDP to act as a "bank", which could lead to legal issues regarding the requirement for the GDP to hold a banking licence along with stringent regulatory requirements. Apart from this, requiring the GDP to sign up to a Green Deal Plan, that combines the provision of finance with energy efficiency works puts disproportionate risk on the GDP.

20. Based on this we conclude that there should be two separate and distinct contractual relationships with the consumer to ensure a non recourse structure:
I. The contract between the GDP and consumer for the provision of the energy efficiency measure

II. The contract between the bank/financial institute and the consumer for the provision of finance for that measure.

21. This could still be contained within one plan providing simplicity for the customer and the GDP could still act as the main interface for the customer for the Green Deal plan (although we recognise that the customers consent to accessing and sharing data may be required here to ensure compliance with the Data Protection Act).

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