

Bright Blue: *Home Energy Efficiency*

The Energy and Utilities Alliance (EUA) provides a leading industry voice helping shape the future policy direction within the sector. Using its wealth of expertise and over 100 years of experience, it acts to further the best interests of its members and the wider community in working towards a sustainable, energy secure and efficient future. EUA has six organisational divisions - Utility Networks, the Heating and Hotwater Industry Council (HHIC), the Industrial & Commercial Energy Association (ICOM), the Hot Water Association (HWA), the Manufacturers' Association of Radiators and Convectors (MARC) and the Natural Gas Vehicles Network (NGV Network). This joint response incorporates comments from both HHIC and ICOM.

1. Why did the Green Deal fail? In particular, what mistakes were made in the design of the finance mechanism and the communication of the scheme?

Although the basic concept of the Green Deal was a good one, the way in which the scheme was organised and administered was deeply flawed from the beginning and meant that it never took off, but still cost the public purse considerably.

Most potential applicants would have assessed the scheme and concluded that it simply did not represent a good financial deal, especially given the long loan duration of 25 years. At the time the Green Deal was introduced, most high street bank loans had interest rates of 3% or 4% whilst rates under the Green Deal were around 7%. This will have put off many potential applicants who were attracted by the idea of being able to spread the cost of home improvements but did not view this rate as affordable; a damning figure that illustrates this is that of 614,383 Green Deal assessments that took place, only 53,960 (8.8%) plans were actually finalised.

Furthermore, this relatively high interest rate had a direct impact on the amount of money a successful applicant could spend on their chosen improvement. This is due to the fact that the total amount of available finance included the interest due over the loan's full term. So for example, even for a loan over the full 25 year span, the capital to interest ratio was 55%:45%; this means that a £1,825 loan would, in reality, only allow £1,000 to be used on the actual improvement. This ratio was even less favourable for shorter term loans.

Aside from the basic interest rate, the burdensome requirements placed on applicants also deterred people, particularly the less able-to-pay and fuel poor. This included the requirement of a credit score which immediately excluded people who may not have taken out finance before, including many who could have benefitted enormously from lower energy bills.

Furthermore, the Government did not foresee the issues that would be caused by placing the burden of calculating finance deals on installers. This meant that the writing of finance deals was spread across a multitude of installers who are often heating engineers or insulation companies with little or no experience of providing overly complex finance options like the Green Deal. The huge £10,000 fee that installers had to pay just to become accredited under the scheme also added another difficult dimension as they then had to pass on large setup fees to consumers.

The decision to tie Green Deal finance to a property's electricity meter, rather than its owners, will have undoubtedly put off many homeowners. Any pre-existing debt attached to a house that is left to a new owner is likely to act as a disincentive to house sales. Given that the housing market was not sitting in a strong position when the Green Deal was started, this aspect of the scheme could have

proved to be another negative prospect for potential applicants. It is also unusual when the Green Deal is compared with similar schemes in other European countries; for example, the German 'EnEv' scheme uses the applicant, whether they are an individual or an organisation, as the attachment point for the loan.

The way the scheme was communicated was also problematic. The basic concept of the scheme (paying for energy efficiency improvements over time from bill savings) was understood by potential applicants. However, the ostensibly simple system of green and orange ticks on lists of eligible improvements was misleading for consumers. The ticks were supposed to indicate whether a measure could be fully funded (green tick) or only partially funded (orange tick) under the Green Deal. In fact, a property's size, age and the efficiency of its current heating system determined which improvements could, or could not, be fully funded under the scheme. This complexity added confusion for applicants and installers alike and would almost certainly have led many to decide against applying to the scheme.

2. *What aspects of the Green Deal scheme should be retained in a future policy?*

The basic concept of the Green Deal was a sound one as it provided a way for homeowners to spread the upfront cost of home improvements; in doing so, the scheme removed a significant barrier to the uptake of modern condensing boilers, for example.

This concept of spreading costs is simple for consumers to understand, as it is a key feature of the vast majority of current finance deals, and it can make investing in domestic energy efficiency a more appealing financial prospect.

The concept of applying to the scheme via installers is also a good one as installers are often best placed to make recommendations on individual technologies or improvements. Without the advice of an installer, a homeowner could apply to a scheme for an improvement which is not the most suitable for their property.

3. *How should Green Deal-style loans for the able-to-pay sector be financed in the future? Is it necessary for the Government to provide any subsidy to the scheme?*

The idea of providing loans, rather than Government grants, is problematic for the less able-to-pay sector who often do not have the disposable income to take on additional finance deals. However, it is a concept which could again be applied to more able-to-pay applicants.

Clearly the private finance model provided by the now-defunct Green Deal Finance Company was not able to provide long-term loans at rates attractive enough to homeowners. Given current Government spending commitments, large scale direct grants are also not a viable option. By looking at successful models operating in other countries, we believe that there could be a middle way to be found.

Under the previously mentioned German 'EnEv' scheme, loans are provided to applicants but they are taken out directly with the Government, rather than through a pseudo-private company. This allows interest rates to be subsidised at low rates of between 1% and 4%. This has proven to be much more popular than the Green Deal's offer and the combined value of 'EnEv' loans is now in excess of €3 billion. This is especially impressive when you take into account that the German scheme typically finances extensive retrofits to old properties worth in the region of £20,000 to £40,000.

4. *What lessons do you anticipate from the Bonfield Review about quality assurance in the supply chain? How can these be incorporated into a Green Deal successor scheme?*

Although the precise outcomes of the Bonfield Review are yet to be determined, we are concerned that it could recommend unwanted and overbearing new regulations on the utilities sector that would stifle growth as well as consumer choice. Guidance from Government on quality assurance can have

a positive role to play where it boosts the quality of energy efficiency installations and strengthens public confidence in the sector.

If a Green Deal successor scheme incorporated additional bureaucratic burdens on installers, this could limit the number willing to participate in the scheme, narrowing the options for consumers and immediately restricting its success. Extra requirements placed on installers could also add unnecessary costs which may be passed on to consumers, further reducing uptake under the scheme.

5. *How can a Green Deal successor scheme be successfully communicated to consumers?*

Any successor scheme to the Green Deal needs to better set out what improvements are actually eligible for each applicant, what potential bills savings can be gained from installing these improvements and what the options are for financing them.

Although this seems obvious, this was not the way in which the Green Deal operated in reality. Installers often found it difficult to communicate the complex nature of the scheme to potential applicants, especially the large number of hurdles that had to be cleared before an application could be made.

The complex and unappealing finance options, as outlined above, were often difficult for consumers to understand. Many potential applicants had to actively research for themselves what was on offer, and the vast majority opted to walk away without even making an application. These difficulties need to be overcome if a successor scheme is to have more success in the future.

6. *What are the best options for decarbonising the domestic heat sector?*

As part of our response the Government's recent consultation on changes to the Renewable Heat Incentive (RHI), EUA produced a report on this subject. We argue that for significant progress to be made on decarbonising the UK's domestic heat sector, Government action must be targeted where it can achieve the biggest carbon savings, something which is not currently happening.

The most carbon-intensive form of domestic heating is direct electric heating as it is less efficient than a gas boiler and Britain's electricity generation still relies heavily on coal-fired power stations. We therefore believe that replacing direct electric heating with renewable technologies, such as heat pumps, can have the biggest impact on decarbonisation and often can also tackle fuel poverty given that electricity is significantly more expensive for consumers than gas.

In properties that are off the gas grid, typically in rural areas, replacing the liquid petroleum gas (LPG) that many rely on with a 'greener' alternative produced using waste could also make a cost effective contribution to decarbonising domestic heat. Another report recently released by EUA states that biopropane could reduce emissions from domestic LPG usage to 17% of current levels. This would have the added benefit of minimal disruption to consumers as they could continue to use their existing infrastructure and appliances; this would maximise uptake of the fuel and eliminate the costly upgrades typically associated with new fuels.

In the same vein, 'greening' the gas in the gas grid could also provide a low carbon heating fuel to millions of households without the need for wholesale, highly disruptive changes in national infrastructure and domestic appliances. This gas could be produced from wastes such as domestic food waste and farm waste, for example. Green gas could initially be introduced in low quantities, as currently permitted under existing regulations, and gradually increased as production grows.

7. *How can the Government incentivise the take-up of renewable heat technologies within a Green Deal successor scheme?*

When incentivising renewable heat technologies in the future, the Government would need to learn the lessons of the RHI which is not delivering on its stated aim of decarbonising domestic heat. In this respect, finance deals for the upfront cost of installations would not be sufficient. They would need to be accompanied by an ongoing subsidy for the renewable heat generated, as is currently the case under the RHI. However, the scope of eligible technologies would need to be widened and the Government's strategy for developing larger supply chains and more efficient technologies for renewable systems would need to improve significantly.