

24 May 2016

Energy Saving Trust submission: Bright Blue energy efficiency inquiry

The Energy Saving Trust is pleased to submit evidence as part of Bright Blue's research project on home energy efficiency.

We are the leading, impartial sustainable energy organisation. We work on behalf of governments and businesses across the UK providing services in the area of data, assurance, consumer engagement, advice and grant administration.

For the Department of Energy and Climate Change (DECC) the Energy Saving Trust delivers the telephone-based Energy Saving Advice Service in England and Wales. We also undertake other research and awareness-raising work for DECC on a project-by-project basis. In Scotland we are the principal delivery partner of the Scottish Government for home energy efficiency. We run comprehensive local and national advice and grants programmes across Scotland.

Energy Saving Trust does a significant amount of work on EU projects and policy: we undertake work for the European Commission and frequently collaborate with energy agencies and other NGOs as a part of this.

Public engagement on energy is at the heart of our work. In total each year the Energy Saving Trust handles just under half a million energy efficiency advice calls on behalf of UK and Scottish governments. We have a unique relationship with the public around energy saving and renewable energy and our response reflects that.

Your Questions

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?
2. What aspects of the Green Deal scheme should be retained in a future policy?
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?
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?
5. How can a Green Deal successor scheme be successfully communicated to consumers?
6. What are the best options for decarbonising the domestic heat sector?
7. How can the Government incentivise the take-up of renewable heat technologies within a Green Deal successor scheme?

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The current body of evidence

There have been a number of in-depth reports into energy efficiency recently, looking at policy, future schemes and reviewing past schemes. Some recent publications include Arup's 'Towards the delivery of a national residential energy efficiency programme'¹, the Westminster Sustainable Business Forum report 'Warmer and Greener'², the Energy and Climate Change Committee report on home energy efficiency and demand reduction³ and the NAO report on the Green Deal and the Energy Company Obligation⁴. Other reports from Policy Exchange⁵, Frontier Economics⁶, Cambridge Econometrics⁷, the IEA⁸, IPPR⁹ and others provide a comprehensive overview of the state of the debate.

These reports, taken together, extensively cover the issues with current and past energy efficiency policy particularly in terms of the failure of the Green Deal (see especially the NAO report). They also reflect a widespread consensus between energy efficiency industries and the NGO sector as to the broad direction the Government should follow in seeking to reinvigorate the home energy efficiency market.

We feel that we have reached a point in time where there are already a lot of interesting and feasible policy ideas and models to make retrofit viable – see particularly the WSBF and Arup reports cited above. Most of the ideas are not new: policy instruments built around stamp duty, council tax and green mortgages have been promoted by organisations like the Energy Saving Trust and UKGBC for over a decade but have never been implemented on any scale.

The Green Deal

As well as the reports listed above, new findings on the Green Deal will be published by the Public Accounts Committee following their recent evidence session¹⁰. You can also see our submission¹¹ relating to the Green Deal and ECO on the Committee's website.

The only aspect that we would highlight here is that the pay-as-you-save model should not be discarded: although it has been argued that the Green Deal itself was a failure this does not translate into a failure of all elements of the scheme. Pay-as-you-save remains a valid delivery model and could be used in other schemes in the future. A similar concept is used through the Energiesprong scheme that has received a lot of coverage in terms of its potential for deep retrofit.

More broadly speaking we are concerned about the blow that the Green Deal's closure represents to the future of energy efficiency policy. The political appetite for investing taxpayer money into energy efficiency has undoubtedly been dampened (even though Green Deal was intended to be a market led programme). The way the public views these types of schemes will also have been affected. This will present an obstacle for a "*Green Deal successor scheme*" and is an important reason why we believe that it is essential to recalibrate the debate on energy efficiency and energy policy as a whole.

A lack of vision in government

We believe the failure of the Green Deal has also damaged the interest of the government in home energy efficiency programmes and we see no indication of major new ideas emerging from DECC –

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particularly for the mainstream “able to pay” market. All we are left with in terms of financial incentives for energy efficiency is a supplier obligation (ECO) to tackle fuel poverty, and EST agrees with the NAO and others that a supplier obligation is not the best policy instrument to reach the fuel poor. Even though it is the only remaining energy efficiency financing programme, the scale of ECO has been cut.

The problem is not just a lack of interest in energy efficiency in existing homes. The Zero Carbon Homes new build policy has been scrapped, despite the fact that it would add only a very small additional cost for housebuilders and a negligible additional cost for house buyers. Looking beyond energy efficiency in homes, we have seen cuts to subsidies for renewable energy, making it harder to build onshore wind and to install household and community scale solar PV.

With the honourable exception of a commitment to continue the Renewable Heat Incentive (see below), there seems to be a complete lack of ambition to design and implement an energy policy that matches up with our international commitments on climate change, our carbon budgets and the Fuel Poverty strategy.

A new way forward

We would argue for a more ambitious approach to transforming the energy system as a whole. There has been a lot of rhetoric around solving the energy trilemma; decarbonising, ensuring security of supply and keeping bills down but little joined-up action. What we need now is a clear vision and narrative.

Germany’s ‘Energiewende’ is an example of the importance of tackling issues in a joined-up fashion and of building a narrative around transforming the energy system. The Energiewende involves a coherent presentation of the policy mechanisms, models and forecasts that Germany’s energy policy is built on. Although the individual policies and their implementation can be criticised, the level of ambition and the importance attached to a joined-up and long term energy policy cannot. It is also worth noting that France has recently implemented new legislation for a wide -ranging energy transition¹², covering all aspects of the economy and framed strongly around “green growth”.

We would also highlight an example closer to home: in Scotland a whole host of complementary policies covering renewables, community energy, fuel poverty and energy efficiency, district heating and all other elements have been introduced. Again, whilst not all these policies are perfect they work together and provide a coherent and ambitious framework to make long term changes in the Scottish energy sector. It is worth noting that for the recent Scottish Parliamentary elections the Conservative party manifesto¹³ included a pledge to “*make the case for a transformative investment in energy efficiency across Scotland*” which in practical terms included commitments, among other things, to:

- Gradually increase the energy efficiency budget so that it makes up 10% of Scottish Government’s capital budget allocations. This would mean increasing spending on energy efficiency from £80m this year to £340m by 2020/21
- Support the continued designation of energy efficiency as a National Infrastructure Priority

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- Increase the energy efficiency of the Scottish housing stock so that all properties achieve an EPC C rating by 2030

DECC has shown some original thinking in presenting policies and options in the past. Sir David Mackay, when he was DECC's chief scientist, led the development of the 2050 calculator – a tool to engage the public with our options for energy supply and energy efficiency to hit our decarbonisation targets. As Amber Rudd pointed out following Mackay's untimely death last month, the 2050 calculator has been emulated around the world. A new presentation and new policy package from DECC can build on this – creating a debate across society about how we generate and use energy differently.

The Conservative and Unionist Party in Scotland demonstrate that an ambitious energy policy with a strong commitment to energy efficiency fits perfectly with Conservative values, something that Bright Blue could help replicate UK-wide.

Creating an alternative narrative

As thought leaders on green conservatism Bright Blue has the influence and credibility to offer a realistic and appealing alternative vision to the current government's narrative on energy. An alternative narrative could be built on the same underlying priorities of the energy trilemma yet would be framed in terms of the opportunities and multiple benefits that an ambitious energy policy presents. Instead of focussing on the costs that spending on the green economy passes on to consumers, the economic and social benefits of investing in our housing stock and sustainable energy sources need to be highlighted.

We believe that a positive message highlighting the opportunities and economic benefits of transforming our energy system will gain a lot of traction. The Verco & Cambridge Econometrics report, referenced above, finds for instance that a national retrofit programme would result in £3.20 of increased GDP and £1.27 of tax revenue for every £1 invested in energy efficiency. These numbers do not include the "multiple benefits of energy efficiency", where a growing body of evidence is showing that physical and mental health benefits contribute significantly to boost productivity and reduce health spending.

An Energy Saving Trust paper¹⁴ looks at how well the multiple benefits of energy efficiency are included into policy making and finds that many of these benefits are not fully recognised. We strongly recommend that a focus for Bright Blue is how the benefits of home energy efficiency can be better accounted for across government. As our paper shows, the health benefits of energy efficiency (as a part of high quality housing retrofit) are increasingly referenced by government but do not make it fully into official final cost-benefit analyses in policy analyses. Similarly the jobs and growth benefits (energy efficiency delivers local jobs at all skills levels) could be much better accounted for and considered.

This is one of the reasons that we fully support the campaign to set energy efficiency as a national infrastructure priority.

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In this submission we have commented on some of the steps we feel are necessary to deliver on decarbonising the heat sector and retrofitting the able-to-pay sector. We would like to see these policies fit within a much wider government programme that makes best use of different departmental resources and that actually fits with our European, international and national commitments and legislation.

Decarbonising heat

We recently submitted written evidence¹⁵ to the Energy and Climate Change Select Committee on renewable heat. The Renewable Heat Incentive model, offering payments to households for the heat produced, is fundamentally an effective one, as demonstrated with the boom in solar panels through the Feed-in Tariff (a very similar model). The RHI has not led to a boom in renewable heat installations for a number of reasons including: higher upfront cost of renewable heating installations relative to solar PV, a lack of awareness of the RHI and of renewable heating technologies and a need to retrofit existing heating installations, amongst others.

We were very pleased that funding for the RHI has now been set up until 2020/21, policy stability and a consistent offer for householders and industry is a crucial first step. Moving beyond that a long term strategy laying out a trajectory on how heat is going to be effectively deployed over the next decade or so is needed. We think that a number of things will need to come together to do this: heat pump performance, district heating, energy efficiency, effective use of minimum regulation and incentives for households.

We believe that a stick and carrot approach can be very effective for both heat and energy efficiency. Gradually increasing minimum standards through regulation alongside offering incentives, advice and support can be very effective. Providing that enough lead time is given, this approach avoids passing excessive costs to industry, homeowners, landlords or social housing providers as all parties can retrofit or make improvements in line with other planned changes.

If a successor to the Green Deal is introduced then we believe that the RHI should be counted within the golden rule. This would allow households to assess their energy needs more comprehensively and open up greater opportunities for retrofit and other home improvements.

¹ 'Towards the delivery of a national residential energy efficiency programme' Arup, May 2016:

http://publications.arup.com/publications/t/towards_the_delivery_of_a_national_residential_energy_efficiency_programme

² 'Warmer & Greener: A guide to the future of domestic energy efficiency policy' Westminster Sustainable Business Forum, April 2016: <http://www.policyconnect.org.uk/wsb/research/warmer-greener-guide-future-domestic-energy-efficiency-policy>

³ 'Report: Home energy efficiency and demand reduction' Energy and Climate Change Select Committee, March 2016: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/energy-and-climate-change-committee/inquiries/parliament-2015/home-energy-efficiency/>

⁴ 'Green Deal and Energy Company Obligation' National Audit Office, April 2016: <https://www.nao.org.uk/report/green-deal-and-energy-company-obligation/>

⁵ 'Efficient Energy Policy' Policy Exchange, March 2016: http://www.policyexchange.org.uk/publications/item/efficient-energy-policy?category_id=24

⁶ 'Energy efficiency: An infrastructure priority' Frontier Economics, September 2015: <http://www.frontier-economics.com/publications/energy-efficiency-an-infrastructure-priority/>

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⁷ 'Building the Future: The economic and fiscal impacts of making homes energy efficient' October 2014, Verco and Cambridge Econometrics: <http://www.energybillrevolution.org/media/big-boost-in-energy-efficiency-investment-to-save-uk-households-4-95-billion-a-year/>

⁸ 'Capturing the Multiple Benefits of Energy Efficiency' the International Energy Association, 2015: <http://www.iea.org/publications/freepublications/publication/capturing-the-multiple-benefits-of-energy-efficiency.html>

⁹ 'When the levy breaks: Energy bills, green levies and a fairer low-carbon transition' IPPR, June 2015 <http://www.ippr.org/publications/when-the-levy-breaks-energy-bills-green-levies-and-a-fairer-low-carbon-transition>

¹⁰ <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/household-energy-efficiency-schemes-15-16/>

¹¹ Energy Saving Trust Submission to the Public Accounts Committee, May 2016: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/household-energy-efficiency-measures/written/32804.html>

¹² <http://www.developpement-durable.gouv.fr/-France-launches-its-energy->

¹³ The Scottish Conservative and Unionist Party Manifesto 2016: <http://www.scottishconservatives.com/wordpress/wp-content/uploads/2016/04/Scottish-Conservative-Manifesto-2016-DIGITAL-SINGLE-PAGES.pdf>

¹⁴ 'Capturing the "multiple benefits" of energy efficiency in practice: the UK example' Energy Saving Trust, 2015: http://www.energysavingtrust.org.uk/sites/default/files/reports/1-424-15_Payne.pdf

¹⁵ Energy Saving Trust submission to the Energy and Climate Change Committee, April 2016: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/energy-and-climate-change-committee/2020-heat-and-transport-renewable-targets/written/31962.html>