



## Written submission of evidence to Bright Blue home energy efficiency research project

### Background and Executive Summary

SSE welcomes the opportunity to contribute to Bright Blue's research project on home energy efficiency; energy efficiency is the most sustainable way to keep energy bills lower in the long term. SSE believes that an energy efficiency scheme needs to be customer centric, cost effective and simple to deliver and administer. In order for an energy efficiency scheme to create lasting benefit, there needs to be policy certainty, particularly for the supply chain to establish effective working mechanisms. SSE also believes that it is crucial for clarity to be provided on future energy efficiency policies as soon as possible to remove any uncertainty in the energy efficiency market.

SSE strongly supports policy intentions to stimulate the able-to-pay market and believes that a variable stamp duty rate could help achieve this, and could operate alongside interest free loans from Government.

#### **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?**

One of the main reasons that the Green Deal failed was because the financial proposition was too complicated for customers and for the supply chain.

SSE previously shared concerns about blending Green Deal finance with ECO in our response to DECC's consultation 2014 on 'The Future of ECO', when a question was posed about legislating for blended finance. We argued that Green Deal was not an attractive product in its own right because of its complexity. We also said that, 'Unless the Green Deal is altered... we are concerned at the prospect of any move to combine the supplier obligations with a complex financial product, which must be bought by fully informed and willing customers'.

In addition to the complexity of the proposition, blending Green Deal finance with ECO amounted to an extra administrative and financial burden, requiring obligated suppliers to move away from an existing system to administer wholly funded measures to a new system where finance does not come from one source. One installer explained to SSE that, while they had a system set up to run the Green Deal, they did not actually run it because 'as soon as we take the cellophane off, we will incur costs which will never be recovered'.

SSE believes that more extensive engagement with consumers can add great value. Consumer engagement can allow for a thorough and robust test of the scheme design, providing insight into what works, what doesn't and which changes can make the scheme more appealing to its target audience. This also provides guidance for forecasting take up of the scheme, if carried out robustly. While there were a number of trials with consumers during the Green Deal design phase, as DECC has

acknowledged, these were far from sufficient. The complexity of the Green Deal financial product itself, the complexity of the application process and the promotion of financial incentives are symptomatic of this.

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

One of the factors which detracted from the efficacy of the Green Deal was its administrative complexity. A future policy should be guided by the principles of being customer centric, cost effective and simple to deliver and administer. That said, SSE acknowledges the benefits that Green Deal Advice Reports can offer. They are an important tool which give householders an indication of the likely savings they will be able to achieve and will help them decide whether the measures present value for money.

## **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?**

SSE strongly supports the introduction of a variable stamp duty to stimulate the able-to-pay market. This could be a cost neutral policy, rewarding the more energy efficient buildings and penalising the less energy efficient buildings. In using stamp duty to incentivise the able-to-pay sector, the value of energy efficiency will be recognised in the housing market, encouraging both buyers and sellers to improve the efficiency of their homes. This could be done by allowing buyers to claim a rebate if they improve their home's energy efficiency or by varying stamp duty at point of sale based upon the existing energy efficiency score.

A stamp duty policy does not have to operate in isolation. SSE believes that, if finance is offered as part of a suite of energy efficiency policies for the able-to-pay market, the Government should finance interest free loans. These should be similar to standard personal loans, without a golden rule and without repayments being made through energy bills. An interest free loan is easy for customers to understand and removes some of the Consumer Credit Act requirements which were relevant for Green Deal loans. In the National Audit Office 'Green Deal and Energy Company Obligation' report, the high interest rate loans were identified as one potential reason for the Green Deal market not flourishing.

SSE understands that offering a government-funded interest-free personal loan introduces a bad debt risk, which is typically quite high for personal loans. SSE also acknowledges that the bad debt risk would exclude homeowners from certain socio-economic groups from taking out an interest-free loan. SSE believes that this could be mitigated by the focus on fuel poverty in the new ECO, meaning that a large proportion of these consumers would qualify for wholly funded measures to be installed.

**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?**

SSE believes that the Bonfield Review should highlight the need for a robust accreditation and certification framework which can build trust in the insulation industry and ensure that consumers and obligated suppliers have confidence in the quality of work carried out.

Under ECO, too great an onus has been placed on obligated suppliers to police the energy efficiency industry. Energy suppliers have ended up taking on an odd dual role whereby they become both a customer of the energy efficiency industry but are seen as a quasi-regulatory body. Despite the use of accredited installers, suppliers have been forced to ensure that installers and measures comply with various accreditation requirements, such as Publically Available Specification (PAS), Green Deal, and British Board of Agreement. SSE believes that obligated energy suppliers should not remain responsible for ensuring quality of work across the energy efficiency industry. For example, they should not be responsible for putting things right when poor advice is given or conducting technical monitoring. Energy suppliers should be considered as the customers that they are.

SSE believes that the Bonfield Review should recommend improvements to the existing frameworks, PAS 2030 for example, to ensure that all installations are reported to certification bodies, to ensure installers are effectively scrutinized and align the existing monitoring regime with ECO's technical monitoring.

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

As referenced in our response to question one, in order to communicate successfully to consumers, they need to be engaged at the outset. This will help to a) ensure that the offer is attractive and b) learn how best to communicate the proposition to customers. SSE also believes that there is value in involving stakeholders with experience in the sales process, to ensure that any new scheme is structured in a way which will appeal to customers.

SSE also believes that consumers need to be informed about the full range of socio-economic benefits associated with home energy efficiency measures, instead of focusing solely on the financial incentives. The most appropriate and appealing benefits, as well as the most suitable channels of communication, should be identified through engagement with consumers and other relevant bodies who have direct contact with consumers, ideally contact specifically related to energy efficiency, health and wellbeing. This will help to make sure that the right message is given in the right way, at the right time, to the right people and in the right place. For an interest-free government loan, this could be a message as simple as 'interest-free loans for home improvements that save energy'.