

A British Property Federation response to:

The Future of the Energy Company Obligation

A written submission to the Department of Energy and Climate Change

Background

BRITISH PROPERTY FEDERATION (BPF)

The BPF represents companies owning, managing and investing in property. This includes a broad range of businesses comprising commercial property owners, the financial institutions and pension funds, corporate landlords, residential landlords, as well as all those professions that support the industry.

Buildings alone generate almost half of all CO₂ emissions in the UK - 27% from the 26 million residential dwellings and 17% from the 2 million non-domestic buildings. The BPF has a dedicated team for sustainability issues, reflecting the priority which its leading members place upon issues of climate change and resource efficiency. We also provide Secretariat support to the Green Property Alliance, a group of the leading organisations representing both landlord and tenant interests (Association of Real Estate Funds, Better Buildings Partnership, British Council of Shopping Centres, British Council for Offices, BPF, Investment Property Forum, Royal Institution of Chartered Surveyors, UK Green Building Council and the Urban Land Institute).

FOR FURTHER INFORMATION AND FOLLOW-UP

We would be delighted to expand upon any aspect of this response and to provide further supporting information. Please contact in the first instance: Matthew O'Connell (Policy Officer), British Property Federation, 5th Floor, St Albans House, 57-59 Haymarket, London, SW1Y 4QX Tel: 0207 802 0126 Fax: 0207 834 3442 Email: moconnell@bpf.org.uk

1. Do you agree that the 2015 CERO target should be reduced by 33 per cent from 20.9mtCO₂ to 14mtCO₂?

Introduction

The BPF strongly opposes any reduction in the ambition of ECO or CERO. The impact of these changes will be felt hardest by those who will now be unable to afford or access finance to insulate their homes. It will increase the number of people struggling with their energy bills and put more at risk of fuel poverty.

It is short-sighted in the extreme to make cuts to the scheme delivering 98% of Government energy efficiency subsidies¹ for the sake of a £47 drop in the average consumer energy bill. The only certain way to lower future energy costs is to ensure best use of the energy we currently use.

BPF modelling based on Energy Saving Trust data shows that increasing the Energy Performance Certificate of a two bedroom Victorian terraced property from an F rating to a B

¹ [March 2014 Green Deal/ECO statistical release](#)

saves 4.5 tonnes of CO₂ a year². The cuts proposed to CERO translate into more than one and a half million of these properties being denied average annual fuel savings of £1,397 a year. That is money that could be used in the wider economy.

Ultimately, energy efficiency creates employment, delivers health benefits through warmer properties and puts money back in the pockets of consumers.

Question 1: Should the new 2015 CERO target be applied to Phases 1, 2 and 3, or to Phase 3 only? Please provide justification for your answer.

Government is proposing to allow the installation of cheaper measures to qualify towards CERO obligations. This, in our opinion, reduces the efficacy of the overall scheme by not emphasising the delivery of measures specifically intended to tackle either solid wall properties or hard to treat properties. Based on the assumption that measures delivered up to 2015 will be those originally intended to be delivered, we would deem it perfectly acceptable for excess activity under any of the sub obligations to count towards April 2017 obligations.

Question 2: Do you agree that underachievement against the CERO target at 31 March 2015 should be able to be carried forward at a penalty rate of 1.1 times the amount of the shortfall?

Companies that underachieve against March 2015 targets should have to complete their obligations at an increased rate.

We would question whether a penalty rate of 1.1 is a significantly high enough disincentive to encourage compliance. We suggest the increased rate should be based on a sliding scale with higher penalties for the worst completion rates, this would provide a greater incentive for companies to deliver and would demonstrate to the public that the Government is committed to ECO.

Question 3: Do you agree that CSCO and Affordable Warmth targets should remain unchanged for 2015?

The CSCO and Affordable warmth targets are important elements of ECO, especially for those on low incomes. We are concerned that the extended geographical area for CSCO is too small and will lead to problems with over-delivery as is currently the case. We are pleased these targets are remaining in place but would seek assurance that the CSCO geographical area be extended from the proposed 25% to 30% of the most deprived areas.

Question 4: Do you agree that all excess activity under CERO, CSCO and Affordable Warmth should be compliant with rules put in place for these sub obligations from 1 April 2015?

We would deem it perfectly acceptable for excess activity under any of the sub obligations to count towards April 2017 obligations.

² [British Property Federation Guide to Energy Efficiency and the Private Rented Sector](#)
Based on 6.2mtCO₂ divided by expected CO₂ savings per property (4.5tCO₂)

Question 5: Do you have a view on whether, and what proportion, of over-delivery against 2015 CERO, CSCO and Affordable Warmth targets should be permitted to count towards 2017 targets?

Given how poorly the obligated parties are currently meeting their CERO and CSCO obligations³, any over-delivery is likely to impact only on the Affordable Warmth element of ECO. In this case, Government is currently stating that it will extend Affordable Warmth at the same level for April 2015-17. In this case, any over-delivery should be counted towards accomplishing 2017 targets. Given Affordable Warmth is designed to deliver energy efficiency measures to those at risk of fuel poverty, we would not like to see any disruption in its delivery.

Question 6: Do you agree that the ECO scheme should be extended from March 31 2015 to March 31 2017?

We welcome the extension of the Affordable Warmth and CSCO as they are accompanied by the same funding package as previously existed.

Question 11: Do you agree that the 2017 CERO target should be set at 12.4MtCO₂?

No, the proposed cuts to CERO are already having an impact on delivery of energy efficiency measures. A Labour Party Freedom of Information request revealed that of 146 Local Authorities, 49 schemes have been stopped or mothballed due to a lack of clarity on the proposed changes to ECO. This has prevented over 54,000 homes from having energy efficiency measures installed⁴.

It is important that Government understands the impact uncertainty has on industry. It has become very difficult for businesses to feel confident using Government sources of finance or incorporating it into a sustainable business strategy when they see other policies being chopped and changed at their expense. The initial impact assessment accompanying ECO worked on the basis that the policy would continue at a similar level of funding for 10 years⁵. It outlined that the initial outlay would be considerable, and that the benefits of the policy would be seen over a 52 year period.

Question 12: Do you agree that the 2017 CSCO target should be set at 6MtCO₂?

Yes, we welcome the extension to CSCO.

Question 13: Do you agree that the 2017 Affordable Warmth target should be set at £3.8 billion of lifetime notional bill savings?

Yes, we welcome the extension to Affordable Warmth.

Question 15: Do you agree that all forms of cavity wall insulation, including standard “easy to treat” cavities installed from April, should be eligible as a primary measure under CERO?

No, this is not the original goal of CERO. The standard “easy to treat” cavities can be funded using the Green Deal as they do not break the Golden Rule. In addition, CERT has already

³ [Ofgem ECO compliance information January 2014](#)

⁴ [Labour: Thousands to miss out on energy improvements](#)

⁵ [Green Deal and the Energy Company Obligation Impact Assessment 23/11/11](#)

delivered many of the low cost measures. The Government introduced ECO specifically to address the most difficult to treat homes, by making solid wall insulation more affordable. The Committee on Climate Change stated in 2009 that 2.3 million properties will require solid wall insulation by 2022 if the UK is to meet its carbon budgets⁶. According to the most recent DECC statistics, only 31,854 solid wall measures have been installed⁷. There is a clear need for the specific funding to target hard to treat properties that is not served by diluting CERO.

Question 16: Do you agree that loft insulation which is installed from April 2014 should be eligible as a primary measure under CERO?

The only primary measures that should be allowed under CERO are solid wall and hard to treat cavity wall insulation.

Question 17: Do you think it would be appropriate to make provision to ensure that low income and vulnerable households benefit from the delivery of loft and easy to treat cavity wall insulation under the 2017 CERO target? Please provide views on any appropriate mechanism by which to do this.

No, this would not be appropriate, as stated above, CERO should be used for solid and hard to treat cavity wall insulation. Other sub-categories of ECO as well as other Government schemes are available for funding loft and cavity wall insulation.

Question 19: Do you agree with the proposal to extend the number of eligible areas under CSCO from the lowest 15 per cent of areas, as identified using the Index of Multiple Deprivation, to the lowest 25 per cent of areas for measures delivered from 1 April 2014?

We welcome the extension of CSCO to 2017. We are concerned that the geographical area may be too small to ensure two years of adequate delivery, given that CERT and CSCO have both been successful in delivering basic insulation. Either the Government should extend coverage to 30% of the most deprived areas or commit to undertaking a review of whether the target areas are over saturated in April 2016.

Question 26: Do you agree that there should be a SWI minimum figure equivalent to 100,000 properties insulated with SWI by 31 March 2017? Should this be set as number of properties, or as a carbon equivalent? If the former do you have any views on how this should be set? If the latter, do you have suggestions as to how the target should be calculated?

An SWI minimum figure of 100,000 properties is, as previously explained, very far away from the delivery necessary for the UK to meet its 2022 carbon budget. The obliged companies were supposed to have delivered 180,000 SWI measures by 2015. The proposed changes would only require them to insulate 100,000 by 2017.

⁶ [Committee on Climate Change - Meeting Carbon Budgets – the need for a step change October 2009](#)

⁷ [DECC Domestic Green Deal and Energy Company Obligation in Great Britain, Monthly Report March 2014](#)