

REPORT TO: HOUSING COMMITTEE – 12 NOVEMBER 2012

REPORT ON: GREEN DEAL AND ENERGY COMPANY OBLIGATION

REPORT BY: DIRECTOR OF HOUSING

REPORT NO.: 422-2012

1. PURPOSE OF REPORT

To appraise Committee on recent initiatives regarding Green Deal, Energy Company Obligation (ECO) and other initiatives such as bulk fuel purchase schemes; and to seek approval for the Council's level of commitment to the Green Deal initiative.

2. RECOMMENDATIONS

- 2.1 Committee is recommended to note progress made under current initiatives and agree a future partnership approach regarding Green Deal and ECO to maximise the benefits to Dundee's citizens.

3. FINANCIAL IMPLICATIONS

There are no financial implications at present. The Council will maximise contributions to energy efficiency improvements to its housing stock from energy companies under ECO and from the Scottish Government.

4. MAIN TEXT

4.1 Progress to Date

The City Council has been successful in bringing forward schemes which qualify for the Community Energy Saving Programme (CESP) and Carbon Emissions Reduction Target (CERT). Working in partnership with Scottish Gas, £5m has been obtained to deliver CESP's by means of external insulation and provision of district heating schemes in both 4 multi story blocks in Dallfield and another 4 in Lochee. This will result in warmer homes and savings to tenants of around 30% on their energy bills.

Carbon Emissions Reduction Target (CERT) has contributed to additional costs of external insulation in a number of mixed tenure blocks in Menzieshill and Kirk Street.

The Universal Home Insulation Scheme (UHIS), £1m of Scottish Government funding over 3 years, has benefited thousands of homes across the City by providing increased loft insulation and/or cavity wall across the city both in the public and private sector.

CESP and CERT schemes are funded by the energy efficiency commitment all householders pay for as a levy on their fuel bills.

4.2 The Energy Act 2011 made provision to spend these resources in a different way and the Government has launched a new scheme called Green Deal to replace CESP and CERT. The intention is to reduce carbon emissions in a new way that allows up front costs for measures to be repaid through projected savings in electricity bills.

The intention is that ECO will integrate with Green Deal allowing subsidies to suppliers and green deal finance to link together to benefit consumers.

The scheme is still being finalised although Green Deal is planned to be in place by Jan 2013. The Green Deal will be primarily aimed at increasing the energy efficiency in the owner occupied and private rented sector, where improving energy efficiency and fuel poverty is particularly difficult.

Green Deal effectively will take the form of a low cost loan to individual householders to undertake some physical improvements to improve the energy efficiency of their property which will be repaid by the householder through an additional charge on their electricity bill.

Further details of the scheme are attached in Appendix 1 which is a summary produced by the Energy Savings Trust (EST).

It is envisaged that local authorities will take the lead role in tackling fuel poverty in their areas by promoting Green Deal, ECO and retrofit programmes. Green Deal has been identified as a priority project by the Scottish City Alliance in order to take a collaborative approach to maximise the benefits to both the domestic and non domestic sector. There are various delivery models which can be considered, these are:

- Promoter – the Local Authority promotes the Green Deal to their local residents.
- Partner - the Local Authority works in partnership with private sector Green Deal Providers to promote and facilitate delivery of the Green Deal to their local area.
- Provider - the Local Authority becomes a Green Deal Provider co-ordinating finance and delivery to local residents.

The approach recommended for Dundee City Council is that of partnering.

4.4 **Other Initiatives**

The Scottish Government is making £3m of funding available now for retrofit measures to improve the thermal insulation of dwellings. This funding is for use in conjunction with early ECO funding and is designed to facilitate the change over from CERT and CESP to ECO. It is also to kick start schemes in Scotland to demonstrate to the utilities that Scotland is ready and able to maximise the amount of ECO that can be spent on energy efficiency schemes in Scotland.

The Council is investigating, in conjunction with the Scottish Government, initiatives to allow householders to take advantage of any benefits of fuel switching through bulk fuel purchase schemes. Recent announcements by OFGEM will be assessed to establish if these allow households to achieve the best deals in the market place, independently.

4.5 **Corporate Issues Photovoltaics**

The City Architect is developing proposals for installing photovoltaics on Council corporate properties to maximise the benefits of free electricity to the Council as well as contributing to the Council's carbon emissions reduction target.

4.6 **Procurement Issues**

Advice will be sought from Corporate Procurement to ensure that the partnership approach outlined meets all necessary procurement requirements.

5. **POLICY IMPLICATIONS**

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

6. **CONSULTATIONS**

The Chief Executive, Director of Corporate Services and Head of Democratic and Legal Services and all other Chief Officers have been consulted on the preparation of this report. No concerns were expressed.

7. **BACKGROUND PAPERS**

Appendix 1 – The Green Deal and Energy Company Obligation Briefing Note by Energy Savings Trust (EST) October 2012.

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DIRECTOR OF HOUSING

NOVEMBER 2012

The Green Deal and Energy Company Obligation

Background

The Energy Act 2011 includes provisions for the new 'Green Deal' and the Energy Company Obligation.

Green Deal

The Green Deal financial mechanism allows energy efficiency measures to be installed at no upfront cost to owners of domestic and non-domestic buildings (although owners can opt to pay some of the cost up front) by arranging for the cost of the measures to be recovered by savings on the electricity bill of whoever occupies the property. To qualify for Green Deal finance the measures have to be recommended through a Green Deal advice report produced by a Green Deal advisor and the measure package has to meet a “Golden Rule” whereby predicted fuel bill savings are high enough to cover repayments through the electricity bills.

The Green Deal will be available to all tenures of domestic housing and the commercial sector and is a market mechanism funded through “Green Deal providers”. Interest rates will usually apply to Green Deal finance, but due to the market ethos of the scheme, householders will be able to shop around for best deals from providers.

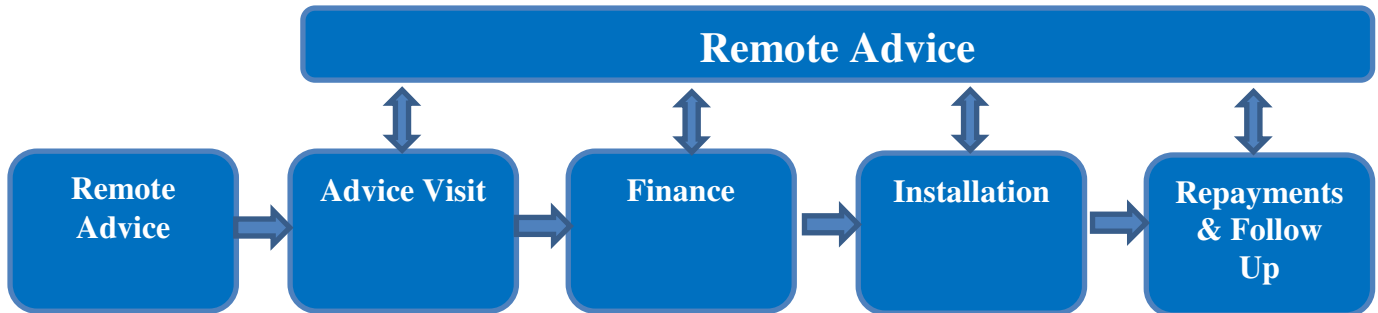
Measures offered through the Green Deal will usually be based on a list used for the RdSAP model (domestic ratings) and the SBEM (non-domestic property ratings). Recommended measures will be bespoke to individual property requirements and must be eligible in accordance with pre-defined measures available within Green Deal and ECO schemes <http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/5504-which-energy-efficiency-improvements-qualify-for-g.pdf> .

Energy Company Obligation

The Green Deal will be supported by a new Energy Company Obligation which will replace CERT and CESP and will subsidise expensive measures that could not meet the Green Deal “Golden Rule” without subsidy and will support measures for qualifying low income/vulnerable households who would be unlikely to achieve the savings predicted through the Green Deal assessment.

The Green Deal process

The Green Deal process has 5 distinct stages, illustrated below:



Remote Advice:

- Independent and impartial advice via telephone and internet delivered in Scotland by the Energy Saving Scotland advice centre (ESSac) network.
- Signposting service to other parts of the Green Deal e.g. advice, installation etc.
- Remote advice and assistance from the ESSac can be given to the householder at any point in the customer journey through the above stages.

Advice visit:

Only an accredited Green Deal advisor can provide:

- Standardised impartial advice
- A Green Deal advice report (Green Deal Plan), based on RdSAP methodology used in EPC reports covering
 - Fabric assessment
 - Golden Rule assessment
 - Occupancy assessment, which will indicate any variation from the theoretical golden rule assessment
 - Other advice

Finance:

- A new finance mechanism – attached to the energy meter and paid back over time through savings on energy bills.
- Obligation passes to whoever pays the bill at the property, so transfers automatically to any new occupier.

Installation:

- Accredited installers carry out work to clear standard.
- Sign off once work complete and inform GD Provider that repayments can begin.

Repayments and follow up:

- Payments collected through energy bills with the Green Deal charge shown as a separate line on the bill.
- Continuing support from the Green Deal Provider throughout Green Deal.
- Customer is free to switch energy supplier – no change to current procedures.

A process diagram is available on the DECC website,

<http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/4350-green-deal-domestic-endtoend-process-map.pdf>.

The Green Deal will be underpinned by a robust oversight and accreditation system and organisations delivering the various stages of the Green Deal will have to sign up to a Green Deal code of practice, which will cover the distinct stages of the Green Deal process.

The organisation Gemserv has been appointed to role of oversight body for the Green Deal and Ombudsman Services Ltd is to act as the Ombudsman and Investigation service for Green Deal

http://www.decc.gov.uk/en/content/cms/tackling/green_deal/oversight/oversight.aspx

The oversight process is summarised in the diagram at the following link

<http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/3743-green-deal-oversight-accreditation.pdf>.

The draft Green Deal code of practice is at the following link

<http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/5680-draft-green-deal-code-of-practice-.pdf>

Where measures are planned in social or private rented properties, both the tenant and the landlord have to agree to the measure being provided through Green Deal. However landlords can arrange for Green Deal measures to be installed when the property is void. Where Green Deal repayments apply to the property, incoming tenants or owners have to be informed of this and this is also indicated on the EPC for the property.

Energy Company Obligation

The Energy Company Obligation (ECO) on domestic housing has been placed on energy suppliers with more than 250,000 customers, i.e. the big six. The obligation replaces the CERT and CESP obligations and the first period was due to run from 1st October 2012 to 31st March 2015, but the start date has been delayed to an unspecified date for various reasons.

The first phase of ECO will be managed by Ofgem on behalf of DECC. Ofgem were to produce consultation supplier guidance for the ECO on the 1st October 2012 with the final guidance being issued before the end of December 2012. As the secondary legislation has not been signed off yet, the issuing of the guidance will be delayed slightly.

The ECO will be split into three obligations, each with different qualification criteria and with varying coverage of measures:

- Carbon Saving Obligation (Target- 20.9 million lifetime tonnes of carbon dioxide; Estimated delivery cost to energy suppliers £760million p/a).
 - Generally intended to link with the Green Deal for all tenures and subsidises external, internal and hard to treat wall insulation and a list of 11 other insulation measures where wall insulation is also carried out.
- Affordable Warmth Obligation (Target- £4.2bn of cost savings: Estimated delivery cost to energy supplier- £350 million p/a).
 - Can support any of around 38 heating and insulation measures (most of those that are available to domestic properties through the Green Deal)
 - Available to private sector households that meet criteria which is similar to that of the CERT Super Priority Group (see later).
- Carbon Saving Communities Obligation (Target- 6.8 million lifetime tonnes of carbon dioxide; Estimated delivery cost to energy suppliers £190 million p/a).
 - Supporting 12 types of insulation measure and also connection to new district heating where cavity wall and loft insulation is in place
 - Available to households of all tenures in the bottom 15% of SIMD datazones, with up to 20% available in neighbouring datazones
 - Requirement to deliver at least 15% of activity to affordable warmth eligible households in rural areas (stated as settlements with less than 10,000 households).

The ECO legislation has not been signed off yet and there are still some issues to be resolved including how ECO finance is accessed and allocated through a brokerage system, which will allow Green Deal providers fair access to ECO finance. More concise definitions covering how rural areas and how areas adjacent to the bottom 15% IMD datazones access ECO carbon saving communities funding and the definition of hard to treat cavities will probably be included in the Ofgem guidance, when this is published.

Local authority promotion of Green Deal and ECO

There are economic opportunities arising from the Green Deal and ECO and economic development sections within councils will be keen to maximise activity in their areas. Social housing providers are likely to be able to access ECO carbon saving obligation funding outwith Green Deal to match fund qualifying capital programme measures. There will also be opportunities for social housing providers through the communities obligation for households in the bottom 15% of IMD datazones with measures possible in neighbouring datazones. Rural social housing properties may also get access to carbon saving communities funding if tenants meet the affordable warmth criteria. A list of eligible rural datazones has yet to be produced.

ECO affordable warmth, communities and carbon funding and Green Deal finance could help expand social housing capital improvement programmes and delivery of measures to

neighbouring private sector properties. This could involve partnership with social housing contractors to access Green Deal and ECO finance for owners.

If scheme based on the Marksman model becomes available, this could facilitate delivery of programmes covering all tenures. However delivery of schemes based on this model may be some way off.

Some energy suppliers will be looking to pilot ECO projects and if councils have any potential district heating or external insulation/hard to treat cavity projects it would be worth bringing these to the attention of energy suppliers with a view to securing funding for these projects.

ECO/Green Deal measures

DECC produced a paper showing eligible Green Deal and ECO measures

<http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/5504-which-energy-efficiency-improvements-qualify-for-g.pdf> .

The ECO measures are listed below

ECO Affordable Warmth Measures:

Any measure which allows eligible households to heat their homes more affordably:

1. Air source heat pumps
2. Biomass boilers
3. Biomass room heaters (including with radiators)
4. Cavity wall insulation
5. Cavity wall insulation (HTT)
6. Cylinder thermostats
7. District heating (not GD)
8. Draught proofing
9. Hot water showers (efficient)
10. Hot water systems (efficient)
11. Hot water taps (efficient)
12. External wall insulation systems
13. Fan-assisted replacement storage heaters
14. Flue gas heat recovery devices
15. Ground source heat pumps
16. Heating controls (for wet central heating system and warm air system)
17. Heating ventilation and air-conditioning controls (including zoning controls)
18. High performance external doors
19. Hot water controls (including timers and temperature control)
20. Hot water cylinder insulation
21. Internal wall insulation (of external walls) systems
22. Loft or rafter insulation (including loft hatch insulation)
23. Micro combined heat and power
24. Micro wind generation
25. Pipe-work insulation

26. Gas-fired condensing boilers
27. Replacement glazing
28. Oil-fired condensing boilers
29. Warm-air units
30. Radiant heating
31. Roof insulation
32. Room in roof insulation
33. Secondary glazing
34. Solar water heating
35. Under-floor heating
36. Under-floor insulation
37. Water source heat pumps
38. Under the Affordable Warmth Obligation, Government will include boiler repairs as an eligible measure, provided that the obligated supplier making the repair provides a level of aftercare for the household. Suppliers will not be able to score more than 5% of their AW obligation on boiler repairs.

ECO Carbon Saving Obligation Measures:

Always eligible:

1. Cavity wall insulation (HTT)
2. External wall insulation systems
3. Internal wall insulation (of external walls) systems

Eligible when delivered as part of a package with solid wall insulation or hard to treat cavity wall insulation:

1. Cavity wall insulation
2. District heating (not GD)
3. Draught proofing
4. High performance external doors
5. Loft or rafter insulation (including loft hatch insulation)
6. Replacement glazing
7. Roof insulation
8. Room in roof insulation
9. Secondary glazing
10. Under-floor insulation
11. Pipe-work insulation - (external pipework only)

ECO Carbon Saving communities' measures:

1. Cavity wall insulation
2. Cavity wall insulation (HTT)
3. District heating (not GD) - (if has LI or CWI)
4. Draught proofing
5. External wall insulation systems

6. High performance external doors
7. Internal wall insulation (of external walls) systems
8. Loft or rafter insulation (including loft hatch insulation)
9. Replacement glazing
10. Roof insulation
11. Room in roof insulation
12. Secondary glazing
13. Under-floor insulation

Affordable warmth eligibility:

The affordability criteria are set out in pages 16-17 of the ECO order issued in June 2012 is likely to be the criteria applied to the scheme, unless this changes in the revised order. http://www.legislation.gov.uk/ukdsi/2012/9780111525456/pdfs/ukdsi_9780111525456_en.pdf.

The following diagram illustrates the criteria a bit more clearly, although the letters are a bit indistinct and it misses that under 20's in higher education are not part of the qualification criteria:

Elderly				
state pension credit	income-related employment and support allowance and is in receipt of a qualifying component; a pensioner	working tax credit and has a relevant income of £15,860 or less and is aged 60 years or over	income-based job seeker's allowance and is in receipt of a qualifying component; a	income support and is in receipt of a qualifying component; a pensioner
With Children				
child tax credit and has a relevant income of £15,860 or less	income-related employment and support allowance and has parental responsibility for a child under the age of 16 or up to their 20th birthday if they are in full-time non-advanced education who ordinarily	working tax credit and has a relevant income of £15,860 or less and has parental responsibility for a child under the age of 16 or up to their 20th birthday if they are in full-time non-advanced education who ordinarily resides with that member;	income-based job seeker's allowance and has parental responsibility for a child under the age of 16 or up to their 20th birthday if they are in full-time non-advanced education who	income support and has parental responsibility for a child under the age of 16 or up to their 20th birthday if they are in full-time non-advanced education who ordinarily
Disabled				
income-related employment and support allowance and one of receiving the work-related activity or support component child tax credit which includes a disability or severe disability element or a disabled child disability premium or enhanced disability premium or severe disability premium	working tax credit and has a relevant income of £15,860 or less and is in receipt of a disabled worker element or severe disability element	income-based job seeker's allowance and one of child tax credit which includes a disability or severe disability element or a disabled child disability premium or enhanced disability premium or severe disability premium	income support and one of child tax credit which includes a disability or severe disability element or a disabled child disability premium or enhanced disability premium or severe disability premium	a disability premium, enhanced disability premium or severe disability premium

The criteria will probably have to be updated in 2013 to align it to the new Universal Credit arrangements.

(October 1st 2012)