

# The Green Deal and Energy Company Obligation

## Consultation Document

**Volume One of Two**

**Large print  
16 point**

[11D/886 & November 2011]

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Text notes, indicated by numbers in bold, square brackets, e.g. **[14]**, are listed at the end of each section / chapter.

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# General Information

## Purpose and context of this document

The Energy Act 2011 [1] made provisions for the development of a Green Deal and a new Energy Company Obligation (ECO) to replace the existing Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP), which will both expire in 2012. The development of the Green Deal and ECO reflects the urgent need for a step-change in our approach to energy efficiency in existing domestic and non-domestic buildings. This will be critical to meeting our carbon emissions and fuel poverty targets.

This document has three main purposes:

- to explain the context for the development of the Green Deal and ECO;
- set out our proposals for the Green Deal and ECO and;
- highlight key issues, for consultation.

Alongside this consultation document we have published a number of other documents to give respondents the fullest possible understanding of analysis to date. These are:

- a detailed draft impact assessment
- the outputs of a number of customer insight studies commissioned by DECC which indicate the likely demand for Green Deal and the opportunities for higher take-up – the results of which have already been used to refine the policy proposals in this document and built into our economic model (used for the impact assessment).
- draft statutory instruments (SIs) and a draft of the Code of Practice for assessors, installers and providers, together with draft amendments to energy company licences and industry agreements and the draft Green Deal

Arrangements Agreement. These are necessarily working drafts as we continue to consult on the policy but we are sharing them now to help illustrate how the current proposals might be reflected in legislation. They will need to be revised in accordance with the outcome of the consultation before being finalised and (in the case of the SIs and Code of Practice) laid before Parliament. We are also required by the Energy Act 2011 (and relevant earlier legislation) to consult on our proposals for ECO and on proposed licence and industry agreement modifications, and this consultation exercise gives effect to that requirement.

We would like to hear from a wide range of stakeholders including, in particular, organisations with an interest in operating within the proposed framework, and members of the general public who might be considering investing energy efficiency. The output from the consultation will help inform secondary legislation on both the Green Deal and ECO.

We will participate in a number of stakeholder led events in England, Scotland and Wales during the consultation period. In addition, we will host sector specific workshops. For more information on dates and venue of these events please see our website. For up-to-date news on the progress of the Green Deal and ECO, you can join our stakeholder mailing list at:

[http://www.decc.gov.uk/en/content/cms/tackling/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/tackling/green_deal/green_deal.aspx).

**Issued:** 23 November 2011

**Respond by:** 18 January 2011

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## **Territorial extent**

This consultation is for England, Wales and Scotland.

## **How to respond**

Your response will be most useful if it is framed in direct response to the questions posed, though further comments are also welcome. Where possible we would be grateful for evidence to support your views and proposals. When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation response form and, where applicable, how the views of members were assembled.

We would prefer if you respond to the consultation online at:  
[https://econsultation.decc.gov.uk/decc-policy/green\\_deal\\_eco/](https://econsultation.decc.gov.uk/decc-policy/green_deal_eco/)

If you are unable to use this medium, a copy of the consultation response form is available electronically at [www.decc.gov.uk](http://www.decc.gov.uk).

Electronic responses can be emailed to:  
[greendealandecoconsultation@decc.gsi.gov.uk](mailto:greendealandecoconsultation@decc.gsi.gov.uk)

Hard copy responses can be sent to the address above.

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Electronic copies of the consultation document, draft statutory instruments and impact assessment can be found on DECC's website at: <http://www.decc.gov.uk/en/content/cms/consultations/>

Other versions of the document in Braille, large print or audio-cassette are available on request. Please contact us using the above details to request alternative versions.

## **Confidentiality and data protection:**

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004). If you want information that you provide to be treated as confidential please make this clear when you send your response to the consultation. It would be helpful if you could explain why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as a confidentiality request.

We will summarise all responses and place this summary on our website at [www.decc.gov.uk/en/content/cms/consultations/](http://www.decc.gov.uk/en/content/cms/consultations/). This summary will include a list of names of organisations that responded but not people's personal names, addresses or other contact details.

## **Quality assurance:**

This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here: <http://www.bis.gov.uk/files/file47158.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator  
3 Whitehall Place  
London SW1A 2AW  
Email: [consultation.coordinator@decc.gsi.gov.uk](mailto:consultation.coordinator@decc.gsi.gov.uk)

## **Note [1]**

**A copy of Energy Act 2011 is available here**

[http://www.decc.gov.uk/en/content/cms/legislation/energy\\_act2011/energy\\_act2011.aspx](http://www.decc.gov.uk/en/content/cms/legislation/energy_act2011/energy_act2011.aspx)



# Acronyms and Abbreviations

APEL	Accreditation of Prior Experiential Learning
AW	Affordable Warmth
BIS	Department for Business, Innovation and Skills
BOE	Bank of England
BRE	Building Research Establishment
BSI	British Standards Institute
CCA	Consumer Credit Act
CCD	Consumer Credit Directive
CE	Conformité Européenne (European Conformity)
CERT	Carbon Emissions Reduction Target
CESP	Community Energy Saving Programme
CPD	Continuing Professional Development
CPI	Consumer Price Index
CO <sub>2</sub>	Carbon Dioxide
DCLG	Department for Communities and Local Government
DCUSA	Distribution and Connection Use of System Agreement
DEA	Domestic Energy Assessor
DEC	Display Energy Certificate
DECC	Department of Energy and Climate Change
DIY	Do It Yourself
ECO	The proposed new Energy Company Obligation
EOS	Energy Ombudsman Service
EPB	Energy Performance of Buildings
EPBD	Energy Performance of Buildings Directive

EPC	Energy Performance Certificate
EU	European Union
FMB	Federation of Master Builders
FOS	Financial Ombudsman Service
FSA	Financial Services Authority
GB	Great Britain
GDAA	Green Deal Arrangement Agreement
GDAR	Green Deal Advice Report
GHG	Green House Gas
HVAC	Heating Ventilation and Air Conditioning
INCA	Insulated Render and Cladding Association
LATTS	Local Authority Trading Standards Services
MAC curve	Marginal Abatement Cost curve
MRA	Master Registration Agreement
MtCO <sub>2</sub> e	Million Tonne Carbon Dioxide Equivalent
NOS	National Occupation Standards
Ofgem	Office of Gas and Electricity Markets
OFT	Office of Fair Trading
RdSAP	Reduced data Standard Assessment Procedure
RPI	Retail Price Index
SAP	Standard Assessment Procedure
SBEM	Simplified Building Energy Model
SME	Small and Medium Enterprises
SWI	Solid Wall Insulation
SWIGA	Solid Wall Insulation Guarantee Agency
UCPD	Unfair Commercial Practices Directive
UKAS	United Kingdom Accreditation Service

USA	United States of America
UTCCR	Unfair Terms in Consumer Contracts Regulations
VAT	Value Added Tax
WAG	Welsh Assembly Government

# Preface

## **Upgrading the future of British homes and offices: families and businesses insulated from rising prices**

British property is amongst the leakiest in the Western world. Too many people work in energy wasting offices or put up with ever rising domestic energy bills just to keep the living room liveable. That is uncomfortable and unaffordable for them and unsustainable for the environment.

The vision for the Green Deal and the new Energy Company Obligation (ECO) is an ambitious and far-reaching one. It's a world where the UK leads with a dynamic new energy efficiency market, with nationwide brands, local businesses and community organisations competing to deliver the best proposition for the consumer.

The Green Deal will put consumers back in control. By 2020, we will have seen a revolution in British property. Millions of us will live and work in greater comfort, through upgraded and insulated properties which do not cost the earth to heat, with smarter controls and meters helping us manage our energy use, and generating our own heat or electricity. Fewer of us will struggle with our fuel bills, unable to reach basic standards without spending a huge proportion of the weekly budget. And for many people this will mean a more attractive home – modern measures like external solid wall insulation can transform a tired pebble dash terrace into a tidy, smart façade; internal measures can be the catalyst for new render or repainting; replacing an inefficient boiler can be done easily whilst renovating the kitchen.

Because the Green Deal will reduce energy consumption, many more households will be able to hold down their energy bills even as energy prices continue to rise. Because the Green Deal is about

catalysing private investment, it will boost growth and stimulate the economy.

For the country as a whole, properties leaking heat and money are also properties leaking carbon. The central rationale for the Green Deal is to reduce carbon emissions cost effectively. We know insulation is often the most cost-effective way to reduce carbon emissions from buildings. It is also often one of a package of improvements, including heating measures, needed to lift a family out of fuel poverty. Consumers will therefore be encouraged to take out a comprehensive package of measures. These measures should equip homes for the low-carbon future of 2050.

This is the vision for the Green Deal and ECO:

- i. An innovative policy designed around consumers;
- ii. A new, open and dynamic market for businesses; and
- iii. Investment driving economic growth;

**Resulting in:**

- iv. Less carbon emitted
- v. Fewer families in fuel poverty
- vi. Improved homes

### **i. Designed around consumers**

Many energy efficiency measures save money straight away – so what is stopping us? Our research shows that people are unable to act because they cannot afford the upfront costs or they are unsure whether they can trust the quality of work. Previous Government schemes have been too top-down to take account of what consumers actually want. Green Deal changes all that. At its heart is an innovative new financial mechanism which eliminates upfront costs and provides reassurance that the costs should be covered by the savings. Allied to the finance are strong consumer protections including a Government-backed system of accreditation for impartial

assessment, reliable measures and quality installation. Above all it will be consumer-led, creating a new and open market in which a diversity of firms will compete for consumer demand.

### **Upfront costs**

Enshrined in the Energy Act 2011, the Green Deal allows for private companies to offer upfront energy efficiency investments and then recoup payments through energy bills. This simple idea has a significant effect. It means that consumers face no upfront costs, and also means that they only make the payments whilst they stay at the property, able to enjoy its benefits. As the charge is added to the electricity bill, it stays with the property and is taken on by the new bill payer as they move into their improved home. The Green Deal "Golden Rule", set out in legislation, specifies that any charge attached must be less than the expected savings from the retrofit (see chapter 4 for more detail). So the customer gets a cosier, more efficient home, at no upfront cost, that is expected to pay for itself.

Of course, not every measure will pay for itself for every household. Some homes, due to their construction type, are more complex and more expensive to improve and need measures like solid wall insulation which may not always meet this Golden Rule. Extra funding will be needed to make them affordable. Plus there are many low income and vulnerable households who cannot afford to heat their homes properly at the moment. These homes will benefit from measures like insulation and new heating systems not so much by saving money on their bills, as by ending up living in warmer, healthier homes. To help the poorest and most vulnerable households, extra financial support will be needed.

That is why, as part of the new Green Deal landscape, the Government is putting in place ECO. Under this scheme the big energy suppliers will be legally obliged to provide exactly the kind of extra support that is needed to make sure that hard to treat homes,

and the lowest income and vulnerable households, can benefit from the new arrangements.

### **Trust in the work**

The second issue is the customer concern about the work itself. The Green Deal establishes a robust system stretching from the adviser who does a bespoke property assessment, to the measures recommended, to the installer who installs them, and the Green Deal plan which establishes the finance repayments alongside appropriate customer service guarantees. Each of these links in the chain is backed up by accreditation to give the customer the peace of mind they need. In particular, all Green Deal participants will need to carry a Quality Mark so that customers can see they are accredited to the standards of the Green Deal Scheme.

### **Awareness**

Finally, and crucially, many people are simply not aware of the options. They do not know what could be done to their property or what a difference energy efficiency could make to their bills. Advertising campaigns have struggled to raise awareness effectively. However, the Green Deal changes the landscape. It enables consumers to choose suppliers which can be held to the standards of the authorisation schemes, and to fund work using a new source of finance. For businesses, it opens up the energy efficiency market and potentially the micro-generation market too so they can use these innovations to offer exciting new packages to consumers. This is no longer the domain of energy companies dealing in light bulbs. Instead, this is a market where your local plumber, DIY chain or department store can get involved in promoting energy efficiency and low carbon energy generation. They might offer roof insulation alongside your boiler replacement, or suggest solid wall insulation when you're thinking about redoing the garden, or a full house retrofit when you're planning your kitchen upgrade. Businesses will be able to use their knowledge of their customers to offer them a tailored

service, at a point in time which suits them. Alongside this, we will ensure there is an impartial advice service online and by phone so potential customers can turn to it as an impartial provider of answers to their questions, and a way of checking information they have been given. This advice will cover the various possible micro-generation technologies as well as energy efficiency measures.

### **Customer-led**

The key to Green Deal is its diversity and flexibility. All Green Deal customers will benefit from a comprehensive and impartial assessment of their property, and will be able to shop around between different offers in the market place. Research told us some customers wanted to be able to part-pay capital costs upfront or top-up their investment. So under our proposals, customers can use the new Green Deal finance to pay for energy efficiency measures up to the limit of the golden rule or they can use it alongside their own investment where they want other home improvement measures which aren't expected to generate savings on their energy bill. ECO support will be available to support the availability of measures such as solid wall insulation, which is currently more expensive. Research also told us that some customers wanted the reassurance of being able to repay the Green Deal early; our proposals include this option whilst minimising the overall cost of finance.

Green Deal is also designed to enable firms to provide an integrated customer offer alongside other home improvement measures and potentially microgeneration measures which could be identified through the impartial assessment. The customer journey is designed to make it easier for customers to make confident decisions about upgrading their homes and offices. For some people, that means they will start off having a leading interest in replacing an old boiler or even replacing their kitchen or windows but be encouraged to look at a full range of improvements through impartial assessment and the availability of Green Deal finance to fund some of their costs.



This joined up customer proposition also extends to other Government financing schemes. Alongside Green Deal funded installations, we are confident many providers will offer other low carbon measures such as renewable heating and hot water systems (heat pumps, solar thermal panels) and on-site electricity generation. These would be supported by separate financial incentives which are already in place or are currently being put in place.

Needless to say, in order to make the customer journey as simple as possible, the complex behind-the-scenes detail needs to be right – that is why this consultation is structured around every step of the customer journey.

### **ii. A new market**

Green Deal can be a great offer for customers; it is also a great opportunity for firms to compete in a new market. Our analysis indicates that the Green Deal and ECO will drive billions of pounds of investment in energy efficiency measures over the next decade. We have been encouraged by the wide range of firms – large and small, specialist and generalist – as well as local authorities, social landlords, and third sector organisations who have engaged with Government over the last year and a half. We anticipate a diverse market with many different organisations playing their parts. We will be looking at the impact on and take-up by micro-businesses of the Green Deal.

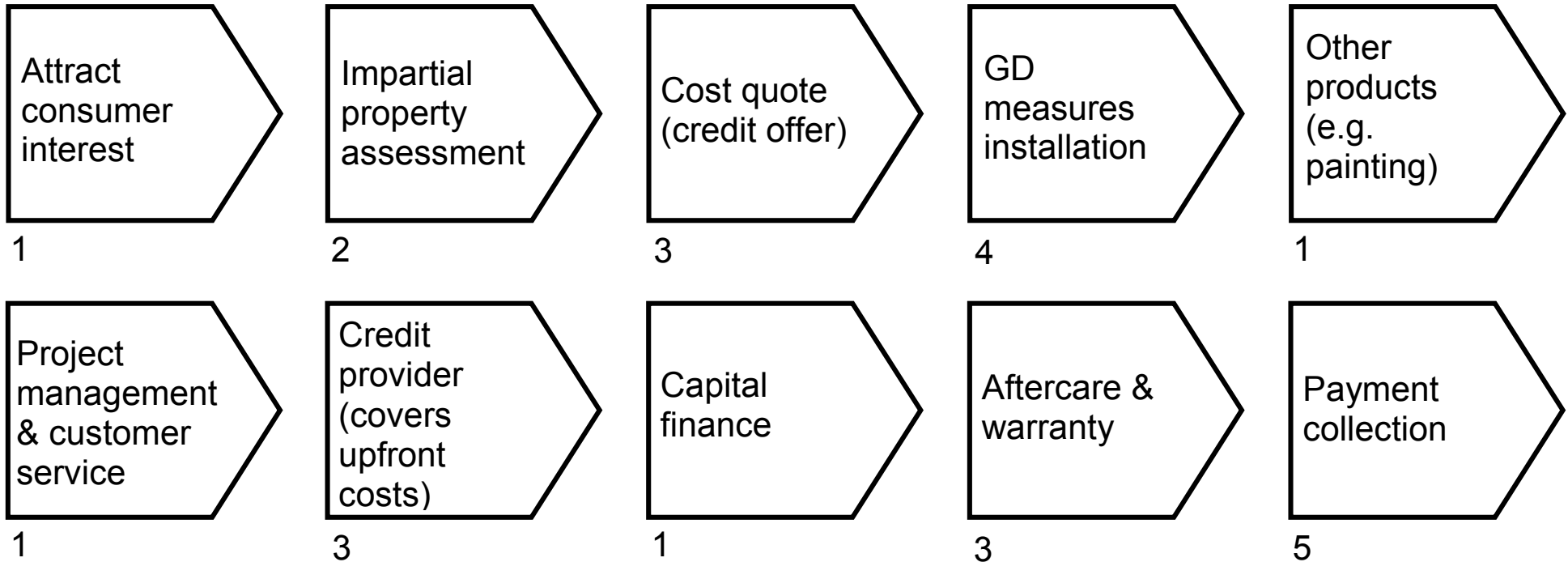
The Green Deal will only realise its full potential if the market is truly open and competitive, enabling both established players and new entrants to innovate around customer needs. That is why we are not proposing to mandate a single business model which all providers have to undertake. Other than the largest energy companies who will be mandated to collect payments, our approach is to:

- Protect customers by requiring work to be preceded by an impartial assessment by an accredited assessor, and

undertaken by an accredited installer as a precondition of entering into a Green Deal plan;

- Require the appropriate level of accreditation for the function delivered;
- Allow organisations to decide for themselves which of these functions they want to perform and to decide which other organisations to partner with.

**Diagram 1: Summary value chain illustrating those functions which require additional Green Deal accreditation and those covered by existing consumer rights legislation.**

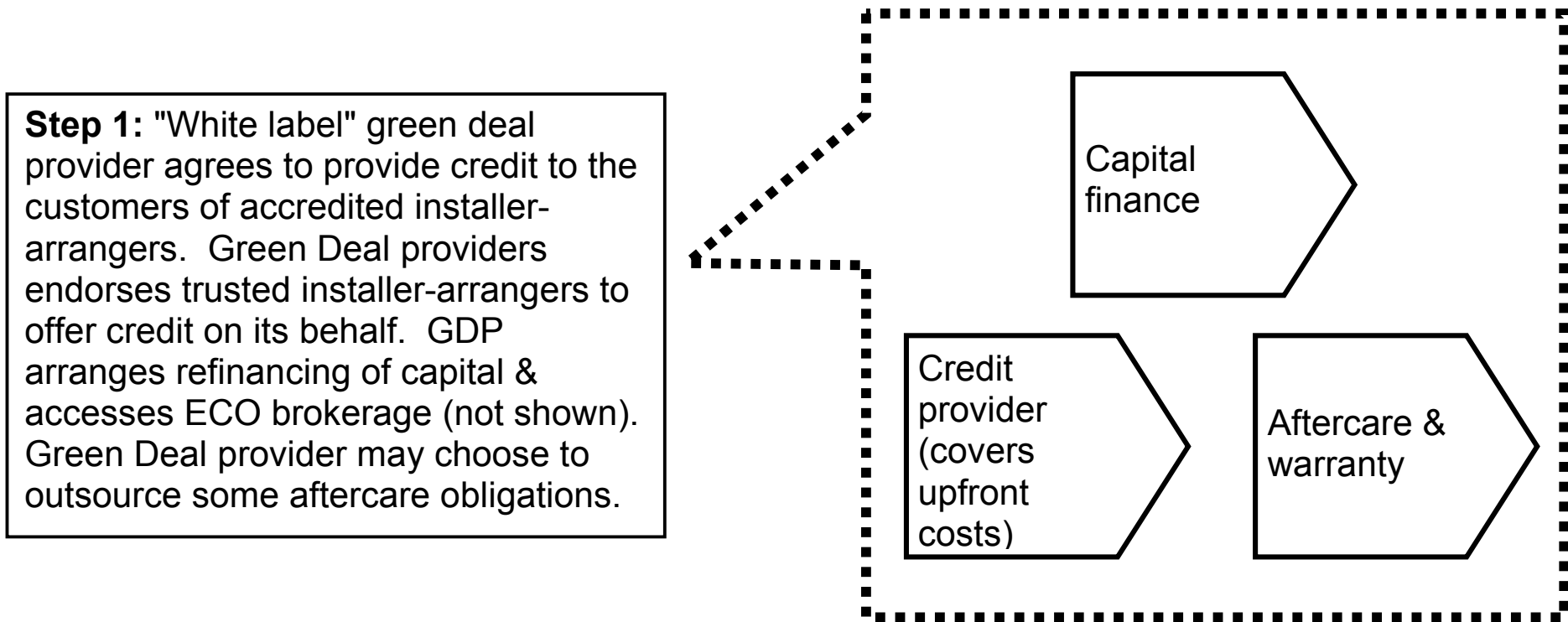


- Key:**
- 1 Could be undertaken by any party. No Green Deal accreditation needed.
  - 2 Needs assessor accreditation to do this function.
  - 3 Green Deal Providers must do all these functions. Needs provider accreditation.
  - 4 Needs installer accreditation to do this function.
  - 5 Must be performed by energy companies through electricity bills.

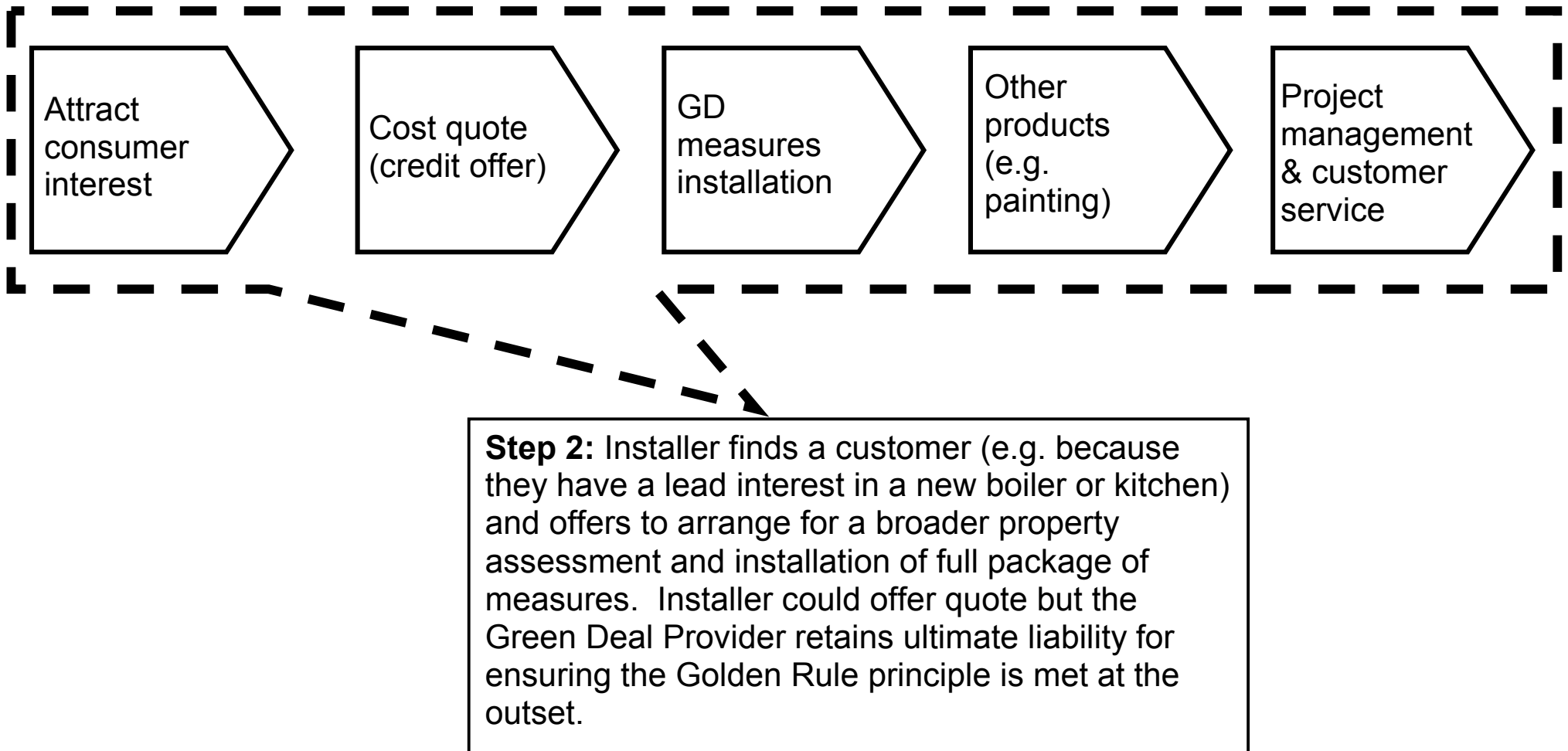
Of course, some firms will want to deliver every part of the value chain in-house through their own staff. Others will wish to specialise in one function at which they excel and partner with other specialist organisations to deliver other functions, as illustrated by Diagram 1.

One example might be a specialist installation firm which is very good at finding customers and fitting measures, but does not want to be a credit provider. Diagram 2 illustrates how as many as four or five different organisations can work together to deliver all parts of the value chain. The specialist installer concentrates on working with the customer to arrange work and on installing the full range of measures. The Green Deal provider concentrates on providing credit to customers, including accessing wholesale funding from the capital markets, brokered by the installer-arranger. This could be a "white label service", that is, able to be rebranded for marketing by another company. And, in this example, a separate firm undertakes the impartial assessment – this could either be a contractor of the installer-arranger or a third party like a local authority or charity.

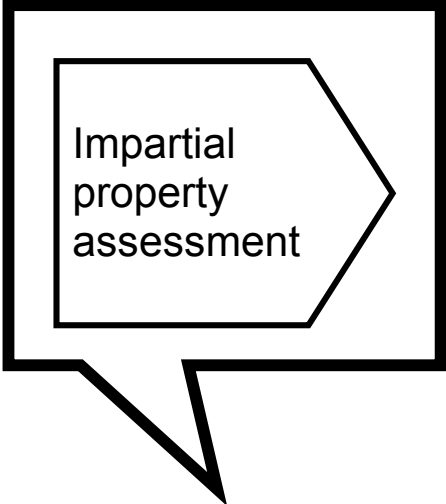
**Diagram 2: Possible partnership model with specialist installer-arranger (dash-line box on next page) and specialist white label Green Deal provider (dot-line box on this page).**



[continued on next page]



[continued on next page]



**Step 3:** Impartial assessor, partnered with the installer-arranger, does comprehensive assessment.



**Step 4:** Charge collected through bills.

## Opening up the market

This consultation sets out the steps we are taking to deliver the vision of a truly open and competitive market. Two of these are especially important:

- **Greater transparency and access to the support provided by the ECO, through a new "brokerage" function.** In many cases a Green Deal offer to the customer will need to include both Green Deal finance, and a measure of support from the new ECO. It's crucial that these two sources of finance can come together smoothly, and that all Green Deal providers can have confidence that, if they are putting together a genuinely value for money offer, they will have a fair chance of bringing in this ECO support. We are therefore proposing a brokerage function, where the needs of Green Deal providers to attract extra finance can be matched with offers of financial support from the ECO companies, on a fair and transparent basis.
- **Working with financial institutions to open up finance to the whole Green Deal market.** Green Deal providers will need access to substantial capital in order to offer improvements at no upfront cost repaid through a long-term charge on the electricity bill. We have engaged with a wide range of institutional investors like pensions funds, asset managers, and banks on developing long-term cashflow created by Green Deal that is low risk and financeable at scale. For example, we ran a series of roundtable discussions in the City of London earlier this year to discuss the viability of Green Deal as a financial investment and to develop thinking on issues such as the allocation of customer default risk.

Consultation with the finance community and potential Green Deal providers gives clear evidence that the provider market will look for off-balance sheet financing, and the ability to access finance from the capital markets, for example through the onward sale of Green Deal payments (e.g. securitisation of Green Deal receivables).



Securitising Green Deal receivables will enable pension and insurance funds to invest in the Green Deal and in turn secure a low risk, long term income stream. The cost of raising finance from the capital markets will largely depend on how the level of risk associated with a Green Deal security is assessed by credit rating agencies, rather than the overall strength of a provider's balance sheet. Our engagement with the financial sector gives us confidence that finance can be raised at rates significantly lower than the cost of an unsecured personal loan. It also means that accredited providers should be able to raise finance on similar terms. We will continue to work with providers and financial institutions to monitor the supply of commercial finance to providers.

### **iii. Investment drives growth**

Reinvigorating the market is good for customer choice but it is also good for economic growth. Rather than another government expenditure programme placing a drag on the economy by crowding out an efficient and competitive private sector, Green Deal is designed to draw in greater investment. Under the scenarios set out in our impact assessment, we estimate that over the next decade the market will have delivered billions of pounds of investment, sustaining hundreds of thousands of jobs.

Within the commercial sector, Green Deal could drive greater energy efficiency, allowing the same level of energy services to be produced for less energy input. Energy efficiency can enhance productivity for businesses, boosting competitiveness. As our impact assessment demonstrates, there is potential for resource efficiencies (including energy efficiency) which could save business £1.06 billion through the take-up of low or zero cost measures which pay back within a year.

#### **iv. Reducing carbon emissions, improving energy security and supporting vulnerable customers**

For all its customer benefits, Green Deal and ECO are underpinned by a pressing public policy rationale. The fundamental objectives for the Green Deal and ECO are to increase energy efficiency to drive reduced carbon emission, reduce dependence on scarce and volatile imported energy, and to help low income and vulnerable households to reduce energy costs and escape fuel poverty.

##### **Carbon emissions**

Climate change is one of the greatest threats to both UK and global security and prosperity. There is an overwhelming scientific consensus that climate change is happening, and that it is very likely to be primarily the result of human activity.

Without action to curb emissions, there is a very high risk of global warming reaching well beyond 2°C relative to pre-industrial times. Such unmitigated global warming would increase the risk of accelerated or irreversible changes in the climate system, such as initiating melting of the Greenland and West Antarctic ice sheets, leading to major sea level rise, or the release of large natural stores of methane from oceans or melting permafrost, which could cause further warming.

Our approach to avoiding the risk of dangerous climate change has at its heart the Climate Change Act 2008, which requires the Government to reduce greenhouse gas emissions by:

- Cutting emissions by at least 34% by 2020 and 80% by 2050 – below the 1990 baseline;
- Setting and meeting five-yearly carbon budgets for the UK during that period; and
- Requiring that those carbon budgets be set three budget periods ahead – so that it is always clear what the UK's

emissions will be for the next 15 years – and setting the trajectory towards the 2020 and 2050 targets.

Devolved administrations also have ambitious targets. For example for Scotland the Climate Change (Scotland) Act 2009 sets a target to reduce greenhouse gas emissions by 42% by 2020 and 80% by 2050 (using a 1990 baseline). Wales' Climate Change Strategy confirms the Welsh Government's commitment to reduce greenhouse gas emissions by 3% per year from 2011 in areas of devolved competence (using a 2006-10 baseline).

Energy efficiency is one of the most cost-effective ways of tackling these challenges. The cheapest energy is the energy we do not use, and in a world of increasing energy prices, market volatility and reliance on imports, being efficient with our energy has never been more important. All customers and businesses are looking to see how they can reduce their monthly bills, and energy efficiency is the obvious first choice.

The natural place to start is the UK building stock, which is among the most inefficient in the world and contributes a sizeable proportion of UK emissions. Emissions from buildings (non-domestic and domestic) were 93 MtCO<sub>2</sub>e direct and 111MtCO<sub>2</sub>e indirect (from electricity consumption) in 2009. This was 43% of total UK emissions in 2009. Carbon budgets will not be able to be met without reductions in emissions from the built environment. Energy efficiency could save 131 MtCO<sub>2</sub>e (51 traded, 82 non-traded) and therefore contribute significantly to the UK emission reduction targets **[2]**.

The UK has one of the oldest housing stocks on average of any country in the world. 75% of non-domestic buildings were built before 1985, and nearly one third before 1940. We have lower energy efficiency for heating space than many other European countries, even allowing for outside temperature.

We know we need to reduce our emissions in order to combat dangerous climate change and meet the important targets of the

Climate Change Act which take us towards a low carbon future. It's an opportunity for the UK to show leadership in innovation, and the Green Deal and ECO policy is a world first in reducing carbon.

### **Maintaining Security of Energy Supply**

A core function of the government is to ensure that the UK has secure, clean and affordable energy, so that consumers and businesses have reliable light, warmth and fuel when they need it. However, the UK faces a series of risks to energy security, which are often global in nature. Increasing fuel costs means that we can no longer ignore the problems created by the energy inefficiencies of the UK building stock.

The UK is increasingly dependent on fossil fuel imports, with the result that the UK is becoming more exposed to risks from rising global demand, limitations on production and price volatility. These risks are unlikely to diminish in the short or medium term. Between 1998 and 2008, the UK became a net importer of gas and oil. Net exports of 60 Mtoe in 1998 became net imports totalling 30 Mtoe in 2008. This equates to UK production of oil and gas falling from 134% of national demand in 1998 to only 83% of demand in 2008. Recent published projections put this ratio at only 52% in 2020 [3].

Making our buildings more energy efficient would help reduce UK energy consumption and demand. By reducing our demand for energy it would be easier to satisfy our fuel needs; it would reduce our dependence on imports of fossil fuels; and it would reduce our exposure to fuel price volatility.

### **Fuel poverty**

Increasing numbers of families and households are struggling to pay their energy bills and stay warm. We estimate that this year up to 4.1m households will be in fuel poverty in England alone. Recent energy price rises are likely to have pushed even greater numbers

into fuel poverty, potentially damaging households' quality of life and health, which can have wider costs for society. We are committed, in line with our strategy [4], to tackling fuel poverty and supporting vulnerable customers to heat their homes at an affordable cost.

Household energy efficiency is a key factor. Fuel poor families face a choice of living in the cold, experiencing physical and social detriment as a result, or coping with unnecessarily high energy bills, caused by poorly insulated inefficiently heated homes. The cost of the measures needed to improve the fabric of the household often present a barrier to up-take, alongside social barriers which can affect households' ability to engage with commercial offers.

The Affordable Warmth target within ECO, introduced under the Energy Act 2011, will require energy suppliers to assist low income and vulnerable households by providing them with measures they need to stay warm and healthy, helping them to move out of fuel poverty on a sustainable basis. The Green Deal and ECO, particularly the Affordable Warmth obligation, will be a key strand of our strategy to help address the needs of low income and vulnerable customers from 2012 and to make further progress on tackling fuel poverty.

We announced in October 2010 that an independent review should be carried out to take a fresh look at the fuel poverty target and definition. We wish to focus available resources where they will be most effective in tackling the problems underlying fuel poverty. On 14 March 2011 the Secretary of State for Energy and Climate Change, Chris Huhne MP, announced that Professor John Hills had been requested to undertake this review. The Review published an interim report on 19th October 2011 and will publish its full findings in early 2012.

### **Thank you**

It is unusual to **start** a consultation with a thank you to a broad range of stakeholders who have helped shaped our proposals. However,

Green Deal and ECO have been developed collaboratively over the last eighteen months with a wide range of organisations, including:

- Regulators
- Local Authorities
- Energy companies
- Trade bodies
- Consumer groups
- Property owners
- Estate agents
- Finance companies
- Potential Green Deal providers
- Manufacturers
- Assessors
- Installers

In particular, we have benefitted from the work of a number of standing Green Deal Forums and working groups on finance and the energy company collection mechanism. For more information on the work of these groups and how to stay in touch with the Green Deal as it develops, please see the DECC website at:

[http://www.decc.gov.uk/en/content/cms/tackling/green\\_deal/gd\\_stakeholder/gd\\_stakeholder.aspx](http://www.decc.gov.uk/en/content/cms/tackling/green_deal/gd_stakeholder/gd_stakeholder.aspx). We look forward to reading your comments on the proposals in this consultation, which will be used to help refine the statutory instruments.

### **A joint effort**

This consultation has been developed with significant input from the Devolved Administrations in Scotland and Wales with the aim of seeking to ensure that, as far as possible, the UK Government's proposals reflect the unique legislative and social landscapes of

these nations. The Devolved Administrations will continue to be involved in developing our proposals throughout the consultation and during their implementation.

**Note [2]**

See Green Deal and ECO Impact Assessment (23 November 2011)

**Note [3]**

[https://www.og.decc.gov.uk/information/bb\\_updates/chapters/production\\_projections.pdf](https://www.og.decc.gov.uk/information/bb_updates/chapters/production_projections.pdf)

**Note [4]**

The Government has a statutory duty to eradicate fuel poverty, as far as reasonably practicable, in England by 2016 , as detailed in the 'UK Fuel Poverty Strategy' published in November 2001. The strategy document is available via

[http://www.decc.gov.uk/en/content/cms/funding/fuel\\_poverty/strategy/strategy.aspx](http://www.decc.gov.uk/en/content/cms/funding/fuel_poverty/strategy/strategy.aspx)

# Executive Summary

## Our proposals

1. Although cost-effective abatement measures to tackle energy inefficiency are available in both the domestic and non-domestic sectors, we have Found that there are currently a range of market failures and barriers (see Preface) that prevent the uptake of these abatement measures. The Green Deal and ECO framework has therefore been specifically designed to address several of these market failures and barriers. It has also been designed to create additional incentives to drive demand.
  
2. The components of the framework are:
  - a government backed remote information and advice;
  - accredited and impartial advice and assessment of properties;
  - an accreditation framework for measures and products; supply chain analysis, and intervention to help create capacity;
  - an accreditation framework for finance providers;
  - low cost finance for energy efficiency measures
  - support through ECO for owners of hard to treat properties who might otherwise not be able to take up Green Deal finance
  - support through ECO for vulnerable and low income households for whom energy performance improvements would help heat their homes more affordably;
  - consent, disclosure and acknowledgement of Green Deal measures;



- an accreditation framework for installers;
  - provision for collection of finance repayments through the electricity bill and remittance to Green Deal providers or nominated finance providers;
  - partnerships and localised delivery of the Green Deal and ECO to ensure that Green Deal finance and ECO support are seamlessly combined behind the scene;
  - a consumer protection regime to ensure that consumers are protected at every stage through the Green Deal and ECO journey;
  - ECO targets set at a level that will enable delivery against our objectives without overburdening energy companies and bill payers and;
  - monitoring and evaluation to inform future policy development.
3. We are aware that effective oversight of the Green Deal and ECO will be essential to ensure that customers are protected and that the activities of Green Deal participants are monitored to gather useful information on performance that could help improve delivery and help inform future policy. For this reason we are proposing to appoint an independent body to monitor and oversee the activities of the different participants to the Green Deal and an ECO administrator to monitor and oversee the activities of energy companies in achieving their respective targets under the new ECO. Both bodies would be able to recommend Secretary of State action, where necessary.
4. The Green Deal oversight body will have the following functions:
- overseeing the register of authorised Green Deal assessors, products, providers and installers;
  - dealing with applications for authorisation of Green Deal providers;

- managing and monitoring compliance with the Code of Practice;
  - issuing managing the use of the Green Deal Quality Mark;
  - providing up to date details on authorised assessors, products, providers and installers to the advice line in England and Wales and separately in Scotland;
  - managing advice, referrals and redress when something goes wrong; and
  - overseeing the Green Deal Arrangements Agreement (GDAA).
5. The ECO administrator is likely to have functions on the following lines:
- determining which suppliers are within the scope of the obligation and calculating their obligations (in accordance with formulae set out in the ECO Order);
  - producing detailed guidance to energy suppliers on compliance with the Carbon Saving and Affordable Warmth targets within the scheme, including eligible measures and scoring of measures;
  - advising on suppliers' proposed schemes, where requested to do so;
  - checking and confirming activity undertaken by energy suppliers, and banking this activity to count towards each company's carbon and cost saving obligations;
  - auditing suppliers to check appropriate procedures and systems are in place to ensure that work carried out meets the scheme rules and to guard against fraud;
  - investigating breaches and taking enforcement action, where necessary; and
  - management of data and reporting as specified in the Order.

### **Government backed remote advice service**

6. The Government will support a remote advice service which will consist of a telephone line and website. This will provide: independent and impartial information and support to consumers, businesses and the public sector; referral to accredited Green Deal assessors, installers and providers, and act as an entry point for those who may be eligible for extra support through ECO (see Chapter 5). It will also provide advice and referral to assist customers if something goes wrong that cannot be fixed by the Green Deal provider.
7. The advice service will be staffed with appropriately trained advisors who will also provide advice on wider energy efficiency topics e.g. Renewable Heat Incentive and Feed in Tariff. The Green Deal Code of Practice will require all professionals operating under the scheme to inform their customers about this government backed remote advice line and website. Any information or promotional materials supplied around the Green Deal must include the contact details of this independent advice service.

### **Accredited advice and assessment of properties (Chapter 1)**

8. A qualifying assessment (hereafter referred to as a Green Deal assessment) of the fabric and use of a building (domestic and non domestic) is the entry point into the Green Deal. It will not be possible to enter into a Green Deal finance arrangement or install any measure under the Green Deal banner without a Green Deal assessment. The Green Deal assessment is designed to ensure that measures installed in a building are recommended as the most suitable for that building and can improve the energy and thermal performance of that building enough to be eligible for Green Deal finance. The assessment process also helps identify households that may be eligible for further support under the proposed ECO Affordable Warmth obligation.

9. A Green Deal assessment can only be carried out by an authorised Green Deal advisor, who for the purposes of the Energy Act and this document is referred to as a Green Deal assessor. To be authorised as a Green Deal assessor one would need to:
- meet the training and qualification requirements for Green Deal Advisors, currently in development.
  - be a registered member of a certification body which has been accredited by the government's chosen accreditation body, United Kingdom Accreditation Service (UKAS).
  - be certified by their certification body against the relevant standards and requirements set out in the Green Deal Code of Practice

Continued authorisation would be contingent on all Green Deal assessors continuously complying with the relevant parts of the Code of Practice and quality assurance requirements put in place by their certification scheme.

10. The Green Deal assessment tool will consist of an improved EPC. This will be based on an improved reduced data Standard Assessment Procedure methodology (RdSAP) in the domestic sector and building on existing Simplified Building Energy Model methodology (SBEM) in the non-domestic sector. This document, along with a bespoke occupancy assessment and a summary report will make up the Green Deal Advice Report (GDAR). GDAR produced will be quality assured in line with certification requirements.
11. We expect that any measure promoted and installed by suppliers under the ECO Carbon Saving target would have had a prior Green Deal assessment which had identified the measure as appropriate for the property. We are also consulting on whether we should make provision for rare occasions which fall outside the typical scope of RdSAP, where a slightly different

assessment process may be appropriate. In these circumstances, we propose that the ECO company would need to satisfy the scheme Administrator that a different assessment method was appropriate.

12. We would particularly welcome views on whether our approach to the assessment of non-domestic buildings is comprehensive and captures all non-domestic buildings and businesses for which Green Deal might be relevant.

### **Measures, products and systems (Chapter 2)**

13. The Green Deal and the Energy Company Obligation (ECO) will work together to drive the installation of energy efficiency improvements, commonly referred to as "measures". The focus of each will, be different and, as a result, so will the measures falling within their respective scopes.
14. A measure is a type of energy efficiency improvement made to a property, e.g. cavity wall insulation; a product is the actual product installed (which must fall with a category of measure), e.g. ABC plc Basic Cavity Fibre; and a system is a measure whose component parts are often assembled on site, e.g. external wall insulation systems. A measure must be recognised as being capable of improving the energy performance of a building before it can be considered for eligibility under the Green Deal and ECO. Only products which fall within a category of qualifying measure and are recommended as part of the Green Deal assessment can be installed with Green Deal finance or receive ECO support. A draft list of the qualifying energy efficiency improvements can be found at Annex A. The amount of Green Deal finance available for a measure will depend on the total estimated fuel bill savings it can generate: this is the Green Deal's Golden Rule principle. We will encourage customers to take up packages of recommended Green Deal measures.

15. The "Carbon Saving Obligation" within the ECO is designed to focus primarily on supporting those households who live in hard to treat homes and cannot fully fund energy efficiency improvements through Green Deal finance alone. Solid wall insulation is the key technology which we see ECO supporting. We are proposing that other measures under the carbon saving obligation will only be classified as eligible if they are promoted and installed as part of a package that includes solid wall insulation. Views are invited on these issues and in particular the policy for other measures for hard-to-treat properties.
16. Under ECO's Affordable Warmth obligation **[5]** we are proposing to class as eligible any measure which will improve the thermal performance of a property, measured through a reduction in the expected cost of heating space or water in the property. We will be interested in respondents' views on whether minimum requirements should apply to ensure major insulation and heating measures are delivered. Suppliers are expected to deliver primarily heating systems and basic insulation measures under the Affordable Warmth Obligation.
17. Products and systems installed under the Green Deal or ECO must be quality assured. Only products that meet the requirements of the Green Deal Code of Practice can be installed. We propose to put in place a process from summer 2012 for manufacturers and suppliers to confirm that their products comply with the Code and are 'Green Deal ready'. Such products and systems will be listed by the Green Deal Oversight Body, who will act as the Green Deal administrator and oversee all activities under the Green Deal. A sample number of registered products will be spot-checked by the Oversight Body for compliance with the Code and could be struck off the list if they are found not to comply.
18. We particularly welcome views on the eligibility of measures specifically relevant to the non domestic sector, which are not

already listed in the draft Green Deal (Specified Energy Efficiency Improvement and Qualifying Energy Improvements) Order [6]. Please note that those which are recommended during the consultation process must be proven to be able to improve the energy performance of buildings. Other key issues we are considering are:

- how to best ensure that innovations in new measures and improved product performance can be recognised in the measures framework;
- whether the ECO carbon saving target should focus exclusively on solid wall insulation or should support other similar measures,
- whether we should allow any measure under the ECO affordable warmth target as long it allows eligible households to heat their homes cost effectively.
- whether product performance should be taken into consideration in the Green Deal financing mechanism.

## **Green Deal Provider and the Green Deal Plan (Chapter 3)**

19. The Green Deal provider is a key participant in the Green Deal journey as they provide the finance and arrange for the Green Deal measures to be installed. They are also the ongoing first point of contact for customer service enquiries after the Green Deal is complete. In order to operate as a finance provider under the Green Deal, a company must be authorised. Authorisation will be granted by the Secretary of State through an application process that will be managed on his behalf by the Green Deal Oversight Body. To become authorised as a Green Deal provider a company must:

- sign up to and comply with the Green Deal Code of Practice;
- sign up to the Green Deal Arrangements Agreement (GDAA) [7] between Green Deal providers and electricity supplier;

- hold a valid Consumer Credit Act 1974 **[8]** (CCA) licence (if they wish to offer Green Deal plans for domestic properties) ;
  - make appropriate provisions for protection for customers in the event the Green Deal provider becomes insolvent or loses its licence;;
  - establish an appropriate independent conciliation process to help resolve customer complaints;
  - pay the required fees to the Oversight Body for Green Deal authorisation.
20. Once the customer has their Green Deal assessment completed by an authorised Green Deal assessor, they will be able to take the outcome of the assessment to any authorised Green Deal provider for a quote for the finance and installation of one or more of the recommended measures. The Green Deal provider's quote for installing these measures will include the costs of the measures themselves, installation, finance and any other associated costs.
21. The Green Deal plan is the contract that sits between the Green Deal provider and the improver and bill payer (if different) at the property. The plan sets out the financial terms of the agreement such as the amount and duration of the instalments, and the applicable interest rate as well as any further obligations on the Green Deal provider or customer.
22. Green Deal plans for domestic properties will be regulated consumer credit agreements under the CCA and will therefore need to comply with all relevant CCA provisions. In addition, the Green Deal Provider will have to comply with other consumer protection legislation such as the Sale of Goods Act, the Consumer Protection from Unfair Trading Regulations (CPRs) and the Unfair Terms in Consumer Contracts Regulations (UTCCRs). Green Deal Providers wishing to provide Green



Deal finance under regulated consumer credit agreements will need to be licensed under the CCA in addition to being authorised under the Green Deal framework. CCA licences will also be required by any person engaged in credit brokerage or other ancillary credit activities in relation to CCA regulated Green Deal plans, with the exception of energy suppliers insofar as they are merely collecting Green Deal payments or debts on behalf of Green Deal providers.

23. We would welcome views on the terms of the Green Deal plan, particularly on whether the length of a Green Deal plan should be limited to the guaranteed lifetime of the measures installed and the conditions around the early repayment of Green Deal finance.

### **The Golden Rule (Chapter 4)**

24. The Golden Rule is the fundamental principle underpinning the Green Deal. It limits the amount of Green Deal finance a provider can offer to the estimated energy bill savings resulting from the installation of measures under the Green Deal plan. The Golden Rule principle helps ensure that a Green Deal customer can reasonably expect their overall energy bill to be no higher than they would have otherwise been without a Green Deal, provided their energy consumption pattern does not increase.
25. The golden rule is important for two reasons. Firstly, it helps ensure that Green Deal customers should not face higher energy bills and therefore do not run into difficulties in paying. Secondly, it assures investors that the risk of default on Green Deal payments should be similar to the existing relatively low default rate on electricity bills.
26. The golden rule is based on a snapshot of estimated energy bill savings taken at the outset of the Green Deal plan. Customers should, however, have a reasonable expectation that the charge

should not exceed savings throughout the lifetime of the plan and we are therefore proposing to place limitations on how the charge can vary in future years. Indeed, many plans will involve fixed amounts if the interest rates are fixed. In addition, we are setting out what can be included in a Green Deal plan as part of the Green Deal finance to ensure that Green Deal finance is used for the installation of energy efficiency measures and associated costs, as intended. We are proposing to place a limit on any cash advancement promotional offers a customer may receive.

### **Delivering equitable support and tackling fuel poverty through the Green Deal and ECO (Chapter 5)**

27. The Green Deal and ECO have a significant role to play in tackling fuel poverty by helping households to improve the energy efficiency of their homes and reduce their heating costs. ECO's Affordable Warmth obligation has been designed to ensure that specific assistance can be provided to those households most in need of heating and insulation improvements. The proposed eligibility criteria for Affordable Warmth will ensure that support is provided to low income households who are vulnerable to detrimental health impacts of living in cold homes, and do not have access to alternative means of support.
  
28. We recognise that a referrals system could help energy companies identify those eligible for support under the ECO Affordable Warmth obligation. We intend to pursue a voluntary agreement with companies for agreeing the terms on which referrals provided by Government would be followed up. Referrals of customers who have indicated that they would like to receive measures could be generated during the Green Deal assessment process or passed on from the Government backed independent remote advice service. Should it not be possible to reach a voluntary agreement, we do have the option to direct companies to provide assistance to specific households [9].

29. As suppliers are likely to recover the cost of delivering the ECO from consumers' bills, it is important to consider how the benefits of the obligation will be distributed, to ensure the scheme is delivered with a reasonable degree of equity. See section 5.3 for further discussion of equity under ECO.

### **Consent, disclosure and acknowledgement (Chapter 6)**

30. Before the Green Deal can go ahead, relevant consents must be obtained for the measures to be installed and the Green Deal charge to be included in the electricity bill for the property. Consent to the charge will be required from both the electricity bill payer and the owner of the property (if different). Who must consent to the measure will vary depending on the property and the type of measures being installed, but may include the owner, the freeholder, and local planning authority. A redress framework is provided for circumstances where the correct consents to the installation of the measures were not obtained. Once Green Deal measures have been installed and signed off, the Green Deal provider will give the customer a Green Deal plan document and a new EPC.
31. As a property changes hands over time, responsibility for paying the Green Deal charge also changes. We intend to facilitate this change through disclosure of the Green Deal Plan via the provision of the EPC to potential future bill payers. The EPC will contain key financial information about the Green Deal. So long as the existence of a Green Deal has been properly disclosed to a new bill-payer, the obligation to pay the Green Deal automatically transfers to them.
32. Disclosure should happen as soon as possible, but always before the potential bill payer has entered into a binding agreement to take on the property. We are building on the EPB regulations for disclosure of the Green Deal, to ensure that a potential bill payer sees the details of the Green Deal on the property in sufficient time to influence their decision. In most

cases, this will be at the point that someone arranges to view the property.

33. In addition to disclosure, the person who is, for example, selling or letting out that property will need to obtain an acknowledgment in writing that the person taking on the property is aware of their responsibility to pay the Green Deal and the terms of the plan. We envisage this being a standard term in lease and sale agreements, or associated documents that form part of those agreements, and we are working with the Law Society to determine the most effective way to do this.
34. It is possible that an incoming bill-payer may wish to challenge whether they had the Green Deal charge properly disclosed. In these circumstances the proposal is that, they must continue to make payments while an investigation is undertaken and representations made. The customer can challenge their obligation to pay the Green Deal charge for non-disclosure reasons, or because the terms of the Plan were inaccurately disclosed. If appropriate, the Secretary of State has the power to order the Plan be cancelled, order refund of Plan instalments following non-disclosure and order the original bill-payer who failed to disclose the Plan to compensate the Green Deal provider for the costs of early repayment.
35. We would welcome views on whether our requirements for consent to both the Green Deal charge and measure provides adequate protection for parties to the Green Deal and whether our approach to consent breaches is equitable. It has been brought to our attention that the multi-party consent requirement to the Green Deal may act as a barrier to entry into Green Deal for certain types of properties. For this reason we have included a call for evidence on barriers to consent and welcome wider views on the likelihood of barriers resulting from the need to secure consent to the Green Deal charge or measure, supported by relevant evidence stakeholders feel should be taken into account. We are also keen to understand the scope

for voluntary, non-interventionist solutions to consent barriers and welcome ideas and views on this.

### **Accredited Installers (Chapter 7)**

36. Once a property has had an authorised Green Deal assessment, the finance for measures has been approved and the necessary consents obtained, installation is the next step. In order for the Green Deal and ECO to achieve their objectives, it is essential that installations are carried out to a high standard by trained, qualified and certificated installers, hereafter referred to as 'authorised' Green Deal installer.
37. We are proposing to make it mandatory for an installer to be authorised to operate under the Green Deal and ECO and to have been certified to have met a new Green Deal installer standard. Installers will need to carry the Green Deal Quality Mark, take full responsibility for the quality of their work and comply with the relevant requirements set out in the Green Deal Code of Practice.
38. The British Standards Institute (BSI) is currently developing the Green Deal installer standard with the sector, and this is scheduled to be published in early 2012. The installer standard will bring together existing standards in one place to ensure greater clarity and consistency of approach, as well as robust levels of monitoring and compliance.
39. As with Green Deal assessors, we are proposing to implement the Green Deal installer standard through certification bodies with a view to minimising burdens and costs by using existing structures. To ensure a robust and consistent application of the new standard, we have appointed UKAS as the independent third party body that will accredit the installer certification bodies. Once accredited, certification bodies will be responsible for ensuring installers meet the Green Deal standard and comply with the Code of Practice.

40. We are proposing that all Green Deal and ECO installations be underpinned by a comprehensive scheme of insurance backed guarantees, warranties and redress procedures should anything go wrong.

### **Payment collection (Chapter 8)**

41. A fundamental component of the Green Deal is that repayments should be collected through energy bills. This allows the charge to transfer automatically and allows us to build on the existing protections which cover vulnerable consumers when they run into difficulties paying their bills. The basic principle we have adopted is that the payment collection mechanism ought to be an integral part of the overall energy bill and incorporate all the existing requirements and protections. To help ensure that the cost of financing the Green Deal is as low as possible, repayments will be collected from the customer via a charge on their electricity bill. This is operationally simpler because almost all households are on the electricity grid whereas many houses are off the gas grid. It also helps protect vulnerable consumers and is designed to ensure that the risk of non-payment of the Green Deal charge is as closely aligned as possible to the historically low risk of non-payment.
42. Once payment has been received from the customer, suppliers will be required to pass on the monies on a **pari passu**, or proportional, basis to the Green Deal provider. The Green Deal repayments will appear on the customer's electricity bill as a separate charge. In most cases, the frequency at which a customer receives their electricity bill or statement will not be affected. Customers with prepayment meters will also be able to benefit from the Green Deal with their charge collected via the arrears function in the current generation of meters. We are proposing to use the annual energy statement received by domestic customers to convey information on the total amount of Green Deal charges that are due to be paid over the next year, and the likely energy savings as reported in the Green

Deal assessment. This will be in addition to the annual credit statement provided by the Green Deal provider.

43. As part of the Government's commitment to promoting competition in the energy retail market, we are proposing to introduce an 'opt-in' for smaller electricity suppliers. That is, electricity suppliers with fewer than 250,000 domestic and non-domestic customer accounts will not be obliged to collect the Green Deal charge. If they decide for commercial reasons they want to opt in to the Green Deal collection mechanism, they will be able to do so.
44. We are proposing that all existing obligations in relation to debt and disconnection placed on electricity suppliers via licence conditions be extended to cover the Green Deal charge in order to protect vulnerable consumers.

### **Delivering the Green Deal and ECO (Chapter 9)**

45. We expect the Green Deal and the ECO will frequently work in partnership. For example, measures that save a large amount of carbon and deliver significant energy efficiency benefits, such as solid wall insulation, are currently too expensive to be deliverable within the Golden Rule alone [10]. Green Deal providers will therefore be incentivised to seek out contributions towards a measure from suppliers seeking to fulfil their obligations under ECO. This is likely to bring the net cost of the measure within the terms of the Golden Rule, thereby allowing a Green Deal provider to put a more attractive offer to a customer and increase the number of Green Deal offers they are able to make.
46. We propose that energy suppliers receive credit for the full carbon or cost saving benefits of each measure which they are involved in promoting and installing. We expect this to create an incentive for energy suppliers to find Green Deal providers with whom they can develop offers for measures which rely on a

mixture of ECO and Green Deal finance. Since energy suppliers will want to meet their obligation at as low a cost as possible, they will be incentivised to leverage in as many other types of funding as possible. In the case of the Carbon Saving obligation this is primarily expected to be Green Deal finance, though other sources of funding are not excluded. Allowing credit for the full carbon savings in this way also creates an incentive to promote packages which qualify for ECO points over those which do not.

47. It will be crucial to an open and competitive energy efficiency market that access to ECO support is as transparent, efficient and cost effective as possible. To do this we propose the introduction of a market based solution, i.e. brokerage, to help energy suppliers make a significant proportion of their ECO support fairly available to those delivery agents who can commit to delivering in a cost effective way.
48. The role of local authorities and other local partners is also likely to be crucial in ensuring effective and intensive delivery of the ECO and Green Deal in particular areas. We believe that many natural incentives will encourage effective partnership to form, and no particular regulatory requirements are needed. The Big Society agenda also has the potential to support local partnerships.

### **Consumer protection (Chapter 10)**

Consumer protection and business confidence in the Green Deal will be central at every stage. Consumers will be protected throughout the Green Deal process. This chapter gives an overview of those protections, which are covered in more detail in the relevant chapters. If something does go wrong for the customer, clear and accessible mechanisms to enable redress will be vital to underpin these protections.



There are two main areas where something could go wrong with a Green Deal. The first is when there is a problem with the installation, the measures installed or the terms of the Green Deal plan. In both cases the Green Deal Provider is responsible for trying to put the problem right. If required, Green Deal providers will compensate the customer, and seek redress from their installers or assessors through commercial contracts. If the Green Deal provider, assessor or installer is found to breach the conditions of the Green Deal authorisation scheme, including the code of practice, the Secretary of State can impose sanctions.

The second is where customers of Green Deal Providers are responsible for disputes, when they themselves have failed to meet their obligations. If people haven't met these obligations, the Secretary of State can impose sanctions against them and ensure the person who is made worse off can seek redress.

When the Secretary of State imposes a sanction in relation to non compliance with Green Deal obligations, there will be a right to appeal against it.

### **Setting the ECO and target metrics (Chapter 11)**

49. The overall ambition level of the ECO, when looking at its twin objectives of Carbon Saving and Affordable Warm combined, will be set at a level equating to £1.3 billion per annum, and this will be translated into obligations for each ECO supplier under each objective over the course of the life of the scheme. The two objectives of the ECO differ from each other such that each will require its own target metric. It is proposed that:
- the overall Carbon Saving target will use a metric based on annual tonnes of CO<sub>2</sub> reductions; and that this should be set at a level of 0.52MtCO<sub>2</sub>/yr by March 2015 (under a scenario corresponding to 1.95MtCO<sub>2</sub>/yr in 2022)
  - the overall Affordable Warmth target will use a metric based on reductions in lifetime heating costs; and that this should be set at a level of £3.4 billion reduction in notional

lifetime costs of heating for low income and vulnerable households by 2015.

50. Suppliers will gain credits towards their obligations for each package of eligible measures **[11]** installed. Property-specific scores will be calculated through a similar SAP or RdSAP methodology used for Green Deal assessments with scores reflecting the modelled reductions in carbon and heating cost reductions.
51. We propose that the obligation should be placed on large energy suppliers, defined as those with over 250,000 gas and electricity customer accounts. This will avoid introducing barriers to the market for smaller energy companies expecting to grow.
52. A key issue under ECO is determining the size of the overall target. Greater levels of ambitions under ECO mean greater costs to energy companies and by extension greater costs to all bill payers. The proposal put to consultation represents our assessment of the optimum balance to be struck in this respect. Within this, we would welcome views on the proposed metrics and scoring mechanism, including whether ECO scores should be expressed, and targets set, in terms of annualised or lifetime savings of measure. We also encourage views on whether a move to a supply-volume basis for calculating obligations, rather than a customer account basis, would have beneficial effects. We would also welcome any evidence from consultees that would affect the estimation of the costs and benefits of the targets proposed, as set out in the summary sheet of the Impact Assessment.

## **Green Deal Monitoring and Evaluation, and ECO Administration (Chapter 12)**

53. We propose to legislate to ensure that we have access to the information we need in order to monitor and evaluate the operation and effect of the Green Deal and ECO policies.
54. We are proposing that an action which an energy company intends to count towards their obligation has to be reported to the Administrator in the month following the installation being completed. Suppliers will also be required to provide information to the Secretary of State on costs incurred by energy suppliers in meeting their obligations, although we will not have powers to require information about how funds have been raised. We also propose to ensure annual public reports on progress of the scheme are produced.
55. Ofgem is the default Administrator, but the Secretary of State now has the power to appoint another person to be the Administrator. Efficient and effective administration of the scheme will help to ensure its smooth running, minimising overhead costs to energy suppliers and, in turn, costs passed on to consumers. The Administrator will monitor compliance with the scheme rules, ensuring carbon and energy bill savings are genuine.
56. For present and past obligations, including CERT and CESP, the role of Administrator has fallen to Ofgem in each case. However, the May 2011 DECC Delivery Review concluded that delivery of new programmes should be led by DECC unless there is a clear case for placing delivery with a particular body, with outsourcing where appropriate **[12]**.
57. Consultees are therefore invited to give their views on the following two options for who should administer the ECO:

- Option i - Ofgem is the Administrator.
- Option ii - DECC is appointed Administrator, but outsources technical functions.

### **Associated documents: key issues**

58. **Code of Practice for assessors, installer and providers:** we welcome views on the clarity and robustness of the Green Deal code of practice, which sets out the criteria that assessors, installer, providers and products and systems must adhere to in order to be able operate under the Green Deal banner. Specifically we are looking for comments on the:
- authorisation requirements for assessors. installers and providers.
  - quality assurance, monitoring and complaints handling procedures
  - requirements for the provision of insurance backed warranties.
59. **Licence modifications, industry agreement changes and the Green Deal Arrangements Agreement (GDAA):** We propose to establish the payment collection and remittance mechanism through a combination of changes to the electricity supply licence, gas supply licence, electricity distribution licence, the Master Registration Agreement and the Distribution and Connection Use of System Agreement and the establishment of a GDAA between electricity suppliers and Green Deal providers. We welcome comments on the draft licence modifications, draft industry agreement changes and the draft GDAA.
60. **Green Deal and ECO Impact Assessment (IA) [13]:** the impact assessment combines a range of evidence and assumptions. We are keen to receive responses to the consultation that strengthen the evidence base for the Green

Deal and ECO to enable the estimate of the policies impacts to be refined. We would welcome further evidence on energy efficiency measures' deployment potential, and the likely costs and benefits associated with these, as well as other impacts associated with detailed policy decisions around ECO and the Green Deal.

61. In additions to these specific issues and questions asked throughout the consultation document and the impact assessment, we also welcome views on any aspect of our proposals.

### **Note [5]**

In the accompanying draft ECO Order the "Affordable Warmth obligation is referred to as the "home heating cost reduction target" or the "home heating cost reduction obligation". The former is the overall target set for all suppliers whilst the latter is a supplier's individual component of the overall target. See articles x and y of the draft order.

### **Note [6]**

See a copy of the order at

[http://www.decc.gov.uk/en/content/cms/consultations/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx)

### **Note [7]**

A copy of the GDAA and the Green Deal Code of Practice can be found here:

[http://www.decc.gov.uk/en/content/cms/consultations/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx)

### **Note [8]**

See <http://www.offt.gov.uk/about-the-offt/legal-powers/legal/cca/>

**Note [9]**

See the new subsection (5)(bc) inserted into both section 33BC of the Gas Act 1986 and section 41A of the Electricity Act 1989 by section 65 and 66 of the Energy Act 2011.

**Note [10]**

For example, SWI that delivered an annual bill saving of £320 would be able to raise £3,730 in Green Deal Finance (based on a 7% interest rate and 25 year repayment term). If the SWI installation cost around £6,000, ECO support of £2,270 would be need for the measure to meet the Golden Rule.

**Note [11]**

Referred to in the draft ECO Order as a "qualifying action."

**Note [12]**

<http://www.decc.gov.uk/assets/decc/about%20us/1656-delivery-review.pdf>

**Note [13]**

See copy of the IA at  
[http://www.decc.gov.uk/en/content/cms/consultations/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx)

# Catalogue of consultation questions

## Chapter 1: Assessment

1. Do you feel the proposed requirements on Green Deal assessors set out in the main body and at Annex A of the Code of Practice are clear and robust enough to support the Green Deal assessment?
2. Can you think of any requirements that Green Deal assessors will need but that may not be covered by the suggested approach, combining National Occupational Standards (NOS) and Accreditation of Prior Experiential Learning (APEL)?
3. In proposing to allow for the market to determine payment of assessors and cost of assessment, are there any further requirements we should be placing on assessors or providers in relation to (a) payment of assessors, (b) the cost of the assessment, or (c) declarations from the assessor?
4. Do you agree with our proposed approach to third party assurance and enforcing compliance for those providing Green Deal assessments?
5. Should the current EPC validity period for property transactions be used for Green Deal purposes or is a shorter validity period more likely to meet the needs of the Green Deal process?
6. Do you think that the approach to identifying and assessing non-domestic buildings, based upon the requirements and tools for Energy Performance Certificates, will capture all non-domestic buildings and business sectors for which the Green Deal is relevant?

7. Are there alternatives to the simple approach to providing running cost savings in the non-domestic assessment that we should consider?

## **Chapter 2: Measures, products and systems**

8. Which measures should be added to the list of qualifying measures in Annex A for non-domestic properties, and what evidence is there that these measures improve the energy performance of buildings?
9. Will the existing Appendix Q process, which will allow new measures to be added to the Green Deal assessment tools, and to the list of qualifying improvements, support innovation in the market and how could the process be improved? In particular, what support could SMEs benefit from?
10. What innovative ways can the government use to encourage uptake of a package of measures and could our existing proposals support this.
11. Please provide views on the potential inclusion of hard-to-treat cavities (and potentially other measures of a similar type), and proposals for how properties might be accommodated in the ECO without excessive complication or perverse consequences.
12. We propose that the ECO Carbon Saving obligation should be achieved primarily by promoting and installing solid wall insulation. Should any other measures be supported, and how would these be defined?
13. For the ECO Carbon Saving obligation, we propose that any other carbon saving measures should only be eligible when delivered as part of a package with solid wall insulation. Do you have any suggestions for the criteria by which eligibility within



packages should be restricted, explaining why you think any such restrictions should be included?

14. We propose that **any measure** should be allowed under the Affordable Warmth obligation, provided it allows eligible households to heat homes more affordably. If you disagree, or feel there are risks to this approach, please explain and set out any restrictions you believe should be put in place.
15. Do you have any suggestions for whether and how we should score, boiler repairs under the Affordable Warmth obligation, such that where repairs are more cost-effective than replacement systems, without significant impact on efficiency, these can be promoted?
16. We are proposing that any heating measures should be allowed under the Affordable Warmth obligation, including for households off the gas grid, and extra incentives should not be put in place for air or ground source heat pumps. Do you have any evidence to bring to bear on the performance of heat pumps to improve the ability of vulnerable households to heat their homes affordably?
17. To what extent can existing product lists, such as the list of Microgeneration Certification Scheme compliant products be used as the starting point for the Green Deal Products list?
18. Do you agree that allowing enhanced product performance to be recognised in the Green Deal financing mechanism is useful? Do you have any specific views on how this approach could be implemented?

## **Chapter 3: Green Deal provider and plan**

19. Are surety bonds the most effective, efficient way to ensure customers are protected in the event a Green Deal provider becomes insolvent or has their licence revoked. What should be the minimum requirements of a Green Deal surety bond be and how much should Green Deal providers be required to insure?
20. Does our proposed approach to authorisation and oversight of Green Deal providers ensure the necessary standards of consumer protection and proportionate redress without creating barriers to entry into the market?
21. How much weight should be given to the argument for placing financial responsibility for late payment with the payee?
22. What are your views on the government's proposal of requiring Green Deal providers to offer insurance-backed warranties for the entire repayment period? Please provide evidence to support your views.
23. What are your views on the government's proposals regarding changes to the Consumer Credit Act for Green Deal Plans?
24. What are your views on the Government's proposals regarding consumer protections for those Agreements which do not fall within the scope of the CCA?

## **Chapter 4: The Golden Rule**

25. Is it necessary to afford consumers additional protections and extra comfort where they take out green deal plans in excess of £10,000? If so, is the proposed protection of reducing the saving estimate appropriate and is the 5% figure the correct adjustment?

26. Do you agree with the approach to the Year One charge that can be used in a Green Deal Plan?
27. What would be the benefits of allowing Green Deal providers to vary the interest relating to a Green Deal plan in line with the most appropriate component of the fuel and light index?
28. Do you agree with the proposed approach to how the charge can vary in subsequent years of a Green Deal Plan?
29. Is £150 or 5% of the total Green Deal package (whichever is the least amount) an appropriate limit on the amount of cash incentives which can be offered by Green Deal providers?
30. Do you agree our proposed approach to the Golden Rule principle strikes the right balance between ensuring the necessary consumer protection mechanisms are in place whilst not unduly stifling ambition and investment in the Green Deal?

## **Chapter 5: Delivering equitable support and tackling fuel poverty through the Green Deal and ECO**

31. Do you agree that eligibility for Affordable Warmth measures should be restricted to households who are in receipt of the benefits and tax credits similar to the CERT Super Priority Group and who are in private housing tenures?
32. We propose seeking a voluntary agreement with ECO obligated companies as to how they commit to following up referrals. Do you have any suggestions as to what this commitment should consist of?
33. Do you have any evidence or views to put forward on whether the benefits of ECO as a whole, or of the Carbon Saving

obligation within it, are or are not likely to be distributed equitably to all income groups? If so do you think regulatory intervention is necessary to ensure a more equitable pattern of delivery and, in particular, do you have any comments on the likely effectiveness of setting a 'distributional safeguard' as a means of achieving this?

## **Chapter 6: Consent, disclosure and acknowledgement**

34. Do you think the framework for consent for the Green Deal charge and measures provides effective protection for the parties involved?
35. What is the best way to draw the future bill payer's attention to the acknowledgement wording?
36. What will property professions need to do to assist with the effective discharge of the disclosure and acknowledgement obligations? If property professionals assume a duty to discharge these obligations on behalf of property owners, should they face the same consequences as the owners, where they fail to do so?
37. Are there any other situations in which disclosure and acknowledgement should be required which might fall outside the proposed framework?
38. Do you think 30 days after receiving the first electricity bill is an appropriate time limit within which someone can dispute disclosure of the Green Deal?
39. Do you agree with the Government's approach to allowing Green Deal providers to require early repayment in certain circumstances?

## **Chapter 7: Installation**

40. Are there any government backed and accredited scheme standards which operate at present (in addition to the Microgeneration Certification Scheme and Gas Safe), that could be considered as meeting the new Green Deal standard already?
41. It is not yet clear what the accreditation requirements for GD/ECO will be and how they will impact on incumbent firms in the market. Further work is being carried out to understand and quantify the nature of the impact of these, particularly for those firms that are micro-businesses. We welcome views from incumbent CERT installers on what the potential implications of changes to accreditation would be.

## **Chapter 8: Payment collection**

42. Do you agree with our proposed debt thresholds? If not, please suggest alternative thresholds with appropriate supporting evidence.
43. Do you believe that electricity suppliers as well as Green Deal providers should have the right to prevent customers from taking out a Green Deal finance arrangement if these thresholds are exceeded? Please give reasons for your answer.
44. Do you think additional infrastructure is required to facilitate payment remittance?
45. Do you agree with the proposed 72 hour period for the transfer of payments? If not, please suggest an alternative with appropriate supporting evidence.

46. During this 72 hour period, should the electricity supplier maintain an account balance at least equal to the total value of Green Deal payments being held?
47. Do you have an alternative suggestion for reducing the burden on smaller suppliers that would not lead to a potential reduction in the number of electricity suppliers available to Green Deal customers?
48. Do you agree with the proposed threshold for the smaller supplier opt in? If not, please suggest an alternative threshold with appropriate supporting evidence.
49. Do you agree with the proposed level of the annual administration fee? If not, please give reasons for your answer and, if relevant, provide additional evidence of likely cost impacts.
50. Do you agree with retaining the existing £200 arrears limit (including Green Deal repayment arrears) for prepayment customers with a Green Deal plan? If not, please suggest an alternative limit with appropriate supporting evidence.

## **Chapter 9: Delivering Green Deal and ECO**

51. Do you agree that stipulating strict regulatory quotas for partnering with specific types/numbers of third party delivery agents might be unduly burdensome, and the development of a brokerage model may be a more effective means of achieving the desired outcome?
52. Do you agree that it is desirable that energy suppliers should have to fulfil some or all of the (carbon) obligation by spending money promoting measures through those organisations who are able to provide the most cost effective delivery options?

53. Do you agree that we should seek a firm commitment from the ECO suppliers that they will use brokerage for a defined and significant percentage (e.g. 50%) of their obligation? If so, what level do you consider this should be?
54. Do you have any further comments on the detailed design of a brokerage, or any alternative mechanism that ensures the most cost effective delivery?

## **Chapter 10: Consumer protection**

55. Do you agree that the Energy Ombudsman should have a role in helping customers secure redress in the Green Deal? If yes, what further powers will the Energy Ombudsman need to investigate compliance by Green Deal Providers and householders? If no, please explain why not.

## **Chapter 11: Setting the ECO and target metrics**

56. Do you agree that targets of 0.52 million tonnes of CO<sub>2</sub> per year saved, and £3.4 billion reduction in notional lifetime costs of heating by March 2015 represents the correct balance between ensuring high levels of delivery and minimising costs that could potentially be passed through to consumers?
57. Do you agree with the estimated costing of this scale of ECO at £1.3bn p.a. as set out in the Impact Assessment? Do you have additional evidence on the costs and benefits of the proposed targets for consideration in further analysis?
58. The division of the overall ECO between energy companies could be based on share of customer accounts, or sales volume. Do you have a preference as to which metric should be

preferred, taking into account possible impacts on distributional equity? Please provide evidence for your views.

59. We propose that savings calculated through the SAP-based Green Deal Assessment methodology be used as the basis for ECO targets and scoring. Can you envisage any undesirable or inadvertent effects, that this approach might result in? If so, please provide details and evidence.
60. Should targets and scores for the Carbon obligation and/or the Affordable Warmth obligation be expressed on the basis of the annualised savings of measures or the lifetime savings?

## **Chapter 12: Green Deal monitoring and evaluation and ECO administration**

61. Is there other information the Government should collect in order to enable effective monitoring, evaluation and reporting on the performance of the Green Deal and ECO?
62. Should DECC be responsible for administering the ECO, with technical functions outsourced to the private sector, or should Ofgem administer the scheme? Please provide evidence to support your views.

## **General comment**

63. In addition to the specific questions asked throughout this consultation document, do you have any other comments on any aspect of our proposals?



# Chapter 1: Assessment

## Summary of Chapter:

A Green Deal assessment (referred to as a 'qualifying assessment' in the regulations) will act as the gateway to the Green Deal. It is required before entering into a Green Deal plan for finance or installing measures under the Green Deal banner. The assessment will be designed to ensure that only measures that are suitable for a particular building are recommended, and that those measures that are likely to be eligible for finance can be easily identified and consumers advised appropriately.

The assessment will be carried out by assessors who have demonstrated that they meet the requirements of the National Occupational Standards (NOS) developed by Asset Skills and agreed with industry and builds on the skills and knowledge currently required of assessors who produce Energy Performance Certificates (EPCs). We will also ensure that authorised assessors can be identified through a registration process.

Certification bodies will certify that an individual assessor or company employing multiple assessors is capable of providing the Green Deal advice and assessment to an agreed standard. To maintain consistent, high quality Green Deal assessments an independent organisation will verify the operation of certification bodies. The United Kingdom Accreditation Service (UKAS) has been appointed to carry out this function.

The assessment in both domestic and non-domestic properties will take into account the physical characteristics of the property and the way occupants are using energy. In the domestic sector the assessment will comprise an improved EPC assessment and in the non-domestic sector the assessment will build upon the EPC assessment. Both will include an occupancy assessment of energy use by the current occupier.

The Green Deal oversight body will act as the managing organisation for the participants in the Green Deal scheme across Great Britain. It will have a range of functions e.g. holding a register of qualified and authorised assessors. The oversight body will manage the:

- **Code of Practice** – containing a set minimum requirements for assessors and their certification bodies.
- **Scheme Standards** – against which assessors and their certification bodies will be required to operate when carrying out and monitoring the delivery of Green Deal assessments.
- **Quality Assurance** – of assessor certification bodies and those they certify

There will be strong redress arrangements in place to protect consumers should anything go wrong.

## 1.1 Introduction

1. Householders and businesses must be able to make well informed choices about the measures to install in their property if they are to have the confidence to take up the Green Deal. Indeed, consumer research carried out by DECC showed that this assessment process was one of the most valued aspects of the proposed Green Deal framework. A robust and impartial energy assessment of a property will provide this added confidence. It will also be able to set out broadly whether a measure or a package of measures is likely to pay back within its lifetime using the estimated energy bill savings associated with the installation of the measure(s). This energy bill savings estimate will be used as the basis for a quote and will help determine the maximum level of Green Deal finance attached to a given package of measures. By providing a standard assessment and clear recommendations to householders and businesses, a Green Deal assessment will also pave the way for the rest of the Green Deal process including the disclosure of

the presence of a Green Deal to subsequent occupiers of a property.

2. The Green Deal and ECO frameworks have been designed to work together and share the same standards on assessment, installation and products and systems. This is because a Green Deal measure may be financed in part by a financial contribution made by an obligated supplier under the ECO. We recognise that in some cases customers will receive measures as a result entirely of supplier activity under the ECO. This gives rise to the prospect of a different type of assessment being performed but one where the standards associated with a qualifying assessment under the Green Deal should still be applicable.

### **Policy approach**

3. Research carried out by DECC and the Department for Communities and Local Government (DCLG) into the EPC framework suggested that although the EPC regime establishes an existing assessment process for both domestic and non-domestic properties, it is, in the context of the Green Deal policy, desirable that the current EPC (and the process underpinning its production) be both improved and further developed if it is to function effectively under the Green Deal. Similarly the existing standards for accreditation, quality assurance, and enforcement that underpin the EPC regime were not designed with the Green Deal in mind and need to be strengthened to deliver the level of reassurance and redress required. Working closely with Other Government Departments (OGDs), notably DCLG, and with stakeholders, we are exploring how best to enhance the existing EPC framework to ensure that it effectively supports the Green Deal and ECO. In Scotland, a similar exercise is being undertaken.
4. The following sections consider the Green Deal assessors': functions, code of practice, qualification standards, employment,

payment, liability/insurance arrangements and certification. They also examine: the Green Deal assessment process for both domestic and non-domestic buildings, the role of the Green Deal oversight body as it relates to assessors, the arrangements for consumer redress if things go wrong and, the assessment process for measures promoted under the home heating cost reduction target component of the ECO (sometimes referred to in this document as the "Affordable Warmth" target or obligation).

## 1.2 Green Deal Assessors

5. An authorised Green Deal assessor is the only person who can produce a full Green Deal qualifying assessment, which may result in the creation of a Green Deal plan (as set out in section 5 of the Energy Act 2011). It is proposed that an organisation or individual providing the services of a Green Deal assessor will only be authorised to act if they:
  - meet all qualification and accreditation requirements under the terms of the Energy Performance of Building Regulations 2007 (England and Wales) or are members of an Approved Organisation [14] (Scotland.) (i.e. are qualified to produce EPCs);
  - meet the requirements to be set out in the NOS for Green Deal Advisors and;
  - are certified by a UKAS-accredited certification body against any relevant Green Deal standards and comply with all other requirements as set out in the Code of Practice.
6. In practice the individual's work will go beyond an assessment to providing advice to the occupant of the property being assessed and for this reason they are also referred to as Green Deal Advisors. However, for the purposes of legislation and this document Green Deal assessors are referred to throughout.

## **Code of Practice for assessors**

7. Operating as a Green Deal assessor will also involve meeting all the applicable requirements of the Code of Practice, and in particular the annex relating specifically to assessors (annex A of the Code of Practice). The requirements in the code of practice are designed to ensure that any outputs they generate are robust and defensible. The Code also set out arrangements for consumer protection [15] that must be adhered to by the assessor and other Green Deal participants. As an authorised participant in the Green Deal, the assessor will be required to publicise that they are a member of the Green Deal financing scheme and will have permission to use the appropriate Green Deal mark covering those areas for which they are authorised to operate.

**QUESTION 1: Do you feel the proposed requirements on Green Deal assessors set out in the main body and at Annex A of the Code of Practice are clear and robust enough to support the Green Deal assessment?**

## **Training and qualifications for assessors**

8. Green Deal assessors will need to have a mixture of technical knowledge, practical competence to produce the assessment and 'soft' skills to provide households and businesses with the advice they need to take informed decisions. The improved NOS for domestic and non-domestic energy assessors for producing EPCs will form the basis of the skills required for the Green Deal. However, the Green Deal assessor will need to do more than just an assessment of the fabric of the property. They will also have to produce an occupancy assessment, explain the Green Deal and the potential impact of the occupant's behaviour on projected savings and explore which package of measures is appropriate for them.

9. At the moment, we feel that no existing qualification fully meets the expected needs of the Green Deal marketplace. We are therefore building on the existing energy assessor NOS framework to develop a new national qualification **[16]** for Green Deal assessors, using the existing qualifications frameworks. A qualifying assessor will have to meet minimum requirements for qualifications as set out by the new National Occupational Standards (NOS) for Green Deal assessors.
10. The NOS are being developed by Asset Skills **[17]** and will include the necessary skills to: understand and explain how the Green Deal works; prepare for and carry out the fabric and occupancy assessments, using suitable tools for these assessments; produce a Green Deal Advice Report (GDAR) and explain this to the householder or business.
11. These skills will be set out in more detail as part of the qualifications framework. We are also considering allowing a process of Accreditation of Prior Experiential Learning (APEL) in which Awarding Organisations work with individuals to map existing skills and knowledge against the content of the Green Deal Advisor NOS.

**QUESTION 2: Can you think of any requirements that Green Deal Assessors will need but that may not be covered by the suggested approach, combining National Occupational Standards and Accreditation of Prior Experiential Learning (APEL)?**

### **Employment of Green Deal assessors**

12. The Green Deal assessor may be employed in one of several ways. They could be:
  - a salaried employee or sub-contractor of one or more Green Deal providers/installers;

- an independent Green Deal assessor commissioned directly by a consumer;
  - a public/third sector official or representative of a civil society organisation funded (or self-funded) to deliver Green Deal assessments.
13. Consumer research carried out for the department has demonstrated a preference among consumers for independent advice that sets out options in an impartial way coupled with a desire for free advice. There is clearly a tension between the likelihood of achieving both in the marketplace so we need to require the correct minimum standards of service, whilst enabling consumer choice. To this end we believe it is essential that, whatever the employment route for the assessor, the assessment and advice provided must be impartial and free from any commercial considerations or other biases.
14. The Code of Practice will set out the requirements placed on assessors to act impartially when carrying out their assessment and providing recommendations e.g. carrying out a standardised assessment. The certification system will be responsible for monitoring this. Should any assessor or their certification body breach these requirements they may be required to put right any errors, compensate consumers and ultimately, may be struck off from practicing under the Green Deal.
15. We propose to allow Green Deal assessors to market their services in line with existing legislation dealing with doorstep selling and cold calling and avoiding pressure selling. Whilst DECC's consumer research reveal concerns about cold calling there are also legitimate advantages to its use as a way to increase consumer awareness and demand for the Green Deal, provided it is done appropriately. There are currently a number of pieces of legislation that regulate the way in which people must operate in this regard. The Unfair Commercial Practices Directive (UCPD), Doorstep Selling Regulations, Distance

Selling Regulations and the Privacy and Electronic Communications (EC Directive) Regulations all set out clear requirements for anyone marketing their services to consumers, both solicited (invited) and unsolicited (uninvited visits or 'cold calling'). As part of the Green Deal, all participants will need to ensure they comply with the requirements set out in this legislation as a condition of their authorisation. This will ensure that, for example, a vulnerable consumer being sold a Green Deal product will be protected from any sharp practices. It will also promote more desirable selling activities such as community-led doorstep sales to occur, activities that can help to reach people who may not be able to find out about opportunities through other means.

### **Payment of the assessor and price of the assessment**

16. Section 3 of the Energy Act 2011 states that the Code of Practice issued for the purposes of the scheme may make provisions relating to:
  - the payment of Green Deal assessors;
  - the circumstances in which Green Deal assessors may charge customers for qualifying assessments of properties; and
  - the amount of any such charge.
  
17. We believe the framework we are putting in place in relation to qualifications, certification, the Code of Practice, and additional compliance and sanctions regime will ensure that the benchmark for the standards of Green Deal advice and assessment remains high. We are also keen to ensure that the market is able to innovate, compete and provide solutions in this area. Consumer research carried out by DECC suggests that a variety of payment solutions would ensure wider appeal. Some potential Green Deal providers are already indicating they are likely to offer assessments at no upfront cost as a way to



engage with consumers. It is for this reason that we propose to leave the approach to the payment of assessors and the price of the assessment to the market at this stage. Once the Green Deal market is established we should be able to monitor how the market is operating and consider whether regulatory intervention is necessary at a later date.

18. We also intend to allow Green Deal assessors to provide additional services to consumers and businesses that go beyond the impartial role of the Green Deal assessor and the certification of that role. However, where such additional services are provided we propose to ensure that safeguards are built into the Green Deal assessor services certification framework and Code of Practice, setting out how those two roles should be distinguished. For example: that assessors should make consumers and businesses aware of any affiliation that they have with a Green Deal provider and any commission that they may receive for carrying out additional services; that any potential conflict of interest is declared; and that any breach of the impartiality of the assessment could result in the withdrawal of an assessor's authorisation to practise under the Green Deal. We also intend to ensure that the consumer or business is provided with clear information and has confirmed that they have understood when services are a part of the impartial assessment, and when services are additional, such as the provision of a quote on behalf of a Green Deal provider, or information on further improving the wider sustainability of the property, beyond the scope of a Green Deal.

**QUESTION 3: In proposing to allow for the market to determine payment of assessors and cost of assessment, are there any further requirements we should be placing on assessors or providers in relation to (a) payment of assessors, (b) the cost of the assessment, or (c) declarations from the assessor?**

### **Liability/insurance arrangements for the assessor**

19. Green Deal assessors will be required to have public liability and professional indemnity insurance that covers them to deliver more than a standardised technical process, as they will be required in some cases to make quite complex judgements about the suitability of measures, and provide tailored advice. As is common practice in similar policies, the insurance will need to cover the duration of the assessment and potentially a number of years likely to cover the duration of any finance agreement (e.g. 25 years), in case a claim is made in relation to the assessment at a later date. The requirement for appropriate insurance will be set out in both the Code of Practice and the Scheme Standard and will be enforced through the certification framework. .

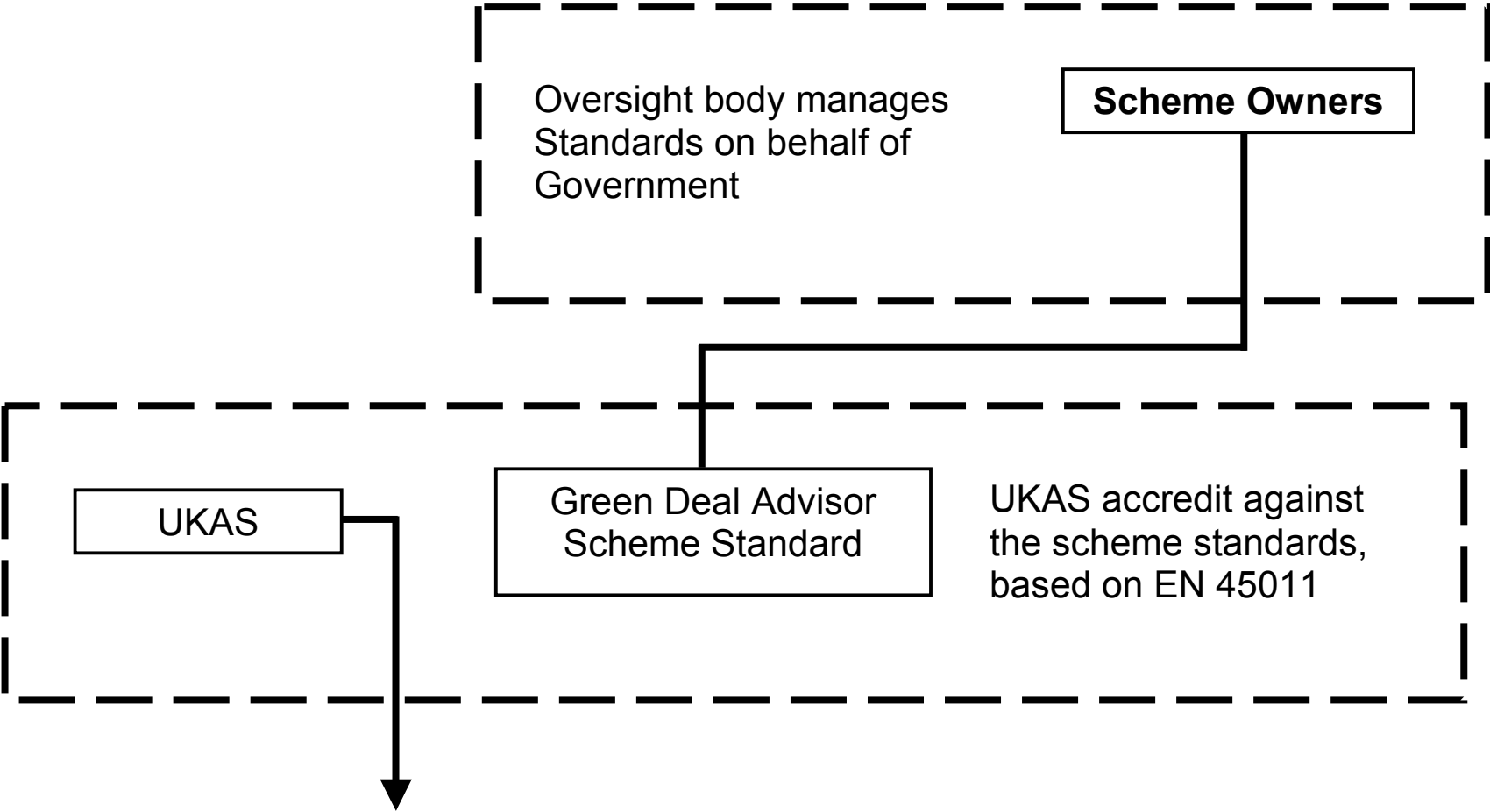
### **Quality assurance/certification of assessors**

20. We propose that all companies/organisations providing Green Deal assessor services (which may be sole traders or organisations) should be certified by an accredited certification body. in line with Scheme Standard documents currently being developed. We have appointed the UKAS, the Government recognised national accreditation body, to independently accredit the certification bodies. UKAS has recommended that the most suitable standard to draw on for the assessor Scheme Standard is 'BS EN 45011', which covers the provision of a service, in this case the service provided by the Green Deal assessor. This will be the basis for developing the certification Scheme Standard documents, with additional requirements developed specifically for Green Deal.
21. Government would remain responsible as 'Scheme Owner' for the Scheme Standard documents that cover the service provided by assessors but their day-to-day management would be delegated to the Green Deal oversight body. The Scheme

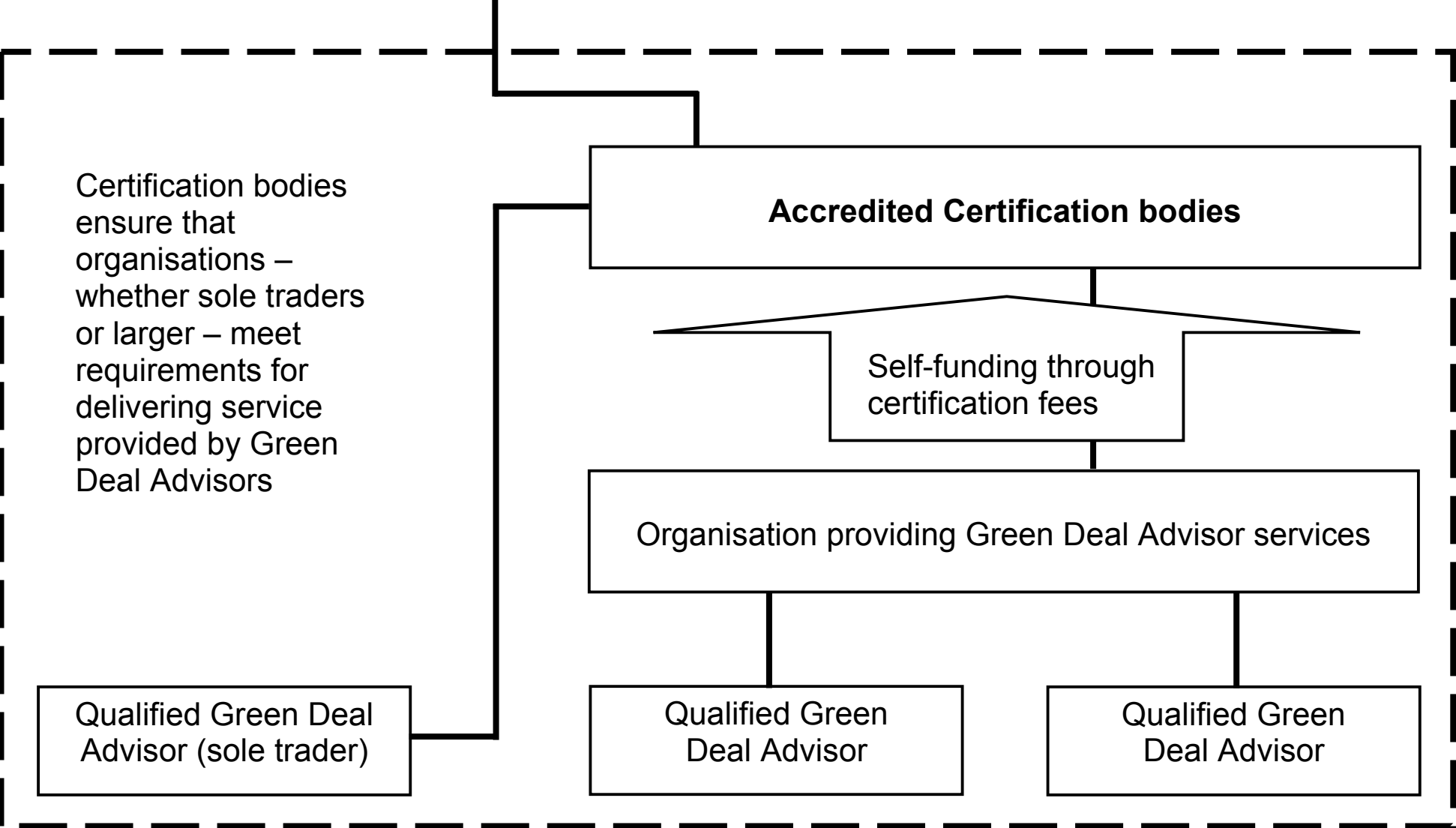
Standard is currently under development but will incorporate specifications of the following:

- Assessors/their employers – setting out the requirements for assessor skills, qualification, ongoing Continuing Professional Development (CPD), registration, the requirement for them to adhere to the Code of Practice, and their relationship with the certification bodies and other reporting/oversight arrangements. Also sets out the requirements for robust management of the service provided by assessors and complaints handling.
- Certification bodies – setting out the requirements for their monitoring and quality assurance against the requirements for assessors/their employers and how they must act and report as an organisation themselves.

**Diagram 3: Model of third party assurance and oversight of Green Deal assessors**



[continued on next page]



**QUESTION 4: Do you agree with our proposed approach to third party assurance and enforcing compliance for those providing Green Deal assessments?**

## **1.3 Green Deal Assessment Process**

### **Domestic buildings**

22. The assessment for the domestic sector will be in two parts. The first part is an assessment of the fabric of the building resulting in an improved Energy Performance Certificate (EPC). This will use an improved Reduced Data Standard Assessment Procedure (RdSAP) [18]. We also intend to allow for a full SAP assessment for those properties where it is not appropriate to use RdSAP, where the necessary data is available and it is carried out by a full SAP assessor.
23. An existing valid EPC may be used as the basis of the Green Deal assessment. The current validity of an EPC for sale and rent is 10 years. This is in line with the requirements of the Energy Performance of Buildings Directive but is likely to be too long for Green Deal purposes, since the RdSAP assessment procedure used to produce the EPCs is updated approximately every 12 months. Therefore, we may need to provide for a specific validity for the Green Deal to be determined in the regulations.
24. The second part of a domestic assessment is an occupancy assessment. The occupancy assessment will take into account additional information about the way the current householder(s) uses the property and provide a better indication of whether the predictions in the EPC, which are based on typical energy use, reflect their actual use. This will enable the assessor to provide a more accurate indication of the likely suitability of the Green Deal to the current householder(s). This is important as the level of savings on the EPC will be used in the golden rule

calculation. Our consumer research [19] showed that this tailored advice was particularly appealing to households.

25. During the occupancy assessment, the assessor will also provide advice on the effect of behaviour on energy bills and will talk through the most suitable package of measures for the householder based on their preferences.
26. We propose to mandate a minimum standard occupancy assessment, but we will also allow the market to provide additional occupancy services outside of the Green Deal offer, provided they remain separate to the core impartial assessment. Only the core occupancy assessment (undertaken in accordance with the methodology specified in the Code of Practice) will form part of the Green Deal qualifying assessment and anything offered over and above this must be at the express commission of the customer.
27. We are also considering whether to include a one page summary sheet as part of the GDAR, combining information from the EPC and the occupancy assessment, to highlight the key Green Deal messages for consumers and record any other advice provided. This approach is currently being tested with consumers.
28. Following the agreement of a Green Deal plan and the installation of measures, the EPC will be updated to reflect the details of the Green Deal plan, and the asset rating updated to reflect the improvement. This will be the responsibility of the Green Deal Provider and will need to be done by an energy assessor.

**QUESTION 5: Should the current EPC validity period for property transactions be used for Green Deal purposes or is a shorter validity period more likely to meet the needs of Green Deal process?**

### **Impartiality of the Green Deal Assessment Report (GDAR)**

29. Trust is vital to consumer confidence and the integrity of the GDAR is a crucial factor in ensuring consumer confidence in the Green Deal. As such, the Green Deal assessment must be produced in a way that meets consumer expectations, i.e. one which focuses solely on the information and data generated by the assessment, and does not favour the products or commercial considerations of a particular company. We believe that the approach taken through the application of a standardised assessment methodology, backed up by stringent quality assurance and oversight arrangements will retain this impartiality, whilst allowing for a dynamic market to develop.

### **Non-domestic Buildings**

30. While many smaller businesses can be much like domestic properties and can therefore be assessed in a similar way, the variety in non-domestic buildings means that the assessment method needs to be capable of dealing with greater complexity. Buildings that require a non-domestic assessment for the Green Deal will be the same as those buildings considered to be non-dwellings for EPCs and Display Energy Certificates (DECs) **[20]**.
31. The assessment method will build upon the existing SBEM methodology for producing an EPC for non-dwellings and will require an EPC to be lodged as a part of the process. We expect that this approach will capture the vast majority of the energy efficiency opportunity that the Green Deal addresses in non-domestic buildings. In the case of buildings that may be exempt from the requirements to have an EPC on construction, sale or rent we expect that the Green Deal assessment may still be applicable and that a Green Deal assessor will be able to advise on this. In particular we recognise that places of worship and some agricultural properties are not currently assessed by the SBEM tool and we are considering means to allow their assessment for the Green Deal.



**QUESTION 6: Do you think that the approach to identifying and assessing non-domestic buildings, based upon the requirements and tools for Energy Performance Certificates, will capture all non-domestic buildings and business sectors for which the Green Deal is relevant?**

32. Green Deal providers or any qualified Green Deal assessor approached by a business customer are likely to undertake a scoping exercise (possibly without visiting the property) in order to give them an indication of suitability for the Green Deal. The nature of this exercise will not be mandated. However, if following the scoping exercise the provider or assessor does go on to undertake a Green Deal assessment, this must be carried out as described below.
33. The assessment will make recommendations for energy efficiency improvements and predict the likely energy savings. Whereas the domestic assessment will provide an estimate of the cost of the installation of the measure and hence the likely payback period, the costs for non-domestic properties are likely to vary significantly depending on the building in question and so only an estimate of the running cost savings will be provided, based on a simple representation of the business's marginal fuel tariff(s) or a default value. It is proposed that the tool will not represent the detail of the fuel tariffs, for example structured or variable tariffs. See Chapter 4 for details of how these figures will be used in developing a quote for a Green Deal Plan.

**QUESTION 7: Are there alternatives to the simple approach to providing running cost savings in the non-domestic assessment that we should consider?**

34. Non-domestic assessment will cover all potentially eligible Green Deal measures including no or low cost measures in this category. Whereas the domestic assessment will provide

predicted savings on the basis of the fabric assessment, with more tailored information about suitability based upon the occupancy assessment, the non-domestic assessment will integrate these two components, i.e. all advice and recommendations will be based upon the actual use of the building.

35. Whilst non-domestic Green Deal assessors will not be prevented from offering broader energy or sustainability advice, that goes beyond potentially eligible measures for the Green Deal, this will not be accredited under the Green Deal as this would require specialist skills from the assessor in order to provide advice for all building types and uses.
36. It is proposed that a methodology that builds upon the non-domestic EPC methodology will be used to produce a qualifying assessment for non-domestic properties. The current methodology for producing EPCs for non-domestic buildings, the SBEM, will be developed to allow for a Green Deal assessment, and for the assessor to model 'what if' scenarios for the implementation of energy efficiency measures in order to predict the likely energy savings. The Green Deal assessor will be able to adjust some of the standard assumptions currently made in the EPC and utilise information about the occupants' actual energy consumption. If the assessor is an approved DEC assessor, they may use a DEC as evidence of the actual energy consumption in the building, otherwise, and where this isn't appropriate, the method will allow for this information to be provided in an alternative form.
37. The ability to reflect the actual use of the building will enable the Green Deal assessment to produce more accurate predictions of the likely energy savings occupants could make by installing a Green Deal package. This will not affect the production of an EPC, which remains based on standard assumptions. Development of SBEM will be carried out in such a way that approved third-party EPC software providers will be able to

develop their software in order that it may also be used for Green Deal assessments.

38. It is recognised that Green Deal assessors may be able to identify opportunities for energy efficiency improvements but where these relate to complex systems, or unusual applications, the expert knowledge required to deliver a reasonable prediction of energy savings may exceed that required of a generalist assessor. In these circumstances assessors will be able to draw on specialists as part of their assessment, in order to add the additional information required to produce the savings estimate. The certification standards for assessor will set out the guidelines and expectations for the use of specialists.

### **Lodgement of Reports**

39. In the domestic sector, if a valid EPC already exists, the Green Deal assessor must be able to retrieve the underlying data from the EPC register. In England and Wales DCLG will be consulting on the best way of making this data available to a range of interested parties and EPCs themselves will be freely available to the public from April 2012 unless the EPC holder has opted not to have that information disclosed. For non-domestic properties an EPC is naturally produced as part of the Green Deal assessment.
40. The entire GDAR will be provided to the consumer who can use it to shop around for a Green Deal quote. It is also intended that the GDAR for domestic and non-domestic sectors will be lodged on an appropriate register. (EPCs will continue to be lodged on the existing EPC registers, currently operated by Landmark in England and Wales and Energy Saving Trust Scotland in Scotland). The Green Deal Providers will need access to the register in order to make a quote and calculate eligibility of a proposed package of measures for Green Deal finance and ECO support. They will also need access in order to update

financial information post installation (see disclosure in chapter 6). Lodging the reports on a register will also enable reports to be accessed by those who commissioned them and by those involved in the oversight and third party assurance of Green Deal assessor services. We are also considering options to allow different levels of access for different parties to the occupancy assessment since it may contain sensitive personal information.

41. Data must be stored in a format which makes accessing the results easy for a variety of potential users with different requirements. It is intended that the following groups will, among others, have access to certain data contained within the register(s)/ database:
- The Green Deal report owner (the householder or business) – to assess their options and consider whether a Green Deal is appropriate and what package of measures they can install.
  - Green Deal providers - to provide offers to consumers based on the recommendations in the report, to develop specific quotes and to update the report with financial information once a GD plan has been agreed (see chapter 6)
  - UKAS and the accredited certification bodies – for quality assurance purposes
  - ECO suppliers, to enable them to validate the reported activities of their contracted installers; and to reduce transaction costs by facilitating searches and targeting;
  - The ECO Administrator, to enable them to validate ECO activity reported by suppliers and gather other data relevant to the monitoring, reporting and evaluation of the scheme
  - Local Authorities - to support them to evaluate progress on reducing emissions and tackling fuel poverty in their local

area, and to enable them to target local activity to promote Green Deal take-up.

- Solicitors and estate agents acting on behalf of buyers and sellers to validate the EPC used in a transaction is up to date (for disclosure purposes)
- DECC and DCLG for monitoring and evaluation purposes.

### **Oversight body/managing organisation**

42. As with Green Deal installer accreditation, we will require a body to administer and manage the registration of assessors and perform a number of other functions. In particular this body will:

- maintain the Green Deal Code of Practice, including the requirements of assessors;
- maintain a register of authorised Green Deal assessors;
- issue the Green Deal quality mark to Green Deal assessors;
- manage the review of the Green Deal assessor services Scheme Standard;
- liaise with Sector Skills Council on keeping the NOS up to date;
- liaise with UKAS over the accreditation of Green Deal certification bodies
- record jobs carried out;
- inspect/monitor a percentage of assessments, and other activities to inform evaluation and;
- manage advice, referral and redress when something goes wrong and it cannot be resolved by other complaints processes.

### **Redress mechanisms in more detail**

43. GDARs produced will be quality assured in line with certification requirements. The appointed accreditation body, UKAS, will be able to require certification bodies to ensure that any mistakes are rectified and that assessors hold sufficient professional indemnity and public liability insurance, with the ultimate sanction for assessors and certification bodies to be struck off.
  
44. Where consumers have specific complaints about levels of service they will be able to pursue this in the first instance with the organisation they commissioned their assessment from. This might be a Green Deal Provider or an independent assessor/organisation, who will be expected to investigate and remedy the situation. Complaints against individual assessors may be escalated to their employers and certification bodies for further investigation and possible sanctions against the assessor. Ultimately the customer can seek redress via the Energy Ombudsmen Service (see chapter 10, section 10.4), as with other complaints relating to a Green Deal Plan, when these have not been resolved by the Provider or other participants. Again, breaches of the requirements set by the framework could result in the withdrawal of certification (if the assessor) or accreditation (if the certification body).

### **1.4 The Green Deal and Energy Company Obligation (ECO) – synergy in accreditation and assessments**

45. Given the potential for a measure to be promoted and installed using financial contributions from suppliers under ECO and Green Deal finance it is essential that the schemes are designed to facilitate and accommodate this as far as possible. In particular, we want to ensure that where it occurs joint funding is "seamless" to the consumer. The single most effective way of ensuring that offers can be seamless will be to keep the design of ECO as simple as possible, allowing ECO companies and Green Deal providers to enter into mutually beneficial

commercial relationships of their own design, and to market offers to consumers in the ways they consider most effective. Proposals for the establishment of a brokerage mechanism between ECO companies and Green Deal providers will also facilitate the development of seamless joint offers. An important further consideration is that measures delivered jointly under both schemes should not be subject to separate regimes in respect of quality, standards etc.

46. We believe there is no reason why standards for ECO measures should deviate from those for the Green Deal and every reason why they should be the same. This goes for all aspects of professional delivery, including the assessment. This drive for consistency suggests that, in general, ECO measures will need to have been signalled as appropriate under an assessment of the property which meets Green Deal standards. It will therefore be a condition of any measure promoted and installed by suppliers under the ECO Carbon Saving obligation that there has been a prior Green Deal assessment which has identified the measure as appropriate. (On rare occasions where a slightly different, e.g. a more full, assessment may be needed for an ECO measure, we propose that the ECO company will need to satisfy the ECO Administrator that the assessment provided was nonetheless appropriate).

### **ECO Affordable Warmth obligation and the assessment process**

47. The proposed Affordable Warmth component of the ECO has been designed to provide measures to low income and vulnerable households to improve their ability to heat their homes. It is perhaps less likely that many of these households will be in a position to take out a Green Deal alongside their ECO support, and we expect that most households in this group will receive fully subsidised measures (further detail on this is available in chapter 5). Energy suppliers will need to be able to show the value of delivering particular measures in terms of a

reduction in heating-costs to the households. An EPC will usually be sufficient to do this, although there are cases where an alternative assessment may be appropriate.

48. There are some measures which suppliers might wish to deliver, such as repairs to heating systems under the ECO Affordable Warmth target [21], where a measure's potential to reduce the cost of heating a home will have to be determined without reference to an EPC, because, while an EPC recognises the presence of a boiler, the assessment process does not require a full test of the system to confirm whether the boiler is working (please see chapter 2, section 2.3 under "ECO Affordable Warmth obligation"). In such cases, the energy supplier may choose to determine the measure's cost saving potential using an EPC assessor who is also qualified as Gas Safe, and therefore in a position to advise on or deliver repairs to central heating systems.
49. A requirement for a **full** Green Deal assessment, including both fabric assessment and occupancy advice, would not be relevant under the Affordable Warmth target where Green Deal finance is not being delivered, and might act as a disincentive to the delivery of basic measures in some households, for example, where a property would benefit from loft top-up insulation. Therefore we do not propose requiring suppliers to carry out a full Green Deal domestic assessment where measures are being promoted to a household under the Affordable Warmth obligation without Green Deal finance.
50. Government also wishes to ensure that low income and vulnerable households who are potentially eligible for qualifying measures being promoted to them under the Affordable Warmth obligation are provided with information on Affordable Warmth as early as possible in the Green Deal process. This enables eligible customers to avoid having (and potentially paying for) a full Green Deal assessment if the best solution for these customers does not involve Green Deal finance. The



Government has sought to design a mechanism for 'filtering' such eligible householders into the ECO 'system'. Where a householder contacts the remote advice service the filtering should occur as part of this process but it is important that the assessment can also pick up those households who may be eligible for ECO support.

51. Whether the householder approaches an independent assessor, or one with links to a Green Deal provider, the assessor will be required under the Green Deal code to: ask the householder some basic questions to help indicate whether they may be eligible for additional support; make the householder aware of ECO and the possible opportunity to receive financial support with measures; and provide the householder with the contact details of the remote advice service. Further information on the links between this advice service and ECO are provided in chapter 5, section 5.2.
52. We are not seeking to limit the market and expect that energy companies will establish cost-effective mechanisms for identifying Affordable Warmth eligible households, including working with Local Authorities and developing partnerships with assessors and Green Deal providers who may share data with energy companies with the householder's consent. However, where following an assessment a Green Deal Provider decides not offer a Green Deal plan to the consumer, we will look to require the assessor to provide the customer with contact details for the remote advice service to explore whether they may be eligible for extra support.

### **Note [14]**

Approved Organisations are defined in the Energy Performance of Buildings (Scotland) Regulations 2008.

**Note [15]**

See customer service section of the Code of Practice for more details.

**Note [16]**

The building blocks of national qualifications are National Occupational Standards (NOS), used to define the functions, skills, knowledge and behaviours required by particular roles.

**Note [17]**

Please see this link for more information on the work of Asset Skills  
<http://www.assetskills.org/AboutUs/AboutUs.aspx>

**Note [18]**

SAP and RdSAP are used as the National Calculation Methodology, as specified by the Energy Performance of Buildings Directive. SAP and RdSAP are used to produce Energy Performance Certificates for new and existing dwellings.

**Note [19]**

A copy of the customer insight summary is available here:  
[http://www.decc.gov.uk/en/content/cms/consultations/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx)

**Note [20]**

The Energy Performance of Buildings (Certificates and Inspections) (England and Wales) Regulations 2007 SI 2007/991, amended by SI 2007/1669, SI 2007/3302 and SI 2008/647. For certain cases where commercial properties within a block of dwellings the domestic assessment procedure may be used in accordance with the guidance at the this link:

<http://www.communities.gov.uk/documents/planningandbuilding/pdf/nondwellingsguidance.pdf>

**Note [21]**

This is referred to in the draft ECO Order accompanying the consultation as the "home heating cost reduction target" or the "home heating cost reduction obligation". The former is the overall target whilst the latter is part of the overall target which a supplier must achieve.

## Chapter 2: Measures, Products and Systems

### Summary of Chapter:

The Green Deal and the Energy Company Obligation (ECO) will work in combination to drive the installation of energy efficiency improvements, commonly referred to as "measures". The focus of each will, however, be different, and as a result, so will the measures falling within the scope of each policy.

This chapter describes proposals for determining the qualifying measures for the Green Deal and ECO. Initial points to note are that:

- where measures fall within the Green Deal and ECO, both financing streams can combine to cover the up-front cost of the improvements;
- there are two proposed "obligations" under the ECO - the Carbon Saving obligation and the Affordable Warmth obligation and will have a different focus and cover different measures **[22]**;
- the Product Assurance proposals apply to products and systems installed through the Green Deal and/or the ECO;
- the Green Deal covers domestic and non-domestic properties, whilst the ECO covers domestic properties.

The Green Deal has been designed to finance, or part finance, the installation of a broad range of measures, products or systems. Provided "measures" have been "recognised" **[23]** as being capable of improving the energy performance of a building, they are eligible for Green Deal finance. The Golden Rule is the principle which limits the amount of Green Deal finance that a provider can attach to the electricity bill to the estimated energy bill savings that are likely to result from the installation of measures under the Green Deal plan.

Only products which fall within a category of "qualifying energy improvement" recommended by a Green Deal Assessment can be installed with Green Deal finance. We will encourage customers to take up "packages" of recommended measures. The amount of Green Deal finance available can be calculated on the basis of the total estimated fuel bill savings for the "package" of recommended measures. The "Carbon Saving obligation" within the ECO is intended to focus on the delivery of insulation measures which will not be delivered by Green Deal Finance alone. This means harder-to-treat properties that require more complex solutions. Insulation systems for solid walls are expected to play a major role, but views are invited on the position of other measures that might need additional support.

We propose that non-insulation measures would only be supported under the Carbon Saving obligation where delivered as part of a package that includes insulation for a harder to treat-property.

It is proposed that ECO's "Affordable Warmth obligation **[24]**" should allow for any measure which can demonstrate that it contributes to the objective of allowing households to heat their homes at a lower cost and therefore more affordably. Heating systems and insulation measures are likely to be the core focus. Views are invited on whether provisions should be put in place to ensure major measures are delivered to households under the Affordable Warmth obligation.

A measure will only be able to count towards **[25]** a supplier's ECO obligation where it is "additional", that is, it would not have been installed without a supplier promoting and installing the measure under the ECO. The intention is not, however, to preclude other sources of funding, particularly Green Deal finance, contributing towards the installation of the measure. Even where a measure is promoted and installed under the ECO with financial assistance from the Green Deal the intention is for the supplier promoting the measure to receive the full carbon or cost savings of the measure.

All products and systems installed under the Green Deal or the ECO (or both) must be quality "assured". Only products that meet the requirements of the Green Deal Code of Practice can be installed. A process will be in place from Summer 2012 for manufacturers and suppliers to confirm that their products and systems comply with the Code – that they are "Green Deal ready".

"Green Deal ready" products and systems will be listed by the Green Deal Oversight Body, whose services, we intend to procure. A representative sample number of "listed" products will be "spot-checked" by the Oversight Body for compliance with the Code and could be struck off the list if they are found not to comply.

## 2.1 Introduction

1. Our ambition is to enable as many households and businesses as possible in Great Britain, to benefit from energy efficiency improvements in the most cost-effective way [26]. In line with this ambition, the Green Deal has been designed to finance a broad range of energy efficiency improvements, and to promote the installation of these as a package.
2. The Green Deal is based on a key principle that certain energy efficiency improvements can pay for all or part of their installation cost through the resulting savings on fuel bills. Many improvements have the potential to create significant fuel bill savings. For example, by insulating the external wall of a solid walled three-bed semi detached house, savings of between £250 and £550 can be achieved.
3. The specific objectives of the measures framework are to:
  - ensure products installed with Green Deal finance and ECO support are high quality;

- promote the installation of as many packages of measures as possible that will improve energy efficiency and as a result deliver deep cuts in carbon emissions;
  - drive innovation in new products and materials and;
  - help consumers understand how they can realise actual fuel bill savings over time.
4. This chapter describes the framework for determining whether a "measure" or package of measures can be financed under the Green Deal and/or is eligible for ECO support.

## **Policy approach**

5. Working closely with industry representatives from a range of sectors, the Green Deal has been designed to finance the installation of a broad range of technologies that can improve the energy efficiency of the building stock in Great Britain.
6. Our approach to developing policy on the scope of the Green Deal and on product assurance has been to build on existing frameworks and standards as far as possible, and to develop the requirements in accordance with EU law. This means that in many cases, those wishing to supply into the Green Deal and ECO will have already met the requirements set out in the Code of Practice.

## **2.2 Green Deal Measures**

7. A Green Deal measure is an energy efficiency improvement made to a property which has been financed through the Green Deal [27]. This includes part-financing, where a customer pays for some of the work up-front themselves. For example a customer may chose to pay for some of the cost of a replacement boiler themselves and finance the remainder through the Green Deal. Alternatively the household may be

eligible to receive support through the ECO for certain types of measures. See section 2.3 for proposals on which measures the ECO will support.

8. This arrangement means that even those measures which do not yet create enough fuel bill savings to fully off-set their costs can still benefit from Green Deal finance.
9. Measures in this context refer to those which can be installed in homes and non-domestic properties. Although certain measures will be more appropriate to non-domestic buildings the broad principles set out below apply to both. See paragraphs 22 to 24 for the proposed approach to defining qualifying improvements for non-domestic buildings.

### **Measures qualifying for Green Deal finance**

10. Measures which have been "recognised" as being able to improve the energy performance of buildings and generate fuel bill-savings, and have been specified by the Secretary of State as being qualifying energy improvements, can qualify for Green Deal finance **[28]**.
11. The Green Deal (Specified Energy Efficiency Improvements and Qualifying Energy Improvements) Order will list the measures that are "recognised" in the Government's Standard Assessment Procedure (SAP) for domestic properties as meeting this requirement. This is the "pool" of measures that Green Deal assessors will draw from to make property-specific recommendations.
12. The ability for a measure to create savings on the fuel bill is a crucial requirement. Without this, there is no possibility that the savings can be used to pay for the improvements.



### **Box 1: Definitions**

A "measure" means an energy efficiency improvement made to a property, for example, loft insulation, cavity wall insulation or replacement boiler.

"Product" means the product that is installed (falling within a category of qualifying energy efficiency improvement).

"System" means a measure which is made up of component parts which is often constructed or put together on-site, such as external wall insulation systems.

It is also worth noting that the Energy Act 2011 makes clear that the Green Deal may cover measures which generate renewable energy in a cost-effective way, as well as those termed "energy efficiency" measures.

Energy efficiency will often be used as short-hand for the types of measures which can lower energy bills and therefore be eligible for the Green Deal, even if not all such measures technically reduce energy use or increase its efficiency. For example, microgeneration will use renewable sources of energy (such as the air, sun and ground heat) to generate energy and this ultimately results in fuel bill savings.

13. The second requirement is that the measures must have been recommended during the Green Deal Assessment, to ensure the measures installed are appropriate for the building in question.
14. The level of fuel bill savings in a home or non-domestic property resulting from making an improvement will depend on many factors such as the type of building and what the measure is replacing. For example, if a person installs a package of measures including energy efficient glazing, the difference in the

saving on the fuel bill will depend on the overall thermal performance of the building and how well the previous windows performed. As a result, the fact that measures may not create savings, or the same level of savings in every type of property or scenario, does not exclude them from Green Deal eligibility.

15. The amount of finance a package of measures can attract will be determined by the total estimated fuel bill savings that can be achieved in that type of property. The cumulative estimated savings for the package of measures will set the upper limit on the amount of finance available. The savings estimate will be set out on the EPC produced during the Green Deal Assessment and be used by the Green Deal Provider in order to work out how much finance can be offered under the Golden Rule and provide the customer with a quote.
16. This means that, where a package includes a measure which is particularly cost-effective, the Green Deal Provider may be able to rely on the savings likely to be generated by that improvement to finance some slightly less cost-effective improvements under the Green Deal Plan which would otherwise have required top up finance from another source.
17. Chapter 4 discusses the Golden Rule and chapter 3 sets out the role of the Green Deal provider in more detail. See also section 2.4 on proposals to enable the performance of products to be recognised for the purposes of the Golden Rule calculation.

### **Defining which "measures" can create fuel bill savings**

18. Our proposed approach is to assume that measures which are recognised as improving the energy performance buildings have the potential to save energy and/or reduce the amount a customer has to pay to heat or generate energy in their building.

19. For domestic retrofits the Reduced Data Standard Assessment Procedure (RdSAP) assessment tool, used to produce EPCs for homes, already contains a list of approximately 30 measures which can improve the energy performance of buildings. The list of measures in RdSAP has been used to create the list of qualifying Green Deal energy improvements. Being modelled in RdSAP also means the measure can be recommended by Green Deal assessor.
20. It is important that the list of qualifying improvements can be added to as new measures come onto the market or new evidence of improved performance becomes available. There are certain measures which are not modelled in RdSAP, such as energy efficient taps and showers [29], that DECC's Call for Evidence on the Costs and Benefits of Measures (March 2011) suggests have the potential to be included. See how DECC intends to enable new measures to be added to the list on an annual basis.
21. DECC is also working with the Building Research Establishment (BRE) [30] and industry representatives to investigate whether District Heating systems can be incorporated into the Green Deal.

### **Non-domestic measures**

22. The Simplified Building Energy Model (SBEM) will form the basis for the assessment of non-domestic properties (see section 1.3), and assessors have much greater flexibility to recommend appropriate measures to reflect the wider range of non-domestic building types.
23. Our proposed approach is have a single list of qualifying energy efficiency improvements for domestic and non-domestic buildings. In some cases, recommendations will be similar in domestic and non-domestic properties, such as a shop

converted from a dwelling. In practice, certain measures will not be recommended for different types of building, as they are not appropriate or are not modelled in the appropriate methodology (SBEM or SAP).

24. However, we invite consultees to inform us of other measures which have particular relevance for non-domestic buildings which are not already listed in Annex A [31]. For example, Heating Ventilation and Air Conditioning (HVAC) systems, energy efficiency taps and showers [32] and low energy lighting should make much more significant energy savings in larger non-domestic buildings due to the scale of the retrofit. Our intention is therefore to include low energy lighting, systems and controls in the non-domestic Green Deal. It is more difficult to model standard energy saving estimates for lighting systems and controls in domestic properties, and at present these measures are not included in RdSAP. Energy efficient lighting can be recommended on domestic EPCs, and householders can fund these as part of the overall energy efficiency improvement package.

**QUESTION 8: Which measures should be added to the list of qualifying measures in Annex A for non-domestic properties, and what evidence is there that these measures improve the energy performance of buildings?**

### **The process for adding new measures to the list of qualifying improvements**

25. A process for adding new measures to SAP already exists [33], called "Appendix Q". Through this process an organisation can apply to have their measure included. The performance of the measure is tested or verified and, if deemed appropriate, the measure is modelled in SAP.

26. Our intention is to use this mechanism to determine which new measures can create fuel bill savings and what the level of the savings estimate should be. Measures which make it through Appendix Q will be added to the list of qualifying improvements in legislation and in RdSAP on an annual basis.
27. DECC will work with the BRE and industry to ensure that the Appendix Q process is reviewed periodically to ensure burdens are kept to a minimum. However, in our view it is, appropriate that measures are subject to full and proper testing and/or independent verification of their performance for the Green Deal, as the savings estimates determine the level of finance available.
28. DECC will also develop a process to review the evidence on the costs and benefits of measures on an annual basis and to adjust assumptions in SAP and RdSAP as appropriate. We intend to create a new "modifications committee" of independent experts to make recommendations on the treatment of new measures and what changes to SAP and RdSAP need to be made.

**QUESTION 9: Will the existing Appendix Q process, which will allow new measures to be added to the Green Deal assessment tools, and to the list of qualifying improvements, support innovation in the market and how could the process be improved? In particular, what support could SMEs benefit from?**

### **Recommendations to the customer**

29. Measures recommendations will be set out on an improved EPC produced during the Green Deal assessment. The measures recommended will differ from property to property. What is appropriate for a property depends on a number of factors including the type and age of construction and measures already installed.

30. The annual estimated energy savings for the measures and indicative costs will be given. This will help consumers see the benefits of making the improvements. The EPC will also be used by Green Deal Providers to see which measures have been recommended and the savings estimates. The EPC will include a "package" of measures that can potentially be financed through the Green Deal.

### **Promoting a "package" approach**

31. Package approaches have the potential to deliver significant savings to consumers on their energy bills. The recommendations on the EPC will promote the installation of the full package of measures recommended. Green Deal Assessors and/or Providers will also be asked to provide their Green Deal customers with an official advice leaflet on the additional benefits of installing packages of measures and making energy efficiency improvements in an appropriate order. We are working with the supply chain to see how "all in one visit" approaches to installation can be supported.
32. The consumer may experience less disruption if a full package of measures is installed in one visit. However, it is recognised that there will be circumstances where the installation of a full package of measures is not appropriate, for example, where a highly disruptive installation does not fit with other changes to the property. For example, some people may feel internal wall insulation would not be sensible soon after a new kitchen has been fitted (although in the future we will want Green Deal to be a consideration before other work).
33. The framework allows for customers to choose to install measures over time and to take out more than one Green Deal. In this situation the Green Deal Provider should set out how this approach would affect the amount of finance that would be available.

## **2.3 ECO eligible measures**

34. Energy companies will receive credit towards their ECO obligations for funding the delivery of energy efficiency measures. However, it is crucial that the policy supports the delivery of measures which make a real and substantial difference to households and which would not have been delivered without ECO support.

### **Carbon Saving obligation - Measures**

35. Previous government programmes have driven significant delivery of the cheaper insulation measures like loft and cavity wall insulation. However, opportunities still remain for these extremely cost effective technologies and Green Deal will allow households to insulate their homes with low cost cavity wall and loft insulation at no upfront cost.
36. Almost a quarter of GB homes either have solid walls or are of a construction type suitable for the various types of SWI and this technology could help reduce UK emissions considerably. However uptake has been very low as a result of the much higher upfront costs, including the 'hassle' costs, and limited support from government programmes.
37. When a household takes out Green Deal finance to cover the costs of making their home more energy efficient, the costs and benefits of the technologies stay with the occupiers of the home, while financial assistance provided for measures under ECO is likely to be funded through a cost passed on to all bill payers. To ensure the costs to all energy consumers are minimised, there is an argument for designing ECO in such a way as to ensure that Green Deal finance supports as high a proportion of the costs of technologies as possible (effectively defined by the Golden Rule) and that ECO financial assistance is focused on those measures and situations where Green Deal finance alone will not deliver. Government recognises that Green Deal finance

may not be appropriate for all households, particularly low income and vulnerable households who tend to under-heat their homes. The ECO Affordable Warmth obligation [34] has been designed to provide support to these low income and vulnerable households.

38. We are proposing that (for households who are not eligible for Affordable Warmth [35]) ECO should not cover those measures which can readily be fully funded by Green Deal finance such as loft and standard cavity wall insulation (hard to treat lofts and cavity walls are discussed further below) as these measures are likely to be delivered by Green Deal finance alone. In fact these highly cost effective measures are likely to form the core component of any Green Deal package.
39. An alternative approach would be to allow some ECO subsidy to be directed towards low cost loft and cavity wall insulation. This approach might promote earlier delivery of these very cost effective measures, bringing forward cost effective carbon savings. Under the central demand scenario modelled for Green Deal and the ECO, allowing ECO subsidy for these measures would displace Green Deal finance meaning more of the costs would be passed through to all bill payers rather than falling on the direct beneficiaries; but if demand were low then support for these measures would bring about more cost-effective activity as a whole. There is also a risk that individuals would hold out for ECO support in the future meaning ECO targets could effectively act as a cap on delivery of loft and cavity insulation. We will consider these issues further during the consultation and welcome views on the best approach to deliver overall value for money.
40. Evidence in the impact assessment suggests that the next most cost effective carbon saving measures after those which are fully fundable by Green Deal finance are insulation systems for solid walled homes. We recognise that some other construction types exist throughout Great Britain which are not of solid wall



construction but which are hard to treat and which do lend themselves to solid wall insulation (including both internal and external wall insulation).

41. There may be a role for ECO to help deliver other socially cost effective measures which cannot be fully financed by the Green Deal if such hard to treat measures could be distinguished at the point of assessment and would not undermine the Green Deal.
42. Focusing the ECO Carbon Saving obligation on solid wall insulation should lead to a similar market transformation to that already seen for lower cost technologies, increasing consumer awareness, scaling up delivery rates and driving down costs, while ensuring that quality standards remain high. As delivery costs come down, a larger proportion of the cost of each solid wall insulation job can be funded by Green Deal finance meaning a smaller ECO contribution will be needed, reducing the cost of the policy and the impact on all household energy bills.
43. Following a 'whole house' approach presents another opportunity to deliver more cost effectively. Specifying a suite of improvements for the same property at the same time means that improvements can be tailored to each other. This would avoid for example, an expensive, high output heating system being installed just before the heat requirements of a house drop due to a package of insulation being installed.
44. This approach also allows cost efficiencies in delivery to be identified. It is far more cost effective to install solid wall insulation and to upgrade glazing at the same time rather than to treat these as two separate jobs. However we do not want to create a possible perverse incentive for households to take out a very small amount of SWI as a route to levering in ECO subsidy for extra measures. To avoid this, we propose that, subject to the considerations above, the ECO Carbon Saving obligation should only support solid wall insulation, or packages of

measures which include solid wall insulation, and that where a package is delivered, the solid wall insulation must improve at least 50% of the exterior walls of the property which at the time of the installation are capable of receiving such treatment. Furthermore we propose that other measures within the package must be installed within 6 months of the SWI.

45. We further propose that within packages, support and ECO credit should only be attracted by measures which reduce the heat loss from a home rather than all possible energy efficiency measures, as previous obligations have done. This would translate to measures that improve insulation and air-tightness levels, thus ensuring that the ECO focuses on what is widely seen as the first step in the hierarchy for reducing building emissions: reducing energy demand.
46. To ensure ECO only supports measures that are both appropriate and additional we propose that all ECO carbon saving measures must also:
  - have been recommended as a suitable improvement measure during an assessment of that property (for example, a Green Deal assessment);
  - be "fixed" improvements to the property and not easy to remove or take out of service;
  - be installed by people with the appropriate Green Deal accreditation;
  - be accompanied by appropriate advice to the household on the proper way to maintain and use the energy efficiency measure, to ensure carbon savings are achieved.

**QUESTION 10: What innovative ways can the government use to encourage the uptake of a package of measures and could our existing proposals support this?**

### **Hard to treat cavities**

47. Experience from the Community Energy Saving Programme, CESP [36], and evidence from the Impact Assessment, suggests that there are a number of cavity wall properties the installation of which would be socially cost effective, but do not pay for themselves through the Green Deal either because of high 'hard to treat' installation costs or high individual 'hassle costs'.
48. In hard to treat cavity cases the best way forward may be cavity filling using non-standard products or techniques or to provide solid wall insulation. Such cases may well occupy an equivalent space on the MAC curve to "normal" solid wall insulation (see section 5 of the accompanying Impact Assessment), that is to say, they can almost but not quite pay for themselves and there is a case to allow a measure of ECO subsidy to tip the balance.
49. However, such properties are by definition not straightforward, and an initial assessment may classify them simply as cavity wall properties, making it difficult to be clear without further investigation whether solid wall insulation is the most appropriate technology or whether more technically complex cavity wall insulation is the most cost effective solution. Including such properties within the ECO risks complicating the scheme.
50. In considering ways in which the ECO might be broadened to support cavity wall installations that would not be fully fundable by Green Deal finance, it needs to be clear how such installations could be identified at the GD/ECO assessment and how their inclusion would impact on demand for the Green Deal.

**QUESTION 11: Please provide views on the potential inclusion of hard-to-treat cavities (and potentially other measures of a similar type), and proposals for how properties might be accommodated in the ECO without excessive complication or perverse consequences.**

**ECO Affordable Warmth obligation – allowable measures [37]**

51. Given the objectives of the Affordable Warmth element of ECO to provide support to low income and vulnerable households who are struggling to stay warm, we propose including measures which allow such households to heat their home more affordably.
52. In practice, the key improvements which are most cost effective at making a substantial difference are new heating systems and low cost insulation measures. However, the costs associated with these measures will preclude many low income and vulnerable households from being able to make the necessary upgrades to the fabric of their homes. Our analysis underpinning the impact assessments suggests that heating and insulation will be, and should be, the most frequent measures delivered, although we do not propose to have a prescribed list of eligible measures.
53. Of course, only measures which can demonstrate their benefits via the means described in Chapter 1, which will form the basis of the ECO Affordable Warmth scoring methodology, will be able to be accepted by the ECO Administrator. The intention will be to ensure that only measures which are fixed improvements to the property such as gas boilers, cavity wall or loft insulation, and not easy to remove or take out of service, such as lighting products or shower heads are delivered, and to ensure product and installation quality standards are met. By not prescribing a list of measures, this does allow lower cost measures such as draught exclusion and hot water tank jackets to be promoted. However, we would only expect these to be delivered alongside more major insulation and heating measures. We would welcome views on whether a prescribed approach would be a better means of ensuring major measures remain the primary focus of the scheme.

54. While the current SAP methodology does not recognise any improvement brought by repairs or replacements to existing boilers (as the current SAP methodology makes no distinction between functioning and non-functioning heating systems – if the system is present, then it is classified as operational), repairs and replacements clearly make an important contribution to enabling households to heat their homes. Where boilers can be easily repaired, this is potentially a far more cost-effective means of enabling the household to heat the property more affordably than replacing the boiler altogether. There is therefore a good case for ensuring repairs can be counted as eligible measures, which could be done by allowing a proportion of the "points" value of a new boiler to be scored where a heating system has been repaired. Any boiler repairs would need to be assessed and carried out by a Gas Safe engineer.
55. Households who are not connected to the gas grid can still benefit from heating and insulation measures under the Affordable Warmth obligation. The Government recognise the potential benefits of promoting lower carbon heating sources, as an alternative to more traditional off-grid heating fuels, in these cases. However, at present, we do not have information to determine that ground or air source heat pumps provide a cost-effective and efficient solution for supporting the group of households that will be the focus of the Affordable Warmth obligation. Therefore we propose that while heat pumps and other low carbon heating sources should be eligible options, there should be no additional incentive supporting their delivery over more traditional approaches. We would welcome evidence relating to the reliability of renewable heating sources at reducing the amount households need to spend to heat their homes.

**QUESTION 12: We propose that the ECO Carbon Saving obligation should be achieved primarily by promoting and installing solid wall insulation. Should any other measures be supported, and how would these be defined?**

**QUESTION 13: For the ECO Carbon Saving obligation, we propose that any other carbon saving measures should only be eligible when delivered as part of a package with solid wall insulation. Do you have any suggestions for the criteria by which eligibility within packages should be restricted, explaining why you think any such restrictions should be included?**

**QUESTION 14: We propose that ANY MEASURE should be allowed under the Affordable Warmth obligation, provided it allows eligible households to heat homes more affordably. If you disagree, or feel there are risks to this approach, please explain and set out any restrictions you believe should be put in place.**

**QUESTION 15: Do you have any suggestions for whether and how we should score, boiler repairs under the Affordable Warmth obligation, such that where repairs are more cost-effective than replacement systems, without significant impact on efficiency, these can be promoted?**

**QUESTION 16: We are proposing that any heating measures should be allowed under the Affordable Warmth obligation, including for households off the gas grid, and extra incentives should not be put in place for air or ground source heat pumps. Do you have any evidence to bring to bear on the performance of heat pumps to improve the ability of vulnerable households to heat their homes affordably?**

### **Joint funding and "additionality"**

56. It is inherent in the energy company obligation model that companies will normally deliver their obligations in the most cost-effective manner, reducing costs to themselves and positioning themselves more competitively in the energy supply market. They will therefore look to lever in joint funding for measures. Depending on tenure, this could be funding from the household, most likely in the form of Green Deal finance,

funding from landlords (private or social); or even funding from local government or other government programmes such as energy efficiency programmes run by the Devolved Administrations.

57. Previous obligations suggest that the scope for such joint funding from lower income households (such as those proposed for the Affordable Warmth group) may be much less than from other households. While the availability of Green Deal finance may affect this position, for modelling purposes we have made the cautious assumption that Affordable Warmth measures will be 100% subsidised by the ECO suppliers. However we do not propose that this should be a regulatory requirement and there could be benefits if suppliers reduce the socialised cost of the obligation through securing joint finance.
58. There are some arguments for crediting the energy company with only a proportion of the savings an energy efficiency measure generates, this proportion being dependent on the level of funding they provided. However, when funding is provided through Green Deal finance the costs and the benefits of energy efficiency stay with the same household. When funding is provided under ECO, the costs are assumed to be passed on to all energy bill payers, while the benefits reside just with the households who receive measures. It therefore makes good sense to maximise Green Deal finance and minimise ECO contributions wherever practical. Providing only proportional credit for proportional funding would not drive this behaviour.
59. We therefore propose that energy companies should be able to jointly fund measures and receive full credit for the carbon or cost savings which the measure produces regardless of the proportion of funding that they contribute to its installation. This will encourage energy suppliers to both drive down delivery costs and to lever in supporting funding wherever possible. However, it is a fundamental feature of the legal and policy architecture of an obligation of this sort that it should create

genuinely additional activity. Therefore it should not credit companies for activity which would have happened in the absence of the ECO.

60. In administering the scheme, it is important that the Administrator is satisfied that the ECO contribution is indeed material to the installation of the measure. It should be noted that additionality is a test which cannot be met when there is an absolute regulatory requirement for the measure to be installed in any event. However, it can be met where a regulatory requirement is less than absolute, as the ECO contribution may then still have been necessary for the measure to be installed.

### **2.4 Green Deal and ECO Product Assurance**

61. The product assurance requirements for the launch of the Green Deal and the ECO will not go beyond what is needed to help ensure that products installed with Green Deal finance are safe, durable and perform as intended. The proposed approach is to rely on existing standards, frameworks and legislation as far as possible, and to drive innovation.
62. The Green Deal Code of Practice will require products installed with Green Deal finance (including ECO support) to meet all relevant legal requirements such as Building Regulations. All products must already comply with existing legal requirements, however by specifying this in the Code of Practice, we are making clear that the requirements in the Code do not supercede or replace existing legal requirements.
63. The requirements in the Code fall into three main categories:
- We intend to make certain practises which industry already routinely carries out, such as "system-testing" and "Conformité Européenne (European Conformity) CE marking", a Green Deal requirement help maintain



standards and make the market for lower quality products less attractive;

- Where products already fall within the scope of another UK certification scheme, such as the product testing requirements in the Microgeneration Certification Scheme (or equivalent), they will have to fulfil the level of testing and certification specified in that Scheme;
- We intend to establish a mechanism for demonstrating compliance with the Code of Practice and to help provide greater clarity on which products can be installed with Green Deal finance.

### **CE marking**

64. CE (European Conformity) marking harmonises the testing and certification requirements for certain construction (and other products on the market) at the European level. CE marking requires a declaration of the characteristics of a product, including for example safety requirements, thermal performance, resistance to fire or structural strength.
65. Levels of "third party" assurance and certification required vary between measures and are set at a European level based on the risk the products pose (e.g. fire doors have high testing requirements). Discussions with industry representatives suggest that many products already have CE marking. Voluntary CE marking will be made mandatory shortly after the launch of the Green Deal from July 2013.
66. We will require all Green Deal products and components that are or will be subject to mandatory CE marking from 2013 to have CE marking. For manufacturers who are not currently CE marked but will be required to do so from July 2013, this means that if they want their products to be eligible they will need to "go early" and obtain a CE marking before it becomes mandatory. This is a pragmatic way to ensure that the basic characteristics

of products used in the Green Deal are known to the installer and that the product has been subject to a harmonised assessment process.

### **Product certification for products without a harmonised European testing requirements**

67. There are a small number of measures or materials that do not have standards against which they can be CE marked (e.g. hemp and lime insulation) and so will not be caught by the requirement to CE mark. Currently, these industries commonly gain a UKAS accredited certification to replicate the declarations made for CE marking.
68. We intend to require that measures or materials falling outside of CE marking regime should be tested and certified to a CE equivalent level by UKAS accredited certification bodies. The measures this requirement applies to will be listed in the Code of Practice and the process for determining the "equivalent" testing requirements.

### **Systems testing**

69. Measures fall into three categories: single installed components (e.g. a roll of loft insulation), pre-built system (e.g. boilers) and built-up or in situ systems (e.g. external wall insulation). For built-up systems that are put together on site by the installer we will require the system to be tested, and for the testing to be certified by a UKAS accredited laboratory and/or equivalent certification body.
70. Our initial proposal is that external wall, internal wall and cavity wall systems should be tested and certified as a "system". This means that the full system, rather than just the component parts and material have to be tested and certified together.

71. System testing will verify that the various components in the system work together as intended. This is already very common for certain measures (e.g. external wall insulation and cavity wall insulation) and could represent an increase in testing for others (e.g. roofing). Guarantee schemes for these measures generally require systems-testing as a condition for obtaining the guarantee.
72. A working group of industry representatives and certification bodies will be formed to make recommendations on the extent to which detailed testing requirements need to be specified. For example, for internal wall systems where no recognised testing standard exists. The group will also consider whether any other measures should be tested as a system and what the implications for the supply chain could be.

### **Declaring compliance**

73. We intend to make it a requirement that Green Deal Providers and installers can only use products or systems which are on a list held by the Green Deal Oversight Body on behalf of the Secretary of State). This will be a list of the products that manufacturers and suppliers confirm are "Green Deal ready": that they meet the requirements of Annex D of the Code of Practice.
74. The process is yet to be fully defined. However, we propose that manufacturers and suppliers will be able to notify the Oversight Body that they wish to have their products and systems included on the list using a standard template which will be available on DECC's and the Oversight Body's website. In the template, manufacturers and suppliers will confirm that their products and systems meet the requirements of the Code of Practice. The Oversight Body will then enter the information onto an official database.

75. If the Oversight Body deems the information in the template to be insufficient to include the product or system on the list and/or confirm compliance, they will notify the relevant manufacturer or supplier.
76. The Oversight Body will have a target to review the template and either update the list with the relevant products or notify the applicant company that information is incomplete within 30 working days of receipt. All Green Deal participants can apply to the Oversight Body for access to the Products and Systems list.
77. This approach will help to give confidence to the other participants (such as installers) in the Green Deal that a product falls within a category of qualifying improvement and meets the required standards. This is important because Green Deal Providers could be required to cancel a Green Deal plan if it is later discovered that products were used that did not comply with the Code of Practice.
78. While this is a form of self-certification, the Oversight Body will carry out spot-checks on listed products. Our intention is that any that are found not to comply with the Code can be removed from the list and that there will be a right to appeal.
79. We expect the database that will underpin the list to be operational and available for input from summer 2012. The templates will be designed with the assistance of the Construction Products Association and will be in place from March 2012 so that manufacturers can begin compliance checks.

**QUESTION 17: To what extent can existing product lists, such as the list of Microgeneration Certification Scheme compliant products be used as the starting point for the Green Deal Products list?**

## **Tackling the gap between theoretical savings and actual savings**

80. It is widely known that measures often perform differently in homes and businesses than in laboratory testing. There is often a gap between the "theoretical" energy savings and actual savings realised for lots of reasons, including how the measures are installed, whether the building is non-standard, and whether customers change their energy consumption patterns. We are conducting further research, for example on solid wall properties, to help to ensure the savings estimates that are used when calculating the amount of finance available are as accurate as possible.
81. It can be assumed that there will always be at least some difference between theoretical and actual savings. Rather than try to deal with this by placing ever more onerous testing requirements on suppliers, we are exploring the implications of applying an appropriate "in-use factor". This would mean the savings estimates would be revised down by a specified percentage based on evidence and research, or where this does not exist, on the basis of expert judgement on the scale of the potential difference in performance. The reason is to ensure that savings estimates are not overly optimistic, resulting in inappropriate charges being applied to fuel bills.
82. We do not intend to take account of "active comfort taking" in the savings estimates as the assessment is based on the physical performance of the building. For example, if a person decides to take the benefit of installing measures by heating their home to a higher temperature, this possibility will not be included in the "in use factors". However, consumers will be given clear advice on the possible impact on energy savings if they change their behaviour.
83. Draft "in use factors" would be based on recommendations made by a task group of experts which DECC will set up. The group will also advise on how to apply this safeguard, for

example, whether it is appropriate or not change savings estimates in RdSAP and SBEM. DECC will informally consult with industry and the research community on the emerging levels and the results will be included in the Government's response to the consultation document.

### **Recognising enhanced product and system performance**

84. It is our policy to drive innovation through the Green Deal and ECO. To facilitate this we propose to enable (on a voluntary basis) suppliers to have the performance of their specific products verified (as opposed to the generic measure) so that product-specific savings information can be used for the Golden Rule calculation. This approach will drive innovation within existing measures categories by officially recognising how products perform on the basis of verified evidence relating to that product. The mechanism could take the form of varying the generic "in use factors" because the margin of error relating to the estimated savings will be narrower.
85. Manufacturers and suppliers will not be able to make claims without full certification. We will issue a tender for an organisation to develop a standardised methodology for verifying the performance of products. Certification will then need to be carried out by a UKAS accredited certification body or laboratory (or equivalent). This process will not require re-testing where product testing already carried out meets the standard set.
86. Green Deal Providers and installers will need to have access to the product data to determine whether the product or system they wish to use has a differentiated performance level. If yes, the Green Deal Provider cannot simply substitute one savings estimates for another. It is likely that a regular re-run of the EPC software will be needed to factor in the cumulative effect of the

other recommended measures, and the physical characteristics of the property in question.

**QUESTION 18: Do you agree that allowing enhanced product performance to be recognised in the Green Deal financing mechanism is useful? Do you have any specific views on how this approach could be implemented**

## **2.5 Summary of the steps related to Green Deal Products and Systems**

**Table 1**

1.	The product or system falls within a category of qualifying measure.
2.	The product or system falls within a category of qualifying measure which has been recommended during a Green Deal Assessment.
3.	The product or system complies with the requirements of the Green Deal Code of Practice.
4.	The product or system has been confirmed as being "Green Deal Ready" and listed by the Green Deal Oversight Body.
5.	Voluntary – suppliers opt to have enhanced product or system performance recognised for the Golden Rule calculation.

## **2.6 Supply Chain Analysis**

### **The scale of the opportunity**

87. The Green Deal is designed to revitalise and drive a genuinely competitive and enduring market for energy efficiency. By

stimulating growth, certain industry sectors and the economy can benefit as well as the customer. The scale of the opportunity is great.

88. Each part of the supply chain will have a role to play in creatively marketing and promoting the benefits of energy efficiency improvements to realise this potential. There are many homes and businesses that have not yet benefitted from even the most basic energy efficiency measures. For example:
- Around 6 million households have not had their lofts insulated to the recommended level **[38]**;
  - around 7 million solid wall have not been insulated, with a further 1 million timber clad solid wall buildings that could also benefit from insulation;
  - Around 6 million households do not have double glazing in all their windows;
  - Around 70% of English homes do not have a full set of heating controls.
89. There is also great potential for newer and emerging technologies in the market, and other measures which work in combination with other technologies to save more energy, such as flue gas heat recovery devices. As the market grows for these measures, we can expect they can be installed more cheaply and efficiently, and a greater proportion of the cost covered by Green Deal finance.
90. Whilst it is clear there is a large potential energy efficiency market, DECC is drawing together scientists, economists, and industry representatives to agree a common and more detailed picture of maximum extent of the work there is to do in different sectors, building types, and geographical locations. The results will be available in early 2012.



## **Linking the Green Deal and the ECO**

91. Like any market, what is delivered under the Green Deal will be down to demand and supply. But it is clear that financiers and potential Green Deal Providers are aiming to deliver £billions of capital flows. Tough carbon and affordable warmth targets within the ECO will result in around £1.3 billion per year being injected into the market and secure levels of installation activity. In addition, plans to introduce "interim obligations" (see chapter 11 for more discussion on interim obligations for the ECO) will ensure that for the sectors covered, the momentum is created early on.

## **Linking to the sustainability and other agendas**

92. There is also the opportunity to use the Green Deal to trigger interest in other types of improvements which are not technically eligible for Green Deal finance because they do not provide savings on the property's energy bill. A good example are measures that save cold water in homes. Green Deal advice will encourage customers to think about their whole property and what can be done to improve energy efficiency and wider sustainability. Water companies and Green Deal Providers could create partnerships to see a range of work being done in the property all at the same time. Other examples are the provision of charging points for electric vehicles and sound-proofing alongside other insulation measures for properties in flight paths. We will continue to work with industry to see how the framework can enable such partnerships.

## **Working with the supply chain**

93. We have consulted with hundreds of organisations over the past year through official stakeholder forums, project teams, workshops, industry events and on a one-to-one basis. This has given us a good insight into the state of readiness of the supply

chain and what Government can do to assist companies and organisations to gear-up.

94. For example, the Construction Products Association Green Deal team [39] has surveyed hundreds of manufacturers, distributors, installers and trade associations to gain an understanding of what the capacity of the supply chain is at present, and how quickly and effectively it could increase production and installation rates. In addition, the team has reviewed a number of recent industry reports to gain a rounded picture. A summary of the findings will be available alongside the Government's response to the consultation. Early findings suggest that, overall, supply chain capacity is unlikely to be a barrier to delivery of Green Deal measures.
95. There are however some exceptions where more analysis is needed to understand what interventions could be required. For example, the number of external and internal wall insulation installers needs to increase over the next ten years to deliver the number of jobs needed to meet carbon budgets. The installation rate needs to increase at least ten-fold over time. We are working with the National Insulation Industry, INCA and others to ensure that there is an appropriate training infrastructure in place, and that the 1000 Green Deal apprenticeships announced in the Budget 2011, can be fully utilised.

### **What do participants have to do to be ready**

96. We understand that in order to prepare, those participating in the Green Deal need to understand what training or other requirements the Green Deal framework places on them. A number of papers have already been published on the Energy Bill website to update organisations on emerging policy decisions. One key area covered was to set out which measures will be qualify for Green Deal finance, so that the sectors concerned could begin to prepare. This consultation

document and associated statutory instruments contains more detail detailed policy proposals.

97. We will continue to work closely with industry up to the launch of the Green Deal. so potential participants are able to meet their authorisation requirements in advance of the launch of the Green Deal.

### **Models for accessing the market**

98. DECC has created a framework that is very flexible so that participants in the Green Deal can decide what works for them, how they want to interact with customers, and who they want to partner with. For example, some companies may want to offer their customers a "one-stop-shop" service, while others may want to specialise in deliver of a particular service. The only limits set are where rules are needed to protect customers to create a level playing field, and to comply with legislation, for example, relating to consumer credit. These consumer protections necessitate certain minimum requirements. One critical requirement is that there must always be a Green Deal Provider who contracts with the customer to make the improvements, arranges the finance and who can help customers with problems if they occur.
99. We propose that any organisation can become a Green Deal Provider as long as they are authorised by the Secretary of State as being fit to perform this role. In deciding whether to grant authorisation, the Secretary of State will consider whether the applicant is likely to be able to fulfil the ongoing conditions of authorisation set out in the framework regulations, including adherence to the Code of Practice. We are beginning to see a range of different types of companies and organisations indicating that they are gearing up to be Providers, including retailers, local authorities, distributors, installers, manufacturers

and energy companies. A number of trade associations are also exploring this possibility.

100. We are also keen to ensure that smaller companies can benefit from the Green Deal market, The Federation of Master Builders (FMB) estimates that small building and contractor firms carry out approximately half of all repair, maintenance and improvement work in the UK, and employ around two thirds of the construction workforce. The SME builders' community and SMEs from all sectors with qualifying measures will therefore have an important role to play in the delivery of the Green Deal. In particular SME builders are very often the party in direct contact with householders and most familiar with the individual property, and are therefore well placed to advise householders on specific works that might be appropriate and to trigger Green Deals.
101. We are engaging with representatives of the SME community to share examples of innovative operating models and ways of accessing finance that are already being proposed, such as to create partnerships with larger organisations or local authorities, or the creation of consortia of organisations.

### **Future publications to help industry gear-up**

102. We intend to produce a joint industry and Government Green Deal and ECO Guide intended to support companies in gearing up for delivery and to showcase examples of what some organisations are already doing to maximise the opportunities presented by the Green Deal. The Guide is expected to include the most up to date information on DECC's analysis of market potential, possible approaches for accessing finance, summarise the requirements for entering the Green Deal market and present case studies of delivery approaches.

### **Creating capacity for future delivery**

103. In the Government's response to the Low Carbon Construction IGT report, Government committed to consider establishing an "existing homes hub" with industry and to report to the newly established Green Construction Board with their conclusions in autumn 2011.
104. The "hub" could provide a mechanism for sharing the latest research on energy efficiency, facilitating partnerships in the supply chain and creating joint government and industry solutions to delivering energy efficiency policy for the long-term. DECC is currently working with BIS and industry partners to develop a more detailed proposal with a view to take an "in-principle" decision on the establishment of a hub.

### **Supporting innovation**

105. DECC is keen to draw on the findings of other projects and programmes of work which are exploring the potential for innovation in products and production processes, and across the supply chain, for example, to help lower installation costs. Examples of some of the projects we are linked to include:
- DECC's £35 million Low Carbon Buildings Innovation Programme;
  - DECC's 2050 Pathways Analysis;
  - The Technology Strategy Board's Retrofit for the Future Project; and
  - The Energy Technology Institute's Optimising Thermal Efficiency in the Built Environment project.
106. In addition, DECC is working with Foresight in the Department for Business, Innovation and Skills on a "horizon scan" for new energy efficiency technologies which could come onto the market in the future and what sorts of problems they may solve.

Our objective is to ensure the Green Deal can "recognise" new products and product-related innovations in an appropriate way.

**Note [22]**

Although there may be some overlap.

**Note [23]**

See chapter 2, section 2.2 for an explanation of the term "recognised".

**Note [24]**

In the accompanying draft ECO Order the "Affordable Warmth obligation is referred to as the "home heating cost reduction target" or the "home heating cost reduction obligation". The former is the overall target set for all suppliers whilst the latter is a supplier's individual component of the overall target.

**Note [25]**

A measure which counts towards meeting a supplier's ECO obligation is called a qualifying action in the draft order. A "carbon qualifying action" is a measure which will count towards a supplier's carbon emissions reduction obligation under the Order whilst a "heating qualifying action" is one that will count towards a supplier's home heating cost reduction obligation.

**Note [26]**

The Devolved Administrations also have energy efficiency action plans. In Scotland, there is a target to reduce energy consumption by 12% by 2020.

**Note [27]**

This does not preclude consumers from using aspects of the Green Deal framework, such as "Green Deal Ready" products and installing them using alternative financing routes.

**Note [28]**

Paragraphs 22 to 26 discuss how DECC proposes to determine which measures can create fuel bill savings.

**Note [29]**

Which also reduce water consumption.

**Note [30]**

The BRE currently administers SAP and RdSAP for Government.

**Note [31]**

List of Green Deal Qualifying Improvements.

**Note [32]**

Which also reduce water consumption

**Note [33]**

An "Appendix Q" process is also being developed for SBEM.

**Note [34]**

This is referred to in the draft ECO Order accompanying this consultation as the "home heating cost reduction target" or the "home heating cost reduction obligation". The former is the overall target set on all suppliers whilst the latter is the individual proportion of the overall target distributed amongst individual suppliers.

**Note [35]**

Further information on ECO Affordable Warmth measures is covered below.

**Note [36]**

CESP is the obligation placed on electricity generators and energy suppliers under the Electricity and Gas (Community Energy Savings Programme) Order 2009 (S.I. 2009/1905)

**Note [37]**

Allowable measures are what are referred to as "qualifying actions" in the draft ECO Order. Two types of "qualifying action" exist: a "carbon qualifying action" which contributes towards a supplier's carbon emissions reduction obligation and a "heating qualifying action" which contributes towards a supplier's home heating cost reduction obligation.

**Note [38]**

The precise numbers can vary depending on the assumptions made. See the Impact Assessment.

**Note [39]**

A team of industry representatives brought together by the Construction Products Association to help address Green Deal and ECO supply chain-related questions.



## Chapter 3: Green Deal Provider and the Plan

### Summary of Chapter:

The Green Deal provider will be a key part of a customer's Green Deal journey. They are the counter-signatory to the Green Deal plan, responsible for both the provision of finance and energy efficiency works. In order to provide confidence to customers and investors, it is important to ensure Green Deal providers are operating to an appropriate standard and therefore they will be required to meet Green Deal authorisation requirements in order to operate in the market.

The Green Deal Oversight Body will act, on behalf of the Secretary of State, as the managing organisation for participants in the Green Deal and deal with applications for authorisation as a Green Deal providers.

Due to the long-term nature of the Green Deal plan and the fact that the liability to pay instalments transfers from bill payer to bill payer, it is important to consider the position of the first and subsequent bill payers. For this reason, we are proposing to regulate certain terms of the Green Deal plan.

Green Deal plans in the domestic sector will be regulated consumer credit agreements under the Consumer Credit Act 1974. This gives important rights and protections to consumers. Green Deal providers wishing to provide Green Deal finance under regulated consumer credit agreements will also need to be licensed under the CCA.

This chapter sets out the following in further detail:

- Authorisation requirements of Green Deal providers
- Oversight, sanctions and redress relating to Green Deal providers

- Terms of the Green Deal plan Protections offered to domestic customers by the Consumer Credit Act, including a few key amendments which have been made to ensure the Green Deal operates smoothly

### 3.1 Introduction

1. Green Deal finance allows people to make energy efficiency improvements to their homes or businesses without paying for them upfront, thereby removing a major barrier to action. The Green Deal presents a novel idea of the cost of energy efficiency improvements being attached to a property's electricity bill rather than to the individual. Our customer insight work found that for just over half (53%) of participants this method of payment would make them more likely to take up the Green Deal. To ensure that a large number of measures can be installed via this mechanism, we want to see these arrangements offered at the lowest possible interest rate. In developing policy, it has therefore been important to ensure the Green Deal remains a viable investment for finance providers, and that investment risks are reduced so as to enable finance to be offered at low cost. Consumer and investor confidence is important to ensure uptake and success of the scheme which is why it is necessary to ensure Green Deal providers are operating to an agreed minimum standard.
2. The Green Deal provider will be the key participant in a customer's Green Deal journey. They will be responsible for providing the finance and arranging the energy efficiency works. They will also be the counter-signatory to the Green Deal plan, the credit agreement which sits between the customer and Green Deal provider setting out requirements and obligations on both sides.

3. Where ECO funding is available to part-fund a measure, the Green Deal Provider will arrange this and use the funding to reduce the cost of the package to the customer.

### **Policy development process**

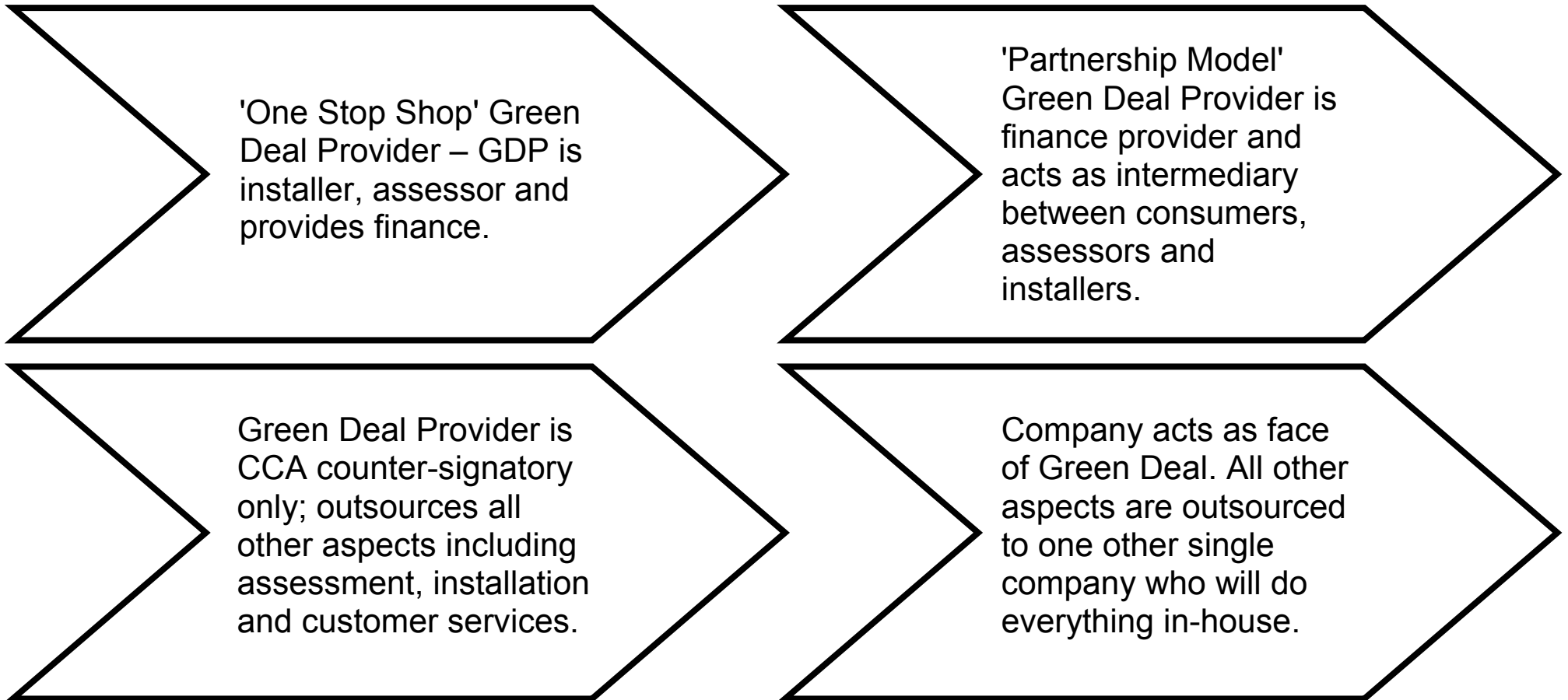
4. Along with consumer confidence, it is important to ensure investors have confidence in the Green Deal accreditation framework and the terms of the plan make an attractive investment opportunity. We have been working with potential Green Deal providers, consumer groups and the investment community to try and ensure the proposals strike the correct balance between ensuring consumer protection, not creating too many barriers for entry to the Green Deal market whilst ensuring the Green Deal remains viable for the finance community.

### **3.2 The Green Deal Provider**

5. Once a property has been assessed and tailored energy saving recommendations have been given, the customer can contact a Green Deal provider to obtain a quote and agree to a Green Deal Plan. The Green Deal provider is the counter signatory, with the customer, to the Green Deal plan for the provision of finance and energy efficiency works. Therefore the contractual relationship sits between the Green Deal provider and the customer.
6. The Green Deal Provider is responsible for:
  - offering a Green Deal Plan to customers, based on recommendations from a Green Deal assessor. The plan sets out the financial terms of the agreement and must be accompanied by some further compulsory terms designed to help protect consumers such as terms for warranties in respect of the improvements.

- ensuring the energy efficiency works are carried out to a property by an authorised Green Deal installer.
  - ongoing obligations in relation to Green Deal plans, including dealing with customer complaints.
7. Green Deal providers may choose to carry out the assessment and supply of goods and installation using their own employees, or they may sub-contract this as illustrated in the diagram below.

**Diagram 4: Potential Green Deal Provider Models**



Potential Green Deal Providers can fit into the spectrum above where they feel most appropriate. It can be in one of the examples or a mixture as long as they fulfil the minimum requirements along with the ongoing obligations. They must always be counter-signatory to the Green Deal Plan.

8. Green Deal providers are fundamental to the Green Deal so in order to instil customer and investor confidence, it is important to ensure a robust authorisation scheme for Green Deal providers is in place. Green Deal providers are responsible for arranging the installation of measures (either using their own employed installers, or sub-contracting with an authorised installer), and providing the finance package to the customer. Due to the nature of the ongoing and long term obligations which Green Deal providers have, we propose that Green Deal providers should be required to comply with obligations under the Green Deal authorisation scheme which extend beyond existing CCA obligations. This should assure investors that Green Deal providers are operating to the necessary standards and have the appropriate levels of consumer protections in place, helping to keep the costs of finance low. Authorisation will be granted by the Secretary of State, though aspects of the application process will be managed on his behalf by the Green Deal Oversight Body.
  
9. In order to become an authorised Green Deal provider and operate in the market, companies will be required to:
  - sign up to and comply with the Green Deal Code of Practice;
  - sign up to the Green Deal Arrangements Agreement, a contractual agreement between Green Deal Providers and electricity suppliers governing the payment collection and remittance process;
  - hold a valid CCA licence (if they wish to offer Green Deal plans for domestic properties);
  - make appropriate provisions to provide protection for customers in the event the Green Deal provider becomes insolvent or loses its licence, explained further below under insolvency provisions;

- sign up to an appropriate independent conciliation process to help resolve customer complaints and;
  - pay the required fees to the Oversight Body for Green Deal authorisation.
10. The Government is committed to seeking to ensure a competitive Green Deal market for customers. This should maximise uptake of Green Deal plans and help provide value for money to consumers. It is likely that a number of different business sectors will enter the Green Deal provider market, all of whom have unique selling points and potentially different trigger points. For example, electricity suppliers who are also Green Deal providers may have data on their customers which could be used for marketing purposes. We are not intending to distinguish between market sectors and differentiate authorisation requirements.

### **Green Deal Provider Code of Practice**

11. Green Deal providers will be required to sign up to and abide by the Code of Practice [40]. They will be required to adhere to the entire Code where relevant however, Annex B of the Code sets out specific duties must be fulfilled. The Code of Practice ensures all Green Deal providers are operating to an agreed standard, providing the necessary levels of consumer protections and services. The Code of Practice will include detailed requirements regarding the implementation of the Golden Rule, use of the Green Deal quality mark and marketing material as well as information relating to minimum levels of redress they should offer to customers and information they should provide.

### **Insolvency Provisions**

12. We are proposing that the Green Deal provider hold a surety bond in order to protect customers in the event the Green Deal

provider becomes insolvent or loses its Green Deal authorisation. This bond would be designed to cover the cost of fulfilling all existing and future obligations and liabilities arising in relation to the provider's Green Deal plans, including any arising under the Green Deal framework regulations and Code of Practice. We consider that in this way, it should be possible for a Green Deal provider to transfer all Green Deal plans to which it is party to, to another authorised Green Deal provider, if necessary.

13. It is also proposed to extend the above provisions to cover situations where a Green Deal provider authorisation is withdrawn by the Secretary of State for another reason such as a persistent breach of the scheme conditions.

**QUESTION 19: Are surety bonds the most effective, efficient way to ensure customers are protected in the event a Green Deal provider becomes insolvent or has their licence revoked. What should be the minimum requirements of a Green Deal surety bond and how much should Green Deal providers be required to insure?**

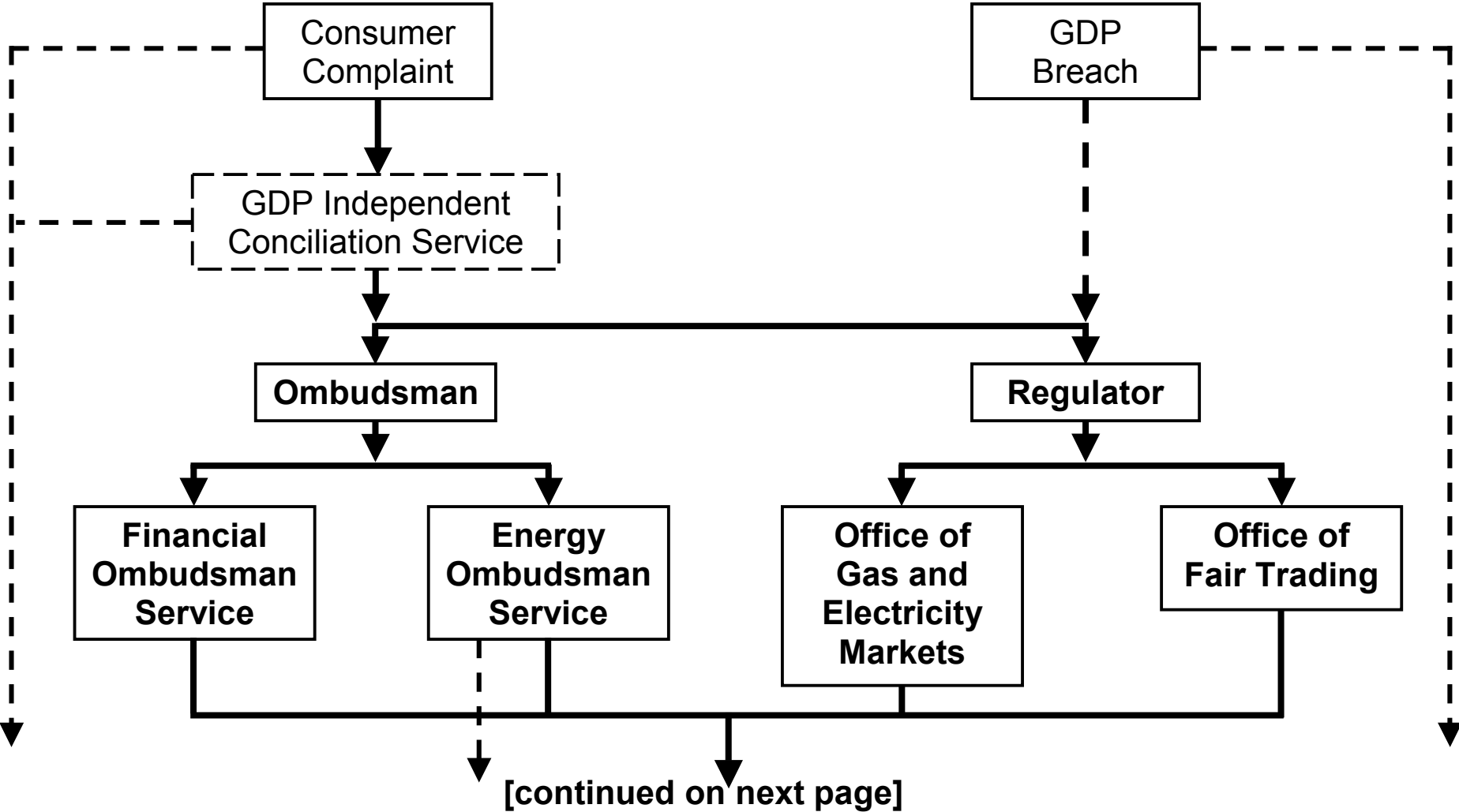
### **Oversight, Sanctions and Redress**

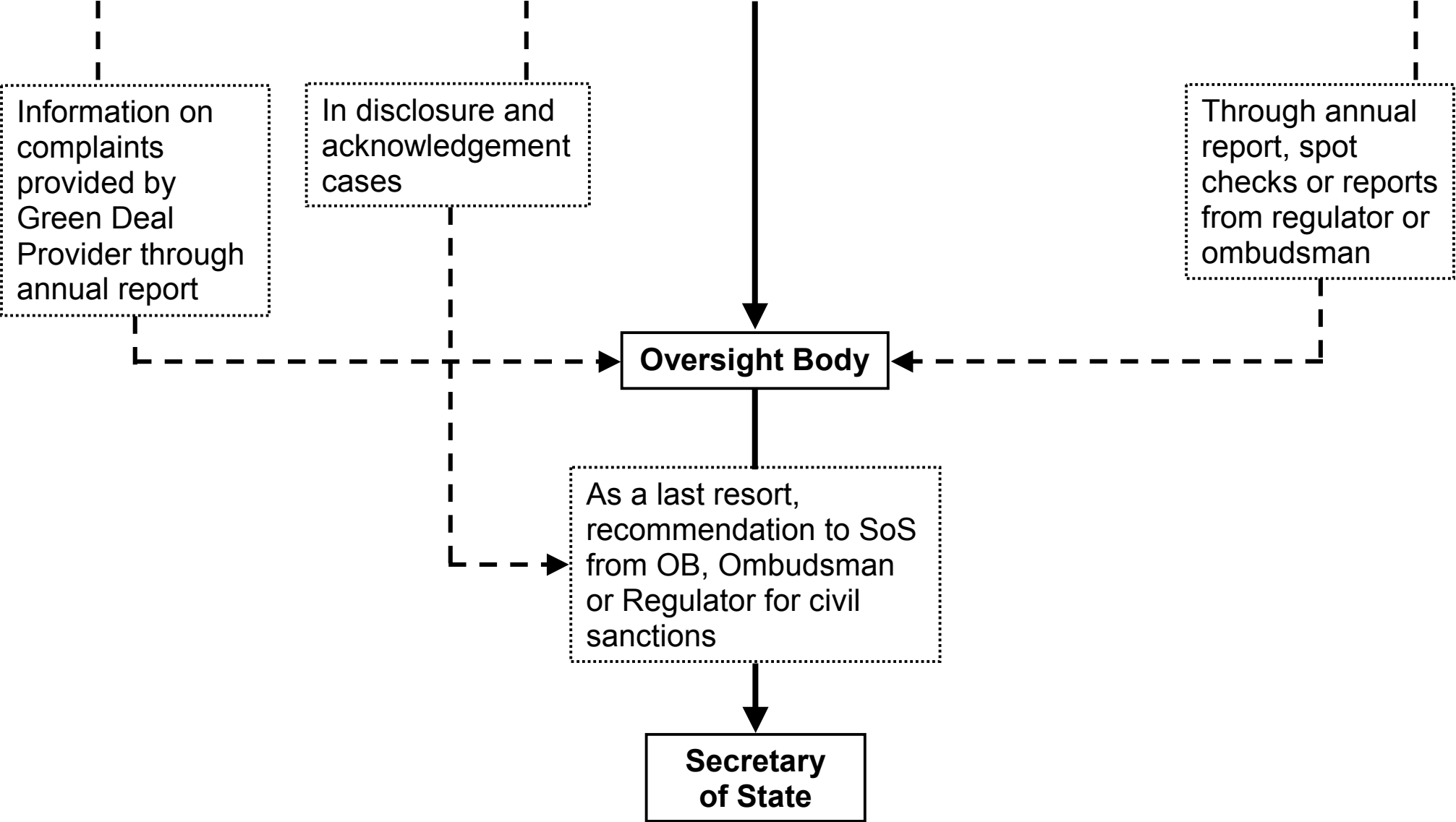
14. Green Deal providers will need to be licensed by the Office of Fair Trading (OFT) under the CCA, in addition to being authorised in relation to Green Deal. The CCA licensing regime incorporates a test of fitness (including competence to engage in credit activities), and licensing action can be taken against firms if they breach the CCA or other consumer protection legislation or engage in business practices which are deceitful or oppressive, or otherwise unfair or improper, whether unlawful or not. In the case of creditors, this can include irresponsible lending practices (and the OFT has published guidance setting out its regulatory approach in this area) [41]. The OFT has a range of sanctions under the licensing regime.



15. In addition, breaches of the CCA can lead to enforcement action by the OFT or Local Authority Trading Standards Services (LATSS), including using powers under Part 8 of the Enterprise Act 2002 where the breach may harm the collective interests of consumers. Some infringements also constitute criminal offences. OFT and LATSS also have powers to enforce other consumer protection legislation including the Consumer Protection from Unfair Trading Regulations.
16. We intend to complement this existing regulatory regime, and that operated by OFGEM in relation to energy suppliers, by setting up a new regulatory regime specifically for Green Deal. This aims to ensure that Green Deal providers (and other Green Deal participants) meet their ongoing requirements under the Energy Act 2011 and framework regulations including adhering to the Green Deal Code of Practice, the GDAR and the conditions for authorisation.
17. We are not proposing to establish a new regulator but the Green Deal Oversight Body will have a role to play in monitoring the conduct of Green Deal Providers. If the Oversight Body encounters evidence of breach of the Green Deal scheme or other legislation, it will have powers to investigate and to report to the Secretary of State who can impose appropriate and proportionate sanctions. In appropriate cases, information can also be passed to other regulators, such as OFT or OFGEM, and we will ensure that there are data sharing gateways in place to facilitate this.
18. Diagram 5 below sets out how the different regimes will work together and how we will ensure robust oversight of Green Deal providers.

Diagram 5: Oversight process for Green Deal providers





19. We are putting in place processes to ensure civil sanctions by way of financial penalties and the last resort of withdrawal of authorisation are only applied in appropriate circumstances. A severity test will be applied when considering both civil sanctions and withdrawal of authorisation. In addition, a fitness test will be applied which will assess the fitness of a Green Deal Provider for authorisation by the Secretary of State to continue to function in the market. Only when it can be justifiable in terms of this test, can the Secretary of State remove the Green Deal Provider's authorisation. Before imposing civil penalties, in addition to the severity test, a proportionality test will be applied to consider, for example, business turnover and size.
20. The Green Deal Provider is always the first point of contact for customer redress, and will have an obligation to investigate the problem. Following an investigation, if the Green Deal provider or one of their sub-contractors is at fault or where a guarantee applies, the Green Deal provider will be required to rectify the problem as appropriate. The Green Deal provider will then be able to seek redress through their sub-contract with assessors and installers. If the Green Deal provider believes the fault has been caused by another Green Deal participant, who was not acting for or on its behalf when the work which led to the problem was done, the Green Deal provider will assist the customer to take the complaint to the relevant party.
21. If the customer is dissatisfied with the Provider's response to the complaint, or if the provider fails to investigate at all, they can choose to escalate the complaint to the Independent Conciliation Service provided by the Green Deal provider. This is a free and voluntary conciliation service, which providers will be obliged to offer to dissatisfied customers. If this stage is unsuccessful or isn't used, the consumer may be directed by the Green Deal provider to take their complaint to either the Financial or Energy ombudsman service (FOS and EOS respectively), depending on the nature of the complaint. The decision of the Ombudsman is not binding unless the consumer

chooses to accept the decision. In the event that a consumer is not happy with the decision of the Ombudsman, or the plan needs to be adjusted as the Golden Rule principle was not properly applied, the Green Deal Oversight Body will have a role in compiling a report for the Secretary of State who may choose to impose sanctions on the Green Deal provider for a regulatory breach, and if appropriate can provide redress to the customer by re-evaluating the plan and reducing the outstanding amount in line with the impact of the breach on the customer.

22. It is not envisaged that Green Deal Providers will be required under the scheme to directly compensate customers if a breach has occurred. Compensation can however be recommended by the Ombudsman Services. Where the FOS upholds a consumer complaint, they can recommend the company in breach to compensate the consumer up to £100,000 for deprivation of money and investment loss or for distress, inconvenience or other financial loss. In addition, the independent conciliation service can recommend that the Green Deal Provider compensate the customer.
23. We are also proposing that in instances where the consumer has been satisfied by the decision of the Ombudsman service, if the breach appears to be systemic, (for example through the volume of customer complaints), it may be investigated by the Oversight Body and referred to the Secretary of State who may impose regulatory civil sanctions, in line with the appropriate severity and proportionality tests.
24. Further, the potential need for civil sanctions may come to light through the Green Deal Provider's annual reporting to the Oversight Body or through information provided by existing regulators or redress mechanisms. If the complaints and breach appear to be systemic or severe, following receipt of a report from the Oversight Body, the Secretary of State would apply the severity and if appropriate fitness and proportionality tests to determine whether there is a need for sanctions.

25. We propose that a customer complaint about breaches of framework regulations and Code of Practice must be raised within six years of the alleged breach, in line with the limit for legal claims in existing consumer law.
26. The redress and regulatory system is a stepped process which where possible and to a large extent will operate in line with existing practices and regulatory regimes. Therefore we envisage the instances where the Secretary of State will be required to act to be limited. Green Deal providers will have a right of appeal against any determination of the Secretary of State to the first tier tribunal which is explained further in chapter 10.

**QUESTION 20: Does our proposed approach to authorisation and oversight of Green Deal providers ensure the necessary standards of consumer protection and proportionate redress without creating barriers to entry into the market?**

### **Developing the Green Deal quote**

27. Once the customer has their Green Deal assessment, completed by an authorised Green Deal assessor, they will be able to take the outcome of the assessment to any authorised Green Deal provider and ask them for a quote for installation of and finance for one or more of the recommended measures.
28. The Green Deal Provider's quote for installing these measures will include the costs of the measures themselves, installation, finance and any other associated costs. Details on what they should use as the basis of the savings in year 1, and how the charge can vary in subsequent years are set out in chapter 4.
29. The customer will be free to approach as many Green Deal providers as they wish for a quote. We are not proposing to place a requirement on customers to obtain a minimum number

of quotes except in cases where a Green Deal package offered to a domestic customer is in excess of £10,000. In this case, customers will be required to obtain three quotes from different Green Deal providers. The requirement to ensure the quotes have been obtained will be placed on Green Deal providers via the code of practice and helps to provide an extra level of consumer protection.

30. Provisions will be included in the code to try and ensure people who are eligible for ECO support are detected as soon as possible in the customer journey to ensure any available support is factored into the finance calculation and offer to the customer. Green Deal providers may access ECO by either contracting directly with energy companies or through using a brokerage (see chapter 9: delivering Green Deal and ECO) to bid for ECO support. If a Green Deal provider is unable to offer a Green Deal plan, they should refer the customer to the Remote Advice Service for further information.
31. If the customer is content with the quote, the Green Deal provider will develop the Green Deal plan, ensuring the terms adhere to the requirements set out in the framework regulations and code of practice. As required by the CCA customers with a CCA-regulated agreement will have a 14 day cooling off period once they have signed and returned the plan to the Green Deal provider.
32. We will ensure that customers with regulated agreements (i.e. all domestic customers and some small businesses) will be made aware that they have the option to pay for the package up front and not utilise Green Deal finance. In this circumstance, there will be no Green Deal plan. In addition to the CCA requirements, the code of practice will require Green Deal providers to make it clear to the customer which protections are associated with a Green Deal plan and how these will differ from financing the measures upfront.

33. Customers may also choose to pay part of the costs upfront, in which case the Green Deal provider will be able to reduce the amount of finance attached to the electricity bill. This will enable customers to shorten the payback period or lower the instalments if desired. Allowing this flexibility should help to increase uptake as it provides customers with greater choice over repayment terms, something our customer insight work highlighted as being an important element of the Green Deal.

### **3.3 The Green Deal Plan**

#### **Terms of the Green Deal plan**

34. The Green Deal Plan is the contract which sits between the Green Deal provider and the improver and bill payer (if different) at the property. The plan is for energy efficiency works and finance, and as set out in the Act and framework regulations, certain conditions must be met in order for the plan to qualify as a Green Deal Plan – with the effect that the obligation to pay instalments passes from bill payer to bill payer. Some of these conditions relate to the terms of the plan - such as applicable interest rates, warranties and ensuring the Green Deal plan does not restrict the bill payers ability to change the intervals at which they pay their energy bills or the ability to swap energy suppliers.
35. If these conditions aren't met, the plan is an energy plan, not a Green Deal plan. We propose that it will be a continuing condition of Green Deal Providers' authorisation that they ensure the conditions are met – with the exception of the condition that all necessary consents to the charge are obtained, as this condition is the responsibility of the improver. If the conditions which are the responsibility of the Green Deal Provider are not met, the Green Deal provider would have broken a condition of its authorisation and therefore sanctions could be imposed and the Green Deal plan re-evaluated.



36. As the obligation to pay the charge transfers from electricity bill payer to electricity bill payer, it's important to consider the position of the first and subsequent bill payers. Where we consider it appropriate, in order to try to achieve fairness for first and subsequent bill payers, we are proposing to regulate the terms of the plan over and above existing legal requirements. An example of this is the restrictions on permitted interest rate structures which are detailed further in the Golden Rule chapter. This will help to reassure customers who take out a Green Deal that subsequent bill payers should not be adversely affected by the Green Deal charge in subsequent years, a concern which was highlighted by our Green Deal customer insight work.

### **Interest charges on late payments**

37. With consumer loans, it would be normal for the provider of finance to charge interest on late payments. This charge would cover the provider's own loss resulting from the payment being withheld, albeit temporarily. Without such a charge, the provider of finance would need to anticipate their losses from late payments and effectively build this cost into the initial cost of finance – thereby spreading the costs across all customers, including those that pay on time, and increasing the overall cost of Green Deal finance. At the current time energy companies do not charge interest for late payments on energy bills in the domestic sector and rarely charge interest in the non-domestic sector. We understand that changing their billing systems to accommodate an additional charge on late payments would incur significant administrative costs. Equally, it would establish an unusual practice of energy companies charging interest on one part of the bill i.e. the Green Deal section, but not for energy. A possible compromise option would be to allow late payment charges to be charged after a specified period of time.

**QUESTION 21: How much weight should be given to the argument for placing financial responsibility for late payment with the payee?**

## **Guarantees and Warranties**

38. Our policy intent is that Green Deal plans should be repaid within the lifetime of installed measures. However, this does raise the question of how best to ensure that installations will continue to function over this period – and that customers and subsequent bill payers are not left paying for something that no longer works. In the existing market there are a number of approaches that provide various levels of assurance for installed measures: warranties, guarantees, service contracts etc. However, these will not necessarily cover the operational lifetime of products, and/or may require regular servicing or inspections for continued cover across the lifetime of a measure (at potentially significant additional costs). Our customer insight research highlighted this as a concern for people and therefore it is important to ensure requirements for guarantees and warranties are enough to boost customer confidence. The challenge is how best to provide customers with assurance while not adding disproportionate costs onto any Green Deal Plans.
39. Our preferred option would require Green Deal Providers to put in place adequate assurance against measures throughout the period of repayment, and as a minimum, require a warranty of two years from installers for the quality of installations.
40. In effect, the Green Deal Provider would be offering a combination of the manufacturers guarantee, the installers warranty and their own insurance-backed warranty – the cost of which would be included in the finance offer to the customer. This approach gives them an incentive to ensure standards of the businesses they sub-contract with, and to demand more rigour from the certification bodies. It would also require installers, manufacturers and assessors to maintain whatever warranty provisions they currently have in place.

41. The Green Deal provider will be the first port of call for customers in the event they have any queries or problems with their Green Deal throughout the lifetime of the plan. Therefore, if appropriate, the Green Deal provider has an obligation to put things right, bear the assurance risk of measures going wrong and seek redress and compensation from any sub-contractor that was demonstrably at fault. If there is no sub-contract in place, the Green Deal provider will assist the customer to seek redress directly from the relevant party. This option is likely to offer consumers the simplest and most effective protection for the life of Green Deal plans, as it would provide a single source of information and point of contact should any problem occur. It would therefore be quite straightforward for new occupants of a property to determine where responsibility lies and who to contact, in the event of problems.
42. Green Deal providers would be able to offer a package of measures with different assured lifetimes for each measure. In this instance, Green Deal providers would be required to stagger payments over the plan to correlate with the lifetime of the warranty for each measure.
43. Requirements included in the code, such as the need to ensure the company underwriting the warranty is at least an 'A' rated company will ensure the warranties issued by all Green Deal providers are robust and meet minimum requirements. The onus will be on customers to ensure installed measures are properly maintained. Green Deal providers will however be free to offer customers maintenance contracts which may or may not be offered as part of the Green Deal plan.
44. Ensuring full protection for customers throughout the lifetime of the plan is the most desirable policy, however, we are aware this extends normal industry practice and could be costly and burdensome for Green Deal providers. This policy could also artificially limit repayment periods which would have implications for eligibility of measures under the Golden Rule. Therefore,

we'd welcome comments on this proposal along with evidence on likely costs and benefits and alternative suggestions on ways to ensure that customers are adequately protected against measures failing.

**QUESTION 22: What are your views on the government's proposal of requiring Green Deal providers to offer insurance-backed warranties for the entire repayment period? Please provide evidence to support your views.**

## **3.4 Consumer Credit Act and the Green Deal Plan**

### **Early repayment rules**

45. The CCA provides customers with a right to repay their credit arrangement early either in full or in part. So Green Deal customers with a Plan regulated under the CCA will be free to repay their Green Deal early at any point, giving customers the freedom and flexibility to exit the Deal if they wish to do so. We think customers will value this ability; however, we want to ensure that the consumer compensates the provider where they are clearly out of pocket.
46. The CCA provides that when customers do choose to repay early, the amount of compensation they can be asked to pay is limited, and is set at whichever is the lower of:
  - either 1% of the amount repaid (if there is more than a year remaining when a customer repays early) or 0.5% of the amount repaid (if a year or less remains); and
  - the total amount of interest that the debtor would have paid under the agreement from the date of the repayment to the point at which the debtor would have discharged his indebtedness in the normal course of events (section 95A of the CCA).

47. This substantially limits the compensation a Provider can obtain, and, given the long length of Green Deal plans, means Green Deal Providers could stand to incur a substantial loss where a customer chooses to repay early. This could happen if, for instance, a Green Deal Provider chooses to provide credit to a customer with the expectation of receiving a certain amount of interest over the next 20 years. That Green Deal Provider may turn down other investment opportunities that occur over that time, and will make plans on the basis of the income it expects to receive from its Green Deal customers. If a customer decides to repay early, the Green Deal Provider could stand to lose a substantial amount of the income they had expected if they are unable to lend the amount repaid at a similar interest rate.
48. If we do not enable Green Deal Providers to recoup such losses, this may deter them from participating in the scheme, or may lead them to price the risk of early repayment into the cost of the credit at the outset, potentially making the cost of Green Deal finance unsustainably high.
49. We are keen to strike the appropriate balance between protecting consumers from excessive fees and minimising the risk that the cost of finance for all customers will be increased. The existing provisions of the CCA seek to strike this balance, and we agree that those provisions are appropriate for general credit arrangements, including Green Deal Plans which are similar in length to standard credit agreements
50. However, in the case of exceptionally long Green Deal plans, we consider that the existing provisions may not be sufficient to compensate creditors appropriately in the event that a customer chooses to repay early either in full or in part. Provision is made in the Consumer Credit Directive (the European legislation that sits behind much of our consumer credit regime) to allow creditors to claim more compensation in certain exceptional cases. Government considers that this provision is applicable in the case of Green Deal plans which are for a particularly long

period of time. We have therefore implemented this provision via section 29 of the Energy Act 2011, to provide for a new section 95B of the CCA. This enables enhanced compensation to be claimed in appropriate circumstances. Green Deal Providers will be able to claim this compensation where the term of the plan exceeds 15 years in duration and the interest rate is fixed at the time the repayment is made.

51. The amount of compensation that can be claimed under this new provision is limited to the total interest the Provider would have received in the period from the date of the early repayment to the date fixed by the agreement for the discharge of the debtor's indebtedness. In addition, Green Deal Providers should only charge customers the amount necessary to cover their objective loss. Customers remain free to repay early, and if Green Deal Providers are able to re-invest the money repaid early, for example in another Green Deal at a similar rate or higher, it may be that no extra compensation will be payable. If, however, a customer wants to pay back early, and the Green Deal Provider can only reinvest the money in another Green Deal at a lower interest rate, the customer is liable to pay the difference to the Green Deal Provider, subject to the limitations mentioned above.

The calculation of the compensation under section 95B will be in accordance with a formula we propose to lay down in regulations. This will subtract both the amount the creditor can now obtain by lending the money out, and any savings they will make on administrative costs as a result of the repayment, from the total interest that the creditor would have obtained under the agreement had the customer not repaid early. Similar provisions apply for partial early repayment.

52. Green Deal Providers who are eligible to claim under either section 95A or section 95B are free to choose which they wish to claim under. They are also free to charge no compensation at all for early repayment if they wish to do so – the calculation

methods set out under the CCA provide an upper limit to what can be claimed, rather than a required charge that must be levied.

53. Green Deal Providers who claim under section 95B should ensure customers are presented with a transparent means to view how the compensation has been calculated. This will enable consumers to challenge the fees they are being charged where appropriate. In cases of full early repayment, creditors are already required to provide a settlement statement under the CCA, and this remains the case under these new provisions, offering customers an opportunity to see how the compensation has been calculated.
54. For partial early repayment, however, the CCA does not require a settlement statement to be provided unless one is requested. Customers who have repaid early in part will have the opportunity to challenge any fees they have paid when they receive their next periodic statement under section 77A of the CCA, or when they move out of the property. In the latter case, we will require, in the Code of Practice, Green Deal Providers to provide a version of the periodic statement to the person who is moving out. The section 77A statement will summarise all payments made and charges incurred since the previous section 77A statement.
55. Where a consumer makes a partial early repayment under a Green Deal plan, we propose to require as part of the Code of Practice, that Green Deal Providers as a default use the amount repaid towards the upcoming instalments, rather than to reduce the term of the plan or the amount of all remaining instalments.
56. Given that compensation may apply, and the Green Deal Provider alone is able to advise on this, customers repaying early will need to do so directly to their Green Deal Provider, rather than via their electricity bill. Where a customer attempts to repay early via their energy supplier, they should be promptly

advised to approach their Green Deal Provider directly to do this. Further details are set out in chapter 8 on the Payment Collection mechanism.

### **Consumer credit protections**

57. The CCA will apply to Green Deal Providers (as creditor) and to any person acting as a credit-broker in relation to Green Deal. It will also apply to third party debt collectors, debt counsellors and adjusters. It will not, however, apply to energy suppliers insofar as they are merely collecting Green Deal payments or debts on behalf of Green Deal Providers, and suppliers are already licensed and regulated by OFGEM.
58. The Bill modifies aspects of the CCA in relation to the Green Deal, to reflect the special characteristics of the Green Deal and how it will operate. The principal proposals in this regard are set out below:

### **Statements and information**

59. Under section 77A of the CCA, creditors must provide customers with periodic statements that set out how much they have paid off, and how much is left to pay on their agreement. These statements are must be provided annually as a minimum. Creditors must also respond promptly to requests from customers for information about their agreement – customers are entitled to request a copy of their agreement together with a statement of account showing all the payments they have made and a statement showing what payments are due in the future – section 77 of the CCA.
60. For the Green Deal, we are retaining this important right for customers to receive periodic statements from their Green Deal Provider, and to request statements of account. However, in the case of Green Deal plans, Green Deal Providers will be required



to include additional information with statements under sections 77 and 77A to remind customers that the Green Deal is a credit arrangement where collection takes place via the electricity bill. This is because we want to ensure customers are reminded about what the Green Deal is and how it works. We are testing what wording makes most sense to ensure we get it right, but the kind of text we plan to include, subject to this testing is:

This credit arrangement is a Green Deal Plan. Regular instalments are therefore collected through the electricity bill at this address, marked as 'Green Deal Charge' on the bill. To keep this credit arrangement up to date, it is important to ensure the electricity bill is paid on time and in full. You remain free to change the payment schedule of your electricity bill in line with your electricity's suppliers' policies without any penalty or extra charges accruing to this credit arrangement. If you wish to change the payment frequency, you are advised to contact your electricity supplier directly; any amendment to your electricity billing schedule will automatically be reflected in this credit agreement.

61. The Consumer Credit Directive restricts our ability to require this to be added to the third kind of statement provided under the Consumer Credit Act (a 77B statement, provided on request, and setting out future payment schedule). However, we suggest that Green Deal Providers should at a minimum remind customers that the Green Deal is collected via their electricity bills whenever they provide one of these statements.
62. We also intend to ask Green Deal Providers to take certain other actions in the case of Green Deal Plans, to ensure that the information required by the Consumer Credit Act makes sense to customers. These are:
  - Green Deal Providers should record the date that suppliers receive payments from customers as the date they receive

the Green Deal payment; this is to ensure that any time lag for suppliers to pass the payment does not penalise customers or imply they have not paid their instalments on time;

- it should be made clear on section 77 and 77A statements that a customer is only liable from the point they have been living in the property, so they know they are not responsible for any arrears for Green Deal payments which may have been built up by previous occupants;
- when a Green Deal Provider is notified that a customer is moving out, they should send a section 77A statement to the outgoing customer summarising the position at the point of departure, and highlighting any arrears;
- similarly, when notified that a new occupant has moved into a property, Green Deal Providers must send a statement to the new bill-payer giving details of the latest amount owing under the Green Deal, and the payment schedule; this is a new type of statement, specific to the Green Deal, and we will be asking energy suppliers to notify Green Deal Providers automatically whenever the bill-payer changes to enable these statements to be issued;
- as the collection and redress procedures under the Green Deal are slightly different from those under standard credit agreements, we want to ensure that these are properly reflected in the statements customers receive, so we will be asking Green Deal Providers to use slightly different wording in explaining what customers should do if they have complaints or difficulties paying.

63. In addition to requiring Green Deal Providers to provide slightly different information to their customers, we will be asking electricity suppliers to provide certain information when remitting payments to Green Deal Providers so they are able to fulfil their obligations to provide regular statements under the CCA.

64. Where a customer (by mistake) requests a credit statement from their energy supplier, suppliers will be required to react promptly in passing on the request or redirecting the customer.

### **Collection of payments**

65. Green Deal providers licensed under the CCA will be expected to ensure that they (and anyone collecting consumer credit debts on their behalf) operate in accordance with the law and with relevant regulatory guidance, in particular the OFT debt collection guidance.
66. Under the Green Deal, payment will be collected by electricity suppliers alongside the collection of energy payments (see chapter 8). In doing so, the supplier will be acting on behalf of the Green Deal provider, who will be expected to take appropriate responsibility for their conduct. We considered whether to require electricity suppliers also to be licensed under the CCA for debt collection, but decided against this on the grounds that they are already regulated in their collection activities by OFGEM. We have therefore exempted them from the need to acquire an OFT licence specifically for collecting Green Deal payments.
67. We have also exempted Green Deal Providers from section 86B of the CCA so they are not required to issue arrears notices to customers. This is on the basis that notices and other communications to customers regarding payment will be issued by energy suppliers, and we wish to avoid the confusion which could occur if customers receive additional reminders to pay directly from Green Deal Providers.
68. We want to ensure that customers receive appropriate protections when suppliers are collecting payments. The measures we are taking are covered in more detail in Chapter 8, section 12.

**QUESTION 23: What are your views on the government's proposals regarding changes to the Consumer Credit Act for Green Deal Plans?**

**Green Deals not regulated by the Consumer Credit Act**

69. The CCA does not regulate credit agreements where the debtor is not an "individual" as defined in section 189 of the CCA. This definition includes (i) a sole trader, (ii) a partnership of two or three partners not all of whom are bodies corporate, and (iii) an unincorporated body of persons, not all of whom are bodies corporate. Agreements with companies and other bodies corporate, as well as partnerships and unincorporated bodies which are not "individuals" as defined in section 189, are **outside** CCA regulation.
70. In addition, the CCA does not regulate loans to individuals where the debtor is acting wholly or predominantly in the course of a business and the credit exceeds £25,000. The Energy Bill extends this exemption so that all Green Deal plans (including those for £25,000 or less) are exempt where the debtor is acting **wholly** in the course of a business.
71. Although the CCA is likely to apply to most Green Deal Plans, it will not apply to all. We have therefore carefully considered what types of protections should apply to Green Deal Plans which are outside the scope of the CCA regime, to ensure those customers are treated fairly whilst ensuring no unnecessary regulatory burdens will be placed on Providers.
72. We have reviewed the various protections included in the CCA, and propose to require that Green Deal Providers, as a minimum should provide customers under non-regulated Green Deals with:
- a statement of account at least once a year – it is important that customers receive regular statements of account

which summarise the current Green Deal balance and the outstanding payments to be made;

- a statement of account on request - the ability of a customer to request information statements is important under the Green Deal, especially in the context of new customers who may not have the details of the original agreement to hand. We consider that it is reasonable to require Green Deal Providers to provide customers with a statement of account on request, so they can understand what the latest position is for their Green Deal; and
- information on whether the ability to repay early is part of the Green Deal package, including any associated fees - Green Deal Providers servicing unregulated customers should have the flexibility to allow customers to repay early if they so wish. However, where a Green Deal provider has decided to offer an unregulated customer the ability to repay early, they must explain to the customer how/if they can exit the agreement before the contract is signed. This will allow customers the flexibility to choose whether they want to sign up to a Green Deal that allows early repayments or not.

73. Should the use of a building with a unregulated Green Deal change so that it becomes occupied by a domestic consumer, however, it will be important that the appropriate protections do then apply. To ensure all customers receive the appropriate protections we would recommend that providers take all reasonable steps to ensure that the type of Green Deal Plan they sign a customer up to is likely to remain appropriate throughout the length of the Plan. We propose to set out in guidance for Green Deal Providers some aspects they may want to consider when signing a customer up to a Green Deal – in practice we think with most properties, the type of Green Deal which is appropriate will be clear.

74. Whilst Providers should take all reasonable steps to ensure that the type of Green Deal Plan they sign a customer up to is likely to remain appropriate throughout the length of the Plan, this may not always be possible. A change in regulated status could occur, for example, as a result of a change in capacity of the bill payer from a limited company to an "individual" as defined by the CCA. Therefore, Green Deal Providers will have the ability to require early repayment where there is a change in the status of a Green Deal plan from an unregulated credit agreement to an agreement that must be regulated in accordance with the CCA. This potential requirement to repay early will need to be clearly flagged at the outset when customers sign up for an unregulated Green Deal Plan.

**QUESTION 24: What are your views on the Government's proposals regarding consumer protections for those Agreements which do not fall within the scope of the CCA?**

**Note [40]**

A copy of the code can be found here

[http://www.decc.gov.uk/en/content/cms/consultations/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx).

**Note [41]**

Irresponsible lending: OFT guidance for creditors (OFT1107), March 2010 (updated February 2011).

## Chapter 4: The Golden Rule

### Summary of Chapter:

The Golden Rule is the principle which limits the amount of Green Deal finance that a provider can attach to the electricity bill to the estimated energy bill savings that are likely to result from the installation of measures under the Green Deal plan. This is an important principle for two reasons:

- For customers, so they do not face increased costs and encounter difficulty paying their bill.
- For those who invest their money in Green Deal plans, so they can be confident that the risk of customers not being able to make payments does not rise as a result of the Green Deal, and that any default on Green Deal payments will just be in line with current default rates on electricity bills.

This chapter sets out:

- what the Golden Rule Principle is
- the limits which apply to the year 1 charge for both domestic and non-domestic Green Deals
- how the charge can vary in subsequent years for the domestic and non-domestic sectors and
- which costs can be included in Green Deal Finance.

### 4.1 Introduction

1. The Golden Rule is essential in keeping the cost of Green Deal finance as low as possible, not increasing default rates, and in making it likely that customers' bills will be no more than what they would have been without a Green Deal.

2. The Green Deal provider will be responsible for ensuring this principle is met at the outset and will be required to set out how the expected payments and estimated savings relate for the lifetime of the plan.

### **Policy approach**

3. We have worked with colleagues across government, energy suppliers, consumer groups and potential investors in the Green Deal to design the principles behind this mechanism.
4. In designing the policy we have sought to protect future consumers, particularly in domestic properties, from the likelihood of increased energy bills. We therefore propose to cap the Green Deal payment that can be collected in the first year ("year 1") of a domestic Green Deal plan to the estimated annual savings, based on standard energy usage at the property, and then to place controls on the extent to which instalments can increase in subsequent years.
5. For the non-domestic sector, we have taken a slightly more flexible approach, given the huge variation in the type of buildings and the way energy is used by different businesses.
6. We do not propose to guarantee that the charge will be fully offset by the savings. This would be extremely difficult to either implement or enforce. However, there is nothing to stop organisations going further and guaranteeing that their measures will save customers money.
7. While there is a need to protect customers, we have sought to balance this against the need to ensure Green Deal providers are able to differentiate and innovate. Which is why we've tried to be as flexible as possible in what can be included in Green Deal finance. We have therefore taken the approach of setting limits for what cannot be done, in order to protect consumers,



rather than set out exactly what must be included in the Green Deal Plan by Green Deal Providers.

## **4.2 Clarifying the 'Golden Rule' principle to avoid mis-selling**

8. While we know from the consumer research DECC has carried out that the lack of a guarantee on savings is less attractive from a customer perspective, it would not be possible or desirable to remove any incentive from consumers to be careful with their energy consumption. Additionally, rising energy prices are impossible to accurately predict or mitigate against, so it would never be feasible to guarantee to customers that their bills will not rise over a long period of time.
9. If, however, energy prices rise at the levels we expect, customers who have taken out a Green Deal package with a fixed interest rate will see their bills rise less than they would have risen had there been no measures installed at the property. The Green Deal should therefore offer partial protection from the impact of rising energy costs.
10. It is important that the principle of the charge being offset by the expected savings is not over-sold to customers, and that Green Deal customers are clear that the savings are not certain and if energy prices rise or the customers' comfort levels or energy consumption increases, their bills will indeed go up. To avoid the risk of mis-selling, we are carrying out research into the best way to explain the golden rule principle to consumers and how to ensure people understand that savings are not guaranteed, but are based on what is likely to happen, all else being equal.
11. We are requiring in the Code of Practice that Green Deal providers explain this aspect of the Green Deal to consumers to ensure they fully understand the relationship between costs and savings. The requirement to ensure consumers are made fully

aware of the nature of the credit arrangement they are signing up to and that the charge is affordable to them is also enshrined in the Consumer Credit Act and OFT's Irresponsible Lending guidance.

### 4.3 Calculating instalments under the Golden Rule

12. This section looks at the different aspects of calculating the Green Deal charge, including the amount that can be charged in year 1 of a plan and whether any variation to this amount can occur in future years, for example whether it could rise over time as energy price inflation creates increased bill savings.

#### The Charge in Year One – the Domestic Sector

13. We want to ensure that, while savings are not guaranteed, customers can have reasonable confidence that the savings estimates provided are accurate, and based on how measures are likely to perform in **their** property. The Green Deal assessment is a key part of the process of determining the savings.
14. For domestic properties, we propose that the upper limit of the Green Deal charge in Year 1 should be limited to estimated savings based on a standardised assessment of a domestic property. This assessment will use standard assumptions about energy prices, heating, lighting and hot water use and the performance of measures in a property of a given type. This savings estimate will therefore be based on information about the **fabric** properties of that particular dwelling, and will also draw on data about standard energy use at a property of that kind, standard performance of energy efficiency measures, the geographical region, and a rolling average energy price. DECC will have an ongoing role in ensuring that the appropriate data is used within the assessment tool, and is updated at appropriate intervals, so that the Assessment provides a reliable savings

estimate consumers can have confidence in. Chapter one covers the assessment design in more detail.

15. The exception to this upper limit is where a customer is not going ahead with exactly the same package of measures as set out in the Green Deal Assessment. Green Deal Providers will have access to an approved online tool using SAP methodology which can be used to tailor the package by adding and removing the measures a customer is choosing to go ahead with, and adjusting the savings estimate appropriately. Where this is applicable, the estimate provided by this **adjusted** package should form the upper limit for the charge that can be attached in Year 1.
16. We considered using a more tailored assessment which took into account the actual energy consumption and energy tariff of the current occupant. Although using real data would provide a more accurate output for the household taking out the Green Deal initially, it would potentially create problems for future occupants. For example, if at the outset of the Green Deal, the property's occupants are particularly high energy users, or are on a particularly high energy tariff, they could receive a very high savings estimate and attach a large charge to the property. However, it is unlikely that this charge will be offset by the savings for the next bill-payers unless they are also high energy users. Using actual energy consumption at the outset of a Green Deal, could risk the occupants' bills rising and affect the ability of future occupants to pay their bills potentially increasing levels of default.
17. Using the standard assumptions and average energy prices to calculate the Green Deal charge will avoid these risks to future occupants and increase the likelihood that the Green Deal charge will be offset by the savings for both current and future bill-payers.

18. We are also considering if it is necessary to include an additional consumer protection mechanism for Green Deal plans offered to domestic customers, which are in excess of £10,000. This would provide a greater degree of comfort to consumers who are considering a larger Green Deal, which could assist in increasing uptake. In this instance we are proposing to place an obligation on Green Deal providers to reduce the savings estimate by 5% which will provide a greater savings margin and expectation that costs will be offset by savings, even if energy prices decrease or energy consumption of the bill payer fluctuates. We are proposing to keep the £10,000 figure under review and increase it as the value of Green Deals increase.

**QUESTION 25: Is it necessary to afford consumers additional protections and extra comfort where they take out green deal plans in excess of £10,000? If so, is the proposed protection of reducing the saving estimate appropriate and is the 5% figure the correct adjustment?**

### **Lower than Average Energy Users**

19. If a customer is found during the occupancy assessment to be a low user of energy, their energy bill savings may be lower than the standard savings estimate. In these instances customers should be alerted that their bills could go up if the full Green Deal charge allowable (under the Golden Rule) is added to their bill. The customer may wish to tailor the plan so that their bills are not expected to go up, so the Green Deal Provider may for example, increase the length of the repayment period (as long as they remain within the lifetime of the measure) to reduce the charge that is added in each billing period. Alternatively, the customer may remain keen to go ahead with the maximum level of Green Deal finance that is permissible for their property. In such cases, as long as they are made aware that they potentially face additional cost and provided the Green Deal Provider has taken reasonable steps to ensure the anticipated

extra payment is 'affordable' for them in line with OFT's Irresponsible Lending Guidance, the amount collected in year 1 under the Plan can still be up to the limit set by the standard savings estimate.

20. Government recognises that some households, particularly those on low incomes and at risk of fuel poverty may under heat their homes as they cannot afford to spend more on energy. The initial stages of a Green Deal assessment process should screen and direct low income and vulnerable households eligible for assistance under the ECO Affordable Warmth Obligation to the remote advice service for further information. Households will also be provided with information on the support available through ECO for those who meet the eligibility criteria if their Green Deal assessment does not result in the offer of a Green Deal plan.

### **The Charge in Year One – the Non-Domestic Sector**

21. For non-domestic properties, we propose a similar 'cap' on the amount collected through the energy bill in Year 1. The savings estimate from the generalist Green Deal Assessment will normally provide the upper limit for the Green Deal charge. This assessment will include recommended measures as well as a per annum savings estimate for those measures, in £, based on the fabric of the building, standard assumptions about energy prices and performance of measures. The non-domestic assessment will, however, use data on the actual energy use of the building – rather than standard assumptions about energy use, as these are much less meaningful in the non-domestic sector, given the wide variation in use of buildings.
22. The Green Deal assessment for non-domestic properties will set out what assumptions underpin the estimate provided, including the price tariff that was used, and the consumption assumptions. The Green Deal Provider will highlight to customers that the

estimated savings are less likely to be accurate for them should their actual energy tariff differ from the assumed price, or should their consumption change in the future.

23. We are considering how best to handle situations where **non-domestic** customers do not go ahead with the full package of measures set out by the initial assessment. In the domestic sector, Green Deal Providers will have access to a SAP-based online tool to adjust the package accordingly – but there is no such tool available in the non-domestic sector. Instead, the non-domestic assessor will be able to provide savings estimates for a different scenarios, based on discussions with the customer during the assessment regarding the combinations of measures they are likely to install. When preparing a quote, the Green Deal Provider should use the savings estimate of the package which most closely resembles the one they are quoting for, making reasonable adjustments if necessary.
24. We know that savings within the non-domestic building stock can greatly vary depending on how entire systems of measures are designed and installed to increase effectiveness. There is also a greater degree of variation in energy tariffs. We therefore propose that while the savings estimate from the assessment should be the starting point for the cap on instalments for year 1, this figure can be increased if the Green Deal Provider estimates that more savings are likely and the customer (and relevant consenting parties) agree to base the charge on this increased estimate.
25. This is a flexible approach under which GD Providers can base savings estimates on the Green Deal assessment should they so wish. However, the services of a specialist can be used in addition to give a more detailed estimate of savings. For example if a lighting specialist is able to design a system that would save significantly more than the generalist assessment was able to predict, or if a more specialist assessor is able to tailor the savings based on the customers' actual energy tariff.

In cases where an additional specialist assessment is used, Green Deal Providers will need to clearly set out information about the assessment that has been done, including what the savings are based on, and ensure that businesses understand the potential risks involved.

26. We also considered an option under which the figure from the Green Deal assessment for non-domestic properties, based upon the SBEM EPC methodology, would deliver the savings estimate, with this setting the year 1 'cap' for the instalments – with no flexibility to allow for more specialist estimates providing higher savings estimates. However, our concern is that, even with the improvements to the SBEM methodology we are putting in place, the Green Deal Assessment will not be equipped to consider in detail how a whole system (e.g. a lighting control system) might be designed in a non-domestic property to maximise savings. It would therefore be likely to lead to routine underestimation of the level of savings that could actually be made, and limit the value of Green Deals which businesses can take out.

### **QUESTION 26: Do you agree with the approach to the Year One charge that can be used in a Green Deal Plan?**

#### **The charge in future years**

27. The proposals set out in the preceding paragraphs set out how we intend to limit the instalments that can be charged at the outset of a Green Deal plan. Factors such as inflation and rising energy prices could on the face of it suggest scope for the Green Deal charge to rise significantly over time. However, in order to ensure customers can have a reasonable expectation that the charge should not exceed savings throughout the lifetime of the plan, we propose to place limitations on how the charge can vary in future years.

## Future Energy Prices

28. Factoring in predicted future energy prices to the estimated energy bill savings would create substantially higher overall estimated energy bill savings, allowing more measures to meet the Golden Rule principle at the outset. According to DECC estimates, domestic gas and electricity prices are expected to increase by 52% and 70% respectively, in nominal terms, from 2011 to 2020. As energy prices rise, greater savings should accrue to customers who have a Green Deal. Therefore there is a question as to whether Green Deal providers should be able to capitalise future predicted savings and offer more finance than would have been indicated by current energy prices alone.
29. However, this approach would not offer customers the same degree of confidence that costs would not exceed savings. It is also not clear how future energy prices could be factored into the charge at the outset – no future energy price index is likely to accurately reflect reality or rise in a linear manner. Any significant variations in prices from the original predictions could lead to the costs exceeding the savings in a number of years. There is also a risk that Green Deal providers would use different energy price predictions meaning the same package could be said to meet the Golden Rule principle by one provider but not another. This adds considerable uncertainty into the Golden Rule principle and may ultimately affect consumer confidence and uptake.
30. Therefore, we are proposing that Green Deal providers should not be permitted to factor in any predicted energy price rises into their estimate of energy bill savings at the outset of the Green Deal. The expectation that the Golden Rule is likely to be met should help increase consumer confidence, and reduce default, keeping the cost of capital low. In a rising energy price scenario, this option also ensures consumers make a greater saving on their bills over time, which could help to increase uptake of the Green Deal.



31. We have however, also looked at other options to enable Green Deal providers to make use of the likely increase in bill savings over time in order to attach more finance and install more measures at the beginning of a Green Deal. We considered whether it would be possible for Green Deal providers to factor in a percentage rise in line with the Bank of England's targeted inflation (i.e. 2% every year fixed for the duration). In theory, if energy prices rise in line with inflation this would mean that they remained flat in real terms. Green Deal providers could establish plans which automatically increased the amount of instalments payable on an annual basis by a fixed 2% in each year of a Green Deal plan to account for expected inflation in subsequent years. This kind of conservative percentage increase carries a low risk of instalments exceeding expected savings over the life of the plan whilst leaving scope for consumers to directly benefit from increased bill savings if energy prices increase by more than 2% per annum.
32. Permitting a moderate increase, where the charge remained flat in real terms, would ensure Green Deal providers could be reasonably confident that the charge would not be greater than the savings and therefore the Golden Rule principle is likely to hold. This is, however, an unusual financial product and therefore it is not clear if Green Deal providers will offer this structure to customers. This increase would only be permitted for fixed rate Green Deals.

### **Interest Rate Structures**

33. The Energy Act 2011 does not restrict the extent to which the interest rate for a Green Deal Plan can vary, but we have powers under section 5 to make regulations which impose requirements regarding the terms of Green Deal Plans. We have therefore considered what restrictions, if any, should be placed on the variation of interest charged under a Green Deal Plan. Allowing variable rates would allow the Green Deal

provider to vary the interest on the charge to the customer over the term of the Green Deal plan. A fixed rate deal would see the customer paying the same interest rate throughout the lifetime of the plan. Our priorities in considering this issue have been consumer protection, simplicity and transparency; and that the Green Deal remains a viable investment opportunity for the financial sector.

34. If we set no restrictions around interest rates, Green Deal providers could offer a range of products according to the needs of their investors and customers. This could include fixed or variable products (e.g. linked to RPI, CPI or Bank of England Base Rate). This would provide increased flexibility and choice but also create risks for the consumer that costs would exceed the bill savings, for example if the interest rate increased whilst energy prices remained static or fell. Providers would also need to make forward estimates about possible interest rates to determine whether particular deals would be likely to meet the Golden Rule for the duration of the plan. These estimates would vary and could lead to Green Deal providers using different projections, so the same package could be stated to meet the Golden Rule in some cases but not in others. Because of this uncertainty, our view is that it would be very difficult for Green Deal providers to offer variable Green Deal plans linked to indexes such as base rate or RPI/CPI and meet the requirements as set out in the framework regulations, relating to the estimated instalments and estimated savings of the plan.
35. Our proposal for the domestic sector is therefore to restrict allowable interest rate structures to those which minimise the risk that the charge will not be offset by savings in future years. The following interest rate structures give the greatest certainty of the costs being less than the savings throughout the lifetime of the plan: 1) fixed interest rate plans and 2) variable interest rate plans where the interest rate varies in line with the most appropriate component of the fuel and light index which forms part of the wider Retail Price Index and is currently published on

the DECC website. The fuel and light index is broken down into different fuel types so the Green Deal provider would be required to use the figures for the most appropriate fuel – that is the fuel where the most savings will be made. If the most appropriate fuel is not present, or if the Green Deal Provider does not have information on the fuel upon which the most savings are likely to be realised, then the Green Deal provider shouldn't offer a variable rate.

36. Although the fuel and light index (which forms part of the RPI and CPI indices) should correspond closely to rises and falls in consumer energy bills and therefore any variation of interest according to that index should not lead in most cases to the consumer cost exceeding the savings, this is a very unusual financial product, which could potentially see customers paying a high rate of interest on their Green Deal plans. In addition, we have also been advised that finance providers are likely to be cautious about offering a new type of interest rate to consumers due to the risk of mis-selling. With this in mind, although this variation is unlikely to break the Golden Rule principle, we think it is unlikely that Green Deal Providers will choose to offer it to consumers.
37. A fixed interest rate deal, under which the customer pays the same amount each instalment, possibly with an annual rise in instalments in line with inflation targets, could be a more attractive proposition for a customer. In a rising fuel price scenario, Green Deal customers with fixed instalments would be likely to benefit from increased savings on their energy bills and the Green Deal could be seen as an 'insurance policy' against rising energy prices.
38. We did consider allowing Green Deal providers to vary the interest in line with more general inflationary indexes such as the Retail or Consumer Price Indexes, but the correlation between these indices and domestic fuel price was weak in

certain years, increasing the chance that costs would be greater than the savings in some years of the Green Deal plan.

**QUESTION 27: What would be the benefits of allowing Green Deal providers to vary the interest relating to a Green Deal plan in line with the most appropriate component of the fuel and light index?**

39. For the **non-domestic** sector we propose a different approach. We are recommending that no restrictions be placed on varying the interest rate charged under a Green Deal Plan. Businesses will be much better equipped to ensure they are aware of all the risks at the outset and will endeavour to shop around to ensure they are securing the best deal to meet their needs. Non-domestic customers will be used to entering into credit agreements and taking finance. The potentially shorter duration of non domestic Green Deals will also make it easier to meet the requirements in the framework regulations in terms of calculating the charge and meeting the Golden Rule.
40. If a variable rate plan was offered in either the domestic or non-domestic sector the Green Deal provider would clearly set out, at the beginning of the Green Deal the frequency at which updates to the interest rates would be made. It is proposed that Green Deal providers, as a maximum, would only be able to update the interest rates every 6 months.

**QUESTION 28: Do you agree with the proposed approach to how the charge can vary in subsequent years of a Green Deal Plan?**

**Costs which can be included in Green Deal finance**

41. We are proposing to allow Green Deal providers to include the following costs in a Green Deal Plan. The finance they can offer will be limited by the Golden Rule principle.

42. **Preparatory works / Make Good costs** - in order to increase demand and ensure there are no barriers to uptake or upfront costs to customers, Green Deal providers will be able to include the costs of preparatory works in Green Deal finance. In addition, it is important to set out the minimum standards which Green Deal providers should adhere to in returning the property to a reasonable state following a Green Deal installation. This will be particularly important for vulnerable and low income households, as well as ensuring there are no upfront costs for landlords.
43. We therefore propose to set a minimum requirement on Green Deal providers to ensure the fabric of the wall or room where the Green Deal installation has taken place be restored to the same condition as before commencement of the work. This would cover the basics and it would then be up to competition and individual Green Deal providers to offer more as an added service/value. It should be made clear that make good works should only be applied to the room or wall where work took place. This would prevent households from using Green Deal as a means to get their whole house redecorated. These requirements will be further set out in the Code of Practice.
44. **Unexpected costs** - provisions will be included in the code of practice to ensure potential unexpected costs are detected as soon as is reasonably practicable. It is however, inevitable that situations will arise when work has commenced and damp, asbestos or other problems are found. It is important to ensure people do not use Green Deal as a way of dealing with known problems with their properties and subsequently passing costs on to future occupants but similarly we are trying to provide as much flexibility as possible to minimise potential costs.
45. If unexpected costs are incurred, we are proposing to allow Green Deal providers to include costs in Green Deal finance up to the limit the Golden Rule principle allows. The savings estimate will serve as the natural cap in this situation so it is

unlikely that the full costs will ever be fully wrapped into Green Deal finance. If unexpected problems are found then the installer will have to contact the Green Deal provider who will make clear to the customer what will be covered by Green Deal finance and what will not before they continue with any work. The Green Deal provider will be required to obtain the necessary consents for a revised Green Deal plan before continuing with any work. If the consumer doesn't consent to further work then the Green Deal provider would be required to restore the fabric of the room or wall to the same standard as before the work commenced, apart from when asbestos is found where the normal industry rules of removal apply. Installers could choose to differentiate their offers with some choosing to include any unexpected costs as part of their costs and some choosing not to. The same is likely to be true of Green Deal providers.

46. **Cost of the assessment** - in order to ensure upfront costs for consumers are kept to a minimum, customers will have the ability to include the cost of the assessment in Green Deal finance if desirable and if this option is made available by their chosen Green Deal provider.
47. **Cash back** - the Energy Act 2011 allows for money to be advanced to the customer only in circumstances which are specified in the framework regulations. Evidence indicates cash-back or similar incentives (such as vouchers or discounts on other products) have the potential to act as a catalyst to encourage consumers to embark on works, thereby increasing the uptake of Green Deal plans. Therefore prohibiting cash back could greatly restrict the incentives Green Deal providers could offer to customers, significantly reducing take-up.
48. The Green Deal is a commercial offering and therefore it is likely that Green Deal providers will offer all kinds of incentives as part of the finance package. The cap on allowable finance under the Golden Rule will offer protection by limiting the extent to which

the cost to providers of incentives can be passed on to customers. However, to provide additional protection we are suggesting placing a restriction on any cash advancement to reduce the potential for fraud and reputational damage to the Green Deal. If Green Deal providers wish to offer a cash incentive, they will be limited to offering either 5% of the total cost of the Green Deal package or £150, whichever is less. The Green Deal provider will be free to offer this at uptake or provide for cash-back after a certain time period.

49. We are not recommending to restrict eligibility for cash-back. This could mean cash, up to the £150 limit is advanced to customers who have also received an ECO subsidy. We believe energy suppliers have a strong commercial incentive to ensure the ECO is delivered in the most cost effective way. A cash incentive may prove to be a powerful trigger to encourage uptake of solid wall insulation. We believe the proposed amount should be sufficient to catalyse people to take action without becoming a burden for future occupiers or leaving the Green Deal open to fraud or reputational damage.
50. We are not proposing that estimates for 'hassle cost' are recoupable in Green Deal finance.

**QUESTION 29: Is £150 or 5% of the total Green Deal package (whichever is the least amount) an appropriate limit on the amount of cash incentives which can be offered by Green Deal providers?**

51. The Golden Rule restricts only the amount of the instalments that can be recovered via the energy bills for the property, and does not preclude Green Deal Providers receiving part-payment via other means. These methods are likely to be:
- **Upfront Payment by the Customer** – The customer may choose to pay some of the total cost upfront, either to

ensure the charge attached to the electricity bill meets the Golden Rule principle, or simply because they wish to make an upfront payment to reduce the length or amount of instalments under their Green Deal plan.

- **ECO** – Any ECO support available to the consumer can be used to 'top up' the payment to the Green Deal provider and fund part of the costs of the installation. An ECO subsidy will never be advanced to the consumer. The Green Deal provider will add the appropriate charge to the electricity bill and receive any 'top up' ECO money direct from the energy supplier.

52. When offering a Green Deal plan to non-domestic customers who are VAT registered, in order to ensure the customer is able to attach the maximum amount of finance to the electricity bill, Green Deal providers could encourage VAT registered customers to pay the VAT upfront to the Green Deal provider and claim it back in their next VAT return. We considered the option of allowing the Green Deal provider to deduct the amount of VAT payable when considering the charge that can be added to an electricity bill but this could mean that costs exceed expected savings for future bill payers who are VAT exempt and therefore we are not proposing to include this option.

**QUESTION 30: Do you agree our proposed approach to the Golden Rule principle strikes the right balance between ensuring the necessary consumer protection mechanisms are in place whilst not unduly stifling ambition and investment in the Green Deal?**



# Chapter 5: Delivering Equitable Support and Tackling Fuel Poverty Through the Green Deal and ECO

## Summary of Chapter:

The Green Deal and ECO have a critical role to play not just in reducing carbon emissions, but also in tackling fuel poverty through helping households to improve the energy efficiency of their homes and reduce their heating costs. This chapter focuses particularly on the policy choices that may affect lower income and vulnerable households.

The Green Deal will ensure that households do not face an upfront cost to improving their home with energy efficiency measures. The ECO Carbon Saving obligation [42] provide additional support alongside the Green Deal for hard to treat homes requiring measures which include SWI.

The ECO Affordable Warmth obligation will focus on providing support to low income households, identified by their entitlement to certain means tested benefits and tax credits, who are also vulnerable to detrimental health impacts from living in cold homes. Eligibility for the Affordable Warmth obligation is intended to be further focused on private tenure properties where energy efficiency standards are lowest and there are fewer alternative forms of support.

Government recognises that a referrals mechanism would help energy companies identify those eligible for support under the ECO Affordable Warmth obligation and intends to pursue a voluntary agreement with companies for agreeing the terms on which referrals provided by Government of customers who had indicated an interest

in receiving measures would be passed on and followed up. Should this prove not to be possible Government does have the option to direct companies to provide assistance to specific households [43].

Government recognises that as suppliers are likely to recover the cost of delivering the ECO from consumers' bills, it is important to consider how the benefits of the obligation will be distributed, to ensure the scheme is delivered with a reasonable degree of equity. The Government does not believe, that on the whole, intervention in the natural distribution pattern of ECO is necessary. A possible exception to this comes in considering the distributional impacts in respect of low-income households. It is difficult to estimate in advance what proportion of the Carbon Saving obligation would be delivered to low-income households in the absence of intervention. However, even taking into account the Affordable Warmth obligation which ensures low income households benefit from ECO, on average low-income households might face proportionately higher short-term net costs from the obligation, as expenditure on energy forms a higher proportion of their income.

Therefore Government is seeking views through this consultation on whether there is a case for a 'distributional safeguard' to ensure that a minimum proportion of activity under the ECO Carbon Saving obligation is focused on low income households. As a binding safeguard of this sort might raise the unit costs of meeting targets that is passed on, the final scheme design will need to reflect a view as to whether it would be a cost-effective means to achieve the programme's aim of addressing fuel poverty.

### **5.1 Fuel Poverty**

1. Government is committed to eradicating fuel poverty as far as reasonably practicable in England by 2016, as detailed in the 'UK Fuel Poverty Strategy' [44] published in November 2001. Scotland and Northern Ireland have similar targets and the

Welsh Assembly Government has a target to ensure that no household is living in fuel poverty by 2018.

2. A household is considered to be fuel poor if it would need to spend at least 10% of its income in order to heat the house to an acceptable level of warmth (defined to be 21°C for the main living area, and 18°C for other occupied rooms, based on work done by the World Health Organisation in 1987 [45]). In practice many fuel poor households tend to under heat their homes, often because of the financial constraints they face, meaning that they live in cold conditions.
3. The latest sets of statistics estimated that 5.5m households in the UK were in fuel poverty in 2009 and the latest projections show that up to 4.1m households are in fuel poverty in England in 2011 [46]. Fuel poverty can damage quality of life and health, as well as impose wider costs on society. The likelihood of ill health is increased by cold homes, with illnesses such as influenza, respiratory problems, heart disease, and strokes all considered to be exacerbated by the cold.
4. For householders where much of their time is spent in the home, for example pensioners who no longer work, young children or those with disabilities, the need to spend a large portion of income on fuel may also mean these households have less available income to spend on other household essentials or on activities which allow them to interact more widely with society.
5. The Green Deal and ECO have a critical to play in tackling fuel poverty, as well as reducing carbon emissions, through helping households to improve the energy efficiency of their homes and reduce their heating costs. The Green Deal itself, by enabling households to finance measures at no upfront cost to themselves, will provide significant opportunities for capital-poor consumers, who might previously have struggled to do so, to improve the heating performance of their homes; and the dual nature of the ECO has been designed to ensure that specific

assistance can be provided to those households most in need of basic heating and insulation improvements.

6. Chapter 2 sets out in detail the measures that we anticipate the Affordable Warmth obligation will deliver – focusing on heating and basic insulation which offer the most cost effective opportunities to reduce the cost of heating a home to an adequate standard, helping to reduce fuel poverty on a sustainable basis.
7. Initial estimates of the impact of an ECO worth £1.3bn per year suggest that, by the end of 2022 when the costs of ECO are no longer spread across all bills, there will be a reduction in the number of households in fuel poverty of between 350,000 and 550,000, compared to how many households could have been in fuel poverty at the end of 2022 without the ECO. This estimate and the profile of changes in fuel poverty across the lifetime of the policy are being refined as policy options are further developed, and will be updated in the final stage impact assessment. For many of the other households assisted through ECO Affordable Warmth the long term and sustainable reductions in heating costs as a result of the measures will help to reduce the extent to which they experience fuel poverty.

## **5.2 Eligibility for support under ECO**

### **ECO Affordable Warmth obligation**

8. The Affordable Warmth element of ECO is designed to provide support to those low income and vulnerable households least able to heat their homes to an adequate standard and most prone to suffering health or social detriment as a result of failing to heat their homes adequately. It is clearly crucial that this ring-fenced element of the overall obligation is targeted at those households where it can make the most difference, and will form

a key part of the Government's programme to tackle fuel poverty.

9. The accompanying impact assessment sets out that the evidence that children, older people and those with disabilities are particularly vulnerable to physical and mental health impacts that are exacerbated or caused by living in low temperatures. In addition, our fuel poverty statistics **[47]** demonstrate that ninety percent of the fuel poor are in the bottom three income deciles. Those on low incomes are most likely to face financial constraints that restrict their use of heating, as well as being least likely to have the resources to invest capital in measures to reduce the cost of heating their homes. They are also less likely to be able to take advantage of Green Deal finance without extra support, given that they are prone to under-heating their homes **[48]**, and are less likely to be able to make the full energy savings anticipated – because these savings would have been based on an imputed higher energy usage.
10. With these considerations in mind, Government proposes to target the Affordable Warmth obligation at low income households who include an older person, a child or someone with a disability, and who do not have access to alternative sources of support to improve their heating arrangements **[49]**. Government also recognises the importance of identifying these households in a way that can be simply verified. Various options for designing eligibility criteria are explored in the accompanying Impact Assessment.
11. In considering the options for eligibility criteria, Government is keen to ensure that the support available under ECO Affordable Warmth is wholly directed at households who are low income and vulnerable, to maximise the benefits that can be obtained from this necessarily limited source of funding. As set out in the impact assessment, the benefits system emerges as one of the most effective and accurate means of targeting households on

low incomes and at risk of the health consequences of living in cold homes, in a way that can be easily verified and regulated.

12. An alternative model to using benefits status as the prime determinant of eligibility could be an area-based approach (perhaps on the lines of the current CESP programme, where areas of below average income are defined and all households within those areas are considered eligible). However, as the CESP evaluation suggests, criteria on these lines can introduce complexities of their own, and purely area-based eligibility criteria may not necessarily provide the same level of assurance that only low income and vulnerable households would benefit, as suppliers might naturally seek to install measures to households within this defined area who are able to contribute substantially towards the costs. Government would welcome views and evidence on this issue.
13. However, Government very much recognises that area-based approaches can also be effective delivery mechanisms to provide support to low income and vulnerable households, as demonstrated by existing initiatives such as Warm Zones [50]. We anticipate that where cost effective, suppliers may seek to roll out measures in targeted campaigns in specific areas (see Chapter 5, paragraph 48), and such approaches should ensure that those households who are eligible for affordable warmth measures (on the basis of individual characteristics such as benefit status) are identified and picked up systematically and cost-effectively.
14. For the reasons set out above, we believe that entitlement to certain means tested benefits and tax credits is an effective and accurate means of targeting households on low incomes and at risk of the health consequences of living in cold homes, in a way that can be easily verified and regulated.
15. The Government proposes to focus the eligibility criteria for support under Affordable Warmth on a similar group of benefit

and tax credits recipients to those identified currently through the CERT **[51]** Super Priority Group. This means people who are in receipt of state Pension Credit, Child Tax Credit under the 'free school meals' income threshold, or people in receipt of either Income Support, Income Related Employment and Support Allowance (where this includes a work related activity or support component), Income Based Jobseeker's Allowance and at least one of the following:

- parental responsibility for a child under the age of 5 who ordinarily resides with the person
- child tax credit which includes a disability or severe disability element
- a disabled child premium
- a disability premium, enhanced disability premium or severe disability premium
- a pension premium, higher pension premium or enhanced pensioner premium

16. We will consider evidence from CERT in setting the precise eligibility. This will include considering whether there is a case to simplify the criteria by removing any age threshold on the children who lead to a household qualifying through the CERT SPG route. Government would also welcome evidence on whether any alteration to the scale of the group who should be targeted is merited. Within a fixed scale of the Affordable Warmth obligation, any expansion would reduce the proportion of those eligible that receive support, so any advantages would need to be considered against ensuring support is targeted at those most in need. For example Government would welcome evidence on whether there is a case to expand the criteria to other means tested benefits which also denote vulnerability, such as Working Tax Credit with disability premiums.

17. Government recognises that proposals to set eligibility criteria by reference to entitlement to certain means tested benefits and tax credits must take into account the ongoing work on welfare reform. DECC is working closely with DWP to identify similar eligibility criteria by reference to Universal Credit and Pension Credit when changes come on stream in 2013. Given that the transition to the new welfare system will be phased over a number of years, we do not anticipate this necessitating any major alteration in suppliers' delivery plans. This will be an area which we will keep under review as the shape of the reformed welfare system emerges.
18. The low-income group outlined above in the CERT Super Priority Group represents around 5 million households living in a wide variety of property and tenure types. Inevitably, the Affordable Warmth component of ECO will not be large enough to ensure that all in this group receive early support under the scheme. The Government believes that there is a case for further focusing Affordable Warmth support, to ensure that it is targeted at those homes where it is likely to be most urgently needed and will make the most difference, by including tenure type as an eligibility criteria.
19. Under previous obligations, social housing has tended to benefit disproportionately from measures, particularly through the Priority Groups within CERT and under CESP [52]. The latest fuel poverty statistics [53] for England demonstrate that 81% of the fuel poor live in private housing tenures, with 19% in social housing. Among the fuel poor in private tenure properties, 63% are owner occupiers and 18% are in private rental housing. The statistics also show that standards of energy performance are significantly lower on average in private tenure properties, SAP 51 compared with SAP 61 in social housing.
20. One of the reasons why social housing leads private housing in this regard is the significant investment through the Decent Homes programme in England, and a further £2.1 billion is



committed to the same programme in the current spending review period, aimed at bringing the back log of social housing up to the standard which requires all homes to have a heating system and basic level of insulation. Financing arrangements are in place with DCLG to ensure that all local authority social landlords have access to resource necessary to meet the Decent Homes standard. Private Registered Providers of social housing are responsible for financing any changes they need to make to meet the Decent Homes standard from their own resources.

21. The Warm Front scheme, which has provided similar support to households in private tenures in recent years in England, will come to an end in March 2013. Government's intention, as announced in the Spending Review in October 2010, was that ECO would instead deliver heating and insulation measures to low income and vulnerable households.
22. Some social housing providers have argued that households on the proposed eligible benefits in social tenure homes might benefit from Affordable Warmth support as not all social landlords have easy access to the resources needed to make these improvements, therefore Affordable Warmth should be "tenure blind". We will welcome evidence on this point. However, in the light of the discussion above, the Government is minded to restrict Affordable Warmth eligibility to properties in private tenures, - where the majority of fuel poor live; that are of the lowest average standards of energy performance; and where alternative support is less likely to be available after Warm Front has come to an end. Using the benefit criteria listed above and focusing on private tenure properties only would mean the size of the eligible group was around 3 million households.
23. This is consistent with equivalent standards and financing arrangements for social housing in devolved administrations [54]. While Government recognises the potential additional

benefits of restricting eligibility to those living in properties with lower energy performance, since the most cost-effective opportunities will be in households lacking basic heating or insulation, so by definition are of low energy performance standard, we feel it would add an unnecessary cost to impose a maximum energy efficiency level as an additional constraint on eligibility.

**QUESTION 31: Do you agree that eligibility for Affordable Warmth measures should be restricted to households who are in receipt of the benefits and tax credits similar to the CERT Super Priority Group and who are in private housing tenures?**

### **Referrals**

24. A variety of social, technical and financial barriers can mean that low income and vulnerable households who will be targeted by ECO Affordable Warmth are more costly and difficult to engage than other households.
25. The Government wants to ensure that all eligible households are able to have access to the potential benefits offered by the Affordable Warmth obligation. Further, the Government recognises that there may be links to identifying eligibility for other offers of assistance with energy costs, such as the Warm Home Discount [55]. Assisting energy suppliers in identifying households who might be eligible for support could help reduce engagement costs incurred by the suppliers, reducing the overall costs of delivery, which are likely to be passed on to consumers.
26. Under new legal powers, Government will be able to stipulate that ECO companies must provide a certain level of support to certain persons or categories of persons [56]. This power could, in principle, be exercised so as to allow the Secretary of State to make provision requiring that particular households are

supported (whatever the cost). While on the one hand, providing referrals to energy suppliers could help to reduce delivery costs associated with identification of eligible households, utilising such a provision could be at odds with a key feature of the energy company obligation model under which companies have a degree of discretion as to which particular households they target for support within the eligible group, enabling them to find the most cost effective way of meeting overall objectives.

27. An effective solution to assisting suppliers in identifying specific households, addressing the issues highlighted above, could be to establish a referrals mechanism within the Green Deal framework, channelling information on potentially eligible households through to the ECO suppliers. Without a referral mechanism, there might not always be a route for some households in need of support to come forward, and certain eligible households may be overlooked or refused help by companies that they approach. A referrals system that helps identify interested eligible households, and then passes this information on to energy suppliers, is likely to help reduce the costs involved for energy suppliers to find these households and should help ensure more households are able to benefit from these measures. Households who called the remote advice service (see Executive Summary) and indicated that they were eligible and interested in receiving measures would be asked for their consent to have their details passed on to an energy supplier who may be able to provide them with measures under ECO Affordable Warmth. Households who are identified as potentially eligible (for example through the initial screening stage of GD assessment – see section 1.4 in Chapter 1) could also be referred on to the advice service for further help and possible ECO support.
28. Government might expect some "return" for this information, which it could take in the form of an undertaking by the companies to deliver a specified minimum standard of service to

**all** those households to whom they were alerted. The precise nature of the information provided by Government and the minimum level of offer to households would be subject to further discussion with the energy companies – as an example, this might be, as a minimum, a survey of the home and an offer of at least one major measure free of charge to the household within an agreed timeframe. In effect, as a result of the value of referrals being passed to the suppliers, they would waive their right to pick and choose amongst the leads that were being offered to them. This could ensure that households in properties that are expensive to access (such as those in inner-city or remote areas) or vulnerable people in certain living situations which need tailored engagement and support are not overlooked - although at a cost to the overall scheme and recognising always that suppliers could not be required to deliver more than their ECO obligations. The Government believes that a voluntary arrangement of this sort would be the simplest and most cost-effective way forward, although we would have the option of a regulatory approach if a voluntary approach could not be agreed.

29. There will be many practical issues to consider in designing such a referrals mechanisms – for example, how the various obligated suppliers divide amongst themselves the leads received, whether on the basis of those households' current supplier relationship or in some other way – and considerations of data protection will of course be paramount. Government is working closely with the companies concerned and believes that arrangements of this sort are likely to be both workable and beneficial to all parties. If a voluntary agreement could be reached this would obviate any need for regulatory requirements.

**QUESTION 32: We propose seeking a voluntary agreement with ECO obligated companies as to how they commit to following up referrals. Do you have any suggestions as to what this commitment should consist of?**

## **ECO Carbon Saving Obligation**

30. The principal objective for the ECO Carbon Saving obligation is to work alongside the Green Deal in ensuring that, as a nation, we save as much carbon as we can, as cost-effectively as possible. The Government proposes that **all** households should be eligible to receive support under the Carbon Saving element of ECO. This may well in itself enable many lower income and households to access the support they need to make significant improvements to their properties.
31. Government also recognises that it is important to consider carefully the distributional impacts of the policy, in particular with relation to low income households on whom any rise in energy bills resulting from the costs of ECO being passed through will have the greatest impact. With this in mind, we are keen to understand better what the "natural" pattern of delivery of ECO and Green Deal activity might be, to assess whether there is a case for focusing the delivery of a number of measures to certain sections of the population, for example low income households, to provide greater certainty that they will benefit under this part of the ECO. This is discussed further detail below.

## **5.3 Delivering Equity under the Energy Company Obligation**

### **Equity and Simplicity**

32. We assume that the delivery costs of ECO will be recovered by the energy companies through an increase in consumer bills. It is therefore important that Government considers the structure of the scheme, who will benefit from it and who will be most affected by the increase in bills necessary to pay for the policy.
33. If companies are given complete flexibility as to which households they could deliver their Carbon Saving obligation to,

they could be expected to prefer those households where they could achieve the greatest outcome at the lowest cost. On the whole this is one of the benefits of the ECO model, and a desirable outcome - obliging them to act differently could load extra costs into the scheme and, in turn, mean more costs passed through to all energy consumers. And to some extent this may be a question of timings – any long term, ambitious programme will eventually need to cover all properties, even the more expensive. However, where certain types of recipient are systematically preferred at a particular stage, this would mean that other types of recipient would be systematically under-served, which might raise issues of equity. Since the costs of ECO are likely to be spread across all energy bills (which has a disproportionate impact on low income households for whom spending on fuel makes up a greater proportion of their total income) it is important to understand what the distributional impact will be and whether more needs to be done to ensure that all households have fair access to the benefits.

### **Property type**

34. We propose that the Carbon Saving obligation within the ECO only supports homes which require solid wall insulation, meaning that households requiring cavity wall insulation who are not eligible for ECO support under the Affordable Warmth obligation may not be eligible for ECO support at all. Government recognises that there be also be a case for providing assistance for households with hard to treat cavities – this issue is discussed in Chapter 2. Arguably this focus on solid wall insulation may disadvantage households in cavity wall properties, since they will be paying for ECO but may not be benefitting.
35. However, the vast bulk of wall insulation delivered by previous obligation policies has been directed toward supporting cavity wall insulation with the notable exception of CESP (and CESP is

a relatively small obligation in comparison to EEC [57] and CERT). This focus means that large numbers of cavity wall homes have already benefited from insulation with energy company support – whereas solid wall properties have not to the same extent. Households who have yet to take advantage of government programmes delivering cavity wall insulation will be very well placed to benefit from Green Deal finance. Cavity wall insulation is highly cost effective and the Green Deal will allow these households to install cavity wall insulation at no upfront cost, and see a real and substantial bill saving even while making Green Deal charge repayments.

### **Distributional equity**

36. We assume energy suppliers pass the costs of delivering ECO on to their consumers through their energy bills. Given that the poorest households are hit hardest by rising energy bills, it is important that low income households stand to benefit from the scheme to a proportionate level. Indeed, low income and vulnerable groups will be targeted through the Affordable Warmth component of ECO, ensuring that a proportion of the benefits – heating systems and practicable lofts and cavity wall insulation – are reserved exclusively for this group. In addition, each year around 2 million low income and vulnerable households will receive financial help with their energy bills through the Warm Homes Discount.
37. An issue we would welcome views on is whether ECO's requirement on Carbon Saving when left to the market, might systematically skew delivery away from the lowest income groups.
38. Green Deal and ECO will increase the opportunities for many households to install measures, as upfront payments by the household are not needed and the costs of measures can instead be spread using savings on energy consumption. The

Green Deal alone may well work for many of those in fuel poverty who actually spend a large proportion of their income on heating. Also, regulation on the private rented sector, which has a higher than average concentration of low income households, will drive uptake of measures through ECO.

39. The Green Deal and ECO impact assessment discusses the possibility that some lower income groups could stand to benefit from Green Deal and ECO more than other income groups on account of the discount rate they perceive and the larger relative reduction in opportunity costs that Green Deal brings for this group. However, the extent to which this will influence the practical take-up of the Green Deal by low income households will depend on a number of factors which are discussed below.
40. The impact assessment also highlights that social housing (where there is a high concentration of low income households) is expected to be a major beneficiary of Green Deal and the carbon saving element of the ECO, particularly in the early years. Social housing often allows for economies of scale that reduce the cost of seeing out the obligation and lessen the impact on all bills. Emerging findings from CESP suggest that delivery to social housing often promotes relatively low cost delivery to neighbouring housing, encouraging a street by street or ward by ward approach that is also likely to be attractive under ECO.
41. The roll-out of solid wall measures to owner occupiers is much harder to anticipate and we recognise low income households in private tenures make up the majority of the fuel poor. We have high ambition to address the energy efficiency of all properties by 2030 it is therefore reasonable to assume that everyone who contribute to ECO costs can benefit at some stage. Inevitably with such an approach, those who are last to receive measures will have paid significantly more through their energy bills before seeing benefits, compared to households who benefit early from ECO. There are still questions about how the market will



address solid wall properties in terms of who will come earlier and which would come later.

**Table 2**

<b>Aggregated house type</b>	<b>Average Installation cost</b>	
	<b>INTERNAL SWI</b>	<b>EXTERNAL SWI</b>
Detached house	£7,180	£12,494
Semi-detached / end of terrace house	£5,407	£10,097
Mid-terrace house (multiple installations)	£2,997	£5,908
Flat (multiple installations)	£2,988	£5,899

42. Evidence suggests the fuel poor live across all housing types. The table above shows how solid wall insulation costs vary by the main house types. Solid wall insulation for a mid terrace house or a flat is less than 50% the cost of a detached house. For internal insulation it is less than 40%. Clearly, addressing a detached house will save more carbon but for multiple terraced houses the cost per amount of carbon saved is much the same. It may be that the market shows a preference for delivery with multiple installations.
43. Research suggests that vulnerable households on the lowest incomes, particularly the elderly and disabled who tend to under heat, will be unlikely to benefit from a saving on their bills and therefore unlikely to access the benefits of Green Deal finance. This may well make these types of household less attractive to serve because they would require a greater level of up front ECO subsidy to make the Green Deal viable. However, the energy companies, and those accessing brokered delivery of

Solid Wall insulation, will need to weigh up whether to pursue the requirements on solid wall insulation by targeting homes where the job costs more but Green Deal finance will pay a good part of the costs or whether to pursue homes where lower levels of up front subsidy will be required and where it may be more acceptable if some cannot part finance through Green Deal.

44. **We would welcome views on how the delivery of solid wall will take place if left entirely to the market.** Will wider factors than cost of retrofit and Green Deal finance influence delivery, for example credit histories?

45. We recognise there are cultural and attitudinal issues too that may reduce take-up among some communities. Low income vulnerable households can often lack of trust in external agents. The consumer insight research, detailed in the impact assessment also demonstrated that low income and vulnerable households, for example low income pensioner households, were among those less likely to consider Green Deal finance products appropriate for their circumstances. The obligation could include a requirement to reach out to low income households and communities and address attitudinal barriers but experience of previous schemes suggests that delivery will be at greater cost to all energy bill payers as there are costs associated with finding and communicating with 'harder to engage' households. We are working with the NEA to support a number of local authorities to develop Green Deal/ECO ready delivery plans. This work will consider how to engage all households across local communities, including those that may be harder to engage. We will share the learning from this work with the local govt sector. **We would welcome views on how best to engage hard to reach groups.**

46. Given uncertainties on delivery, the Government needs to consider whether anything additional should done to ensure ECO delivery of solid wall insulation reaches a proportionate

number of the lowest income households - particularly owner occupiers - who will not contribute green deal finance to the costs of work. **As part of this consultation, we are therefore inviting views on the need for and structure of any such "distributional safeguard".**

47. So we are able to make progress should such a safeguard be considered necessary, the related Impact Assessment sets out various options, and discusses possible models for the construction of the safeguard. The IA concludes that specific target within the overall obligation is likely to be more effective than, say, changes to the scoring to uplift or downlift the delivery of certain measures to certain groups.
48. If it is decided that some form of correctional mechanism is needed, then we will also need to address who exactly should be eligible, and how great a proportion of the obligation should be reserved in this way. We should also address the potential additional costs for ECO to do this in terms of the opportunity costs of passing up a particular projects/household to ensure compliance with the safeguard requirement. Further to the question on 'pure' market delivery, we would welcome views on whether providers (if they were required to deliver to a particular class of qualifying households) would naturally want to deliver intensively in certain geographic areas and pick up relevant households in amongst the wider population; or would they ensure delivery to this group early by identifying them and retrofitting their homes individually. It may also be that, if they chose to work intensively in particular areas, the areas they chose to target would be selected because of the larger proportion of qualifying households. We would welcome views.
49. In terms of qualifying households should a safeguard be necessary, there are principled and operational grounds for aligning any target group for a distributional safeguard with the Affordable Warmth eligibility criteria. The issues of principle are described in depth in the eligibility section for Affordable Warmth

(see section 5.2). Operationally, aligning the criteria would: promote whole house packages that cut across both obligations (e.g. full support for a heating system alongside a combination of subsidy and Green Deal finance for SWI); help reduce the costs of finding eligible households, as those suitable for Carbon Reduction target measures could be identified under the Affordable Warmth obligation (or vice versa); and potentially utilise data held by energy companies on consumers who benefit under the Warm Home Discount scheme [58] where the eligibility criteria overlap. Depending on responses to the questions above there may be a case for either a smaller or larger target group than the Affordable Warmth eligibility.

50. Options to target on an area basis using indicators of income and deprivation could also be considered. As we have seen through CESP, area based approaches can be effective mechanisms to deliver support, enabling economies of scale and mobilising communities to raise awareness. Government recognises the need to build on the knowledge and experience of existing community enterprises as well as that within Local Government. As described above, a purely area-based approach might not necessarily provide the same level of assurance that the lowest income households would benefit but again we welcome views on delivering to households not contributing Green Deal finance in amongst those who may be.
51. Clearly, the level at which a distributional safeguard within the Carbon Saving obligation could be set would need to take into account impact on costs and the degree of certainty that the objective of distributional equity would be achieved (these factors are affected by the scope and eligibility criteria of the group, and level of opportunities to deliver measures in the group).
52. If a distributional safeguard changed energy suppliers' delivery of the ECO then it might be expected to add to the unit costs of achieving targets above the estimation underlying the current

proposals. In these circumstances, adopting a distributional safeguard might require a re-consideration of the overall targets. The final scheme design would need to take account of whether a safeguard is the most cost-effective way of securing the scheme's twin aims of alleviating fuel poverty and supporting carbon reduction. We welcome evidence that will support this assessment.

### **Regional Distribution**

53. Concerns have also been raised that rural areas and inner cities have not been seen an equal, proportional level of delivery of energy efficiency measures under CERT – and that this perceived pattern might be borne out in the ECO without additional constraints being put in place.
54. DECC has undertaken an evaluation of the delivery of CERT, which included an investigation of these concerns. This revealed that, under CERT, activity has by and large been delivered proportionately in geographical terms without active interventions to promote fairness between different areas or types of area; each nation has broadly received its fair share of CERT activity and when GB is considered as a whole, rural areas have also received a proportionate rate of delivery under CERT. There is some variation between regions, for example, 9.9% of homes in North East England but only 2.7% of homes in London received measures under CERT during the period of the analysis. However, it is very difficult to isolate the cause of any under delivery in specific areas as a number of factors are at play, including: previous activity; LA and other potential partner activity or resource; prevalence of different property types (flats, solid wall, etc); expense of activity (could economies of scale be generated); distance from installers; etc.
55. In those areas where receipt of measures has been consistently low under CERT, particularly London and the Scottish islands,

this could be attributed to high access costs and prevalence of hard to treat housing, amongst other factors. Since the ECO would focus more on hard to treat measures, such areas might be more attractive to energy companies in future if the measures eligible in the ECO can be applied to the majority of hard to treat walls in these areas. Using scoring metrics which reflect the benefits of improving the lowest performing housing stock may also support this. The CERT evaluation also found that energy companies had begun to develop innovative delivery routes (e.g. with manufacturers, or new devices) to position them to operate in newer, less well-developed markets in future. It is likely that energy companies would want to continue to use these relationships and innovative routes to deliver SWI to these same markets under the ECO and so benefit those areas that have seen comparatively little supplier activity to date. The design of Green Deal and ECO, plus brokerage (see chapter 9, broker has been proposed to allow local providers fair access to ECO) should also work to reduce geographical inequity.

56. In view of the evidence from CERT, and consideration of the shift of focus that the ECO would entail, DECC does not see a case for introducing further constraints to delivery in geographical terms. There might be a case for reconsidering this position at a review point, when there would be evidence on the patterns of geographical distribution of measures from the new obligations. DECC would welcome further evidence on this issue during consultation.

**QUESTION 33: Do you have any evidence or views to put forward on whether the benefits of ECO as a whole, or of the carbon saving obligation within it, are or are not likely to be distributed equitably to all income groups? If so do you think regulatory intervention is necessary to ensure a more equitable pattern of delivery and, in particular, do you have any comments on the likely effectiveness of setting a 'distributional safeguard' as a means of achieving this?**

**Note [42]**

The latest fuel poverty statistics are available on the DECC website via: [http://www.decc.gov.uk/en/content/cms/statistics/fuelpov\\_stats/fuelpov\\_stats.aspx](http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx)

See pg 31 of:

<http://www.decc.gov.uk/assets/decc/11/stats/energy/energy-efficiency/2078-need-data-framework-report.pdf>

**Note [43]**

See the new subsection (5)(bc) inserted into both section 33BC of the Gas Act 1986 and section 41A of the Electricity Act 1989 by section 65 and 66 of the Energy Act 2011.

**Note [44]**

The UK Fuel Poverty Strategy can be accessed via:

[http://www.decc.gov.uk/en/content/cms/funding/fuel\\_poverty/strategy/strategy.aspx](http://www.decc.gov.uk/en/content/cms/funding/fuel_poverty/strategy/strategy.aspx)

**Note [45]**

[http://www.theclaymoreproject.com/uploads/associate/365/file/Health%20Documents/WHO%20-%20health%20impact%20of%20low%20indoor%20temperatures%20\(WHO,%201985\).pdf](http://www.theclaymoreproject.com/uploads/associate/365/file/Health%20Documents/WHO%20-%20health%20impact%20of%20low%20indoor%20temperatures%20(WHO,%201985).pdf)

**Note [46]**

The latest fuel poverty statistics are available on the DECC website via: [http://www.decc.gov.uk/en/content/cms/statistics/fuelpov\\_stats/fuelpov\\_stats.aspx](http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx)

**Note [47]**

The Fuel Poverty Statistics can be accessed via:

[http://www.decc.gov.uk/en/content/cms/statistics/fuelpov\\_stats/fuelpov\\_stats.aspx](http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx)

**Note [48]**

[www.apfo.org.uk/resource/view.aspx?RID=53281](http://www.apfo.org.uk/resource/view.aspx?RID=53281)

**Note [49]**

Those falling within the group described here are referred to in the draft ECO Order as persons falling within the "distributional safeguard group". See article 12 for the definition of "distributional safeguard group".

**Note [50]**

Further information on Warm Zones is available via

<http://www.warmzones.co.uk/>

**Note [51]**

The CERT is the obligation imposed on energy suppliers under the Electricity and Gas (Carbon Emissions Reduction Obligation) Order 2008 (S.I. 2008/188). See article 2 for a definition of the "super priority group".

**Note [52]**

CESP is the obligation imposed on electricity generators and energy suppliers under the Electricity and Gas (Community Energy Savings Programme) Order 2009 (S.I. 2009/1905).



### **Note [53]**

The latest fuel poverty statistics are available via:

[http://www.decc.gov.uk/en/content/cms/statistics/fuelpov\\_stats/fuelpov\\_stats.aspx](http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx)

### **Note [54]**

Scottish Housing Quality Standard (SHQS) requires properties to have an efficient full central heating system. Landlords are expected to meet the SHQS using their own resources, so restricting access to the affordable warmth element is consistent with that policy. It is also consistent with the Scottish Government's policy of targeting assistance to fuel poor households through its Energy Assistance Package (EAP). In Wales, the Welsh Housing Quality Standard (WHQS) sets similar standards for social housing to those set in the SHQS and Decent Homes. Similarly, the Nest fuel poverty scheme in Wales is restricted to private tenures.

### **Note [55]**

Further information on Warm Home Discount Scheme can be found via: <http://www.decc.gov.uk/en/content/cms/funding/whds/whds.aspx>

### **Note [56]**

See the new subsection (5)(bc) inserted into both section 33BC of the Gas Act 1986 and section 41A of the Electricity Act 1989 by section 65 and 66 of the Energy Act 2011.

### **Note [57]**

The Energy Efficiency Commitment (EEC) was the predecessor obligation to CERT.

**Note [58]**

Further information on the Warm Home Discount scheme can be found via:

<http://www.decc.gov.uk/en/content/cms/funding/whds/whds.aspx>



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