



Green Deal & ECO delivery mechanism - a Knauf Insulation proposal

The key to a successful Green Deal is driving multiple measures in the largest numbers of properties possible (installer capacity allowing) at lowest cost to the homeowner.

Insulation market transition

Rather than act as a disincentive for householders to take up Green Deal finance, an ECO obligation supporting all cavity wall and loft insulation could be designed to put minimal cost on all energy bill payers and act as the major driver for Green Deal uptake.

The Europe Economics⁵ report modelled a scenario which indicated an additional 1.5 million homes could be accessed if ECO were allowed to support a transition approach ramping down traditional insulation measures and ramping up solid wall insulation at a sensible expansion rate. A proportion of these homes would take up further measures.

Maximising the Green Deal charge rather than ECO funding

Under current proposals, a subsidy for SWI will be delivered by energy suppliers to householders either directly, through an intermediary, or a through CO₂ brokerage. Whichever way the CO₂ is traded, energy suppliers will seek to deliver the measures at least cost – with the market driving each delivery route to a similar price.

DECC have indicated that it is not possible to set a maximum cap on per- property ECO subsidy levels which energy suppliers can offer without further primary legislation. Indeed, it is a CO₂ obligation with money as the primary driver to incentivise take up; placing a maximum subsidy cap removes the primary tool of persuasion from the energy suppliers.

Current proposals for the amount of funding provided by ECO for SWI are that the subsidy would fund the cost difference between the total overall cost and the amount needed to allow the installation to meet the Golden Rule.

For example;

- If the install to a property cost £9,000,
- the Green Deal calculation could only tolerate a £6000 loan before breaking the Golden Rule (assuming no up-front home owner contribution)
- The ECO subsidy would be £3,000



However, given the inability of Government to impose a maximum cap to the subsidy, the reality would mean the ECO contribution was whatever amount incentivised adequate householder take up for energy suppliers to meet their obligation.

This means that for the example installation to go ahead, £3,000 is a minimum ECO contribution with no set upper limit.

However, the difference between previous schemes is the introduction of the Green Deal finance mechanism. Green Deal allows providers to place the up-front cost (£6,000 in the example above) as a charge on a property's energy meter. For the ECO costs to be minimised, the market must reward providers for persuading householders to place the maximum possible amount onto the energy meter – ideally the full £6,000.

In effect, the proposed mechanism will rely on the market to drive significant proportions of install costs as Green Deal charge minimising the exposure for those ultimately covering the ECO costs – all energy bill payers. The significant reverse pressures the ECO solid wall insulation market must overcome are uncertain capacity and unproven demand.

Set up an ECO CO₂ market for low cost insulation measures

Including professionally installed loft and cavity wall insulation on a separately traded 'cost-effective measure' CO₂ market de-risks the focus on SWI as proven capacity exists along with infrastructure to drive demand.

In order to avoid energy suppliers rushing to deliver obligations through cavities to the detriment of solid wall installs, and to ensure the relative costs of the different measures were reflected in the amount of subsidy on offer, the scheme would have to ensure the following;

- Different ring-fenced obligations were set for 'cost effective' and 'socially cost effective' measures at the individual supplier level. This would ensure all suppliers concentrated on all measures while the size of the 'cost effective' obligation could be reduced over 4 years as the remaining potential was captured. The size of the 'socially cost effective' obligation could be ramped up safely as SWI install capacity is developed and demand is generated.
- The two markets were allowed to find their own price at which householders would be willing to take up measures. Whether a job went ahead or not would be a reflection of; how much the installation cost, how much the householder was willing to accept as a GD charge (or up front contribution) and whether the available subsidy (set by the carbon price) for the job would cover the short fall. Table 1 shows a significant difference in the carbon price required for two sample installs to go ahead.

Table 1 – Example carbon prices required for two Green Deal / ECO plans

Socially cost effective measures		Cost effective measures	
27 Acacia Avenue Solid wall insulation		10 Acacia Avenue Cavity wall and loft insulation	
Install cost (SWI)	£9,000	Install cost (CWI, LI)	£800
Householder contribution	£0	Householder contribution	£0
GD charge householder will accept	£6,000	GD charge householder will accept	£600
TCO ₂ score for SWI install	60	TCO ₂ score for CWI install	17
		TCO ₂ score for LI install	42
		Total CO ₂	
Required ECO subsidy	£3,000	Required ECO subsidy	£200
Min TCO₂ price for install to go ahead	£50	Min TCO₂ price for install to go ahead	£5

As set out above, unlike the current CERT and CESP schemes, there is the opportunity to offer householders the option at no up-front cost. The key to successful Green Deal and ECO interaction is ensuring the maximum possible cost is placed as a Green Deal charge rather than as ECO subsidy.

The question is; what can Government, Green Deal providers and energy suppliers do to ensure install costs are placed as a GD charge wherever possible.

Allow a set £150 cash back offer for all measures

The full £150 cash back proposed in the consultation could be **linked** to a requirement that a Green Deal charge is placed on the property. This requirement could be set by Government although energy suppliers would naturally do it given it would minimise their costs in delivering their obligation.

The cash back limit should not be fixed to a proportion of the total cost of the measures as this assumes measure take up due to a cash incentive is directly in proportion with measure cost rather than the amount being 'big enough' in a home owner's mind to overcome the hassle factor of saying yes. Under the current proposal a cash incentive to take up a loft and cavity wall insulation package costing £800 would be limited to 5% or £40 which offers significantly less than the alternative £150 option available to higher cost packages.



For low cost / high volume packages such as loft and cavity wall insulation, it would benefit the Green Deal as a whole if incentives could be offered at a level, and in a way, for householders to both take up the measures and place the cost as a GD charge. This mechanism offers a way for GD providers to promote GD charges over ECO subsidy (for whatever measures are eligible for the ECO).

With the ECO cost neutral scenario in the Europe Economics⁶ report, **1.5 million** extra homes could receive measures. A proportion of these would have further measures such as boilers, heating controls etc. With the £150 cash back as a driver, significant cost could be placed as Green Deal charge generating significant debt for The Green Deal Finance Company quickly.

Utilising the recently announced £200m

The £200m could also be used to give this approach a huge boost. Offering a first year free payment to the first c400,000 homes placing a Green Deal charge on their property, which incorporates low cost insulation measures, would give suppliers a further reason not to have to offer a significant subsidy for loft and cavity insulation.

Because loft and cavity wall insulation is so cost effective, the measures allow other products, which would otherwise miss the Golden Rule, to become eligible; or at least reduce the amount of other funding required to make them Golden Rule compliant.

Linking a £200m first year payment specifically to packages which include the delivery of low cost insulation measures would therefore drive activity in both homes and measures that may otherwise get ignored.

This approach would also; ensure significantly more than the £200m was passed through straight to the GD debt aggregator; help against bad press in year one should any properties miss the Golden Rule calculation; and incentivise householders to take out packages as the more they take out the greater the first year free payment bonus will be.

Tax incentives

Strategic tax incentives are crucial to capture public attention. A stamp duty reduction for those taking out a Green Deal (with the cost offset by an increase for those not doing so) would be an extremely well-targeted tool offering a point of sale trigger that allows access to hard to reach elements like floors and party walls as well as easier to install measures.

Economy of scale price reductions created by council tax incentives would similarly drive take up.

Linking energy efficiency to home improvements



Linking consequential improvements to GD take up would also prove an ideal trigger point and strong driver for low energy retrofit work.

Ensuring related policies promote energy efficiency

The recent consultation on Feed in Tariffs included a proposal to link access to the FITs to minimum levels of property energy efficiency. Once a 'no-up-front cost' finance mechanism is in place, this underlying principle should be applied to all Government policies which use the public purse or levies on energy bill payers to offer support for fuel bill payments or incentives to take up low carbon energy generation. This includes the Renewable Heat Incentive, Winter Fuel Allowances or the Warm Homes Discount.

Requiring greater involvement of Local Authorities

Using the Home Energy Conservation Act to drive Local Authority delivery of Green Deal and ECO could prove very effective in the mid to long term but should not be relied on to deliver in the short term. Local Authorities will need time to put strategies, structures and resources in place while Government should be careful not to assume the actions of the most active authorities are representative of all.

Experience from the SWI programme in Wales⁷ showed sharing best practice on prices, delivery processes and contract discussions greatly speeded up the learning curve across LAs and social housing officials. This was considered key to the success of the programme and the UK Government should consider where the responsibility to share best practice should sit and who should resource it.

Allow existing EPCs to be GD eligible for straightforward cavity wall properties

This avoids the hassle factor linked to a lengthy assessment designed for hard to treat properties and will drive take up in the private rented sector where significant numbers of EPCs will exist in properties that are statistically less likely to have been insulated. Packages with properties requiring loft, cavity wall and boiler replacement could be eligible for this assessment exemption.

Drive education in the social housing sector

Consider innovative approaches to encourage Registered Social Landlord and Local Authority engagement and education in unfamiliar energy efficiency measures. A significant issue in the early years of GD take up will be the lack of understanding of some of the measures across much of the sector Government hope will drive take up - see evidence in review of Wales' SWI programme⁸.

In visible measures such as SWI, a reduced 'in situ performance' factor (e.g. 5%) could be allowed where an RSL/LA representative has acted as a 'clerk of works' on a project which includes both its property and private housing. The officer would be required to go through a SWI manufacturer's clerk of works training programme which highlights issues around cold-bridging, appropriate detailing etc. ensuring they become familiar with the measure.

This approach; ensures LAs/RSLs have in-house expertise, allows a greater value of carbon to be realised per property for the RSL/LA (potentially allowing the clerk of works position to be funded) and recognises in-situ performance is a result of installation as well as product quality. Quality control mechanisms and performance monitoring could be built in to the



process by both the manufacturer and oversight body – with an associated decrement factor adjustment based on results over time.



Programme for public demonstration of Government's Green Deal support

Government needs to show very visible support. Officials have stated marketing GD will be left to the market. Early take up not only needs strong drivers from Government but powerful signals. For example, Green Dealing Downing Street along with MPs' work residences would be a powerful engagement tool. Online energy monitors of homes performing against the Golden Rule will act as a powerful marketing tool all GD providers could use.

References:

⁵ European Economics – Scenario Modelling of Insulation Installation

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⁷<http://wales.gov.uk/topics/environmentcountryside/energy/efficiency/arbed/publications/phase1review/?lang=en>

⁸ Review of Welsh Government's solid wall retrofit programme

<http://wales.gov.uk/docs/desh/publications/111003energyarbedphase1reviewen.doc>