Association for the Conservation of Energy

Westgate House
2a Prebend Street
London N1 8PT

020 7359 8000
pedro@ukace.org

Dead CERT Executive Summary

Framing a sustainable transition to the Green Deal and the Energy Company Obligation

Supported by:

Executive Summary

Remaining uninsulated lofts and cavity walls

At the end of 2012, when the Carbon Emissions Reduction Target (CERT) ends and the new Energy Company Obligation (ECO) commences, there will remain approximately 6.2 million cavity walls and 8.5 million lofts suitable for insulation in British homes. Approximately 3.7 million of these cavities do not face any cost-incurring technical barriers and are considered 'conventionally easy' and low cost to insulate.

This remaining insulation potential is very large, indicating that the high rates of cavity wall and loft insulation that will be seen throughout 2012 to meet the CERT obligation need not collapse for a lack of fillable lofts and cavities in 2013. Because under current proposals the ECO will target only a small fraction of this remaining potential (in low income and vulnerable households), the insulation of all remaining cavities and lofts by 2020 – as is deemed necessary by the Committee on Climate Change and the Government's Carbon Plan – will be entirely reliant the Government's flagship Green Deal programme.

Expected delivery 2013-2022

Figures within the Impact Assessment accompanying the Green Deal / ECO proposals confirm that the Green Deal is not expected to deliver more than a small proportion of these lofts and cavities. Just 1.7 million cavity walls, and far fewer lofts, are expected to be insulated through to 2022. At such a rate, even the low cost cavities would not be insulated until almost 2040, with the more expensive cavities not filled until 2050.

Figure 1 and Figure 2 present the change in delivery rates through CERT to date, expectations to the end of CERT, and what is likely to follow through to 2022. Conversely, the dashed black line presents the smooth achievement of the ambition within the Government's Carbon Plan: that all practicable cavities and lofts are filled by 2020. Clearly the expected delivery under the Green Deal and ECO is incompatible with the UK's carbon reduction targets and energy security objectives.

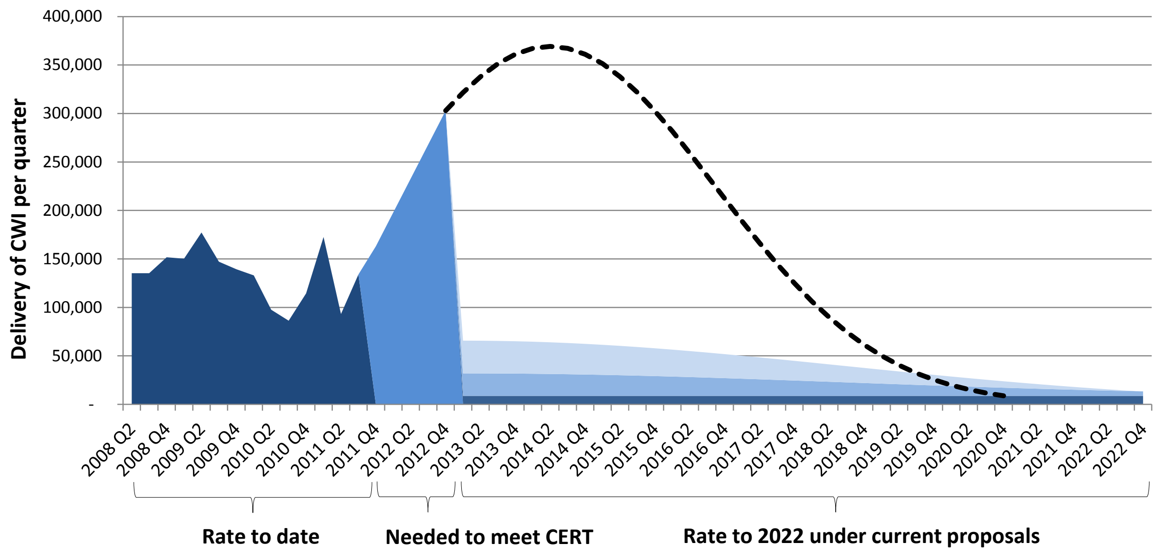

Figure 1: Quarterly rates of cavity wall insulation to date and projected to 2022

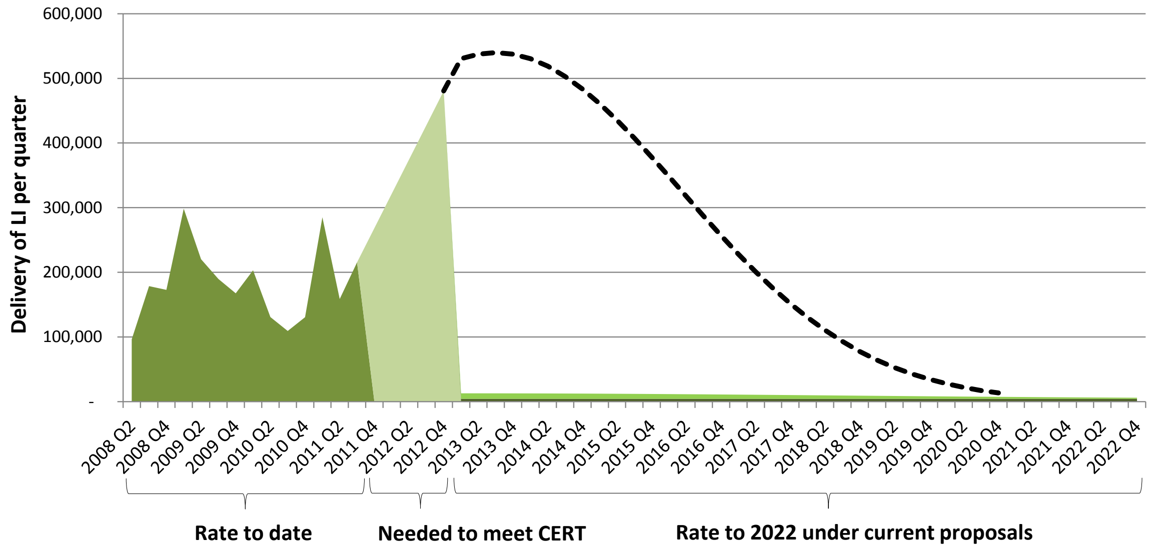

Figure 2: Quarterly rates of loft insulation to date and projected to 2022

Impact of existing Green Deal and ECO proposals

The radical and imminent collapse in the delivery of loft and cavity wall insulation in 2013 creates serious risks to Government policy and the insulation industry itself:

Government Policy

- Carbon budgets: the evidence within the consultation demonstrates that existing plans are inadequate to meet the ambition of the Carbon Plan, could make meeting them more costly to consumers, and have been publicly criticised by the Committee on Climate Change (CCC, 2011).
- Fuel poverty: Existing proposals would see just 25% of ECO support directed to those within the Affordable Warmth group, which targets those most likely to be in fuel poverty. By redirecting remaining funds to supporting SWI, it is only after the obligation is finished and no longer being supported by bill payers that the programme reduces the number of households in fuel poverty; and by only 350,000-500,000 – far fewer than the 4.1m currently fuel poor (DECC, 2011e).
- Green Deal: the policy requires confidence from households, the industry and from investors. Designing policies that harness the benefits of mass delivery of tried, tested and well-understood energy efficiency measures is key to maximising early uptake of Green Deal. Confidence that sufficient loan volume will be generated is also essential for the institutional providers of Green Deal finance to have a viable business case in the first place.

Insulation industry

- The absence of any planned transition between the delivery of cavity wall insulation and solid wall insulation poses particular challenges to businesses being asked to make the short-term investments needed to the end of 2012 in order to ramp up delivery to ensure the Insulation Obligation under CERT is met.
- The expected collapse of activity post-2012 under current proposals would severely restrict the breathing room needed for the industry to continue to develop hard-to-treat solutions (for both cavity and solid walls), training programmes and the capacity necessary to deliver carbon budgets and the ambitions for solid wall market transformation.

Enabling a sustainable transition

The policies we recommend are aimed at mitigating the risks that current proposals pose to the aims of Government within the Energy Act, namely carbon savings, fuel poverty eradication and the successful roll-out of the Green Deal. They are also intended to address the negative impact that DECC's plans will have on the delivery of cavity and loft insulation that could impede transformation of the solid wall insulation market. We do *not* wish to overcome these problems by proposing to continue in the same policy vein, such as could be achieved by a 'Son of CERT' approach. Rather, the guiding principle behind these recommendations is to underpin the new Green Deal and ECO framework and enable a sustainable transition which builds confidence in the industry and leads to a successful outcome for Britain's policy objectives.

Aligning Green Deal and the ECO

- **Allow cavities and lofts delivered through Green Deal finance to contribute to the ECO Carbon Saving obligation – including those cavities and lofts delivered by non-obligated Green Deal providers.** At little to no cost to bill-payers, this would encourage suppliers to offer Green Deal packages that included familiar measures, and improve confidence regarding likely Green Deal take-up rates.
- Ensure the inclusion of loft and cavity wall insulation doesn't affect other ECO objectives by **placing a solid wall minimum upon suppliers.**

Fiscal Incentives

- **Use the £200m allocated by Treasury** to incentivise the take-up of Green Deal packages and to increase the reward in line with the size of the package financed.
- **Allow all Green Deal measures installed by Green Deal accredited installers to be installed at 5% VAT.**
- **Link Stamp Duty and council tax to home energy ratings** to create incentives for households to improve the energy efficiency of their homes**.**

Regulations

- **Ensure minimum standards for FIT and RHI** eligibility as has now been proposed for both schemes. All Green Deal-able measures should be installed.
- **Consequential Improvements** through the Building Regulations to ensure that Green Deal-able measures are installed prior to extensions and conversions.
- **Mandatory minimum standards** to require homes to have all Green Deal-able measures installed before they can be sold.

Helping low income and vulnerable households

- **Increasing the amount of the ECO targeted at low income and vulnerable households**, and concurrently **widening the eligibility** group beyond the very narrow eligibility criteria currently proposed. Both can be achieved by introducing a distributional safeguard within the Carbon Saving obligation.

Fully addressing hard to treat homes

- **Include more costly cavity wall insulation** (i.e. hard to treat) as an eligible treatment contributing to ECO's Carbon Saving obligation, **treated according to the same principles as solid wall insulation**, to enable the blending of Green Deal finance and ECO support.

An alternative outcome

Looking at DECC's approach to the ECO in detail sees that the bulk of energy supplier support will be directed at solid wall insulation (SWI) within the homes of able-to-pay (ATP) households. Our alternative for the first four years of the ECO (to the end of 2016), illustrated on the right-hand side of Figure 3, is just one of many permutations that can be constructed and made possible by our policy recommendations. It seeks to:

- Create a sensible transition from low cost to high cost insulation measures, delivering a volume of both that will see Government meet its aims within the Carbon Plan;
- Enable the insulation industry to achieve the market transformation for solid wall insulation systems;
- Save more carbon across the ECO period;
- Increase the equity of the ECO by seeing more support directed to low income households, particularly for solid wall insulation and for low income owner-occupied (OO) and private-rented sector (PRS) homes;
- Achieve these objectives without increasing costs for bill payers.

DECC proposals **ACE alternative scenario**

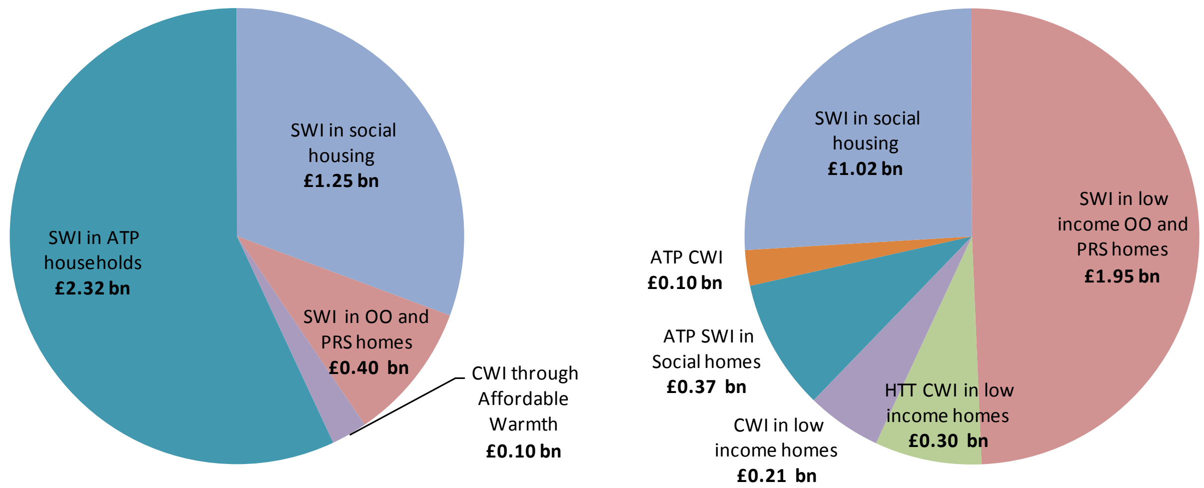

Figure 3: DECC proposals and ACE alternative for ECO spending; cumulative over first four years to 2016

Our scenario meets these objectives by allowing cavity wall insulation delivered through Green Deal to contribute to the ECO, with 500,000 insulated each year, along with a proportionate number of lofts topped up. This generates a large volume of very low cost carbon savings, allowing the remainder of the ECO budget to focus on low income and hard-to-treat properties:

- An additional 75,000 harder to treat cavities and 175,000 conventional cavities can be insulated each year within a broader low income and vulnerable household group.
- Over 140,000 solid wall insulations each year, the bulk of which occur in the homes of the most vulnerable: low income owner-occupiers and private renters.

In all, such an approach sees more than twice the proportion of ECO monies spent in the homes that need it most, saves 55% more carbon over the period, and manages to see 80% of the solid wall insulation numbers delivered under the DECC scenario, installed at a rate that remains ambitious: 140,000 a year. It does this at a lower cost to bill payers than the DECC scenario.