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TAKEN BEFORE
ENVIRONMENT, FOOD AND RURAL AFFAIRS COMMITTEE

CLIMATE CHANGE: THE CITIZEN'S AGENDA

WEDNESDAY 24 JANUARY 2007

MR ANDREW WARREN and MR IAN MANDERS

MS JILL HARRISON, MR JON KIMBER, MR VINCENT DE RIVAZ and
MR RICHARD SYKES

Evidence heard in Public

Questions 575-640

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Oral Evidence

Taken before the Environment, Food and Rural Affairs Committee
on Wednesday 24 January 2007

Members present

Mr Michael Jack, in the Chair
Mr David Drew
Daniel Kawczynski
David Lepper
Sir Peter Soulsby
Mr Roger Williams

Memorandum submitted by Association for the Conservation of Energy

Examination of Witnesses

Witnesses: **Mr Andrew Warren**, Director and **Mr Ian Manders**, Deputy Director, Association for the Conservation of Energy, gave evidence.

Q575 Chairman: Ladies and gentlemen, welcome to our further evidence session in the Committee's inquiry Climate change: the citizen's agenda. The first of our witnesses is the Association for the Conservation of Energy and, for the record, they are represented by Andrew Warren, their Director, and Mr Ian Manders, their Deputy Director. Andrew, as somebody I have known for all the time I have been in the House of Commons, you deserve a long service award for being in this field and having stuck at it for such a very long time. I was talking to colleagues around the table and memories go back quite a long way, but whilst energy efficiency has been something that has been put before parliamentarians, you have been the man doing it all the time, so we have to send you our congratulations for determination and getting stuck in. Well done. I was looking at the background notes and, just before we ask you our specific questions about the Association for the Conservation of Energy, one of the group of people who are your members was listed as energy services companies. Perhaps you could just give us an insight as to the characteristics of what those

companies do, bearing in mind there is quite a debate as to whether, in the future, the nature of the supply of energy will change from people who are interested in selling a quantity to energy services.

Mr Warren: May I begin by saying how very pleased we are to be here today and may I thank you for those very kind personal words at the start? I did feel that you were actually going to say “and now we are going to pension you off” but you managed to avoid that particular conclusion. Whether you wish to at the end of this session will be your judgment. We quite deliberately say that we have energy service companies amongst our members. If you look at the list of members, there are three companies there, all of whom would be deemed, in the traditional sense, to be energy suppliers. One reason why each of them joined the Association and why they work so well together with the existing members, who are the more conventional manufacturers, distributors and installers of energy saving equipment, is because there is a genuine common agenda there. Those companies, and you are going to be hearing from one of them a little later this afternoon, have genuinely recognised that they are no longer in business to sell kilowatt hours, basically because, like me, they have never met anyone who actually wanted to buy a kilowatt hour. What they are interested in buying is light and heat. If they can find a satisfactory business model which will enable them to continue to make money for their shareholders and also to provide for consumers what consumers actually want, which is light and heat rather than kilowatt hours, then that squares a very satisfactory circle. This was a quite deliberate move from the Association’s members to incorporate the more progressive energy companies within our membership and actually there is a genuine meeting of minds there. You can obviously examine at least one of those companies a little later in the afternoon.

Q576 Chairman: In your evidence you have made reference to the European Union Directive on Energy Performance of Buildings and the Article 7 requirement for all public

buildings over 1,000 square metres to display an energy performance certificate. There seems to be a reluctance to introduce this into the United Kingdom. Can you explain why?

Mr Warren: The Energy Performance of Buildings Directive is one which I am personally rather heavily involved with in Brussels, so I have been very anxious to see that actually brought into force as soon as possible. As soon as possible should have been January 2006 and indeed when it was agreed I can remember the then Environment Minister, Michael Meacher, announcing that we were going to have this in place in full from day one. Well we are now more than a year beyond that time and the Government have certainly moved forward on some of the articles – some of the earlier articles dealing with the building codes, the building regulations - but on the ones that you have identified, most specifically Article 7, which is the one which refers to the need for energy certificates to be displayed so that people can know what the relative performance is of an individual building, that has not moved forward. I am sorry to get into what appears to be the detailed stuff, but Article 7.3 is the article to which you are referring, and that does say that all buildings over 1,000 square metres which are public buildings and which are providing services to members of the public, institutions which are providing services to members of the public, should be displaying these certificates. Within the context of your inquiry that is a very important aspect. It is one thing for the facility's manager to know what the performance is of the building in relative terms, but it is another thing for all of the customers and all the employees of a company to know what the actual performance is. If you take an example of a high street bank, for instance, a financial institution to which this really should be applied and should have applied from the beginning of last year; in that particular case they may not know how the rating of a D rating has been reached, but, sure as eggs are eggs, if there is a bank over the other side of the road which has a B rating, the managers of the D rated bank will want to see that changed and upped, certainly to a B standard, hopefully to an A standard. That is a way of overtly making

people aware of how good that building is. I would have hoped that the Government would have followed through on the former Environment Minister's commitment. They have not yet done so and I am optimistic that we may begin to see something happen, at least in normal public buildings, the sort of thing that you and I think of as a public building, a library or a swimming pool or something like that, within the next year or so. We really ought to be seeing it happening in banks and hotels and things like that within the same timescale; it would greatly help in achieving the overall objective that we are all seeking.

Q577 Chairman: This whole area is multi-faceted and the focus of this inquiry is on the citizen. In terms of trying to coordinate, bring together in front of the public the myriad of things that could be done, do you think that the Government are doing enough to push the energy saving agenda in particular? Is it the role of Government to do that or should they simply carry on sub-contracting a lot of this advice and coordinating activity to people like the Energy Saving Trust? Do you think they are taking enough of a leading role?

Mr Warren: One would always have to say on almost any issue, yes, they are doing a certain amount but they should be doing more. In this particular case we certainly do have the Energy Saving Trust in existence and I know you have already taken considerable evidence from them. There is also a Carbon Trust too in existence. I must say we are not terribly certain why we need both organisations; it would be much more sensible to have just one way of doing this, but there are agencies in this country which are intended to put this message across. It is not ever going to be possible for just one organisation, or in this particular case two organisations, to do that. What I would submit that they do need is essentially a range of tools to do this. Of course you need information programmes, but you also need to have incentives there, you also need to have some means of ensuring that things happen. You were kind enough at the start of the session to say you have seen the movie round with me once or twice on this, but I have a very standard phrase, which is to talk about the need to have carrots

and sticks and tambourines. By carrots, I mean incentives. By sticks, I mean means of ensuring that people do actually follow up what they say they are going to do; but you also need the tambourines. You need to be making noise to attract people's attention. The Government have begun to address all of those cases, but in each case we would certainly argue that, yes, they have done a certain amount through their agencies, through local government, through other means, but there is still an awful lot more to be done.

Q578 Chairman: Do you think that they really have addressed the connection between what the individual can do and the global nature of the problem of climate change and greenhouse gas emissions? One thing that has struck the Committee is that there is an enormous amount of interest and activity, but when it comes to the individual, it is a limited number of people who understand and are personally committed, are doing their thing, but the bulk of the population look at this global picture and say somebody else can do it, but not them.

Mr Warren: There is a mismatch between the general concern, which one would personify as being worried about polar bears, and saying "I am concerned about polar bears and I ought to be switching my lights off". We take it from either extreme on that. Obviously there are some who do directly understand this, but there is a feeling of enormity about things. I tend to find myself quoting Edmund Burke on this, which you will appreciate. We cannot just back off from this. Burke said "No man ever made a greater mistake than he who did nothing because he himself could only do a little". In the context of climate change, that is not a bad aphorism to have. The trouble is that I have taken that example of switching the light off as a sort of *reductio ad absurdum* on this, but effectively, if enough of us switch the lights off when we leave the room, then the polar bears may survive a bit longer.

Q579 Chairman: Give me the top three barriers. If you had a magic wand and you could say "Here are three key things that we could do to move the personal agenda of energy saving

forward where there are barriers at the moment” and with your wand you could remove some of the key ones, what would be on the list?

Mr Warren: It depends how much power you are giving me on this, mind you, but let us assume that I can be a dictator for a few days. The first thing I would do is to take a leaf out of the books of some of the other major European governments, which is that they, facing precisely the same sort of issues as we are at the moment, are trying to turn around an economy which is often quite carbon-heavy and to alter the whole way in which people approach the use of energy. If you look at how both the French and the Germans have approached this, they have very similar systems to ours. The French have an almost identical type of system to our Energy Efficiency Commitment, which I know that you have discussed in the past, which is that the duty is upon the energy companies to help domestic customers save energy. The difference is that the French companies have a number of tax breaks and grants with which to encourage people to take up these incentives. The last figure I saw for the French Government was that they were spending something in the region of about €1 billion a year; for the Germans, it is about €13 billion, on a very concerted system indeed of saying they are going to try to improve five per cent of the pre-1978 housing each year and they will do this by dint of having these sorts of incentive programmes there. And it works. It is not just a question of having the money to dangle in front of people: it is also a question of people believing the Government really want to get something done, and are therefore being prepared to put public money into it. It is a question of confidence. You said earlier that people say they would like to do something, but they do not know what to do. There is also a belief that if this is so important, and the rhetoric keeps telling us it is important, why do Government not put their money where their mouth is? That is certainly what I would say the major European competitors have done; I have yet to see that happen here. That is one thing I would certainly try to do. The second one - and I would probably have to be a dictator for

longer than a few days to solve this one - is the whole landlord/tenant issue. This is particularly true with the commercial sector but it is true for an awful lot of householders. They do not live in homes which they have any great interest in doing anything about because they do not stay in that home for terribly long. If you can find a way of genuinely providing incentives for landlords, at least not to step in the way of a tenant who wants to do something, and preferably if you can genuinely provide substantial incentives to landlords who want to improve their properties, that would be the second very important way. The Chancellor has moved in that direction and one should pay tribute to that. There is now a landlord's energy saving allowance, but it needs to be far better designed than it currently is. The third way is essentially a matter of politicians generally taking the issue of saving energy more seriously. You and I have talked before now about the fact that we have become so used to seeing ministers doing things like opening new power stations or new gas pipelines or whatever, even new wind farms, always with a nice white hat on their head and stuff like that, but we have never yet seen a minister open a well-insulated loft. That is one's great difficulty: you have this mismatch between what is seen as important politics, which is the supply side, and what we all know to be the cheapest and most publicly acceptable and certainly the swiftest way of addressing the threat of climate change, which is using energy a great deal more efficiently than we do now. Essentially those are my three things: put your money where your mouth is to Government; start talking about the issue; and try to deal with the problem of landlord/tenant.

Q580 Mr Drew: You have obviously been critical of the energy efficiency commitment; I have heard you many times ask the Government to go further. Do the antecedents for this actually lie with individual nation states which are being too timid or should we be doing much more at EU level? Clearly there are good examples in each country and if you put all

the good examples together, you would have a series of pretty effective policy options available. What is your view on that Andrew?

Mr Warren: I certainly do believe that there are lessons that we can learn from other European countries. Strangely enough I think there are actually lessons that they can learn from us. You are quite right in saying on the Energy Efficiency Commitment that we have been critical of the relative timidity of Government, in terms of the size of it that has been set, and the evidence of that was the fact that for the first phase the work got done so fast that actually about 40 per cent was able to be carried over into the second three-year phase. However, the basic principle of trying to turn conventional energy suppliers into energy service companies is a very sound one and it is one that actually other countries are learning from us. I would not want it to be thought that we had got it all wrong and others had got it all right, but there is a great deal to be said for learning lessons from other countries. Actually, there is also a great deal to be said for learning very local lessons too, because all round the country there are all sorts of very good ideas happening on the ground, sometimes at District Council level, sometimes even below that, which are delivering. I wish we could really replicate these because over and over again we hear about how very good Woking is for instance on delivering co-generation and I keep thinking yes, but there are 300 or whatever other district councils, how come somebody else has not picked this up?'. You hear again of the outreach from Leicester for instance. How come other councils have not picked this up? If only we could learn to replicate the best of things, that would be a wonderful achievement. We do not have to keep inventing new wheels; we have the wheels. I am not sure how much farther I can push the metaphor, but the wheels do have to be kept rolling in the right direction.

Mr Manders: Certainly at the local level, and I am speaking here as a former local councillor myself, there may be an idea, which is apparently being discussed within the Department for

Communities and Local Government at the moment, about the new performance indicators for local authorities. One thing that I have heard is being discussed at the moment is putting a performance indicator for carbon emissions on local authorities. How it will act is that the local authority would have to cut the carbon emissions from their own estate, their own buildings, the town hall and so on, and also have to work to cut carbon emissions from housing in their area, from local businesses and also from transport as well, which are all things that the local government has influence over as the policy maker for its own spending. If that were introduced there at the grass roots level, there would be an agency which would be working with local people to cut carbon emissions. I do hope that is eventually agreed by the Department for Communities and Local Government and that could be a way of making sure that the experience of local councils like Woking, Lewisham, Barnsley and Kirklees is reproduced over the rest of the country.

Q581 Mr Drew: Again you highlighted a particular problem in this whole area in that in a sense Government have gone for the easy wins, which are cavity wall insulation and loft insulation, which do not really equate to many of the older properties which do not have those opportunities. So what should we be doing with the older properties?

Mr Warren: You have identified there one of the complications of placing what is essentially a duty upon energy companies, and saying they have to deliver a certain amount of kilowatt hour savings, and inevitably they are going to go for the cheapest option. The difficulty is, as you say, that dealing with older properties is the more expensive option. You could turn around and say it is a level playing field for all of them, they will just all have to pay a bit more in order to achieve their objectives. I cannot help feeling, and this goes back to my earlier answer to the Chairman, that one way of making this much more palatable would be if, at the same time as trying to ask the energy companies to deliver this, you said “and here is some public money to assist you”. That reduces their overall cost on this, but it also means

that prospective customers are much more likely to pick up on the idea. There is nothing like being able to say this has an endorsement from Government. The endorsement from Government does essentially come from saying “we so believe in this that we are producing help on it.” I can give you an example where this has worked very well, that the Government have introduced with process plant for heavy industry. It is something called the “enhanced capital allowance”, where companies are basically bringing forward being able to offset capital against tax all into the first year, if they install one of a range of energy-saving measures. I understand from the Revenue that they have not had much claim on this, so it is actually not costing the Government very much. What it has done though is to produce a feeling of endorsement there for those who are out to market some of these products - the list is now several hundred long - and of being able to say that the Government so believe in this that you can get a tax break on it. In practice the tax break is relatively minimal, there is not a lot of evidence people have taken it up, but there is evidence that in process plant for instance, there has been a great deal of investment which is being driven as a result of the extra interest which has come forward.

Q582 Chairman: Just to pin you down on David’s question, I was delighted to see in your evidence the emphasis on the fact that 50 per cent of older properties in the United Kingdom did have the difficulties that David mentioned. What specifically should be being pushed in those properties, given the numbers of them and therefore the potential for energy saving? Have you done any calculations to work out what energy saving could be realised from those older properties and by what techniques?

Mr Warren: There is no doubt that techniques do exist. If you are talking about properties with solid walls, both external wall insulation and internal wall insulation exist, but installing that is obviously more expensive than finding a house which has an uninsulated cavity wall. There is no question that the technologies exist which could bring such homes up to good

energy performance standards. The question is whose job it is going to be to do that. As we currently stand it is going to be the job of the energy service companies, the energy suppliers as they were. They can do that.

Q583 Mr Drew: I am not totally sure; to me it is a nuance of a difference. Can you just define what we now mean in terms of energy service companies? What is going to be different about these?

Mr Warren: Essentially the concept of an energy service company is that you are no longer in business simply to sell kilowatt hours; you are in business to provide the services that the customer wants.

Q584 Mr Drew: But is that not a problem? Have our companies moved to become that yet?

Mr Warren: I was discussing with the Chairman a little earlier the fact that in the membership of our own Association we have three of the conventional energy suppliers. I believe that one reason why they are doing this, is because they have taken strategic decisions that this is where they wish to position themselves in the marketplace of the future, and a recognition that the days of just simply selling as many kilowatt hours as possible have gone. It is a new world on that. To go back to your earlier question, as we currently stand, it will be their responsibility to improve the energy performance of these older and more difficult, what they call more hard-to-heat, homes and that will be an additional cost. It is not one that is currently happening much under the existing Energy Efficiency Commitment because it is small enough to enable the easy bits to be done first.

Q585 Mr Drew: You have been very critical of the short-term nature of some of the proposals out there, whether they come from Government or whether they come from the companies themselves. How do you change the environment so that there is a consistency,

which presumably is what is going to cause the customer really to begin to shift in terms of their energy efficiency obligation?

Mr Warren: One way you could do this is obviously by setting up a programme much on the lines I was talking about, relating to the German programme which was an absolute declaration that across a period of 20 years, they were going to upgrade five percent of the homes each year. Within the five percent each year, they are including a lot of what we would call these hard-to-heat/hard-to-reach homes as well. That would be one way of being able to get beyond the short-term nature of these things. Just to clarify the point relating to our worries about the short-term offers which are available from the energy companies, those offers are essentially there seeking to subsidise the installation of high-efficiency light bulbs or of “insulants” or something like that. Those are there in order to encourage customers, both their customers and other people’s customers, to be prepared to allow them to install measures in their homes under the Energy Efficiency Commitment. A sensible company will obviously try to minimise their on-costs on that, and it has been fascinating to see how, over the last 18 months or so, companies have learned to deliver what is necessary with very minimal intervention, no longer offering £200 off, but we are now down to less than £100 or even £50-off schemes, Basically because it is a very good bet. We are talking about measures that save people money.

Q586 Mr Drew: Without much change in behaviour.

Mr Warren: Change in behaviour is exactly the point. The Chairman was making this point a little earlier, the fact that it is the whole approach to energy usage which we need to be able to alter and that includes the presumption that there is nothing you can do about it and you do not know to whom to go. If you have energy companies who are saying they can come in and do something to improve your home, make you feel more comfortable and save you a bob or two, then in essence that is a good package.

Mr Manders: Since the rise in energy prices there has been an enormous increase in interest from members of the public in energy efficiency measures and if you ask any manager of any Energy Saving Trust financed energy efficiency advice centre, they will tell you the number of calls that they have has increased and that has resulted in further installations of energy efficiency measures. At various times different things stimulate the public. There is no doubt that rising energy prices have been a particularly good stimulus for the public in this particular case.

Q587 Mr Drew: When we visited Leicester at the start of this inquiry and we saw those former council houses that have solar panels and so on and energy efficiency measures, the problem here was that it does take a lot of effort to get out to reach the hard-to-reach. What worries me with a lot of the schemes that are being operated by the energy supply companies is that they will tap the middle classes and they will tap them in a way which is attractive but short term and they are not all-embracing. Would you agree with that, yes?

Mr Warren: It is inevitable, if you ask a private company to do something, they will try to minimise their costs and they will try to minimise their costs by doing the easy bit first. To be fair, within the Energy Efficiency Commitment, there is also a current requirement which demands that at least half of the money is spent on those less able to pay for these measures, and that is something which Government mandates. Of course they will always pick what is called the low-hanging fruit first and, as you rightly say, what you are increasingly left with is not a set of uninsulated semis in the East Midlands; what you are left with is a series of farm workers' cottages which are down the end of the lane, off the gas mains, very cold in winter and very difficult to heat. Those are the sorts of buildings that we are actually going to have to address in the not too distant future.

Q588 Daniel Kawczynski: I am very interested in what you have to say and agree with it. When you were talking about councils you expressed surprise that other councils had not picked up on what Woking is doing. There are tremendous budgetary pressures on councils, as you will know, and some councils this year are going to receive far less than the rate of inflation in terms of the government contribution to local government. Bearing this in mind and bearing in mind the fact that there are such huge pressures on councils to provide more affordable housing, for example, which is one issue which is relevant in my constituency, what would you say to the councils about prioritising what you are saying and putting resources into it, given those constraints?

Mr Manders: As a former councillor in a leading role in a local authority, though not now, I understand completely the pressures that you are talking about and it is very difficult. Many local authorities have reached the view where their senior officers say that if it not statutory, if they do not have to do it and they are not measured on it, they are not going to do it and energy of course is something which is optional to many local authorities. The ones who are interested in energy started off probably primarily because they wanted to save money on their own energy bills. Then they acquired the expertise to do that and then gradually they began to realise they could do things which would help people in their area, often at no cost to the local authority itself. The good thing about energy is that it is so expensive and it is a budget heading, so if you save it, you save revenue. Local authorities which have taken energy seriously have managed to do that and they have managed to apply those lessons out into the community with their own housing stock, if they still have it, and also help members of the public. Local authorities can actually do lots of things which are very low cost and on the question of them saving up money themselves, they are effectively making money by tackling the energy question because they are saving revenue which they can use for other things or reinvest into more energy efficiency. I accept completely there are budgetary

pressures on local authorities. If local authorities are required to do it because it is a performance indicator, then they will take it seriously. They will move resources from other areas into investing in that area, but I am confident that they actually will recover that revenue so they can cover their costs and also they can help the local people.

Q589 Daniel Kawczynski: I am at the moment trying to push it very hard for the council to introduce wood-burning boilers, using woodchip, which actually would save them a great deal of money. It is a local company in fact that imports these wood-chip burners but do you believe that we should be prescriptive here? Are you suggesting that we legislate to force councils to do that or should we be encouraging them and letting them decide for themselves?

Mr Manders: We have been encouraging them for some time and the fact is that only a limited number of local authorities are taking energy seriously. Barnsley, a council in the north, has adopted biomass, in other words wood chips for burning in their own housing stock and they have a lot of accommodation. It is a former coalfield area so they have all the old coal burners and so on which they have moved to wood chips. They have saved money because it is far cheaper than coal and it is also cheaper than converting to gas. They can produce very good carbon figures and a financial saving. It may just be that in your local authority, they have not got round to looking at the financial case for it.

Mr Warren: During the course of the last Government, the Home Energy Conservation Act was put on the statute book which does actually require local authorities to set up plans to move towards a 30 per cent improvement in the energy efficiency of all the housing stock in their area across a 15-year period, and that 15-year period concludes in the year 2010. The interesting thing is that a significant number of councils have already achieved that, but an even larger number is way, way behind. The reason why I am citing this is that the returns which have to be made each year do demonstrate very clearly that those local authorities that are prepared to show commitment can actually deliver on this. There is a worry now, I have

to say, because there is a draft planning policy statement out at the moment which, in our submission, if that draft is confirmed, will actually deter many local authorities from wishing to help to save energy in the housing in their area. This is for local authorities who want to be able to set higher minimum energy standards than the building regulations require; and unfortunately the signal that is being sent from this draft planning policy statement is that Government no longer consider that appropriate. They consider that even the most go-ahead local authorities must insist that the minimum which is required under the building regulations becomes the maximum. In response to your question, that would be a very detrimental step were that to happen. I know that there was a Private Member's Bill put before this House on Friday, which was debated on Friday but unfortunately fell and the government minister was actually speaking at the time. Whatever the eventual fate of that particular piece of legislation – and obviously we would like to see it pass - the single most important thing is to be able to ensure that local authorities are not deterred from ensuring that in their locality people do build to better than the minimum standard. After all, we are supposed, within the next nine years, to make sure that every single new home is a zero carbon home; and unless there are actual opportunities for go-ahead local authorities of the type that we have been talking about to have this happen in their locality, then it is going to be very difficult to see how that is going to be achieved.

Q590 Chairman: I was going to ask you a question about what you think EEC three should look like. Could you drop us a note?

Mr Warren: The answer very quickly is more of the same, but a great deal larger.

Chairman: Right, okay. Perhaps it still might be useful to tease that out in a little more detail.

Q591 Sir Peter Soulsby: You have told us about what Government could be doing. We have had evidence from the Local Government Association. Do you think there is more the local government community itself could be doing to spread what is undoubtedly good practice?

Mr Warren: As I said in relation to central government, of course there is always more that can be done. The Local Government Association has done a fair amount on this and I know that you discussed with them a new publication that they produced urging their members to do more. I still find it a great shame that we can sit here and bandy half a dozen names of local authorities when there are several hundred that we ought to be able to approach on this. The answer is yes, we would like to see this happen more but the difficulty is that this is an optional area. Whilst it remains optional, with the exception of delivering on the Home Energy Conservation Act, it will always fall down the priority list.

Mr Manders: The Local Government Association's brief is obviously wider than just energy and they have as a matter of principle, that the central direction from Government controls or obligations, on local authorities, should be minimised. That, of course, is not the view that has been taken by governments of various political parties in this country – they actually do say that there should be some direction of local government and we feel that on this particular issue, there is so much that the local government can do to cut carbon emissions in their relevant area, that probably the only way will be to make it part of the performance regime when it is revised shortly.

Q592 Mr Williams: Mr Manders said that the public do react to particular circumstances like an increase in energy prices and do install energy efficient adaptations in their homes, but they seem to be very cynical still about the role of energy suppliers and are probably unaware really of the energy efficiency commitment that the Government have put upon them. What

can be done to undo that cynicism and make people more open to the role that energy suppliers have in these matters?

Mr Manders: This is where there is a particular role here for local authorities. Opinion polls do show that people do trust what local authorities say. If they get an official letter from the local authority, then they believe it is the truth. Increasingly, as the energy suppliers who now have the low-hanging fruit find it increasingly difficult to find customers, they will turn to the local authorities and work out joint projects with them, of which several exist at the moment. These are particularly successful because they cover the credibility issue for those people.

Mr Warren: You are going to be hearing in a few minutes from Centrica. They have a very interesting way of delivering part of their Energy Efficiency Commitment, which is to get together with certain local authorities and give them the money to underwrite the cost of certain improvements, and instruct them to bill that so it looks as though it is a reduction in council tax. There is more of a conviction that if your local authority approaches you to do something, although you may moan about the local authority, you think basically that they are straight and honest and not going to sell you a pup on these things and that gives a greater likelihood of getting uptake. The experience found on this particular one is that it has been one of the cheapest ways of delivering the Energy Efficiency Commitment.

Mr Manders: May I just add that there are particular groups, in other words elderly people in particular, who are very wary indeed but they do trust the local authority and that usually is the way to reach them. Several projects have managed to do that.

Q593 Chairman: The only problem about the 50 per cent point that you were making a moment ago is that the council tax advantage is only for half of the houses.

Mr Warren: The council tax advantage in this particular case is actually a clever way of marketing what is actually nothing very much to do with the council tax but is to do with delivery of the Energy Efficiency Commitment. It is an interesting signal that having that

there does create a greater willingness to take up things. You are quite right. That in itself will not solve the problems, because, as you indicated, a significant number of householders do not pay council tax.

Q594 Mr Williams: As an organisation you are also very supportive of local schemes. Do you think actually endorsing those local schemes as exemplars would be a better way of achieving the EEC targets?

Mr Manders: That process is going on all the time and in fact there used to be an Energy Saving Trust programme, a financial grant programme, which used to help organisations replicate successful schemes. In my previous employment I was involved in replicating a scheme in Sussex which was really a copy of a scheme in Cornwall, Cornwall Healthy Homes, which was a community project which had been very successful. That process goes on all the time and the Energy Saving Trust spends a lot of time and effort trying to tell organisations about these various schemes. In the end there has to be a reason why they are going to do this and it really is compulsion or tax or a carrot or a stick; there is a limit to what you can achieve with a tambourine. You need the tambourine, but it is the carrot and the stick which get results in the end.

Q595 Chairman: Smart metering: good idea, bad idea?

Mr Warren: Manifestly a very good idea. It means different things to different people. Smart metering in some companies' terms means how to get the meters read without having to send people round to knock on doors when there is nobody there. We would regard the importance of smart metering as actually giving information to customers, so that they are much more aware of how much energy they are using. The arguments for smart metering hark back to the discussion we had right at the very start to do with energy certificates, people actually knowing and having some yardstick of how well the building they are occupying, the

home that they live in, is performing. One thing smart meters ought to be in a position to do is to let people know whether or not they are gas-guzzling, or whether or not actually they are saving energy as they would wish to. One thing that also ought to help with smart metering is hopefully that people will then get real fuel bills which will relate to their actual expenditure. One big worry on this is that most people do not get actual fuel bills; they pay by direct debit, so they do not see the fluctuations as a result of their own individual behaviour. The other great complication is that when you read through your bill it has an E on the end for Estimated, and there is an astonishing number of those. The figure that has been suggested is that something like four in five gas bills are estimated and something like one in three electricity bills are estimated. That means that you are really in a very difficult position for getting any genuine price signals there. You are paying on a monthly basis so that you do not see the fluctuations in your expenditure in that way, and you do not actually receive a bill which relates to what you use. Smart metering ought to help both of those.

Q596 Chairman: In a word, is it something that we should now incorporate as a national requirement to install? After the trials have been completed and we have decided what works, should we do it?

Mr Warren: Yes, and we should do it also because under the Energy Services Directive, Article 13, there is actually a requirement for us to do it (whenever cost effective). What we have to do is determine that actually it is very cost effective in terms of this nation, to ensure that smart metering is in place in as many homes and buildings as possible.

Q597 Sir Peter Soulsby: Everybody now seems entirely convinced of the enormous potential of microgeneration. Are the measures that have already been announced in terms of the microgeneration strategy, climate change and the Sustainable Energy Act and so on, going to be sufficient to make a real difference?

Mr Manders: Coming back to carrots and sticks again, the great stick at the moment is the planning system for many people who want to install a micro turbine or anything like that. The Government are looking at that and seeing how they can increase permissive development rights to include a lot of this technology. If you talk to the microgeneration businesses themselves, they say that they do need really to reach a critical point where enough units are being sold that they can move from being a cottage industry to being a mass production industry. The current government grant scheme will probably not achieve that, at the moment anyway. There are also issues with this as well because it has been so successful that it has run out of money. I have this fear that the Treasury will turn round and say that so many people want to install these things that they do not need public money any more, they can do it themselves. The area still needs a subsidy until enough units are sold so that we can then reach this critical point to move towards mass production. That is what is primarily needed really for microgeneration. The technology is there and it is emerging all the time. Some of it is very long established: solar thermal, solar hot water have been going now for 25 years; ground source heat pumps have been going for 10 years. Enough lessons have been learned now for it to be expanded.

Mr Warren: The argument for the subsidy incidentally is that it also put an official imprimatur of approval on it as well.

Q598 Sir Peter Soulsby: Are there other things beyond providing a subsidy that the Government can do to create and guarantee a market?

Mr Warren: You are talking about what is a major decision as to whether or not you go for dispersed generation or whether you continue to stick with very large power stations as your principal source of power. That is a strategic decision which really only Government can take, but if the decision is taken to go for further generations of very large power stations,

then it does not facilitate moving towards a marketplace in which basically we have given power to the people, individuals can actually control their own power sources.

Q599 Sir Peter Soulsby: What about the feed-in tariffs of microgeneration? What would be necessary in order to make that work and be worthwhile?

Mr Manders: Feed-in tariffs have been very successful in countries such as Germany and also the Netherlands as well, possibly even Denmark. They are expensive and somebody somewhere has to pay for them, but they certainly have been successful in achieving large numbers of installations. We have to realise that we have to look on this as a national investment and that it has to be paid for; if we want to achieve it then it will have to be paid for and obviously ultimately governments can raise money at the cheapest rate. That is the most economical way of doing this. Just to add to what my director was saying about decentralised energy, there is a problem at the moment and I will give you the example of Woking. Woking has a decentralised energy system, a very successful one set up by the council, but it is very hard for them to persuade private developers to add their buildings onto the network. There probably need to be stronger powers through the planning system for local authorities like Woking to add buildings onto their system. If you look at equivalent cities like Copenhagen, I believe about two thirds of the buildings in Copenhagen are heated either by district heating or through the CHP systems. That has not happened by accident: that is because there has been a deliberate policy initiative by the Danish Government. We need to think in those kinds of terms in this country if we really want to have a change.

Q600 Sir Peter Soulsby: Coming back to the question of tariffs, have you given any thought to what sort of levels of tariffs are actually necessary in order to make the whole thing work, to make it attractive to people to invest?

Mr Manders: It obviously has to be so that they can make enough profit after borrowing the money and paying the interest and the capital. Certainly in Denmark farmers club together to buy a wind turbine because it is a form of farming as far as they are concerned; they have the land and they put the turbine up and then they earn enough money from the feed-in tariff to pay for that turbine and to make a profit. That is probably the level that we have to think of; it has to be attractive enough to match interest rates and the capital.

Q601 David Lepper: You talked about councils and the role of councils. What about the expertise of people in council planning departments so far as microgeneration is concerned? You tell us.

Mr Warren: Patchy is the word.

Q602 David Lepper: Is anything being done to overcome that patchiness or if not, what should be done and who should be doing it?

Mr Manders: There have been some attempts. The DTI did a programme called It's Only Natural which was primarily about persuading local planning authorities to accept wind turbines or wind farms. At the same time it did have the benefit of educating planners and also leading members of local authorities and councillors about renewable energy. But that is just a drop in the ocean. There are 400 local planning authorities and sustainable energy is a new area for them. They are not used to it. They are not trained to handle it. It is not surprising that they do not know very much about it and many of them are quite fearful of going down that road because obviously if you make a mistake, your mistakes find you out very, very quickly. The Government are working on this new planning policy statement to have every local planning authority consider sustainable energy as part of their evolving local development documents. There is a big gap there. Most local authorities will not be in a situation where they actually have the expertise to implement that policy. Something has to

happen somewhere. I am sure the private sector will step in and there will be consultants who will be plying their trade round local authorities saying they can solve that particular problem for them. There may also need to be more help from organisations like the DTI on this particular issue.

Q603 David Lepper: Some of us were in California last year as part of the first stage of our inquiry and one of the schemes we saw there involved the supply by the electricity service company of low energy, very efficient refrigerators to small businesses in a scheme that aimed to get them all using them. Do you think in this country we need a scheme of that kind in terms of encouraging the uptake in homes or in businesses of the appliances that are going to be more energy efficient?

Mr Warren: Up to a point that is what the Energy Efficiency Commitment is intended to do but it obviously has a ceiling. As I understand what has happened in California to date, there has been a remarkable record there. Even though they have had very substantial growth in wealth and in population, electricity consumption per head has stabilised over the last 15 years or so and that has been, as I understand it, because the regulators who oversee the electricity companies have basically said to them that it is cheaper for your customers for you to be helping them to save energy than it is for you to be investing in new power plants. That has been particularly possible to do because you very often have integrated utilities there, and you are probably referring to Pacific Gas and Electric in this particular location.

Q604 David Lepper: Yes, that is right.

Mr Warren: In essence, if we go back again to the discussion we were having with the Chairman at the start of this session, that is the sort of ethos that one is trying to reach in this country, in reaching towards the whole idea of energy service companies. We will not be able to do work on the commercial refrigerating side of things as yet because all of the duties for

them refer only to the residential sector. There are actually very few mechanisms, methods, public instruments which deal with the commercial sector and address the commercial sector at all in the UK, which is one reason why it has been an area which has seen exponential growth in energy use.

Q605 David Lepper: I just wondered to what extent one of the problems in this country is the 28-day rule that allows customers to change supplier. Is there a reluctance on the part of the service providers, the energy providers?

Mr Warren: In practice the regulator here, Ofgem, did offer the opportunity to relax that rule in order to enable new energy service contracts to be introduced. I do not know whether that was taken up very widely, but there is sufficient recognition within Government about the need to see longer-term investments into energy saving measures not deterred by the understandable requirement in a liberalised market that you do not tie in a customer forever, that it is perfectly possible to have effectively two contracts: one which relates to the energy saving measures and one which relates to the consumption. It is not perfect and it is not as easy to do as it is in the integrated market in California, but it is possible.

Chairman: Andrew, Mr Manders thank you both very much indeed for your contribution. There were one or two quite stimulating new perspectives, particularly in terms of landlord and tenant, which we have not heard of before and we are grateful to you for that. Standard warning: you cannot undo anything you have said, but if there is anything else you would like to send us by way of additional commentary, then the Committee is always grateful for further thoughts. Thank you both, not only for your oral evidence but also for the written evidence which you submitted earlier. Thank you very much.

Memoranda submitted by Centrica plc and EDF Energy

Examination of Witnesses

Witnesses: **Ms Jill Harrison**, Director Energy Efficiency, Social Programmes and Prepayment and **Mr Jon Kimber**, Head of Energy Efficiency, Centrica plc and **Mr Vincent de Rivaz**, Chief Executive and **Mr Richard Sykes**, Head of Customer Market Development, EDF Energy, gave evidence.

Q606 Chairman: We bid welcome to our second set of witnesses in this inquiry. For the record, representing Centrica is Jill Harrison, the Director of Energy Efficiency, Social Programmes and Prepayment – I did not know you were so generous that you went round prepaying all your customers' bills, but it is always nice to find somebody who is generous - and Mr Jon Kimber the Head of Energy Efficiency; on behalf of EDF Energy, Mr Vincent de Rivaz, the Chief Executive and Mr Richard Sykes, the Head of Customer Market Development. You are all very welcome and you got a flavour of some of the things that we are going to ask you about from the few moments you spent with us before coming onto the witness stand. The Committee are obviously aware of what has been going on in terms of the field of the energy efficiency commitment, but it would just be quite helpful to spend a moment or two looking at the economics of EEC. One thing we have learned now is the shorthand of this during the course of our inquiry. Am I right in saying that effectively, although the Government have set targets to energy providers under EEC, the financing of the expenditure which delivers the EEC programme, although it looks like it comes from you, effectively comes from the customer? Is that right?

Mr de Rivaz: First of all thank you very much for your invitation. We are pleased to be here and to contribute to the Committee's inquiry. We are all in a business which makes investments, from these investments we aim to have an efficient business which is getting

some revenues from the customers and the investments we are making through the EEC programmes are no different from the others in this respect.

Q607 Chairman: The reason I ask that question is that the impression is almost given that somehow EEC is being provided by the Government, but it is not: it is effectively energy consumers who are paying for some energy customers up to now to have the potential of some benefits in various ways. From the EDF standpoint and indeed Centrica, are you able to give us a flavour of your respective companies' investments in EEC and what that represents as a proportion of your turnover?

Mr de Rivaz: Richard will give you the details. Fundamentally you are right to say that EEC works as you have described. Whilst we have to recognise that the energy efficiency commitment so far has been globally effective and has achieved a lot, at the same time I would be in the camp of those who think that there is room for improvement.

Q608 Chairman: Would you like to define that, because you anticipate my next line of questioning?

Mr de Rivaz: What is probably important is to recognise that at the moment most of the money which is invested in EEC goes 80 per cent to one specific type of measure, insulation in the wall cavity. It is not very wise, if we have an ambitious project, to put all our eggs in the same basket. So for the future one improvement would be to find the way, through market mechanisms, to embrace other measures than the one we are focused on at the moment. The second significant improvement that we would recommend for consideration would be to clarify the role of EEC in terms of energy efficiency, energy savings and the role of EEC in terms of tackling the fuel poverty. At the moment, the fact that there is a sort of confusion between the two roles means that we are not delivering very well on either of these

roles. I would suggest that clarification would result in a more efficient tackling of fuel poverty and at the same time be more efficient in energy efficiency.

Q609 Chairman: It would be very helpful to have Centrica's perspective on that, because you have been very involved in that in quite a high profile way. Perhaps I could just focus for both of you. If you were now designing what EEC3 should look like, what should its characteristics be? In other words, Mr de Rivaz indicated that there were ways that he thought it ought to be improved and rationalised and EEC3 is obviously the opportunity to do that and, if so, what should it look like?

Ms Harrison: I agree with some of the comments that Vincent has made. In terms of characteristics, we would look for a separation of some of the social aims of EEC from the carbon objectives of the mechanism. To try to deliver both out through one mechanism sometimes makes us sub-optimal and it restricts us in our ability to deal with some of the social dimensions of fuel poverty, because we know for sure that fuel poverty needs holistic solutions that go beyond energy efficiency. The other thing we would want to see is the encouragement of more innovation to bring forward some of the new and emerging technologies into the mainstream. The fact is that the current mechanism is 80 per cent reliant on insulation and yet we have an aspiration to move towards a low carbon economy and the new things coming through to replace insulation, which in a diminishing market needs to be reflected within EEC to encourage the investment and the deployment.

Q610 Chairman: Just to interject there, would that address the point which the Association for the Conservation of Energy made that 50 per cent of our old housing stock, and perhaps that also goes for old commercial buildings, are not easily subject to an insulation solution? Would the technologies that you are talking about address that untouched sector and what are they?

Ms Harrison: They would go some way towards addressing it.

Q611 Chairman: What are they:

Ms Harrison: We have microgeneration technologies, things like biomass and combined heat and power, but the other aspect of hard-to-treat properties is that the properties have solid walls and at the moment the solutions for addressing those are very expensive, so in a way EEC needs to embrace those in a bigger way than it has done historically. The third point for us would be that EEC should focus on outcomes not inputs. At the moment, the way in which energy credits are earned in the scheme is that you have to install a product; you either have to install a low energy light bulb or insulation or a rated appliance or whatever. We believe that a lot of energy saving can come from behavioural shifts in consumers and yet that is not recognised within EEC.

Q612 Chairman: Let me just ask a question on that. Being a British Gas customer in my house in London, as a citizen I sent off for my guidance and a little box arrived. I opened it up with a great deal of enthusiasm and I found two energy saving light bulbs in it, thank you very much, and a little leaflet and a sort of rating as to what my property was. However, there really was no positive follow-up to it. I received the information and thought that was jolly interesting and looked around for two places to put the light bulbs. Do you not think that that kind of scheme needs to have a bit more positive follow-up to say “Well, Mr Citizen, what are you going to do now”?

Ms Harrison: Yes and in fact you hopefully will receive some follow-up from us shortly. What we are trying to do is get customers on a journey where we introduce the concept of rating your home and we give advice on the energy saving report that you saw. In fact we have had 1.5 million responses to that which is just a phenomenal response to a form that we sent through the post, so we do know we are getting consumer engagement there. The next

stage will be to follow up and say we had their report, these are the recommendations we made, ask what action they have taken and what more we can do to follow up and provide support to them now.

Q613 Chairman: Just following your thought process, does that response lead you as a company then to say “Here is a range of technological solutions, some of them mainstream, some of them newer ones” and talk with the customer about how that will move forward? Is that part of the strategy?

Ms Harrison: Yes. In your box you should have had a leaflet which was describing some of the solutions and technologies.

Q614 Chairman: I did indeed; yes.

Ms Harrison: We plan to follow that up with another update sheet to all the people that participated, where we go on and encourage more interest and more use of some of those things.

Q615 Chairman: You have both described your aspirations and the characteristics, if you like, of what might be called EEC3. Do you sense that the Government are minded to follow your line of thinking, bearing in mind that the emphasis, as you have both made very clear, on EEC1 and EEC2 has been this confused picture between some of the low-hanging fruit in the general area of energy efficiency and the specific target for the fuel poor? Do you see any kind of sophistication in the thinking of Government on this?

Ms Harrison: From our discussions with Defra, they are open to some of the suggestions that are being developed, but often what we find is that statute does not allow that and we have to find creative ways to work within the statute that is there.

Q616 Chairman: Just help me out a minute. You said that the statute does not allow it. Which statute is this and what does it not allow?

Ms Harrison: I understand the energy efficiency commitment is vested in statute.

Q617 Chairman: So what needs to be changed?

Ms Harrison: The challenge with social dimensions is that you often need to deliver solutions that go beyond energy efficiency, but the energy efficiency commitment requires you to deliver an energy efficiency saving. So if you wanted to give assistance to consumers through some form of financial support, by doing benefit entitlement checks or whatever to address the income dimension, that is not provided for within the scope of the current EEC. Until 2011 there is no real opportunity fundamentally to shift the thinking unless we can find a creative way to do that under the existing legislation.

Q618 Chairman: So the climate change bill might be such a vehicle.

Ms Harrison: It could be.

Mr de Rivaz: I would like to concur with what Jill has just said on several points. First of all, clearly there is a role for the Government and there is a distinct role for the market to deliver. I am pretty confident that the Government are taking the right approach in the sense that the quality of the consultation which is taking place in the Government in the context of the Energy White Paper after the Energy Review is an example of a Government which in my view is really listening to all those who have something to say and something to contribute. If I had to make some specific suggestion about the progress which might be made, in addition to the distinction between tackling fuel poverty and energy savings, there is room for the Government to be more specific about the standards, about the norms that should be compulsory, in terms of building, in terms of some technologies which will be used. There is an example on which I think there is an interesting debate and that is how to make a

breakthrough in the use of smart meters, an element of which could be part of EEC, or at least part of the global picture on energy efficiency. I am not sure at the moment that we are taking the clear decision which would help to make this breakthrough. So some decisions are clearly in the camp of the Government, but in time we as companies, we as the market in charge of delivering this policy, have to be both ambitious, which we are, and modest about what we can achieve because it is a journey, it is gradual. We are in the industry after all to deliver power to our customers and we are doing so, but we are more and more in the business of giving empowerment to our customers, giving the customers the ability to make real choices. One example I would like to share with the Committee is the product which at the moment is already taken by three per cent of our customers - three per cent is not 30 per cent, but it is a good beginning - a product, Read, Reduce, Reward, by which we incentivise our customers to read and to reduce their consumption. Ninety-five per cent of those customers are really doing what this product is designed for: they are taking responsibility for understanding better what their consumption is and they are doing that with the clear goal of reducing their consumption. Having said that, we have to recognise that in terms of energy efficiency in this country there is a big gap between the awareness of the issue and the commitment. It is like a brand: you can have a strong brand with a strong awareness rate but not the level of commitment, which is the moment when the customer's view really changes positively towards a brand. Awareness regarding climate change is huge and the Energy Review, the Stern review and many, many statements from the politicians, from the media have contributed to that. If we look at the surveys we have made amongst our customers, it is impressive how much our customers are interested in this topic. It is impressive how much they think that something has to be done and at the same time, the commitment level is not yet there. They do not yet see what their individual role is, what their individual behaviour can do to contribute.

Q619 Chairman: Why?

Mr de Rivaz: First of all we have to recognise that we are in a new paradigm; it is a new context. The climate change agenda, the importance of acting now, have only been understood very recently and maybe five years ago we were not at all aware of the importance of this issue. There is this kind of timeline between consciousness of the problem and change in the vehicle. The second thing is that at the moment, for many reasons the customers are still very much focused as a priority in their behaviour on the price issue, which we can understand. The price has been going up, there is a lot of volatility and there is a real issue of the bills. One day they look at us as suppliers and as a priority ask us to keep the price affordable. However, the example I have given of our product is encouraging. It is encouraging because it shows that there is a growing appetite and our role as an industry is to lead our customers on that journey, to embark them on that journey towards being realistic, being ambitious and it is what we in EDF Energy are committed to do.

Q620 Chairman: Let us just follow on your first steps. It is a wonderful declaratory statement and I am sure it will play very well at the annual general meeting, but if you are going now to take your customers on the journey, you are going to remove a very important barrier to engagement by the public in moving forward in the collective battle, to use that word, against greenhouse gas emissions. What are going to be your first practical steps to get people to do a variety of things? What is the plan?

Mr de Rivaz: The first thing we have to do is, as a company, to change our own behaviour. To be very specific, in the coming months we are going to publish what will be our own manifesto.

Q621 Chairman: A dangerous word that; you are coming into our territory. We understand about manifestos.

Mr de Rivaz: I am not trying to compete with the politicians. I am really trying to change the mindset in the company. To give you an example, many of you will have seen the film *The Inconvenient Truth*. I have decided that all the employees of the company will be invited to see it; it is one of the very powerful communication tools that we have to debunk the arguments of those who are still in denial about the reality. Not all our employees can read the Stern review, but many of them can be really moved by this film. From that we will set some targets for CO₂ emissions' reduction for our buildings, for our transport, for the way we dispose of our waste and we will set clear targets, not only at our annual general meeting but for the entire company and publicly, so that we can be accountable for what we are promising to do ourselves. We do have to start with ourselves if we want to convince our customers. The next example I would like to give regarding our customers is clearly to go further with our Read, Reduce, Reward product and we shall take some initiatives in the coming months to enhance this product. We shall work through the energy efficiency commitment programme phase three, if the possibility is given to us, to expand what we have started to do; it will be a marathon, it is not a sprint, but we are committed to that because fundamentally we are no longer in business to sell units, to sell more and more units, but to sell services, helping our customers to make the best use, the best choices in energy consumption.

Q622 Chairman: How are you going to get the customers to believe that this is not some subtle plot to enhance the company's profitability? You made the point earlier that you are in a commercial business and you have to make a rate of return for your shareholders and some people have been a bit confused by supplier companies having lots of special offers to reduce the consumption of the very product that drives the business.

Mr de Rivaz: I know these kinds of questions do exist and we are listening to our customers, but at the moment they do not think that the suppliers are genuinely willing to do it. However, I am encouraged by the success of our Read, Reduce, Reward product. Just

because there is a lot of cynicism around does not mean we should not believe strongly that we have to change the way we run our business. Yes, indeed we are going to reduce the units sold, but at the end of the day we think we are creating a level of moral contract with our customers that will increase the loyalty of our customers and it will pay off in a competitive environment where it is very important to reduce the churn of our customers. We are not a charity and we are not doing that just for philanthropic reasons: it is part of our vision to be running a profitable business.

Q623 Chairman: Perhaps you ought to send all the customers a copy of Mr Gore's film as well so they can share in that.

Mr de Rivaz: Why not? It is a good idea. I do not know whether we could send a copy of the film but we could invite them to a screening and have a discussion with them. We are in a business where we have to listen to our customers; we have to engage with them. It is no longer the world where the supplier is just selling power: we have to provide empowerment.

Q624 Chairman: British Gas have engaged in a rather clever way in that, for example some of the energy saving measures they have been putting forward have been encouraged by people getting a reduction in their council tax. Perhaps you would like to share with us how that scheme operates and what savings have been attributed to it. Is it a one-off reduction or does it carry on in perpetuity? How many local authorities have shown an interest in it but why is it restricted to the other half of the 50 per cent of houses, because they are the ones who can take the benefit of insulation? Why should the people of the other type of houses be discriminated against under this programme?

Ms Harrison: In terms of the council tax rebate, what we are trying to do here is to find innovative ways to get middle England engaged in insulating their homes and we know that historically it has been incredibly difficult to get people to buy cavity wall insulation for

example. It is not very expensive to buy and it delivers huge energy savings but we just have not had the engagement and council tax is just one way in which we have tried to do something very different and tried to hook into consumer psyche around not liking to pay council tax. We teamed up with Braintree Council initially just to do a trial on offering customers £100 rebate on their council tax bill. Braintree funded half of that and we funded the other half which is effectively what it would probably cost us to market this product through our own channels. We had a huge take-up and Braintree's phone lines got jammed very quickly. That was done some time ago. We now have 40 local authorities that participate in the programme, it is growing and that covers something like two million households potentially who could actually pursue insulation through that scheme. The one thing we have found from consumer research is that 35 per cent of people who opted to take that product have said they would not have done so had it not been for getting a council tax rebate.

Q625 Chairman: Let me be clear on a point of detail. Is it a one-off reduction?

Ms Harrison: Yes, the council tax reduction is obviously a one-off. You have the product installed and then we notify the local authority that that has been done. The council then put the rebate through on the council tax bill, but of course the benefits in reduced energy costs from the installation run on for the lifetime of the house.

Q626 Chairman: Having engaged up to two million households, come back to the question I asked a moment ago. Fifty per cent can take advantage of it, but there could be others. You said earlier in your answer that you were looking at a range of technical solutions to try to address the issue of the 50 per cent of properties who cannot be the beneficiaries of cavity wall insulation. Is there a plan to roll out this model for this 50 per cent who cannot participate at the moment?

Mr Kimber: Yes, there is a plan. We do intend to increase the reach of the proposition; obviously at the moment it is just for cavity wall insulation. Similarly there are other products that we can bring into the mix in terms of loft insulation, other traditional products. There is a whole raft of other products coming through, for instance microgeneration, et cetera. We have taken the approach that we have offered this proposition and we are slowly rolling it out. There is huge enthusiasm from local authorities to get engaged in this, so we are hopeful that in the next six months to a year we will have a full range of products that we can offer through that particular mechanism.

Q627 Chairman: Mr Rivaz, you have mentioned the fact that your company is moving in the direction of selling energy services. From your knowledge and contacts with others in your industry, do you think that is going to be a general move?

Mr de Rivaz: I cannot speak on behalf of my competitors. I would just repeat the point that we cannot afford to be just a provider of units and that a way to differentiate ourselves will be to embark our customers on this journey. We have to be clear about what an energy services company is about. One example I am pleased to share with the Committee of what we are doing at the moment is this joint venture that we have with the London Climate Change Agency which is really part of the ambition to transform London progressively. It is based on a very, very clear vision that the large cities will make a big difference in this battle for climate change. Eighty per cent of people live in cities so it is a very good ambition for London to be a kind of beacon in the world in this respect. At the same time we have to be realistic; we are going to deliver this ambition project by project and there are economic rationales to build around these projects which are based on three simple ideas. One of the objectives is to persuade consumers to use electricity for heating. A contribution from developers is another of the means and we think we can make a case that the awareness and new commitment of people to contribute to the low carbon economy will add value for the

developers to their projects, if these projects are going to deliver this low carbon future, which is the basis of the economics of this joint venture we have with the London Climate Change Agency. I should say we have to be very pragmatic project by project, but that is the direction in which we are moving.

Q628 Chairman: I should like to move to the question of smart metering. We explored this briefly in our previous session. The objective is with a different type of meter to communicate to the customer the characteristics of their energy consumption and to give them a better indication as to the costs of their actions. I wonder whether you could respectively, starting with Centrica, tell us what the present policy of your company is about smart metering. What information do you think your customers need to get more control over their consumption patterns and what are you doing to introduce it, if you think it is a good idea?

Ms Harrison: Historically, we ran some trials with automated meter-reading technology. The evidence from that is that we did not actually manage to get a shift in consumer behaviour but that was probably long before the focus on climate change became part of consumers' interest. At the moment we have some smart meters on trial in electricity in some pre-payment customer households because we are trying to understand whether the information from a smart meter can help customers to budget and whether the facilities that you might get with a smart meter, like being able to top up and pay for your credits in different ways, can actually deliver a service to customers that customers value and want. So we have those on trial at the moment. They have been on trial for about six months and we are just at the stage where we are beginning to get some early learning. The other things we have on trial at the moment are some consumer devices which in many ways replicate the information that you might get off a smart meter. You plug them into your house and you can see what happens when you switch appliances on and it will tell you how much you are consuming and how much that is costing you and some of them will tell you how much

carbon you are emitting. We have some of those on trial and in fact we have made a bid for some money that Ofgem have that came from some joint funding from the Treasury and Defra, a bid to roll out a much larger trial on those consumer devices. We believe that actually having these devices that you can read in a room that is convenient to you, for example in your kitchen rather than under your stairs where your meter might be, will be of great benefit to consumers.

Q629 Chairman: Are these smart meters nice to look at? They are not horrible great big boxes which people say they cannot have in the middle of the living room?

Ms Harrison: No they are very modern and some of the consumer devices are very nicely designed and would sit in your kitchen very comfortably.

Q630 Chairman: You can sit and be mesmerised all day, can you?

Ms Harrison: You can be mesmerised. When you install these things the problem is, if you have kids, that they will run around the house and switch everything on so that you can see how it works, so you tend to get a temporary surge in consumption and then it drops back. They do certainly seem to be valuable to consumers, so we certainly want to do more trialling of those as an alternative to smart metering. In terms of smart metering per se, our view is that mandating is not appropriate and that smart metering should be deployed on a commercial basis. Not all homes will need a smart meter; some will run quite happily with things like consumer devices which are much lower cost. We would like to see smart metering encompassed within the EEC3 programme so that we can actually be expediting the deployment with some incentives.

Q631 Chairman: From a Centrica point of view, if you achieve the deployment of these devices in accord with what you have just said, do you have a rough idea what it would cost you to do?

Ms Harrison: I am sure we have; I do not have that information with me.

Q632 Chairman: The reason I ask that question, and I shall put the same one to EDF in a second, is that it is a question that you have only so many investment pounds and if you are looking for optimal outcomes, is that necessarily the best way? I know it is currently what I call the “buzz phrase”, everybody keeps saying “smart metering”, but is that necessarily the best way to assist in getting information to consumers which will focus them on their energy behaviour?

Ms Harrison: That is absolutely right. The approach that we have taken is to look at the customer segments that would most benefit from having a smart meter, which is why we have someone testing the pre-payment segment where customers not only need more information to help them budget, but also where they can find different ways to pay, so the whole service becomes much more convenient. In the debt segment, there is probably a good business case for putting smart meters in to help people understand the cost of the energy that they are burning. However, as I say, not all households need a smart meter or would want a smart meter or would benefit and in those cases, cheaper alternatives like consumer devices with a one-off cost are probably a much more appropriate solution. We would very much favour a commercial driven approach.

Mr de Rivaz: May I first of all confirm that EDF Energy has a trial going on at the moment? We are studying 20 smart meters per week through a joint action with the National Energy Action organisation which is a charity. We have also, as Centrica have done, bid to join the energy trial. We are in a cycle of trials, which is good news, because the idea has been there for years, if not decades, and we all thought that in the absence of real trials, we would not

make real progress. Having said that, there is an open debate at the moment. Was it wise for the regulator to put the metering activity into the entire area of the competitive market, as has been done? An alternative would have been to leave the meters with the distributors, with the DNOs, and to make part of their role as regulators be to enforce gradually the level of investment from the DNOs into smart meters. It is what some other countries have done, for instance in Italy. I do not know if it is too late for the regulator to change his particular view of the world regarding that, but I would have thought it would be more efficient to do that as part of the quality of services required from the distributors, which by the way will not prevent the suppliers using this core device to provide additional services and to develop some business initiatives to make it even more efficient for the customer, according to the customers' needs. The base in my view should be developed through the DNO regulated business. One danger is talking a lot about smart metering and not making the breakthrough; they are potentially part of the solution to the energy problem because they are designed to help the customers to take ownership, to understand, to measure and to decide, which is very important. Today they are more part of the problem because it is sad for the industry that this technology is more or less from the beginning of the 20th century technology, it has not improved. Everything else has improved in our business, new technology has come in, but the meters are still based on old technology. I really believe we still have to achieve a breakthrough. I am not sure we are brave enough at the moment to make the radical choice we should make. However, let us be pragmatic, let us see what the trials will tell us, what the customers' behaviour through these trials will tell us but be honest and try to find an early breakthrough solution.

Chairman: Right, I should love to pursue this but we are up against some constraints in the way that the Committee operates and my quorum runs out at half past five. I want to move on

just to get your observations about the whole field of microgeneration and micro-CHP. Centrica were talking about that so Peter, would you like to take us into that?

Q633 Sir Peter Soulsby: The Energy Saving Trust told us that 30 to 40 per cent of the UK's energy needs could come from microgeneration, micro-CHP distributed generation more generally. First of all, is that a proportion that makes sense from your perspective? Is that really the potential that is there? Secondly, what are the incentives needed to get potential investors into the technology that is needed? Thirdly, which of those technologies actually has the best potential for development? Three for the price of one there.

Mr Kimber: We are in a very fortunate position in Centrica in that we have just been appointed as a framework supplier under the low carbon building programme phase two, which is in the public sector; so we have quite a wealth of experience in terms of dealing with microgeneration companies and the different types of technologies that are available. Thirty to 40 per cent in the short term seems very optimistic, not necessarily because of the technology constraints but probably more so in terms of the installation capability that currently exists within the marketplace. We would have to build in the expertise, the training skills and experience, et cetera. It certainly is a long-term objective. In terms of the products and the incentives that consumers need, private householders can now receive grants up to 50 per cent on certain technologies through the low carbon building programme. Andrew Warren commented earlier that there is a surplus of applications at the moment for those particular technologies. If you took that grant funding away, would there still be the demand? Probably not. So there does need to be an incentive there for customers currently and it certainly is needed for the organisations working this environment to make their businesses commercially viable in terms of the numbers of installations they are completing day on day. Which technologies work? A lot of them have a role to play. Very much all the technologies there can play a role to varying degrees. We believe that the way forward is probably through

heating systems because people have to replace their heating systems. One point two million boilers are installed every year and some of the new technologies being developed now in terms of micro-CHP and fuel cell technology can potentially make quite a big impact in that marketplace in a very short space of time. Some of the other technologies will take longer.

Mr de Rivaz: I fully agree with what Jon has just said so I will not repeat what he has said. Just a comment about microgeneration in general, which is part of decentralised generation. It is very important to recognise that in the next 20 to 25 years, over one generation, decentralised generation will become more and more part of the overall system. At the same time it would be foolish to say that we can get rid of the centralised system. We have to combine the two and there will be for a very long period of time a very important for the centralised system. At the same time, not only as suppliers but also distributors running the largest distribution network in the UK, we are very much aware that it will gradually change our business. The role National Grid is playing for the centralised system in balancing demand and supply at the central level will become more and more an additional role that we will have to play at distribution network level where we will also have to balance supply and demand from the decentralised generation. In discussions that we have had with our regulator, we are insisting on the fact that we should think of what the impact of this new evolution will be on the level of investments and on the responsibility that we will have to take. Microgeneration is an important element of the overall picture. Part of the whole picture is the development of decentralised generation and it is something we need to discuss more and more with the regulator to see how it will impact on the vision of the future.

Q634 Chairman: You have given a glowing endorsement for it. Why are you so miserly in what you pay for the electricity that people generate by micro systems when they sell it back to the grid?

Mr de Rivaz: You are right; there is a debate about the level of the threshold of exemption of the use of the grid. It is a very important question because it is not reasonable to see the development of decentralised generation on a significant scale without seeing the global picture, which is how the system would be balanced. It is probably not true to say that decentralised generation can develop without networks. Having said that, what is a fair share of the cost of the networks to be taken into account? There is a debate going on about the level of exemption and we have to be very pragmatic about that. We cannot imagine a world in which there will be a huge development of decentralised generation without taking into account the impact on the system and at the heart of the system locally are the distributors, the distribution networks' operators and it is an interesting question.

Q635 Chairman: Coming back to Centrica, I have a boiler which is ten years old and I am wondering what to do. Do I wait and wait and hope that some whiz-bang box is going to come from you or from somebody, or do I make an investment that will last me another ten years in the best of conventional today? This is a bit like wanting the latest computer and just when you have decided to buy it there is another "latest" computer. Why is it taking so long to get these new whizzo products that you have just been talking about available for us?

Mr Kimber: I can understand your dilemma; I have exactly the same dilemma myself actually. These products do take a long time to bring to market and it is not just the actual technology and developing the technology, it is providing the support infrastructure as well, so that when we put them into people's homes, we can support the technology correctly and the maintenance requirements, et cetera. They are very complex, the technology for micro-CHP, particularly fuel cells, is incredibly complex and the companies that we are working with are working very hard, they know there is a prize involved if they can bring their product to market first of all, but when they bring it to market, we want the product to be correct and to do what it says on the box and we want to make sure we have the right support

infrastructures to ensure that customers are satisfied with that product. We want to make sure we get everything right before we bring these products into the marketplace.

Q636 Chairman: So when?

Mr Kimber: Soon.

Ms Harrison: We have been working on a micro-CHP boiler for some time and we have some on trial now. It depends how those trials go in terms of how fast they come to market. We have also been trialling wind and again it depends on whether or not we are satisfied with the results of that when they come to market. We also have a major partnership with Ceres Power to develop a fuel cell boiler, which is the most exciting technology. The simplicity of it means it probably will get to market before CHP does in a micro sense, but not yet, I am afraid.

Q637 Sir Peter Soulsby: You can tell me if I am wrong, but I get the impression that the development of microgeneration has been somewhat over-hyped, particularly in the short term. I hope you can tell me I am wrong.

Ms Harrison: The best example of that is probably micro wind. They are almost like style statements for people and there has been a rush without people thinking about whether they have the right wind speed in their area, whether they have the right height of house, whether it is going to generate enough electricity for them. I do think some of that has been over-hyped.

Q638 Chairman: You were talking about the big debate, about things like buy-back price and the costs and the implications of microgeneration for the grid. Germany pays four times the buy-in price as the sell-back price and yet it seems they manage to produce this trick without it costing the generators, the supply companies, any money because it is just diluted as a cost over all the consumers. Is that the route we should follow?

Mr de Rivaz: Generally speaking, we would not support policies which favour any kind of technology, including microgeneration, irrespective of cost and irrespective of environmental benefits. When there are huge subsidies, any kind of state subsidies, the danger is that you move away from the market-driven actions and then you do not trigger the right behaviour. We should not support policies which favour microgeneration irrespective of cost and other benefits; at the same time some barriers which can be removed. We believe, for instance, that the installation of microgeneration should fall under the general permitted development order where no specific consent is required. There is a general problem with regard to planning issues in this country, be it for large constructions, be it for small constructions, which is to make it more efficient, but we are not here to discuss planning issues.

Q639 Chairman: Are you as a company involved in the development of any of the technologies? We have heard that Centrica have two devices that they are looking at. Are you involved in any developments like this?

Mr de Rivaz: At the EDF group level there is a significant programme of research and development to develop microgeneration. Like Centrica and many others we have not yet reached the stage of being able to say when we will have developed these new technologies to a commercially viable level, but there is no doubt that it is part of our agenda. We do not at all consider that these microgeneration ideas are not appropriate; quite the contrary. But, I repeat, in the long term we should not trigger the wrong behaviours.

Q640 Chairman: Talking about behaviours, there has been quite a lively debate and discussion about personal carbon allowances. Do you think that they are realistic, viable, useful, or just a bit of politicians' talk?

Mr de Rivaz: When we embark on such a journey to change the behaviour of the customers, we should avoid embarking with too much luggage. When you have too much luggage it is

not very easy to move, if I might make this comparison. At the moment, to go straight to a personal carbon allowance system, which could be attractive, is in reality potentially counter-productive. It would be too complicated, too bureaucratic and too costly; we are not yet there. I am not saying that in some years' time, when progress has been made in the hearts and minds of the people, this idea cannot come back, but in our view it is not a priority today to develop personal carbon allowances. As regards low carbon economy, towards which we all want to go, coming back to EEC, there is a discussion, probably an interest, around looking at how to make the actions made in the EEC more tradeable, which at the moment is not the case. I agree that globally we should develop mechanisms which really incentivise people to invest in low carbon technology through the market mechanism.

Chairman: I am going to have to draw stumps there because unfortunately we have run out of time to carry on what was a very interesting dialogue. If Centrica want to drop us a note with your views on PCAs, it would be very much appreciated. May I thank you both for your written contributions and your contributions today? You have seen the efforts of the Committee to look at ways of removing barriers to the citizen becoming more involved in reducing their carbon footprint and if you have any further thoughts on the subject which we have not been able to discuss today that you wanted to drop us a further note about, we should be extremely pleased to hear from you. Thank you very much indeed.