



The Green Deal and Energy Company Obligation – will it work?



Britain never had a successful revolution



Another failed rebellion: the death of Wat Tyler, leader of the peasant's revolt of 1381
Picture: Hulton Gett

But this is about to change...

“By 2020, we will have seen a revolution in British property.”



The Green Deal and Energy Company Obligation: Government Response to the November 2011 Consultation.

Proposals were not met with unanimous support

GEORGEMONBIOT'S BLOG



The green deal is a useless, middle-class subsidy

This deal is in no way green – it's just one of the means by which money is being taken from the poor and given to the rich

Other commentators were more measured

"The paradox is that the government's own impact assessment suggests the policy will not deliver its objective. There is a difference between the rhetoric and their own assessment."

*David Kennedy, Chief Executive of the Committee on Climate Change
(quoted in The Guardian, 13 January 2012)*



Question of this presentation:

**How sensible are the proposals and
what are the implications?**

- 1) Background - what is the Green Deal and the Energy Company Obligation?**
- 2) Expected carbon savings compared to status quo**
- 3) Supply chain capacity to deliver**
- 4) Design choices**
- 5) Impact on fuel poverty**
- 6) Conclusions**

Background



What is the Green Deal?

Current situation:

Loans for energy efficiency improvements linked to **person**

Green Deal proposals:

Allows loans to be linked to **property** instead



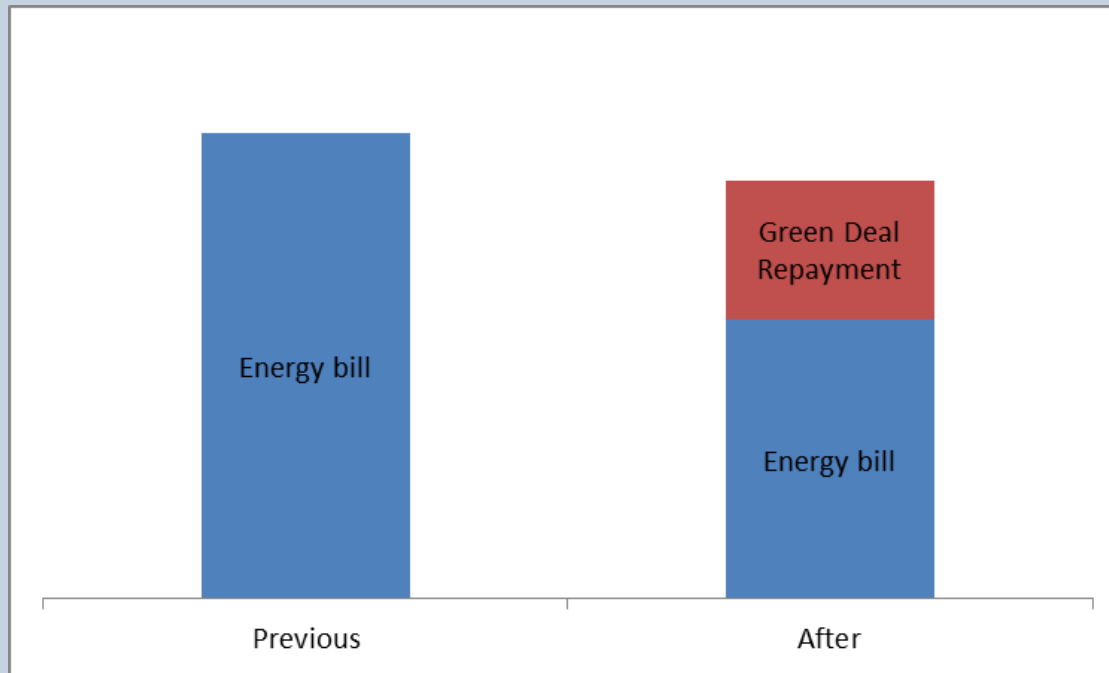
THE CONSERVATIVE MANIFESTO 2010

Help people go green

Rising energy costs hit families hard, so we will create a 'Green Deal', giving every home up to £6,500 worth of energy improvement measures – with more for hard-to-treat homes – paid for out of savings made on fuel bills over 25 years.

The Golden Rule

- The ‘Golden Rule’ of the Green Deal is the principle that “estimated savings on energy bills should always equal or exceed the cost of the work.” (DECC 2012a, p. 5)

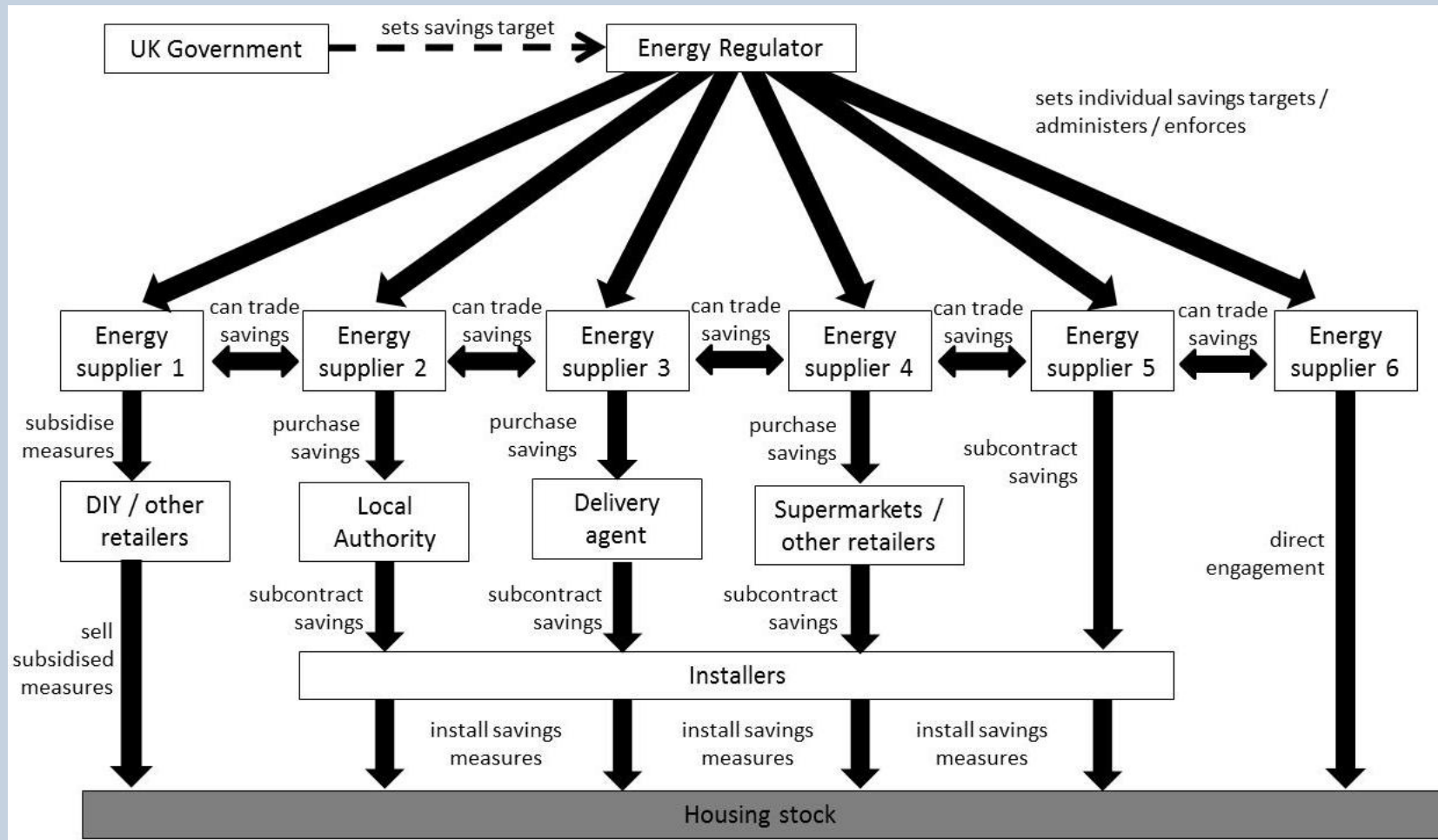


Source: own illustration

What is the Energy Company Obligation?

- successor of the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Target (CESP)
- falls into category of Energy Savings Obligation / White Certificate Scheme

Architecture of Supplier Obligations in the UK



Source: Rosenow (2012)

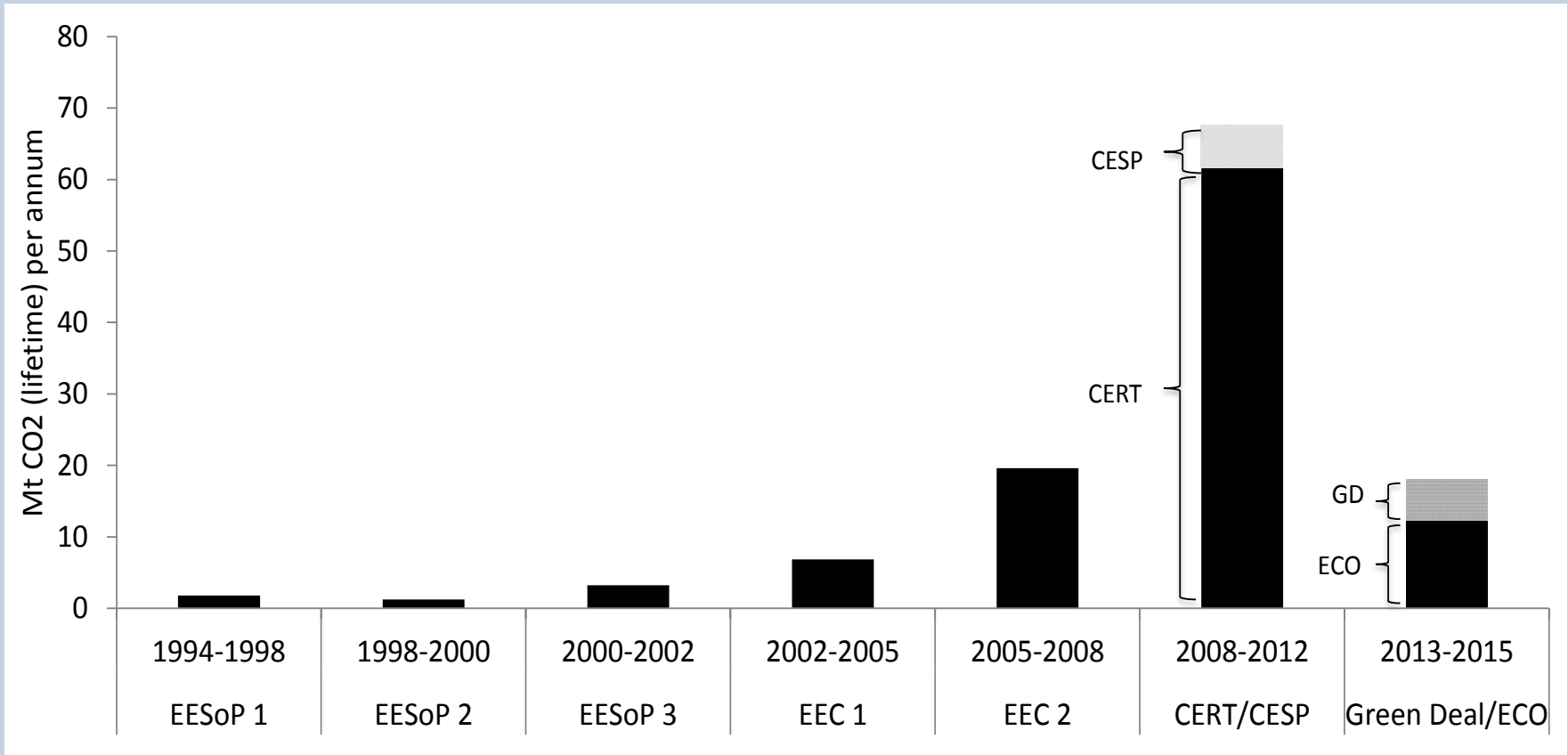
Interaction of Green Deal and ECO

- Government expects many properties to receive funding both from ECO and Green Deal
- **ECO** will mainly do **high cost measures** which do not qualify under Golden Rule, **Green Deal** will do **cheaper measures**
- introduction of **brokerage mechanism** for ECO carbon savings by which Green Deal Providers and energy suppliers trade carbon savings

Expected carbon savings



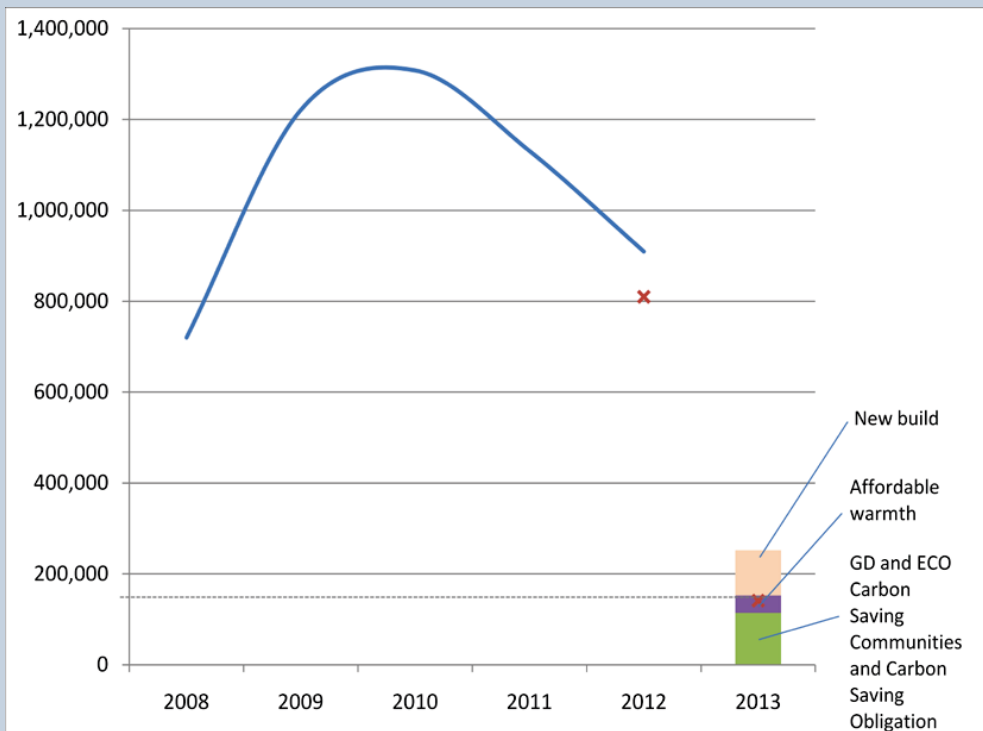
Green Deal + ECO will achieve just 26% of current Supplier Obligation effort



Source: based on Rosenow (2012) , Eyre et al. (2012), DECC (2012c)

Sharp drop in uptake of cost effective measures

Loft insulation



Source: DECC 2012c

Easy to treat cavity wall insulation

Expected to drop from about 500,000 per year at the moment to just 120,000 on average per year from 2013-2022

Sharp drop in uptake of cost effective measures

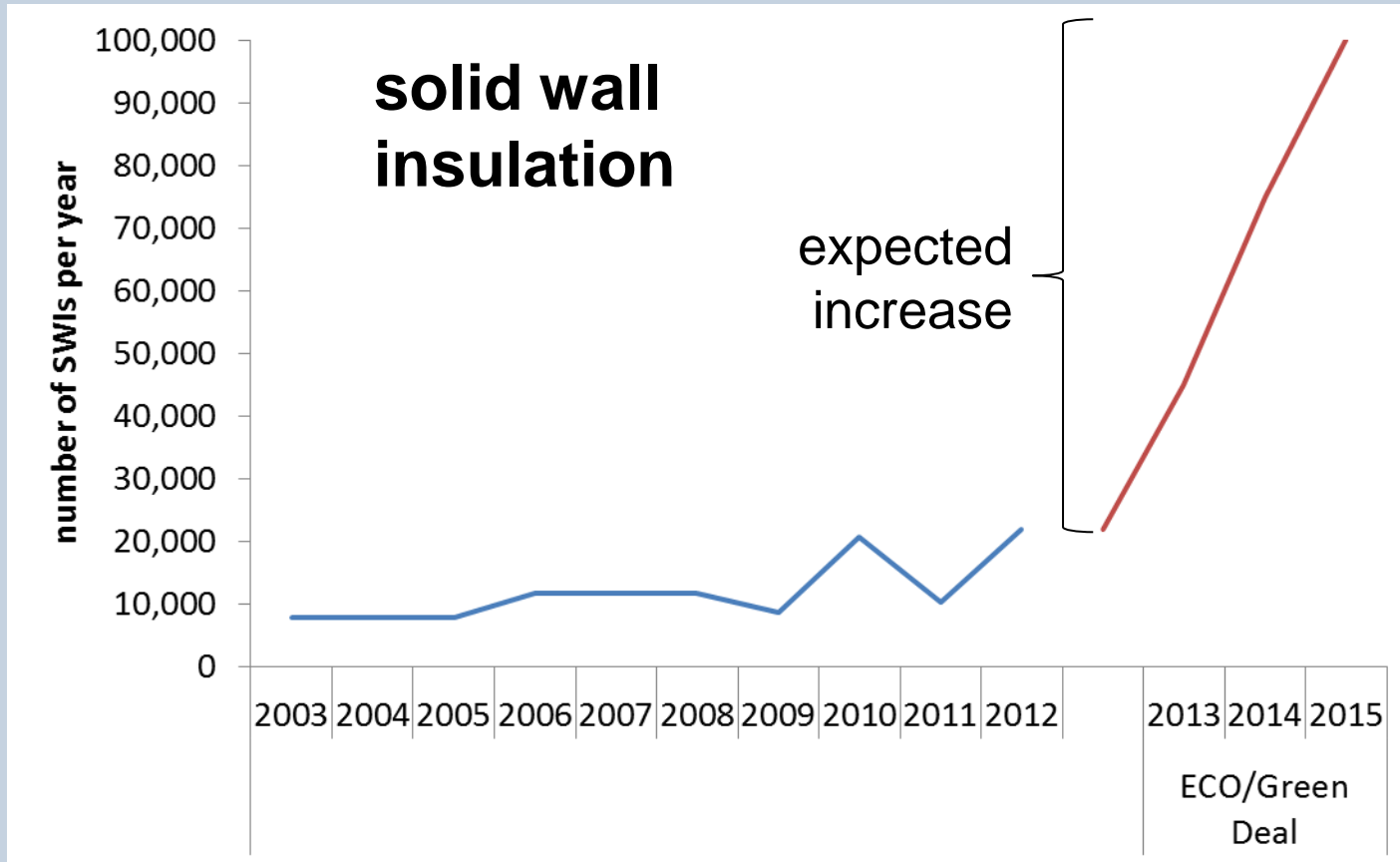
Lighting and appliances

Traditionally significant component of Supplier Obligations in UK, no support from ECO

Supply chain



Unrealistic assumptions about supply chain capacity of insulation industry?



Source: based on DECC (2012c) and annual reports by OFGEM on Supplier Obligations

Unrealistic assumptions about supply chain capacity of insulation industry?

Hard-to-treat cavity wall insulation

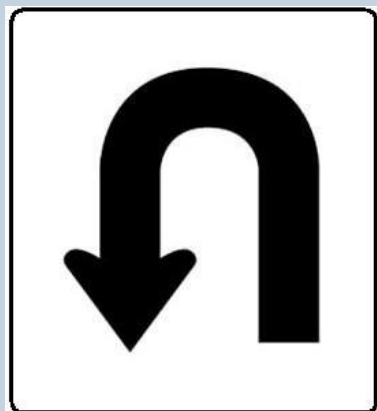
DECC expects that almost 600,000 installations will happen in 2013-2015

⇒ current market size unknown but likely to be very low (<10,000)

Design choices



Green Deal/ECO design turns past experience in energy efficiency policy on its head



	<i>Energy supplier obligations</i>	<i>Loan schemes</i>
<i>International experience</i>	Low cost measures	High cost measures
<i>Green Deal/ECO</i>	High cost measures	Low cost measures

Implications

- Total cost of installing solid wall insulation in homes: £30-60 billion; only funding available through the ECO paid for via households' energy bills
- ⇒ just a fraction will benefit from solid wall insulation (about 1 million households by 2022 compared to 26 million households)
- Alternative: maintain current approach to use Supplier Obligation mainly for low cost measures and redesign Green Deal with a focus on high cost measures

Impact on fuel poverty



Fuel poverty

- about **25%** of ECO spending expected to benefit fuel poor households
- ⇒ Current obligations: more than **50%**
- other fuel poverty schemes such as Warm Front have been terminated by Coalition Government

Fuel poverty

- fuel poverty impact of ECO will be to take **125,000–250,000 households** out of fuel poverty by 2023 (DECC 2012c)
- ⇒ currently almost **5 million households** in fuel poverty (DECC 2012d), statutory obligation to eradicate fuel poverty by 2016 ‘as far as reasonable possible’
- under current plans, Green Deal and ECO ‘would be expected to **increase** fuel poverty’ (Hills, 2012, p. 112)

Conclusions



Positive:

- Green Deal is a new innovative finance model
- mobilises new capital for energy efficiency improvements
- ambitious provisions for accreditation of assessors, installers, and providers
- integration of ECO and Green Deal

But:

- lack of ambition (just 26% of current policies); no other significant policy instrument in domestic sector to make up for shortfall
- still approximately 6.2 million cavity walls and 8.5 million lofts suitable for insulation (ACE 2012), only a fraction treated under Green Deal /ECO
- high risk that expected effects will not materialise
- radical change instead of smooth transition period, particularly with regard to measures delivered by ECO
- assumed interest rate for GD ~7%, successful low interest loan schemes in Germany currently 1%, previously ~2.5%

Thank you for listening



Sources

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DECC (2012b): The way forward to 2020. Presentation by Tom Bastin at 'Policies for Energy Provider Delivery of Energy Efficiency' Workshop in Brussels, 19/01/2012.

DECC (2012c): Final Stage Impact Assessment for the Green Deal and Energy Company Obligation. DECC, London.

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Eyre, N., J. Rosenow, J. Wade, C. Wilson and B. Lowe (2012). UKERC Green Deal Response. London, UKERC. [Download](#)

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