



Green Deal and the Energy Company Obligation

The Green Deal is the Government's flagship energy efficiency initiative, which seeks to unlock the sustainable retrofit market and enable individuals and businesses to access funding to invest in energy efficiency measures. This is part of the Government's wider focus on reducing CO₂ emissions - but allowing the private sector to fund and facilitate the necessary investment.

Alongside the Green Deal, the Government intends that a new Energy Company Obligation (ECO) will replace the existing obligations on energy companies - including the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP). The proposed ECO provisions are intended to focus energy companies on improving energy efficiency for low income and vulnerable households, and on improving hard to treat solid-wall homes. The Government currently anticipates that £1.3 billion will be available each year.

Consultation on the proposed arrangements was launched in November 2011, pursuant to the provisions of the Energy Act 2011. Following consultation, the final ECO arrangements are likely to come into force in late 2012.

How will the Energy Company Obligation work?

The Government has recognised that a Green Deal may not be possible for everyone. Low income and vulnerable households may not use enough energy to provide the energy savings necessary to support a Green Deal. In addition, difficult to treat properties (particularly solid wall homes) may require significant capital investment that cannot be achieved within the 'Golden Rule' - a fundamental principle underpinning the Green Deal that states that the cost of the proposed measures cannot exceed the estimated savings on the energy bill.

To provide additional support, ECO funding will be available through the "Carbon Saving Obligation" and the "Affordable Warmth Obligation". Energy suppliers will gain credits for each package of eligible measures installed.

Affordable Warmth Obligation

The Affordable Warmth target is intended to focus support on low income and vulnerable households who are least able to heat their homes adequately. The Government plans to ring-fence this obligation, forming part of a wider strategy at addressing fuel poverty. As part of the consultation, the Government proposes to focus the eligibility criteria on the entitlement to certain means tested benefits and tax credits - a similar approach as currently identified within the CERT Super Priority Group.

They are also seeking to restrict the Affordable Warmth eligibility to properties in private tenures, but this has been met with widespread concern from social landlords.



Source:istock

Carbon Saving Obligation

The Carbon Saving Obligation is aimed at directing carbon saving measures at the most difficult to treat properties. The consultation proposes that the Carbon Saving Obligation will concentrate support on homes that require solid wall insulation, although the Government recognises that this may leave some households with cavity walls ineligible for any ECO support. This may change as a result of responses to the consultation process.

How can ECO funding be accessed?

The Government envisages that Green Deal and

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ECO will be closely related, and that they will frequently work in tandem. In most cases, simple measures (such as cavity wall and loft insulation) that meet the Golden Rule will be delivered through Green Deal finance. In some cases, packages of measures may require ECO support for some elements (eg solid wall insulation), with the bill payer accessing Green Deal funding for the remainder. Eligible low income and vulnerable households are expected to receive full financial support for measures, and Green Deal finance will not be required.

The consultation proposes a brokerage system to allow Green Deal providers to access ECO funding. This addresses a significant concern about the potential influence of energy suppliers in controlling access to funding. The Government's proposed brokerage system will require energy suppliers to make a significant proportion of their ECO spending available to Green Deal providers, potentially on a blind basis. The preferred mechanism for brokerage, its scope and the value of ECO funding required to be made available remains to be resolved.

Access to ECO funding is likely to be an important factor in the successful roll-out of Green Deal initiatives. For social landlords early engagement with energy companies will help secure of funding for measures across their stock.

Setting ECO targets

The consultation proposes statutory targets for each element of ECO. The professional target levels are:

- Carbon Saving: 2015 statutory target 0.52 million tonnes of CO₂ per year saved.
- Affordable Warmth: 2015 statutory target £3.4 billion reduction in notional lifetime costs of heating.

The Government envisages this could drive significant uptake – for the Carbon Saving Obligation 515,000 tonnes with solid wall insulation over 3 years, and for the Affordable Warmth Obligation the provision of assistance to a minimum of 325,000 households by March 2015.

These obligations will only be placed on large energy suppliers (i.e those with over 250,000 gas and electricity customers).

Eco administration

OFGEM is the default administrator but the Energy Act 2011 enables the Secretary of State to appoint an administrator for ECO. The administrator will monitor the activities of energy companies and compliance with scheme rules.

What about CERT and CESP funding?

The Government has committed to replacing the CERT and CESP initiatives with the Energy Company Obligation at the end of 2012. The draft ECO arrangements and associated brokerage provisions will need further development following consultation, and CERT and CESP will continue to remain available up to the launch of ECO.

The transitional provisions for the move from CERT/CESP to ECO remain unclear, which could promote significant activity in the sector in the run up to the launch of ECO. Landlords looking to procure energy efficiency related works (such as renewal of decentralised heating plants, wall and roof insulation programmes etc) should consider the availability and potential value of CERT and CESP funding in the interim period prior to the ECO launch.

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