MODULE 2: THE GREEN DEAL

Update on the Green Deal

By Chris Burgess, director, Alpha Management Solutions Ltd

In October 2011 when the Energy Act 2011 came into force the government successfully introduced provisions for a new 'Green Deal' and a new Energy Company Obligation (ECO) to replace the existing Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP).

The Government believes the Green Deal will revolutionise the energy efficiency of British properties. The declared aim of the Act is to reduce UK carbon emissions, improve competition in the energy market and reduce the national demand for imported gas supplies by offering consumers and businesses access to funding for property improvements as part of a Green Deal Plan.

A 'soft launch' of the Green Deal took place in November 2012 and officially came into force on 28th January 2013 and the Green Deal Finance Company (TGDFC) launched their finance package at the end of January 2013. TGDFC offers funding to every accredited provider and will offer the same rate of finance to the widest possible range of consumers.

The Green Deal is essentially a framework to enable private companies to offer consumers energy efficiency improvements to their homes, community spaces and businesses at no upfront cost and recoup repayments through a charge in instalments on the electricity bill for the property.

Defer up-front costs

The Green Deal is designed to increase the uptake of energy efficiency measures by enabling property owners to defer the up-front costs of such works but Green Deal applicants will only be encouraged

to choose the most cost-effective measures. The basic criterion for acceptance is the "Green Deal Golden Rule": the expected financial savings resulting from installing measures must be equal to or greater than the cost of repayment (including interest) over the term of the Green Deal Plan. Under the scheme an independent assessment is made of the property's needs and the property owner can then choose any supplier accredited under the Green Deal scheme to carry out the work.

At the heart of the scheme is the Green Deal Plan. This is the financing mechanism which allows consumers to pay back the funding for the investment through future electricity bills. The Green Deal is only available for properties that have an electricity meter and are supplied by a licensed electricity supplier but it does mean the consumer can see the Green Deal charge alongside the reduction in future energy bills.

It also means that if they move out and cease to be the bill-payer at that property, the financial obligation doesn't move with them but moves to the next bill payer – hence the charge is only paid while the benefits are enjoyed. Thus the Green Deal differs from existing lending – it is not a conventional loan since the bill-payer is not liable for the full capital cost of the measures, only the charges due while they are the bill-payer. It is the Government's belief that this market mechanism, funded by private capital, will deliver benefits over any sort of top-down Government programme.

The introduction to the Green Deal Briefing document,1 dated January 2013, notes that buildings in the UK are among the least efficient in the world and account for 38 per cent of the UK's total greenhouse gas emissions. In addition, the high average age of the dwelling stock has major implications for energy efficiency, with very poor standards of insulation and heating efficiency in many older properties.

Forty five measures

The key areas for energy improvements are insulation, heating, glazing, lighting and micro-generation measures. The list of Green Deal qualifying improvements include 45 measures, of which 15 are more specifically targeted at the non-domestic sector.

A recent market research report2 highlights these product sectors as major markets. Building insulation is worth well over £1bn with cavity and loft insulation significant sectors. The glazing industry is now a mature sector but still worth over £2bn and continuing to benefit from improving performance standards for glass. Improvements in boiler efficiency and wider installation of radiator thermostats are also helping to drive market growth and should be major beneficiaries of the Green Deal.

Essentially, the Green Deal is funded by private capital and

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implemented by private sector participants. The key parties involved are the Green Deal Providers, Green Deal Assessors, and Green Deal Installers plus the major energy companies collecting the repayments.

Green Deal Assessors provide impartial recommendations to customers regarding what is needed to improve the energy efficiency of the building. The Green Deal Provider arranges quotes for the customer, provides finance and arranges the installation. The Green Deal Installer installs the improvement measure(s). Repayments are made via the electricity supplier through the customer's future electricity bills.

Savings on the bill

The Green Deal will enable some or all of the cost of appropriate energy efficiency measures to be funded through savings on the energy bill, giving protection against rising energy prices while reducing carbon emissions. The Green Deal Provider will calculate the repayments, including interest, that the household or business will need to make. While the repayments should be no more than what a typical bill payer should save, the actual savings will depend on how much energy is used and the future costs of energy.

The interest rate, like all costs, may vary from provider to provider, so customers should shop around. Once the Green Deal Plan is agreed, the repayments are fixed for the lifetime of the deal. Consumers do not have to stick with their current electricity supplier; they can change to any major electricity supplier at any time after doing a Green Deal. If the householder or business vacates the premises, the new occupier will benefit from the improvements, so they will take on the future repayments.

Securing a Green Deal will involve a number of steps with different parties delivering the Scheme:

1. Assessment

The Assessment involves a visual inspection of the property and producing a standard Energy Performance Certificate (EPC) - unless a valid pre-existing certificate is available. The visit will record information on the heating system plus building construction and U-value data. Using this information coupled with climate data and standard assumptions the assessor will produce the Energy Performance Certificate.

The Green Deal requires a tailored Occupancy Assessment - the energy consumption estimate produced for the EPC represents an 'average household' and does not take account of factors, such as the size of the household, appliance usage or non-standard heating patterns. The Occupancy Assessment includes a calculation of 'typical savings' using the standard EPC assumptions and the specific 'household estimated annual savings' based on an adjustment to reflect the variation in building, occupation details and the measures to be installed. The Occupancy Assessment specifies the maximum repayment value that can be charged in compliance with the Golden Rule based on the "typical savings" value.

2. Recommendations

The Green Deal Assessor will prepare the Green Deal Advice Report incorporating the Occupancy Assessment and Energy Performance Certificate. The report will:

• set out the current and potential energy efficiency of the property and the cost of heating it;

• recommend a range of measures that can help reach the potential energy efficiency standard; and

• provide an indication whether the measures are likely to be suitable for Green Deal finance.

The Green Deal Advice Report will advise the customer on the most favourable package of measures and where they are deemed to be a high energy user further ways to reduce energy consumption through behavioural changes. The report will also cover opportunities that may exist to access additional or alternative sources of financial support for energy efficiency.

The Energy Performance Certificate will be lodged on the appropriate register (either for England and Wales or Scotland). A proportion of lodged Energy Performance Certificates will be checked by the Green Deal Assessor's Certification Body for quality assurance purposes.

The process for a non-domestic Green Deal Advice Report follows the above principle with some variations3.

3. Finance

Once lodged on the EPC Register, the customer will be able to use the Green Deal Advice Report to decide which improvements to implement and to obtain quotes from one or more Green Deal Providers. If the finance element of a Green Deal Plan exceeds £10,000 the customer should seek quotes from at least three different Green Deal Providers.

Once the Green deal provider is chosen the Green Deal Plan is prepared - this is the formal contract setting out what will be carried out, the total cost, the charge to be attached to the electricity meter and the length of the repayment period.

The plan must be in line with the impartial recommendations made by the Green Deal Adviser and only approved measures installed by qualified Green Deal installers will be eligible for Green Deal finance.

4. Installation

Once the Green Deal plan is agreed the provider will arrange for the installation by a Green Deal Installer and on completion the repayments will be added to future electricity invoices.

The Green Deal Oversight and Registration Body (GD ORB), on behalf of the Secretary of State for DECC (Department of Energy and Climate Change), manages the authorisation process for participants in the Green Deal and is responsible for a number of functions aimed at providing effective administration and oversight of the scheme. Their role includes:

• maintaining registers of Green Deal Participants (authorised Providers, accredited Certification Bodies, certified Assessors and Installers);

• maintaining the Green Deal Code of Practice;

• controlling the use of the Quality Mark;

• on-going monitoring of Green Deal Participants against the Code of Practice;

• gathering evidence of non-compliance and referring participants to the Ombudsman or the Secretary of State where appropriate; and

• producing an annual Green Deal report.

A business must be authorised to act as a Green Deal Providers or certified to act as either a Green Deal Assessor or Installer. This shows they meet Green Deal standards and allows them to use the Green Deal Approved quality mark.

The mark says what they are authorised to do e.g. installer. Manufacturers do not need to be Green Deal Approved, but products must meet certain standards before they can be installed under the Green Deal.

DECC will fund all costs associated with the registration and oversight service for the first two years, with the intention of moving to a fee-based approach from year three onwards.

There are a number of rigorous protections in place including the Registration and Oversight Body which will monitor and carry out spot checks on Green Deal participants and Green Deal Certification Bodies to ensure they are compliant with the Green Deal Code of Practice.

Green Deal Plans issued to domestic consumers are regulated consumer credit agreements under the Consumer Credit Act 1974 and insurance-backed guarantees ensure consumers are covered if there are faults with the advice or the installation of improvements. In addition the Green Deal Ombudsman and Investigation Service will deal with unresolved complaints.

The Government believes that most of the activity to drive consumer engagement will come from Green Deal participants alone or working with local authorities, social housing providers and other organisations but has made provision for significant funds for a communications campaign to help increase momentum for change.

Energy obligation

Linked into the Green Deal is a new programme, the Energy Company Obligation (ECO), designed to reduce

Britain's energy consumption by funding home improvements worth around £1.3bn every year.

The funding comes from big energy suppliers and is delivered to customers either directly from the supplier or by organisations such as Green Deal Providers. Households in older properties and those on benefits or low incomes may qualify for this extra financial support, available throughout England, Wales and Scotland.

There is also a cash back offer for households that are quick off the mark to take out a Green Deal on a first-come, first-served basis.

Eight cities across England have already been awarded funding of over £12m to help them kick-start the Green Deal in their regions. Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield were awarded the money after putting forward proposals to reduce carbon emissions.

A further £10m is being awarded to English councils to support early Green Deal projects. The money will be used for household energy efficient assessments, whole house retrofits to demonstrate the benefits of energy efficiency, and local events to raise awareness of the Green Deal. There are 39 projects in total which cover 150 local authorities in England.

The Green Deal Finance Company (TGDFC)4 is an industry-led consortium with over 50 members, both public and private sector. The Company was incorporated in 2012 as a not-for-profit mutual limited by guarantee. The objective of the consortium is to deliver low cost financing to households, enabling the widest possible installation of domestic energy efficiency measures under the Green Deal programme.

TGDFC is a national aggregator designed to make finance available to all accredited Green Deal Providers on an equal and open basis. By operating at a national level, it intends to minimise the operating and administration costs of Green Deals and will aim to access the cheapest sources of finance in the market at the highest possible credit rating.

Figures from Department of Energy and Climate Change (DECC) for the second full month of Green Deal show a dramatic increase in the number of assessments completed.

During March 7,465 Green Deal assessments were carried out, compared to 1,803 from the late January start up to the end of February, making a total of 9,268 assessments in the first nine weeks. There are now 48 authorised Green Deal Providers and 831 registered installers, and there are said to be 1,003 individuals registered to offer assessments5.

The Green Deal Finance Company, which recently secured £244m of finance, is on the verge of approving its first Green Deal Plan, though DECC won't start releasing monthly figures for numbers of approved plans until June. The GDFC is in negotiation with the European Investment Bank for further funds, which could give it more than £300m to approve Green Deal plans in the first year of the scheme.

The government has estimated that 2m commercial buildings could be improved under Green Deal but this potentially huge market has not yet started to take off. One view is the Golden Rule which is appropriate to protect customers in the domestic sector could be too restrictive in the commercial market. A Commercial task group which has now been stood down produced a report for government on the Green deal in the commercial sector but this has not been made public.

Of course the Green Deal is a market where the customer is in charge – this means that they determine how and at what pace to proceed, so it may take a while before a full picture emerges about what is happening in this market and how it will develop.

References:

1: Green Deal Briefing document (Department of Energy and Climate Change)

2: Green Deal Update UK March at http://www.marketresearch.com/AMA-Research-v175/

3: Specification for Organisations providing the Green Deal Advice Service.

4: Details on the Green Deal finance Company available at http://www.thegreendealfinancecompany.com

5: http://energyassessormagazine.com/big_boost_in_gd_assessments.html

MODULE 2 : THE GREEN DEAL

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SERIES 11 MODULE 2: QUESTIONS

THE GREEN DEAL

Please mark your answers on the sheet below by placing a cross in the box next to the correct answer. Only mark one box for each question. You may find it helpful to mark the answers in pencil first before filling in the final answers in ink. Once you have completed the answer sheet in ink, return it to the address below. Photocopies are acceptable.

1. The Green Deal officially came into force when?
☐ January 2013 ☐ January 2012 ☐ January 2011 ☐ Not yet.

2. The new Energy Company Obligation replaces?
☐ The Renewable Heat Incentive ☐ The Feed in Tariff Scheme
☐ The CERT and CESP schemes ☐ None of the above.

3. Which is not a key aim of the Energy Act 2011?
☐ To reform the electricity supply market
☐ Reduce UK carbon emissions
☐ Reduce the national demand for imported gas supplies
☐ Improve competition in the energy market.

4. Which of the following statements is not correct?
☐ The Green Deal is available for both domestic and commercial properties
☐ The Green Deal is available for domestic dwellings only
☐ The Green Deal is only available for properties with an electric meter supplied by a licenced supplier
☐ The Green Deal repayments include an interest payment.

5. The Green Deal Golden Rule is?
☐ Interest should not be charged as part of the customer repayments
☐ The interest rate is fixed at the date the Green Deal is agreed by the customer
☐ The customer should implement all recommendations with a payback less than 3 years
☐ The financial repayments will be no higher than the expected savings from the installed energy saving measures.

6. Which of the following statements is correct?
☐ The customer repays through future gas bills
☐ The customer repays through future electricity bills
☐ The customer repays no interest charge
☐ None of the above.

7. Which of the following is correct if a Green Deal customer moves property?
☐ The financial obligation moves with them
☐ The remaining Green Deal funding has to be paid back as a lump sum
☐ The financial obligation moves to the next electricity bill payer
☐ None of the above

8. The Green Deal Advice report will include: Which statement is incorrect?
☐ An Energy Performance Certificate unless one pre-exists
☐ The maximum repayment to satisfy the Golden Rule
☐ A range of measures that could help reach the potential efficiency standard
☐ A package of measures that must be installed to receive the Green deal.

9. Which of the following parties within the Green Deal do not have to be either authorised or certified?
☐ Manufacturer ☐ Advisor ☐ Provider ☐ Installer.

10. Which of the following is not set out in the Green Deal Plan?
☐ What measures will be implemented
☐ Total cost
☐ Charge to be attached to the electricity meter and the length of the repayment period
☐ Measures not included in the Green Deal Advice Report prepared by the Assessor.

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