Consultation response to ECO: Help to Heat Consultation submitted by the Centre on Innovation and Energy Demand, SPRU, University of Sussex

Introduction

Researchers at the Centre on Innovation and Energy Demand (CIED) are driven by an interest in prospects for a more sustainable energy future. Our primary focus is on the processes of innovation – both technological and social – that will contribute to this objective, using a range of multi-disciplinary social science approaches.

We welcome the opportunity to contribute to this consultation on ECO: Help to Heat. Our response provides a high-level assessment of the plans for the new ECO rather than a detailed question-by-question response.

In general, we observe that the overall ambition of ECO is being reduced whereas the design will improve reducing unnecessary complexity which is important for effective Energy Efficiency Obligations as international experience shows[1,2]. We support most of the design modifications proposed by Government. However, the overall target for ECO and the implied investment is insufficient to meet the targets both on fuel poverty and carbon reduction.

This submission was written by Dr Jan Rosenow.

Proposed ECO target

Overall size of the target

From 2017 onwards the current expenditure for ECO of £870 million per annum will be reduced to just £640 million, a 26% cut that was expected—in the Spending Review and Autumn Statement 2015[3], the former Chancellor set out his plans to reduce the spending for ECO.

The main argument put forward for reducing ECO spending is affordability. Whilst this may intuitively be logical, a closer look at the arithmetic reveals that more stringent targets on energy suppliers to deliver energy efficiency generate significant net-*benefits* to consumers, both to those directly benefitting in the programme and those who are not. A narrow focus on the cost of Energy Efficiency Obligations such as ECO is misleading as the benefits in the shape of bill savings as well as multiple benefits (including health, environment and energy security) outweigh the programme

[1] ENSPOL (2015): Report on existing and planned EEOs in the EU - Part I Evaluation of existing schemes. http://enspol.eu/results
[2] RAP (2012): Best Practices in Designing and Implementing Energy Efficiency Obligation Schemes. www.raponline.org/document/download/id/5003/
[3] https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015

costs. This argument is supported by previous analysis by DECC[4] which concludes that 'in 2020 households are estimated on average to save around 11 % […] on their energy bills compared to what they would have paid in that year in the absence of policies'.

However, this analysis was made before the government announced to reduce spending on energy efficiency programmes. In the autumn of 2013 the consensus that rising energy prices are best addressed by improving energy efficiency started to break and the exact opposite became government policy. Interestingly, rising energy prices were a trigger in the past for *increasing* energy efficiency spending - academic analysis[5] shows that the target of CERT, the predecessor of ECO, was increased by 20% in 2009 following wide-spread media coverage of rising energy prices and windfall profits made by the energy companies.

Since efficiency is also our lowest-cost clean energy choice and the cheapest carbon abatement measure[6], this reduction in effort is a false economy and will only require additional, more expensive greenhouse gas reductions elsewhere in the economy. In its latest report the Committee on Climate Change[7] stresses that 'there have been significant setbacks in policy to deliver energy efficiency' and called for 'a stronger policy framework to drive residential energy efficiency improvement by addressing gaps and strengthening existing policies'. Unfortunately, the plans for the next ECO target provides a weaker policy framework in terms of ambition.

Shift towards fuel poverty

The other key change is a shift from delivering savings across all types of households towards addressing households in fuel poverty alone - the budget for the fuel poverty related target of the future ECO will be increased by 45% to £450 million per annum. We welcome an increase in the overall investment for fuel poverty alleviation, although even after the increase this is far from being sufficient to meet the fuel poverty targets of the UK. After 2018 all ECO spending is supposed to be allocated to fuel poverty alleviation. Going forward, the ECO will be focused on households in fuel poverty, an area that has traditionally been supported by dedicated grant programmes.

However, this shift towards fuel poverty is contrary to the existing evidence on the effectiveness of using Energy Efficiency Obligations such as ECO for fuel poverty alleviation. For many years it has been argued that fuel poverty alleviation should be undertaken through a public energy efficiency programme funded through general taxation rather than an obligation on energy suppliers.[8] There are multiple reasons why an obligation is not an ideal approach to tackle fuel poverty.[9] International

[4] DECC (2013): Estimated impacts of energy and climate change policies on energy prices and bills. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326_-_Price_and_Bill_Impacts_Report_Final.pdf

[5] Rosenow, J. (2012): Energy Savings Obligations in the UK – A History of Change. Energy Policy 49, pp. 373–382

[6] Element Energy and Energy Saving Trust (2013): Review of potential for carbon savings from residential energy efficiency. Final report for the Committee on Climate Change. https://www.theccc.org.uk/wp-content/uploads/2013/12/Review-of-potential-for-carbon-savings-from-residential-energy-efficiency-Final-report-A-160114.pdf

[7] Committee on Climate Change (2016): Meeting Carbon Budgets – 2016 Progress Report to Parliament. https://documents.theccc.org.uk/wp-content/uploads/2016/06/2016-CCC-Progress-Report.pdf

[8] Rosenow, J. (2013): Politics of change - energy efficiency policy in Germany and the UK. University of Oxford

[9] Rosenow, J., Platt, R., Flanagan, B. (2013): Fuel poverty and energy efficiency obligations. The case of the Supplier Obligation in the UK. Energy Policy 62, pp. 1194–1203

evidence shows that effective Energy Efficiency Obligations typically benefit a wide range of households so that every household can benefit from the programme at some point - this is particular important because some households may not fit with the criteria used to define fuel poverty under a scheme but still be in need of assistance.

This also means that for the first time in more than two decades, there is currently no energy efficiency programme for the able-to-pay market, even though most of the properties requiring energy efficiency measures are within this segment. In order for the UK to meet its carbon targets, this acute policy void needs to be filled.

ECO programme design

Including social housing (Question 9)

In addition, energy efficiency measures in social housing with an EPC rating of E or below are supposed to be included which will increase the targeting efficiency of the programme. This is a step in the right direction and will both reduce costs and increase the targeting efficiency of ECO when it comes to fuel poverty. Also allowing D-rated properties to benefit would further lower the cost of delivery, target a larger number of households in fuel poverty and allow the target to be increased.

Restricting the amount of boiler replacements (Question 16)

As the consultation document points out ECO delivered significantly more boilers than anticipated and going forward a more diverse mix of measures including more building fabric measures is preferable. In light of concerns around the previous scoring and the additionality of boiler replacements we welcome the changes planned for ECO going forward.

Return to deemed savings (Question 29)

We welcome the plans to return to using predetermined savings estimates (called deemed savings) for energy efficiency improvements, an approach that CIED has recommended in its submission of evidence to the Energy and Climate Change Committee of the House of Commons[10] as it keeps the administrative burden manageable whilst providing certainty that real savings are being delivered.

Collection and publishing information on ECO costs (Question 37)

We agree that there is value in collecting and publishing more information on ECO costs, however, as described above, we believe that a narrow focus on the cost of ECO is misleading as the benefits in the shape of bill savings as well as multiple benefits (including health, environment and energy security) outweigh the programme costs. We recommend that BEIS takes a more holistic approach when assessing costs to consumers, which would take into consideration the savings to consumers resulting from ECO as well as the costs. DECC has taken this approach in the past.[11]

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10 http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Energy%20and%20Climate%20Change/Home%20energy%20efficiency%20and%20demand%20reduction/written/22552.html

11 DECC (2013): Estimated impacts of energy and climate change policies on energy prices and bills. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326_-_Price_and_Bill_Impacts_Report_Final.pdf

About the Centre on Innovation and Energy Demand

The Centre on Innovation and Energy Demand (CIED) is a collaboration between researchers from the Sussex Energy Group at the Science Policy Research Unit (SPRU), University of Sussex; the Transport Studies Unit (TSU) at the University of Oxford; and the Sustainable Consumption Institute (SCI) at the University of Manchester and is one of six Research Centres on End Use Energy Demand funded by the Research Councils UK (RCUK) Energy Programme.

CIED sits at the forefront of research on the transition to a low carbon economy. We investigate new technologies and new ways of doing things that have the potential to transform the way we use energy and achieve substantial reductions in energy demand.

Our approach moves beyond an exclusive focus on technology and energy supply. We understand that low-energy innovation does not happen in an "empty" world, but within the context of existing systems that may create barriers and active resistance. Our research explores how innovations are adopted by people and organisations, how they become more widespread within societies and how this process is shaped by market forces, government policy, social interactions and cultural norms. The innovations CIED examines include new technologies, new energy systems, novel business models and behaviours and combinations of all of these. We use this knowledge to develop practical policy recommendations.

Our research is:

Interdisciplinary drawing on ideas from economics, history, innovation studies, sociology and urban geography.

Multi-method including qualitative and quantitative techniques ranging from historical and contemporary case studies, surveys, modelling and econometric analysis.

Practical and relevant because we investigate low-energy innovations relevant to transport, industry, households and non-domestic buildings, and work with stakeholders to better understand their adoption of low-energy innovations.

August 2016

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