

HM Treasury Consultation ‘Economic instruments to improve household energy efficiency: consultation document on specific measures’

Response by the UK Business Council for Sustainable Energy

1 INTRODUCTION

- 1.1 Since the initial consultation (*Economic Instruments To Improve Household Energy Efficiency*) that closed in October 2002, the Government has published the Energy White Paper, firming up its commitment to long-term carbon emission reductions and setting a goal of a 60% reduction in carbon emissions by 2050. To be on track the White Paper indicates that by 2020 an additional reduction of around 25 MtC is needed by 2020 in addition to that expected to be delivered by the current climate change programme. Energy efficiency improvement across all sectors is expected to realise up to 12 MtC with the domestic sector contributing about half this figure.
- 1.2 As the White Paper recognises delivering the savings necessary will require an improvement in energy efficiency significantly greater than that achieved historically. This is a real challenge and the UKBCSE believes it will only be realised with the introduction of new and innovative policies that deliver renewed incentives for all players to invest in energy efficiency.
- 1.3 The UKBCSE therefore welcomes the work that Treasury and Defra are doing to look at specific measures to incentivise domestic consumers to take energy efficiency actions. We believe however that the limited number of measures supported in the consultation paper do not go far enough and will not deliver what is necessary to facilitate the step change in the energy efficiency market called for by the White Paper.

2 GENERAL COMMENTS

- 2.1 To date much of the focus of energy efficiency policy has been on the supply side and centred around regulations, such as the Energy Efficiency Commitment (EEC), that require suppliers to invest in a certain level of energy efficiency improvement in the domestic sector. The UKBCSE believes that simply raising the level of effort required by suppliers as proposed in the White Paper - through doubling the current EEC programme - **will not** on its own result in the cost-effective delivery of the targets. Many of the cheaper energy efficiency options have already been taken and it is going to get increasingly difficult for suppliers to find suitable markets for energy efficiency. This will make it more expensive for suppliers to deliver the targets. Delivery of the increased EEC targets will be made easier if consumers are already aware of the importance of improving energy efficiency and incentivised to take action.
- 2.2 We also believe that the EEC itself could be re-designed to deliver a more effective incentive for suppliers to invest in energy efficiency. Currently the EEC is viewed, by many, as a regulatory imposition and companies attempt to meet the targets with the least amount of effort or investment. Moving to a mechanism that allows more flexibility in delivery could give supply companies a greater incentive to invest. We believe there is merit in exploring how the EEC could be moved to an obligation type system, similar to the Renewables Obligation.
- 2.3 Whilst welcoming the progress being made through the Energy Services Working Group to develop the framework for allowing a pilot relaxation of the 28-day rule for energy service contracts to proceed, we are concerned that this seems to be viewed as the panacea for developing energy services. Energy services will only be successful where supplier incentives to develop products are matched by consumer demand to sign-up to long term energy service contracts. In this respect consumer focussed incentives are vital.
- 2.4 The UKBCSE understands and firmly supports the Government's focus on eradicating fuel poverty and therefore its reluctance to introduce measures that result in increased prices to consumers. We believe however that attempting to deliver the fuel poverty targets through the energy efficiency programme as happens currently should not be the sole method of delivering either goal. Separate targeting of fuel poverty alleviation and energy efficiency improvement to reduce energy use would improve delivery of both targets
- 2.5 We are currently developing detailed proposals for the design of the energy efficiency programme and will be happy to share these with government.

3 COMMENTS ON SPECIFIC MEASURES

- 3.1 As outlined above the UKBCSE believes that progress towards meeting the Energy White Paper targets for energy efficiency will only be made if real action is taken to create a demand pull from consumers **as well** as increasing the demand push from suppliers.
- 3.2 The UKBCSE believes that demand pull will be generated through a number of actions.
- 3.3 The first is by reducing the price of energy efficiency products, by lowering the VAT rate. There are numerous examples where retailers have reduced the price of energy efficient products and have seen a huge uptake in sales. We therefore urge the Government to continue to work for the necessary changes to the EU VAT Directive that will allow it to reduce the VAT on DIY energy savings materials and on energy efficient equipment. Reduced VAT rates for high efficient boilers and micro-generation technologies for example, will also help stimulate developers and installers to use and recommend these energy efficient, low carbon technologies.
- 3.4 The second proposed action is more complex. Energy efficiency is not just about increasing the sale of energy efficiency appliances, but involves improving the fabric of the house, installing adequate insulation and efficient heating systems. Stimulating consumers to want to take action in these areas is more difficult than a simple price reduction at the point of sale, they need to understand and want to take actions that improve the general energy efficiency of their homes.
- 3.5 As outlined in our response to the initial consultation we believed that a number of measures including – Council Tax rebates, stamp duty rebates and personal tax allowances – would be helpful in stimulating the general demand for energy efficiency. We are therefore disappointed that this consultation paper has ruled out proceeding with any of these options. In particular we believe that stamp duty rebates would be useful for houses that meet high energy efficiency standards.
- 3.6 The consultation paper rules out these type of measures without presenting the analysis as to why Government does not think they would be successful. We urge the Government to look again at the validity of these measures and at the very least publish the analysis on which the decisions not to proceed are based
- 3.7 We also believe there is a strong case for providing fiscal incentives for new developments that meet the highest standards of sustainability. It is clear that if action is not taken to ensure that all new developments, including homes are built to the highest standards, then achieving the Government's energy efficiency and emission reduction targets will be

much more difficult. The discussions at the Better Buildings Summit on 21st October laid the foundations for looking at what measures, including fiscal incentives, will provide the necessary framework to reward those companies who invest in the development of truly sustainable communities.

- 3.8 As the consultation paper recognises the private rented sector is an area where it is particularly difficult to incentivise action. The consultation paper outlines a number of fiscal measures that might provide an incentive for landlords to invest in energy efficiency improvements. Whilst these may provide some incentive for action we believe that linking the energy efficiency of a rented property to the licensing process will provide more of a driver for landlords to take action and stimulate the market to respond

4 CONCLUSION

- 4.1 Delivering the Government's Energy White Paper targets is challenging and reaching the aspirations for energy efficiency requires an improvement in energy efficiency greater than that achieved historically. Delivering this step change requires innovation in the design of the policies and measures used. Changing the tax, incentive and regulatory structure would encourage greater commitment and innovation for the delivery of the aims of energy efficiency and fuel poverty.

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The views expressed in this paper cannot be taken to represent the views of all parts of all the companies in the UK BCSE. However, they do reflect a general consensus.