

Paving the way for a Green Deal

Extending the Carbon Emissions Reduction Target supplier obligation to December 2012

Summary of consultation responses and Government Response

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1 Introduction

1. A statutory consultation on a Carbon Emissions Reduction Target (CERT) framework for April 2011 to December 2012 was conducted between 21st December 2009 and 14th March 2010. The main proposals within the consultation were to:
 - extend the end date of CERT from March 2011 to December 2012;
 - increase the overall CERT by 108 million lifetime tonnes of carbon dioxide savings;
 - maintain the requirement that at least 40% of CERT be met in a 'Priority Group' of more vulnerable households;
 - introduce a requirement that 10% of the increase in target be met in a Super Priority Group of lower income vulnerable households at most risk to fuel poverty;
 - prioritise the large scale installation of insulation by requiring that 65% of the increase in target is met through insulation measures and to remove compact fluorescent lamps from the eligible list of measures;
 - ensure that only the most energy efficient products and appliances remain eligible to be supported under CERT.
2. The list of consultation questions can be found at Annex A.
3. A consultation email address (CERT_2012_Extension@decc.gsi.gov.uk) was set up, to which all consultees were invited to submit their comments. The consultation was available on the Department of Energy and Climate Change (DECC) website and a paper version of the consultation document was made available on request.
4. The consultation invited all interested parties to comment on the proposals for the CERT extension by 14th March 2010. DECC held a series of outreach events over the consultation period including: London, 16th February 2010; Cardiff, 18th February 2010; Manchester, 2nd March 2010; and Edinburgh, 3rd March 2010. Over 140 people attended these workshops. A summary of these events and their outputs can be found at the following link:

www.decc.gov.uk/en/content/cms/consultations/cert_ext/cert_ext.aspx

Responses

5. 102 written responses were received from a range of respondents including all the obligated electricity and gas supply companies, representatives of energy efficiency industries, retailers, delivery agencies, local authorities and organisations with an interest in energy efficiency, carbon reduction, fuel poverty and the environment. Over a third of responses were received from organisations involved in the insulation industry. The majority of responses were sent electronically. The collation and summary of responses has been prepared by DECC.
6. This document summarises the responses received to this consultation and sets out the Government's response to these points and policy decisions. An associated Impact Assessment and Statutory Instrument which gives effect to these decisions will be available online at www.decc.gov.uk
7. In line with the Government's code of practice on consultations, copies of the responses to the consultation are publicly available, with the exception of those where respondents have requested their response to be treated in confidence. A list of respondents is provided at Annex B.
8. To request copies of consultation responses please contact:

CERT Team
Department of Energy and Climate Change
Area 1D
3 – 8 Whitehall Place
London SW1A 2HD

Or: CERT_2012_extension@decc.gsi.gov.uk
9. Please allow 24 hours notice. There may be a charge for photocopying and postage.

2 Executive summary

10. It is clear that urgent action is required to implement a full programme of energy efficiency measures to meet our ambitions for a low carbon economy. This can help households, and the country, save energy and save money.
11. The Government announced in the Queen's Speech on 25th May 2010 that it is to introduce legislation for the "Green Deal" – a new and ambitious approach to driving home energy efficiency. The Green Deal will enable householders to install energy efficiency measures with no upfront payment, repaying the cost of the work over time through savings on their energy bills. The Green Deal will lead to a radical overhaul of our existing homes to save energy, carbon and costs.
12. The need for legislation and other changes means that it is not possible for the full roll-out of the Green Deal to take place immediately. In the meantime, it is essential that we do everything we can to maintain and where possible quicken the pace of energy efficiency improvements so that householders' access to support is not interrupted.
13. The Government has therefore committed to extending a supplier obligation to December 2012. As part of this we will set in place a new ambitious carbon saving target and restructure the scheme to drive insulation measures. This will help ensure that householders are supported in receiving the measures that can make the greatest difference to them. The amendments proposed will drive a step change in insulation delivery, providing insulation to over 3.5 million households¹, and in doing so will provide certainty for the energy efficiency supply chain, allowing the industry to invest early and grow its capacity to help meet future challenges.
14. This decision paper builds on the consultation undertaken from December 2009 to March 2010 on proposals for an extension to the Carbon Emissions Reduction Target (CERT) supplier obligation to the end of 2012, as well as ongoing evidence gathering and policy development. We would like to thank everyone who responded to the consultation or attended the stakeholder events. The discussions at the events and the formal responses received covered a broad range of issues and were helpful in developing the final shape of the scheme.
15. Taking into consideration the costs and benefits associated with the scheme, the final impact projected is a £8.65 billion benefit for society. On top of this, the scheme will provide further economic benefits by creating employment opportunities in manufacturing and service delivery of the technologies.

¹ It is assumed that many households will install more than one insulation measure so the total number of insulation measures installed during the extension period will be significantly greater.

16. In summary, the key amendments proposed are:

- Extend CERT to December 2012, increasing the target by 108 Million lifetime tonnes of CO₂ and setting a new target of 293 Million lifetime tonnes of CO₂;
- Require obligated suppliers to meet 68% of the increase in target through professionally installed insulation products;
- Remove halogens and compact fluorescent lamps from the scheme;
- Restrict microgeneration products to the most vulnerable groups only;
- Encourage suppliers to promote solid wall insulation in off-gas grid properties;
- Require written consumer request on all products promoted outside retail channels and increase the innovation baseline to ensure that only the most innovative products receive incentives;
- Require obligated suppliers to meet 15% of their total target within an ongoing 40% Priority Group target in a subset of low income households (a Super Priority Group) considered to be at high risk to fuel poverty.

3 Detailed analysis and response

17. The Department of Energy and Climate Change (DECC) received 102 responses to the consultation on extending CERT. Responses were received from a range of sectors including all the obligated electricity and gas supply companies, representatives of energy efficiency industries, retailers, delivery agencies, local authorities and organisations with an interest in energy efficiency, carbon reduction, fuel poverty and the environment. Over a third of responses were received from organisations involved in the insulation industry. The responses have provided DECC with a substantial and useful body of evidence and opinion.
18. The format of responses varied considerably. Some respondents provided detailed answers to each question, others focused on specific questions of concern to them and some provided summary comment on the policy as a whole. Therefore the numerical breakdowns provided in this report should be considered indicative. It should also be noted that when respondents submitted a single response on behalf of a number of organisations the response was only counted once, regardless of the number of organisations it represented. However, when individual responses were submitted as well as a joint response, the individual responses were considered separately.
19. The responses to each of the questions in the consultation document have been analysed and the summary of this analysis is set out below; please note that the questions do not appear in the same sequence as the consultation document, being grouped for continuity of narrative. Each is followed by a Government response to the information received under that question, outlining how it intends to proceed.

Ensuring a more focussed and ambitious Supplier Obligation

Question

Do you agree that there should be an extension to CERT rather than a new obligation period - i.e. that the current CERT mechanism is largely retained but the end date extended to December 2012? If not, why not?

Consultation proposal

20. The consultation document set out an intention to extend CERT from its current end date of March 2011 to the end of 2012. This was based on a desire to align the end of the CERT with the end of the first five year carbon budget period (2008-2012) as well as the end of the Community Energy Saving Programme. It was proposed that much of the existing CERT framework be retained. This would maintain momentum in delivery and allow suppliers to plan smooth delivery strategies to the end of the extended obligation period.

Summary of responses

21. Eighty-five respondents answered this question, with nearly all of these (96%) agreeing that there should be an extension to CERT to December 2012. Respondents from all sectors were supportive of a straight extension with the general consensus being that this option would help minimise disruption to the delivery of energy efficiency measures and keep the costs of the scheme lower.
22. Although energy suppliers were unanimously supportive of the extension they also argued that the proposed addition of two further targets, the insulation minimum and the Super Priority Group (SPG), would make the scheme more challenging, expensive and administratively complex.
23. A concern shared by the suppliers, the insulation industry and other respondents was that a hiatus in the delivery of measures could occur until the transition arrangements between the extant and extension policies are clearly legislated for. Suppliers stated that new rules should only come into force in April 2011, but with allowance for suppliers to score work towards the new targets as early as possible.

24. The small number of respondents that disagreed with the extension felt that the scheme was designed in such a way as to limit competition in general and to the detriment of their companies in particular. They could not support CERT in its current form and suggested it be replaced immediately. Most other respondents suggested that more radical amendments were inappropriate for a short extension phase. Proposals for a mechanism beyond 2012 and the possible transition arrangements from CERT were raised by a large number of respondents. Most respondents insisted that the supplier obligation should be comprehensively reviewed before any post-2012 scheme is implemented.

Government response

Government decision

Government will extend the Carbon Emissions Reduction Target to December 2012 with amendments introduced to focus delivery on professionally installed insulation measures and on ensuring an equitable distribution of measures across income groups.

25. Government agrees with the vast majority of respondents that the CERT supplier obligation should be extended with a higher target to December 2012. A 21 month extension will ensure continuity in delivery of household energy efficiency measures, will help align the end of CERT with the end of the first carbon budget phase and will build in sufficient time to review, develop and implement a longer term household energy efficiency framework under the Green Deal.
26. It is clear that we need to escalate the delivery of insulation immediately if we are to meet our carbon budgets. Moreover, some installers are reporting that numbers of insulation installations are tailing off as suppliers are very advanced to meeting 2011 targets.
27. Unless the extension phase is quickly legislated for, there will be a shortfall in offers for consumers to improve the energy performance of their homes, with a particular gap in terms of offers for the most vulnerable households. This could impact on fuel poverty, have a significant impact on the supply chain as it adjusts to a “break” in demand and lose momentum in securing consumer demand for the uptake of these measures. The extension provides certainty for the supply chain to invest and for suppliers to plan delivery and ultimately ensures that households have access to measures that can deliver reductions in energy use and carbon as soon as possible, helping the UK maximise the carbon saving potential of the household sector early, whilst building capacity for future delivery.

28. To ensure there is no disruption in delivery, Government will look to bring the new legislation into force quickly, allowing suppliers to deliver against the extended target as soon as this legislation is in force. Only measures installed after 1st August 2010 will be eligible towards the new sub-obligations being set as part of the extension period – the insulation minimum and super priority group.
29. A value for money review of CERT will be undertaken at the end of the scheme in 2013.

Question

Given the potential costs, do you agree that the size of the extended CERT obligation should be increased pro rata to the existing overall CERT obligation (which was increased by 20% in summer 2009)? If not, what should the level of the new overall target be, and why?

Consultation proposal

30. The level of the CERT was increased by 20% in 2009. It was proposed in the consultation document that CERT be extended pro rata across the twenty one month extension to the scheme. This equates to an additional 108 Million lifetime tonnes of CO₂ meaning a revised CERT of 293 Million lifetime tonnes of CO₂ to be achieved by December 2012.

Summary of responses

31. Seventy-four respondents answered this question, with the vast majority of these (93%) agreeing that the CERT obligation should be increased pro rata on the current target. Respondents from all sectors were supportive (although many stated caveats) of the proposal with the general consensus being that this represented a challenging yet achievable target given the other proposals for the extension period.
32. Energy suppliers emphasised that the additional obligations proposed for the extension – the insulation minimum and Super Priority Group along with the proposed exclusion of Compact Fluorescent Lamps – would make the target significantly more costly for them to achieve, thereby impacting all energy consumers in the costs they may need to bear through their energy bills.

33. Many respondents including, but not exclusively, the insulation industry agreed that a pro rata extension was reasonable provided that an insulation minimum was imposed and that Compact Fluorescent Lamps were removed from the scheme. The insulation industry argued that the emphasis for the extension had to be on professionally installed measures to provide the confidence for industry investment in expanding capacity and to better guarantee the quality of workmanship, and so carbon savings.
34. Those opposed to the pro rata extension thought the target was not ambitious enough given climate change targets, the carry-over allowed from the previous phase and the progress already made towards the current target.

Government response

Government decision

Government will introduce a pro rata extension, extending the Carbon Emissions Reduction Target by 108 million lifetime tonnes of carbon dioxide. The total CERT to be delivered by December 2012 will be 293 million lifetime tonnes of carbon dioxide savings.

35. Government will extend the Carbon Emissions Reduction Target by 108 million lifetime tonnes of carbon dioxide (taking the target to 293 million lifetime tonnes of carbon dioxide), together with introducing amendments which focus the scheme on measures which deliver deep and long lived energy and carbon savings (in the non-traded sector).
36. The target and sub-obligations are believed to be challenging but achievable. They will help maximise the long term environmental benefits of the scheme for a reasonable short term increase in costs. Alongside carbon savings, environmental benefits include air quality improvements as a result of reduced fossil fuel use. Reduced energy demand will moderate wider environmental impacts of energy extraction, production and supply which again, all consumers will benefit from. At the same time, reducing the level of UK final energy consumption can reduce the level of renewables that are required to be installed (and so reduce the additional costs) of achieving the UK share of the EU renewable energy target.
37. Taking into consideration the costs and benefits associated with the scheme, the final impact is a £8.65 billion benefit for society (discounted into 2010 prices). The net resource cost for the CERT extension for all parties is estimated to be £5.5 billion (discounted), with supplier costs estimated to be £2.3 billion.

38. It is at suppliers' discretion if they pass these costs onto their customers in their energy bills. If they passed on these costs in full, we estimate pass through costs of £61² per household in 2012 for dual fuel bill customers. These costs are more than offset by average annual benefits, in terms of lower energy bills or increased comfort, of about £22 per household per year for the lifetime of the measures, continuing for many years (42 years) beyond the CERT period.

² The £61 figure is derived by factoring in the wider effects of reduced demand and the impact on carbon prices, and only applies to houses on the gas grid - so is the price someone on dual fuel receiving no measures would pay in 2012

Scaling insulation delivery

Question

Do you agree with the proposals for setting an insulation minimum to secure and drive insulation levels? Subject to your views on the desirability or otherwise of introducing an insulation minimum what level of minimum do you consider justifiable? Within this, should the minimum exclude DIY insulation as a qualifying measure? Do you have any evidence on alternative options which could successfully drive a sustainable increase in insulation levels?

Consultation proposal

39. The pace of insulation installation needs to increase to reduce household energy demand and meet carbon reduction targets. Two reinforcing amendments were proposed to ensure the CERT extension increased its focus on insulation measures. Firstly, through setting a minimum insulation requirement, and secondly by removing the main measure which competes with insulation on economic grounds.
40. The level of the insulation minimum was proposed to be set at 65% of the increase in target – this would mean 70.2 million lifetime tonnes CO₂ could be delivered through qualifying insulation. It was proposed that cavity wall insulation, loft insulation and solid wall insulation be qualifying measures. Consultees were also asked to consider if only professionally installed insulation should be counted towards this minimum.

Summary of responses

41. Seventy-five respondents answered the insulation minimum question, with nearly all (91%) of these supporting the proposal to introduce a minimum.
42. Those in favour of the insulation minimum argued that it was required in order to give certainty to the industry, thus allowing it to retain and grow capacity. A number of respondents felt that the insulation minimum would encourage an increase in solid wall insulation roll out. Several respondents (from a range of sectors) felt that a specific sub-target should be set for solid wall insulation.
43. The majority of energy suppliers, BEAMA and Home Retail Group were opposed to the introduction of an insulation minimum, stating that it was unnecessary as insulation was already responsible for over 60% of suppliers' CERT achievements to date. They felt that the removal of CFLs as an eligible measure would be sufficient in itself to drive increased rates of insulation.

44. Fifty-eight respondents answered the question on the level of the minimum. Of these 86% felt that DIY should be excluded as an eligible measure and 72% of respondents stated that the insulation minimum should be higher than the level proposed – most of whom suggested that the insulation minimum should be set at least 70% of the total CERT. Those opposed to the exclusion of DIY insulation from the minimum included some energy suppliers, social NGOs and retailers. The energy suppliers noted that if there was to be an insulation minimum it should be at most 65% and lower if DIY insulation is not included.
45. Most respondents felt that DIY should be excluded from the minimum, with some stating that it should not feature in CERT at all. The insulation industry argued that a key purpose of the minimum should be to develop professional installation capacity. Other respondents felt that DIY insulation was less likely to be installed as effectively. Some respondents were concerned by press reports that DIY insulation had been bought by professional installers.
46. The respondents who suggested that DIY insulation should be included in the minimum argued that it provided customer choice, helped raise awareness of the importance of energy efficiency and would help keep scheme costs down. There was general agreement that improved DIY installation guidance and auditing would be useful if DIY insulation was to be eligible.
47. Forty-four consultees outlined wider measures they believed would drive a sustainable increase in insulation delivery. They included a number of suggestions outside the CERT envelope, for example, tax incentives. Providing an uplift in score for loft insulation top-ups and for a solid wall insulation minimum were the most frequent suggestions. The benefits of improved partnerships between energy suppliers, local authorities and retailers alongside directed marketing were also raised as mechanisms for reinforcing insulation uptake.

Government response

Government decision

Government will require that a minimum of 68 per cent of the increase in extension target (73.4 million lifetime tonnes of carbon dioxide) be delivered through specified professionally installed insulation measures (Table 1). DIY insulation, with enhanced reporting requirements, will be retained as an eligible measure in CERT, but will not be counted towards the insulation minimum target.

48. This Government will introduce an insulation minimum as part of the CERT extension. This will provide increased certainty of delivery and form a key contribution towards binding carbon budget commitments, ensuring that carbon emissions outside the EU emissions trading system (non-traded sector emissions) are prioritised under the CERT extension. The advantage to the consumer is that the scheme will be focusing on promoting measures that they demand, and which can help them deliver deep and long lived energy savings.
49. Only professionally installed measures (Table 1) will be eligible towards the insulation minimum. An insulation minimum will therefore provide the insulation industry improved confidence to invest in the supply chain, and help ensure that supply chain capacity is at a sustainable ongoing level to complete a full roll out of insulation. Further, there is a well defined audit trail for professional jobs which allows Government to have assurance on the quality of installation.
50. Government will be working with industry to continue to improve installation standards and the customer experience with a view to: ensuring maximum carbon savings are achieved in all circumstances, ensuring consumer complaints are reduced, and ensuring that there is less need for return visits to carry out remedial work bringing installations up to standard.

Table 1: Professionally installed measures eligible towards the insulation minimum

Cavity wall insulation
Loft insulation (from < 60mm)
Loft insulation (from > 60mm)
External solid wall insulation
Internal solid wall insulation
Flat roof insulation
Under floor insulation

51. Government recognises the important role that DIY insulation can continue to play in the scheme, and the value the retailers have brought to this arena – not least in helping increase the visibility and reach of insulation offers, which has been reflected in the uptake. Retail schemes arguably help spread demand more evenly over the year – helping overcome the usual summer downturn, and can offer consumers flexibility in how they improve their household environmental performance as well as offering a competitive means of insulating their loft.

52. Alongside professional installations, we expect to see DIY insulation take an increasingly important role under the CERT extension. We will work with Ofgem to build on the DIY insulation best practice guidance embedded in the operational CERT guidance. This will look to ensure that customers are well informed on installation techniques, and that where possible, an audit trail exists. This Government is committed to improving the transparency of delivery and understanding the distributional impact of the scheme.
53. Government will require suppliers to meet 68% of the increased target (73.4 MtCO₂) through professionally installed insulation products. DECC believes that the level of insulation required to meet the minimum is cost effective and achievable over a twenty one month timeframe. It is expected to result in some 1.4 million cavity wall insulation measures³, 2.1 million loft insulation measures and over 100,000 solid wall insulation measures. In combination with expected levels of DIY loft insulation, at least 3.5 million households are expected to benefit over the 21 month extension of the scheme, compared to under 2.5 million benefiting in the first 21 months of the existing CERT period.
54. Qualifying insulation activity will be eligible towards the insulation minimum if new scheme notifications are submitted to the Regulator on or after 1 August 2010. This will provide significant additional time for the suppliers to meet their targets, smooth delivery profiles and help overcome any local supply chain restrictions that may exist.
55. A number of wider changes to the scheme which can act to benefit insulation measures are detailed in the following sections. This includes new incentives for promoting solid wall insulation (see page 29 for further detail). We will not however, amend the carbon saving score for loft top-up insulation, as suggested by some respondents. We believe, given the new obligation being put in place, that this would have the effect of reducing the number of households that would benefit from insulation under the scheme and the amount of real carbon savings delivered.

Question

Do you agree with the proposal to remove CFLs as eligible measures to further secure and drive insulation levels?

56. To ensure the CERT extension increases its focus on insulation it was proposed that, in addition to introducing an insulation minimum, Compact Fluorescent Lamps (CFLs) would be removed from the scheme.

³ These measures are illustrative and will change subject to suppliers investment decisions, which are a function of the market, the length of time they have to deliver and consumer demand alongside other commercial factors

57. CFLs have been a very cost effective way for suppliers to achieve their targets, with 360 million distributed or sold with subsidy between April 2002 and December 2009. It was argued that other measures were now far more likely to secure real carbon savings given the substantial volume of CFLs credited under the scheme and now in GB homes. It was further suggested that the phase out of incandescent light bulbs through EU legislation due to be complete by September 2012, removed the impetus for further subsidy.

Summary of responses

58. Eighty-two consultees responded to the CFL question with most (74%) favouring their total withdrawal from the CERT extension. The insulation industry accounted for most of the responses in support of this proposal with strong support also coming from energy advice providers and social NGOs. The lighting industry and the energy suppliers were strongly opposed to the total removal of CFLs from CERT.
59. Those in favour of the complete removal of CFLs argued that their continuing eligibility could not be justified due to so many bulbs already having been distributed and the impending ban on incandescent light bulbs. Many felt that the total removal of CFLs would encourage insulation rates up to and beyond the insulation minimum, providing improved benefits to consumers. Some of those in favour of the total removal of CFLs gave commentary on the pros and cons of the continued eligibility of 'niche' (such as, reflector, dimmable and shaped) CFLs but they concluded that, on balance, these offered less certainty to secure carbon savings.
60. Nearly all of those respondents opposed to the removal of CFLs argued only for the retention of niche CFLs rather than retaining all bulb types emphasising that they still offered significant potential for reducing energy bills to households in all building types and social groups. They suggested that the steps already taken to ensure bulbs are installed (i.e. by restricting lamps to retail only schemes and limiting the number of bulbs sold per pack) had minimised the risk of bulbs not being fitted. A limited number of respondents suggested that all CFL types should be eligible if installed as part of a household energy makeover or if specifically recommended by a Home Energy Advisor.

Government response

Government decision

To encourage even higher levels of insulation, and to ensure CERT focuses on delivering verifiable carbon savings in the non-traded sector, compact fluorescent lamps will not be an eligible measure under the extension.

61. Compact fluorescent lamps will no longer be eligible to suppliers to promote under the CERT extension. CERT aims to transform the market for key measures. It has arguably achieved this with a significant increase in the number and type of CFL bulbs supported and with almost 300 million CFLs already creditable to CERT (some 30% of the savings to target to date).
62. Although retaining some scope for CFLs to be supported outside the insulation minimum and through retail only routes delivers cost savings to the scheme, there is less certainty that these measures will go on to be installed and used, replace less efficient alternatives or that consumers would not already be inclined/required (given the EU phase out of incandescent bulbs) to purchase CFLs anyway. Given this risk we will withdraw CFL schemes as eligible to be promoted as soon as the legislation is in force.

Restricting eligibility for microgeneration

Question

Should micro-generation measures remain eligible measures under the CERT extension? If so, it may be sensible to introduce new rules e.g. that these measures or subsets of these measures only remain eligible to Priority Group and/or proposed Super Priority Group households; or no longer be eligible for a carbon uplift; do you agree?

Consultation proposal

63. The Renewable Heat Incentive (RHI) scheme was proposed during the passage of the Energy Act in 2008. The proposed RHI as well as Feed in Tariffs (FITs) will offer financial support for a range of technologies which generate low-carbon and renewable heat and electricity, including ground and air source heat pumps, biomass boilers, and solar thermal. These incentives were designed by themselves to support the uptake of these innovative measures.
64. Concern was noted in the consultation that these mechanisms could make any further incentives under CERT, and so the associated carbon score, redundant. It was also noted that in combination these incentives could significantly enhance the attractiveness of supporting microgeneration under CERT, so displacing other energy efficiency measures.

Summary of responses

65. Seventy-three respondents answered this question with 55% agreeing that microgeneration should remain eligible in some way under the CERT scheme. Thirty-eight per cent of those who responded felt that microgeneration should be eligible to all groups and 17% thought eligibility should be restricted to vulnerable households. Thirty-three consultees (45%) felt that microgeneration should be removed from CERT entirely.
66. Most of the opposition to the retention of microgeneration came from insulation companies. They argued that microgeneration installations would receive support from the FIT or RHI schemes and so should not receive a double subsidy through CERT; specific concerns were expressed about the risk of double counting carbon savings across these schemes.
67. All the energy suppliers supported retaining microgeneration. However, one believed support should be phased out as FITs and RHI became available. Those in favour of limiting microgeneration to vulnerable households felt that given the support available through FIT and the proposed RHI, CERT support could only be justified for the most vulnerable. Several respondents argued that only renewable heat installations should continue to receive CERT support.
68. The central arguments made for retention of microgeneration either for all households or only those in the Priority Group and/or Super Priority Group were broadly similar; that the costs of microgeneration installation remained high and that CERT eligibility provided much needed additional support to overcome “prohibitive” up-front costs. Members of the microgeneration industry noted that the rate of microgeneration installation would not grow quickly enough to significantly displace energy efficiency activity under CERT.

Government response

Government decision

It is important that CERT delivers real carbon savings and does not unnecessarily duplicate incentives already being provided by other mechanisms. Government will therefore restrict the promotion of microgeneration measures during the CERT extension to those households considered the most vulnerable – Super Priority Group households. All incentives providing increased carbon scores for FIT and RHI eligible microgeneration measures will also be withdrawn.

69. Government agrees with the majority of respondents that microgeneration should continue to play a role under CERT. Microgeneration measures installed to March 2011 in receipt of Feed in Tariff or Renewable Heat Incentive payments will remain eligible for a CERT carbon score if promoted by energy suppliers. While this will provide the industry with a further boost by providing an additional incentive to early adopters, these measures are not expected to amount to a significant percentage of activity under the original CERT as to date (March 2010) microgeneration is estimated to have contributed only 0.4% of total measure savings.
70. Going forward, FITs and the proposed RHI are by themselves generally deemed capable of driving take up of microgeneration measures. To help avoid double incentives for carbon savings we already believe will be stimulated Government will remove microgeneration measures as eligible for most CERT subsidy over the extension period. This will ensure that insulation is competitive outside the insulation minimum. All microgeneration uplifts will also be withdrawn so as to minimise the potential for double incentives within CERT.
71. We recognise however, that many of the most vulnerable households are in homes that are not connected to the mains gas network. Microgeneration measures can offer, especially in conjunction with insulation measures, the most appropriate long term solution to fuel poverty in some circumstances. Equally, without CERT support, vulnerable households, which have less access to upfront capital, risk being unable to afford these measures. We will therefore retain capacity for microgeneration measures to be eligible for promotion to Super Priority Group households. The visible and personal nature of many microgeneration technologies can also enhance the individual's interest in, and understanding of, energy consumption more generally.

Increasing equity and assistance for the most vulnerable households – introducing a Super Priority Group (SPG)

Questions

Do you agree that under the CERT extension there should be a requirement for ensuring a proportion of the Priority Group target to be delivered to a subset of the most vulnerable customers (a Super Priority Group), who are also more likely to be in fuel poverty? Please explain your answer.

Do you agree that Pension Credit recipients should be at the heart of the Super Priority Group? Should Child Tax Credit households that qualify for the Priority Group also be included in the super Priority Group? If not, what groups would you suggest, and what evidence do you have to support alternative proposals?

Do you think that lower income thresholds or sub sets of the identified benefit groups should be identified to form the Super Priority Group if this means it is likely to result in better targeting of those with a greater propensity to be in fuel poverty? Is your answer the same if this required a lower 'super' Priority Group target to be applied?

Consultation proposal

72. Concerns were raised in consultation on how equitably CERT was delivering across income groups. In particular, it was noted that there was little evidence that lowest income households were benefiting. The intention is to increase the focus of CERT on those vulnerable, lower income households who are more likely to be in fuel poverty. Delivering energy saving measures can improve the thermal performance of a home resulting in long term reductions in household energy and thus offer a lasting solution to fuel poverty.
73. It was proposed that an additional obligation on suppliers be included for the extension period requiring that a proportion of the ongoing 40% Priority Group obligation should be delivered to those most vulnerable, lower income households who are more likely to be in fuel poverty with a new 'Super' Priority Group.
74. A target of 10% was suggested as the level of the Super Priority Group target, although this was suggested a minimum subject to further analysis of eligible households.

Summary of responses

75. Seventy respondents answered this question, with almost all agreeing that steps should be taken to ensure equitable delivery of benefits from CERT and most (84%) supporting the addition of a Super Priority Group (SPG) to CERT during the extension period. A majority of respondents from all sectors, with the exception of energy suppliers, were supportive of the SPG proposal. The energy suppliers were split on the SPG, with some coming out in support and others against.
76. Most respondents noted that given the rising impact of climate change and energy policy on consumers' energy bills, a clear strategy for helping the most vulnerable was necessary and, as a policy funded by consumers, CERT needed to play its part. There was general support for the addition of a super priority group, but there were several respondents who felt the proposals did not go far enough. Some called for the EEC2 Priority Group (PG) policy to be reinstated; i.e. the proportion of the target to be met in PG households to be set at 50% and to remove over-70s not on benefits from the PG. A large number of consultees agreed that the inclusion of the over-70 criterion had resulted in fewer of the most vulnerable households receiving help. Energy supplier responses argued that a proportionate number of the over-70s who received help were also likely to be on benefits.
77. Energy suppliers argued that Government needed to be sure that sufficient opportunities to deliver measures remained in the group of target households before setting a sub-obligation. They were concerned that a SPG target may be unachievable, or would push up search (and thus scheme) costs disproportionately compared to the supposed benefits. The view that Government needed to help suppliers find SPG households was shared by many respondents across several sectors. While it was acknowledged that data-sharing could help, energy suppliers stressed that this was currently only on a small scale and it is too early to rely on it as a key determinant of future policy success. Local Authorities and third sector bodies emphasised their value in generating demand for suppliers, and one delivery body with experience in reaching vulnerable households felt that, with the right techniques, there was significant potential in that market.
78. Many consultees made the point that CERT must reinforce, and not be seen as an alternative to, other policies aimed at helping the poorest, including Government-funded programmes such as Warm Front and Decent Homes and supplier-funded policies such as the Voluntary Agreement and the proposed Social Price Support. Others stressed the need to balance equity with the fundamental purpose of CERT; that is the cost-effective delivery of household carbon emissions reductions. Views on the level of the SPG target varied between sectors; energy suppliers suggested 5-7.5% was achievable, while fuel poverty respondents and consumer groups argued that a SPG target of 20% or higher was appropriate. However, many respondents felt that the level could only be set after eligibility criteria were defined.

79. There was broad agreement (79% of 43 respondents) with the proposal for Pension Credit (PC) recipients to be at the heart of the SPG and that Child Tax Credit (CTC) recipients under an income threshold should also be included. Many consultees welcomed the inclusion of low income families as they felt these households have not to date received appropriate benefit from energy efficiency/fuel poverty policies. One NGO suggested that a lower income threshold (or persistent eligibility for CTC under an income threshold over a given period) would help to minimise the potential for households to move in and out of the group.
80. Several respondents argued that as the low-income sick or disabled were defined as vulnerable groups defined in the Government's fuel poverty strategy, alongside children and the elderly, it was only right that they should be included in the CERT SPG. One consumer group suggested that half of all Disability Living Allowance (DLA) recipients they deal with are also on means-tested benefits, and only a quarter are pensioners; thus, they argued that the CERT SPG as proposed was missing a significant constituency of vulnerable householders. There were various proposals for targeting this group including using Cold Weather Payment eligibility.
81. There was also strong cross-sectoral support for targeting people in hard to treat properties, particularly from rural respondents across GB. Some proposed that any PG households in hard to treat homes should be eligible for the SPG (as a secondary eligibility criteria, after means-testing). A number of consultees supplied (varying) evidence of the level of fuel poverty in low income hard to treat homes, but all agreed this was high. Some proposed using low SAP scores as a qualifying condition. Others suggested that effectively targeting this group without introducing secondary eligibility criteria would be less complicated and costly, for example, it was proposed that: only SWI and heating measures should be on the list of mandatory measures for the SPG (otherwise SWI would not be delivered in the CERT extension); a proportionate share of any minimum target for SWI should be delivered to the SPG; and, suppliers should make a voluntary commitment to deliver measures to hard to treat homes.
82. Several respondents believed that a significant minority of households eligible to claim certain means-tested benefits do not do so. One respondent suggested more should be done to opt more people into the benefits system, by raising awareness and seeking to address concerns of stigma. Another respondent proposed an alternative targeting methodology to overcome this problem built around a combination of age of householder/ single parent, house type (e.g. hard to treat/SAP) and Council Tax Band.
83. Most respondents (74% of 19 respondents) did not think it necessary to set lower income thresholds in the proposed groups. Many felt that it was right to target groups with a high propensity to be fuel poor, but believed the proposed criteria would do this sufficiently – if any additional criteria were to be added, house condition was proposed as the most appropriate.

84. Most respondents agreed that the proposed group (Pension Credit and CTC under the income threshold) struck the right balance between tighter targeting and sufficient level of opportunities at a reasonable level. One energy supplier proposed raising the income thresholds to increase the level of opportunities. Two respondents felt that Pension Credit Guarantee – the subject group for the Energy Rebate Scheme data matching trial – should be targeted.

Government response

Government decision

Government will introduce a Super Priority Group (SPG) target requiring that a minimum of 15 per cent of the increased CERT (16.2 million lifetime tonnes of carbon dioxide) is delivered to the most vulnerable households. Measures installed in households eligible for receipt of Cold Weather Payments (includes Pension Credit) or Child Tax Credits (under the £16,190 threshold) may be counted towards this target.

85. Government agrees with the vast majority of respondents that equity should be a key consideration in the CERT extension and so will retain the 40% Priority Group Target (as currently defined) and introduce a new Super Priority Group sub-target requiring that at least 15% of each supplier's CERT extension target is met through the promotion of measures to the most vulnerable households.
86. As many vulnerable households cannot afford to make a contribution to the installation of measures, it is necessary to obligate suppliers to deliver to these households or they could be overlooked as suppliers seek to minimise their costs. This additional support mechanism will need to be balanced against the coalition agreement policy to "investigate how to simplify the benefit system in order to improve incentives to work".
87. Government agrees that the Super Priority Group should include groups that are considered the most vulnerable to fuel poverty and most likely to experience the detrimental effects of poorly heated or insulated homes^{4,5}. We agree that this should include low-income sick or disabled groups as they often spend more time in their homes and are more likely to experience detrimental health impacts.

⁴ WHO finds that elderly people are more likely to suffer from hypothermia than non-elderly adults and elderly people require higher room temperatures than younger adults to remain healthy.

⁵ Barnes, M. et al., (2008). *The Dynamics of Bad Housing : The Impacts of Bad Housing on the Living Standards of Children*. London : National Centre for Social Research

88. We believe that the benefits system remains the best source of proxies for identifying target groups in a simple, cost-effective and verifiable way. Therefore, as suggested by a number of consultees we will expand the Super Priority Group eligibility criteria proposed to include all households with a resident eligible for Cold Weather Payments (as defined in 2010) or Child Tax Credits under the £16,190 threshold.
89. The Cold Weather Payment eligibility criteria offers, alongside the Pension Credit and Child Tax credit groups, strong evidence against the four success criteria set out in consultation - on vulnerability, fuel poverty rate, on stability with low annual churn rates for low income disabled/sick households and on numbers of cost effective opportunities.
90. In total, we estimate that the fuel poverty rate across the Super Priority Group is 37%, which is significantly higher the rate in the rest of the Priority Group (13%) and non-priority households (6%). The exact make-up of the group is set out in the impact assessment.
91. The alternative means of increasing equity suggested by consultees to increase the scale (i.e. to 50% of the total target) or tighten the eligibility criteria (i.e. exclude the over-70s) of the current Priority Group were considered. However, as set out in the consultation paper, both would be expected to drive higher numbers of more expensive products – given the number of low cost opportunities remaining - and so be a more costly (and ultimately less equitable) option.
92. Equally, it would do no more to ensure the most vulnerable groups falling within the Priority Group i.e. those on means tested benefits, are targeted, and potentially result in more vulnerable households containing someone aged 70 and over (e.g. those eligible for but not claiming Pension Credit who may have a high risk to detriment⁶) not receiving measures during the extension period.
93. It was not considered appropriate to restrict the Super Priority Group to include only hard to treat homes as this would increase the scheme costs significantly and potentially result in many more households experiencing fuel poverty. However, suppliers can also continue to make use of the existing flexibility option – which provides carbon uplifts for delivering measures to off gas solid wall properties – within the Super Priority Group, so as to make delivery more cost effective. As a significant proportion of these households are also in rural areas, this would also help promote a more equitable scheme in terms of rural activity.

⁶ People of retirement age are more susceptible to excess winter death than the population average, with the level of risk increasing as people grow older www.statistics.gov.uk/statbase/ssdataset.asp?vlnk=7089

94. After an analysis of the number of households (5.6⁷ million) and opportunities remaining (see the Impact Assessment) in the Super Priority Group as defined above, Government has decided that a Super Priority Group target of 15% (i.e. 16.2 MtCO₂) is challenging but achievable within a 21 month delivery window. We will encourage early action in the Super Priority Group by allowing any appropriate measure installed after 1 August 2010 eligible towards the target. The Super Priority Group represents 20% of the GB housing stock and so 1.5 million more homes than the Super Priority Group as defined at consultation stage.
95. Sensitivity tests were conducted to consider the potential impact of increasing or decreasing the size of the Super Priority Group and on impact that higher Super Priority Group search costs could have on overall scheme costs. These are set out in the impact assessment. A target of 15% is believed to optimise the NPV benefits of the scheme against providing sufficient incentive to improve equity.
96. We believe that by changing the eligibility criteria, we have made the group more easily targetable. The Cold Weather Payment proxy that includes most Super Priority Group households, is widely recognised and so may be useful in marketing and targeting activity. Similarly Child Tax Credits are now widely identified. The Data Sharing exercise enabled by provisions in the 2008 Pension Act is proceeding and may help suppliers target offers at Super Priority Group households. Government would further encourage suppliers to form partnerships with local authorities and other grassroots organisations in order to more cost effectively source the opportunities, and lever additional investment and services in reaching these vulnerable households.

Question

Do you agree that we should introduce a limited list of heating and insulation measures of which Super Priority Group households benefit from at least one? How far should this list extend? Are there other ways of promoting these measures and so significant bill savings?

Consultation proposal

97. It is proposed that all households reached in the SPG will be required to receive at least one insulation or heating measure which has the potential to deliver deep and long term improvements in the thermal comfort of a property.

⁷ The analysis was based on 2.5 million households being in receipt of pension credit, latest figures report that 2.7 million households now receive pension credit, however this increase does not materially change the conclusions made from the analysis.

Summary of responses

98. Sixty-nine respondents answered this question, with nearly all of these (86%) agreeing that there should be a limited list of heating and insulation measures of which Super Priority Group households benefit from. However, there was more significant variation in terms of what respondents thought should and shouldn't be on the list.
99. Those who were opposed to the list felt that it limited opportunities for interventions and consumer choice. Some suppliers suggested that having found a SPG household they would install whatever affordable measures they could (this philosophy was supported by a range of organisations) – they argued that if the house already had or was unsuitable for loft or cavity insulation they should not be discouraged from offering other measures.
100. Installers and social groups felt that the first step should be insulation, even if this meant solid wall insulation, as heating measures should be designed to be appropriate for the heat demand of that property. One supplier suggested that only hard to treat properties (and thus measures) should be included in the Super Priority Group.
101. Several organisations suggested that Home Energy Advice should be included in the list, loft top-ups were also suggested as were heating controls, solar thermal, biomass stoves with back-burners, micro-Combined Heat and Power, flat roof and floor insulation and Real Time Displays.

Government response

Government decision

Government will require that suppliers install at least one specified insulation or heating measure (Table 2) in each benefitting Super Priority Group household. All other CERT qualifying measures remain eligible as supplementary measures.

102. In line with the views of the majority of respondents, Government believes that at least one major insulation or heating measure should be installed in Super Priority Group households. Government will require energy suppliers to install at least one of the insulating or heating measure listed in Table 2. These measures, which improve the fabric of the building, must be professionally installed and so offer significant annual savings over a long lifetime to the most vulnerable households (all details in associated impact assessment).

Table 2: Super Priority Group limited list of measures (at least one of the following must be professionally installed to each benefiting household)

Cavity wall insulation
Loft insulation (from <60mm)
Loft insulation (from >60mm)
External solid wall insulation
Internal solid wall insulation
Flat roof insulation
Under floor insulation
Fuel switching
Ground source heat pump
Air source heat pump
Woodchip CHP
Early replacement of G rated boiler

103. Government will not further limit the type or number of CERT eligible measures installed in SPG households, i.e. as long as one of the measure listed in Table 2 is installed suppliers can also count any additional CERT eligible measure towards their SPG target. This may reduce the number of Super Priority Group households suppliers reach, however it will help minimise search costs for suppliers and increase the benefits to households they do reach.
104. Suggestions to limit the list to only insulation measures was considered but it was felt that this could increase search costs and unfairly penalise those households who required a heating solution to make a difference. We would however strongly encourage suppliers to install insulation products before any heating measure, so as to ensure that any heating system is effectively sized.
105. Heating Controls, Home Energy Advice packages and Real Time electricity Displays were all nominated and considered for inclusion as stand-alone measures or as obligated additional measures.

106. As stand-alone measures they were not considered to help consumers realise the same level and certainty of energy saving benefit. As obligated additional measures, they risk households who need main insulation measures being turned away for not wanting to take up these behavioural measures. We would however, encourage suppliers to promote these supplementary measures where appropriate and useful in helping a vulnerable household secure a solution to fuel poverty.

Further equity issues

Question

Do you think that the options and incentives proposed will encourage more help to vulnerable rural households? What else can we do to help rural households access CERT?

Consultation proposal

107. CERT should aim to encourage an equitable distribution of benefits to vulnerable households geographically as well as across income deciles. There is concern that the market based delivery mechanism has resulted in harder to reach households, including the most vulnerable in rural areas, not benefitting equitably from the scheme. It is expected that several elements proposed for the CERT extension will address some of these issues, including vulnerable rural households.
108. The proposal to extend the CERT obligation to the end of 2012 and to create an SPG will require energy suppliers to exploit a higher proportion of the available carbon saving opportunities, including households in rural areas.
109. It is also proposed that the existing flexibility option that provides for carbon uplifts for solid wall insulation and heat pumps in off gas grid properties⁸ will be allowed to apply to SPG households – meaning suppliers need target fewer households to achieve their carbon targets. A high proportion of rural properties are off gas grid with solid walls so should benefit from these proposals.

⁸ See article 2(3) and 14 of the CERT Order 2008

Summary of responses

110. Forty-two respondents directly answered this question with many more suggesting that rural delivery was important but they did not have an opinion on the potential impact of the proposals. Nearly half (45%) of those who answered directly, tentatively agreed that the proposed changes would encourage more help to vulnerable areas. However, most of these respondents and most of the 55% who felt the proposals would make no difference felt that more should be done to increase activity in rural areas.
111. Most popular additional measures related to a greater focus on hard to treat homes as the way to increase rural delivery. Specific suggestions included the creation of a SWI minimum (5% of the total target was referenced) or the inclusion of hard to treat homes as a qualifying measure in the Super Priority Group (exclusively or as an additional criteria). Others suggested that applying the fuel factor in rural areas could provide a significant 'uplift' without losing carbon. Similarly it was suggested that a climatic 'uplift' would benefit remote areas of Scotland. Further uplifts for current flexibility measures or for rural postcodes were also suggested. One supplier stated, "the incentive approach is preferable because it retains flexibility within the scheme, whereas further caps and restrictions tend to drive up the costs of delivery."
112. The importance of accurate information and local partnerships were stated as key drivers of activity in rural areas. The opportunity for CERT to act as a transition to a more area based approach was highlighted.
113. A small number of respondents felt that no further measures should be introduced to encourage rural delivery as this could make the scheme complex and costly. They felt that arrangements for rural householders should be included in any post-2012 arrangements. One respondent stated, "It is likely to be some considerable time before the increased costs involved in finding households in urban areas off-sets the increased delivery costs in rural areas."

Government response

Government decision

Government will extend the current flexibility option for solid wall insulation to include properties in Super Priority Group for the extension period. Government will award suppliers a carbon score for solid wall insulation based on the main heating fuel of the property it is installed in (rather than the standard gas/electricity score used for other measures).

114. Most GB households have had the opportunity to benefit from certain schemes delivered under CERT; for example from subsidised DIY insulation or the distribution of low energy light bulbs. However, an accurate picture of the geographical distribution of professionally installed CERT measures is still emerging⁹. Initial analysis of geographical data from CERT's predecessor supplier obligation scheme, EEC 2, suggests that rural areas have been only slightly under-represented by core insulation schemes - it is estimated that 23% of homes in England and Wales are classified as rural, but under EEC 2 19% of cavity wall insulation measures were installed in rural homes.
115. Energy suppliers are motivated to deliver their CERT in the most cost effective way. Delivering measures in rural areas can be more expensive than in urban areas as installers may experience higher transport costs, lack of economies of scale and high rates of hard to treat homes (properties that are off-gas and/or have solid walls). A balance towards urban housing can therefore be expected. However, we recognise that there is a need for improvement in rural housing stock; 33% and 19.5% of homes in rural areas in England and Scotland respectively are F or G SAP rated (Standard Assessment Procedure for Energy Efficiency) compared to 15% and 4.9% respectively in urban areas (based on English Housing Condition Survey 2007 and Scottish Housing Condition Survey 2008).
116. The increased target and the provision of an insulation minimum are expected to lead to increasing rates of insulation over the CERT extension, including in areas which have to date been less cost-effective for suppliers to operate – including rural areas.
117. However, the Government agrees with most respondents that more must be done to overcome the barriers to delivering measures in rural areas. In particular we want to target the high number of properties that are solid wall and off-gas in rural areas; this was highlighted as important by several respondents to the consultation. As well as retaining the market transformation uplift for solid wall insulation, we will take two further actions to encourage investment in solid wall insulation in off-gas grid properties.
118. First the Government will extend the existing flexibility option carbon uplifts for solid wall insulation to include properties in the Super Priority Group alongside those in the Priority Group.
119. Second, Government will award suppliers a carbon score for solid wall insulation based on the main heating fuel of the property it is installed in (rather than the standard gas/electricity score used for other measures). Appropriate properties will be eligible for both the property specific score for solid wall insulation and the market transformation or flexibility option uplift. This will provide additional incentives for promoting solid wall insulation in off gas properties. The appropriate fuel specific score will be applied as any standard score. The Priority Group flexibility uplift can only be applied so the total carbon attributed to these measures does not exceed 5% of a suppliers target.

⁹ DECC and Devolved Administrations are finalising agreements with energy suppliers and the Energy Saving Trust that will enable the reporting of the number of CERT measures professionally installed at a local level.

120. Solid wall insulation offers significant energy bill savings, particularly for those utilising carbon intensive fuel sources. For example, the installation of solid wall insulation in an electrically heated home represents a rationale investment, but the high capital cost of solid wall insulation acts as a barrier for many households. This is a particular issue for low income households as they are unlikely to be able to make any significant contribution to the capital costs of installing solid wall insulation and so could miss out, despite their obvious need. Therefore, appropriate Super Priority Group and Priority Group households will be eligible for both the property specific score for solid wall insulation and flexibility option uplift. Increasing the cost effectiveness of promoting measures to this specific group will therefore introduce equity benefits to the scheme that help meet the concerns of the high proportion of stakeholders offering views on this issue.
121. This measure is expected, in combination with the insulation minimum, to boost investment in solid wall insulation, helping pave the way for the Green Deal. Fuel specific scoring is not considered appropriate across the scheme as this would increase the risk of fraud and so place a disproportionate burden on the Regulator to audit fuel types for every installation.

Question

Would a CERT obligation based on energy supplied (kWh) by an energy supplier to its customers, rather than its customer numbers, represent a fairer, more equitable method by which to apportion the overall CERT obligation and thus lead to a more equitable scheme?

Consultation proposal

122. The supplier's obligation is currently based on customer numbers and so represents to suppliers a fixed cost per customer – it is assumed that suppliers pass on costs as they face them, therefore consumers are likely to pay the same contribution to the CERT regardless of their consumption.
123. Ofgem recommended in their paper “Can energy charges encourage energy efficiency?” that suppliers' CERT obligations be calculated on their annual sales. They argued that this would help improve the equity of the scheme if the suppliers passed through the costs to consumers in a similar way; i.e. customer contributions would be based on their energy consumption.

124. Charging mechanisms based on usage could reward those with low energy usage (on average lower income households use less energy than higher income households) and incentivise more efficient behaviour from high usage households. However, there is a risk of the perverse consequence of certain fuel poor households, for example those with high heating costs due to the amount of time they spend at home, paying higher bills.

Summary of responses

125. Sixty-one respondents answered this question. Answers were split into those that favoured implementation of the proposal now and those that didn't. While there was a general interest in the proposal 79% felt for differing reasons that now was not the time to make this change, although many suggested that it be further investigated and considered for post-2012 arrangements. Most of those that felt the change should be made now, and many of those that didn't, agreed that the proposal would introduce more equity into the scheme but that additional protection would need to be offered to help the vulnerable with high bills. There was little consensus within any sector for the implementation of this proposal at this time. There was general support for increasing the transparency around CERT costs.

Government response

Government decision

Government will continue to require each suppliers' obligation to be calculated based on customer numbers.

126. It is envisaged, assuming that suppliers pass on costs as they face them, that attributing the CERT by energy supplied would ultimately benefit households with low energy usage. In principle, this should increase scheme equity. However, there is a risk of perverse consequences i.e. that more of the most vulnerable households (disabled, elderly, those with young children) who spend more time at home and have higher heating costs could incur higher obligation costs. In reality, many of the poorer households in this position probably do not heat their homes to an adequate level, in order to save money. It is very difficult to know how costs are passed through to consumers, and in line with the Government's desire to increase the transparency of billing (including the contribution that consumers make to environmental programmes through their bill), this is something we will seek to understand better.

127. Furthermore, changing the system will result in a significant administrative burden without necessarily having any effect; i.e. even if a change was made, suppliers may not change how they pass costs on. Therefore, Government will not amend the attribution methodology at this time, but will conduct detailed analysis to inform any longer term obligation.

High efficiency products

Question

Do you agree with the proposals for ensuring that only the most energy efficient products and appliances should be eligible measures under the CERT extension? Do you have views on how else this can be best delivered?

Consultation proposal

128. Article 2(3) of the Order allows suppliers to receive carbon scores for promoting investment in new technologies through a demonstration route. Demonstration actions must be actions which could reasonably be expected to achieve a reduction in carbon emissions. For those product categories which are innovative, CERT awards an additional 50% carbon savings so that they are more cost effective for suppliers to subsidise to help promote greater levels of market penetration.
129. A market transformation action was defined as: (a) the provision of solid wall insulation or micro-generation units where such provision will achieve a reduction in carbon emissions; (b) the provision of a real-time display; (c) the provision of a home energy advice package; or (d) any other action which will achieve a reduction in carbon emissions but which were not promoted under the electricity and gas order 2001.
130. No amendments to the demonstration action criteria were proposed in the consultation document. However, it was proposed that the baseline for market transformation action (d) be moved from measures not promoted under EEC1 to those not promoted under EEC2 so that only new innovative products would remain eligible. Measures under (d) tended to fall into two categories – lighting, which has featured strongly under each phase of the supplier obligation and other electricity using appliances and products whose individual contribution to the target has been small to date, even when promoted in high numbers. For those measures which are similar to those promoted previously the supplier was obliged to satisfy Ofgem that it delivers a carbon emissions reduction of 20% above the standard achieved by that similar action.
131. For the extension, it was proposed to allow only the products with the highest energy label rating to be eligible, for the products and appliances for which there are currently labelling requirements, including: refrigerators and freezers, washing machines, electric tumble dryers, combined washer-dryers, dishwashers, air conditioners and electric ovens. Given that it was clear that the energy label will allow new classes above the A-class to be opened when there is sufficient market saturation, it was suggested that the CERT scheme needed to be dynamic and only allow the top of class to be subsidised at any particular time.

132. For products not covered by the European labelling standards (such as computers) it was proposed to apply the Energy Saving Trust's standards for "Energy Saving Recommended" products. This was to ensure that CERT only promotes the best energy saving technologies. It was proposed that wider requirements be introduced to ensure that CERT continues to avoid deadweight (i.e. activity that would have happened without CERT support). For example, by not allowing innovative products to be supported if they have reached a market penetration of somewhere between 30 and 40%. This was to be achieved by setting upfront sunset clauses that retire a measure as eligible once they had reached a certain level of market penetration (30-40% was suggested subject to providing sufficient market warning).
133. It was proposed that some carbon scores were adjusted in cognisance of changes at EU level; for example, the Energy Using Products Directive requires that all new IT equipment purchased after January 2009 should have standby of <1W. Therefore, it was proposed to reduce the lifetime (CERT score) of the standby saver plugs to no more than five years.
134. It was also proposed that no product could be mailed unsolicited during the CERT extension.

Summary of responses

135. Forty-four respondents answered this question with 84% agreeing with the proposal to ensure only the most energy efficient products and appliances should be eligible under the CERT extension. Several respondents felt that this was best achieved by the introduction of a sunset clause that would be triggered when a product achieved a certain market penetration, although there was considerable variation around respondents preferred approach.
136. Those in favour felt the proposal would help deliver real carbon savings and improve consumer confidence in new products. A number of those who were in principle in favour of these proposals expressed concern that it may be over-complicated to make these changes now and suggested that it may be more appropriate to make these changes in the post-2012 arrangements. They questioned if the quality of information to inform the sunset clause proposal was available. Energy suppliers noted that they have delivery programmes and that changes to the scheme would be administratively burdensome.
137. *Which?* was concerned that some products currently receiving CERT support would not achieve significant carbon reductions and so a review of all eligible measures was required, with some products removed from the list. A number of respondents from the insulation industry suggested that energy products should be removed from CERT as they were short-lived and not fixed to a particular house.

138. The lighting and products industries were opposed to the proposal to limit the measures eligible under the scheme to only the most efficient products. They argued that any product that will reduce household emissions and energy costs should be eligible; especially those that are easy to install and practical, such as CFLs. They also warned that these restrictions would discourage investment and innovation in new products. Other respondents also noted that while limiting CERT eligibility to the most efficient products might work for a mature market with a range of very efficient products, it would not be appropriate to have products that could only serve a limited section of the market. They believed that if the carbon scores were set accurately, the most efficient products would be attractive to installers.
139. While there was significant support for the use of the Energy Saving Trust's Energy Saving Recommended standard, a number of respondents felt that the standard was inappropriate as manufacturers "now had to pay to achieve the standard". EST, Waterwise and Water companies argued that hot water saving devices should be eligible in CERT, as they would also save carbon.
140. Eaga argued that the lifetime of saver plugs should not be reduced as regardless of the introduction in 2009 of the directive to limit standby power use to less than <1W directive, many older products were still being used in households.
141. Of those who stated an opinion on the proposal that no product should be mailed unsolicited during the CERT extension, most agreed that this was the best way to ensure consumer demand and thus the best way to ensure the product would be used. Energy suppliers were generally not in favour of this proposal.

Government Response

Government decision

Government will take a number of steps to ensure that those products which are promoted are only the most efficient. First, we will require a written consumer request for all non-professionally installed measures that are delivered outside of retail routes. Government will change the baseline year for market transformation actions so that any measures promoted before March 2008 will not be eligible for market transformation uplifts during the extension period. New products and measures will be eligible to receive market transformation if they exhibit demonstrably (no less than 20%) better performance than a similar product supported previously. Government will not set sunset clauses for products eligible during the CERT extension but will launch a short consultation in summer 2010 on whether these amendments go far enough in simplifying and focusing CERT on non-traded carbon savings.

142. There was a general feeling that changes had to be made to the market transformation rules. We agree with this and so have sought to make the necessary changes to address areas of major concern around consumer demand and additionality.
143. There was considerable concerns expressed in consultation responses that steps should be taken to ensure that consumers only receive products that they genuinely intend to use. Respondents mentioned the example of CFLs and their belief that due to direct and often unrequested mail outs of bulbs, many bulbs were not being used. A risk remains that other products could be delivered in large numbers in a similar way. Therefore, for the CERT extension we will require a written consumer request for all non-professionally installed measures that are delivered outside of retail routes (i.e. products purchased in retail outlets or via online retail sites will not require written confirmations). The written request should confirm that the consumer intends to utilise the product they are to receive.
144. Government will change the baseline year for market transformation actions; i.e. measures promoted under EEC April 2002- March 2008 will not be eligible for market transformation during the extension period. We believe this is necessary to ensure that the scheme continues to promote truly innovative products. Many of the products and measures that receive market transformation uplifts are well established and have been delivered in large numbers. There is a risk that the carbon savings awarded in uplifts are no longer required to achieve a sustainable market penetration of these goods under their actual carbon score. We need to close off this risk quickly.

145. The regulator will only approve supplier schemes that satisfy the new rules from the date the Order is made. Non-electrical innovative products (insulation products, heating systems etc) will continue to be eligible for the market transformation uplift. However, to qualify they must exhibit demonstrably (20%) better performance if a similar product was supported previously.
146. In combination, these amendments will ensure innovative and efficient electricity using products continue to be promoted, but only where consumers are committed to installation. Given the amendments which will be brought in, the proposal to introduce sunset clauses to exclude measures once they reach a certain market penetration will not be adopted. This is considered to be too great an administrative burden for such a short obligation period.
147. The Government believes that additional evidence is required to take a strategic view of the role that traded sector products such as appliances and consumer goods should continue to play under a supplier obligation, including as part of the CERT extension. We shall therefore launch a short and targeted consultation on this particular issue this summer, exploring the options for simplifying the scheme further. At the heart of this consultation will be a call for evidence on the value and potential of continuing to support any non insulation and heating measures under CERT.
148. The consultation will encourage wider views on a range of issues raised by the previous consultation respondents - including the role (if any) of energy saving plugs, water efficiency products, LEDs and real time electricity displays. Any amendments emerging would be brought forward in amended Regulations this autumn.

Question

Do you agree that only providing carbon scores for A rated LEDs provides the greatest certainty on delivering carbon savings from lighting products?

Consultation proposal

149. It was proposed that ESR-approved A rated Light Emitting Diodes (LEDs) be qualifying measures under the CERT extension. This will help create an early market for LEDs.

Summary of responses

150. Sixty-four respondents answered this question with 83% agreeing with the proposal that ESR-approved A rated LEDs should be eligible under the CERT extension.
151. Those in favour noted that LEDs were very energy efficient, but remained expensive so CERT support was essential in order to improve market penetration. The lighting industry (and other categories of respondents) pressed for the scores for LEDs to be based on replacing halogen, not CFLs, bulbs as they believed that is what they will be substituting in most instances. Several consultees also noted that in order to maintain customer confidence, only ESR LEDs that satisfy the EU's minimum lumen output standard should be supported. Others, including some energy suppliers, felt that all – not just A rated – LEDs should be supported
152. The majority of respondents who disagreed felt that the technology was at too early a stage of development to back LEDs as the most appropriate lighting technology for the future – they felt that a less prescriptive requirement and product-specific carbon scores may result in more innovative and successful products. A very limited number of respondents, mostly from the insulation industry, argued that all LEDs should be removed from the CERT scheme.

Government response

Government decision

Energy Saving Recommended Light Emitting Diode bulbs will be eligible for promotion under the CERT extension. Government will require the scheme regulator to provide a performance based carbon score for each type of LED promoted.

153. Government believes that LED bulbs have potential to realise significant energy savings in the domestic sector, however few types are currently available and they remain prohibitively expensive for most households. They require support to speed their market penetration, but must be of high quality to ensure customer confidence develops. Therefore, Energy Saving Recommended LED bulbs will be eligible under the CERT extension.
154. As LEDs remain a relatively innovative technology and too few bulbs have underwent assessment to accurately estimate a generic score the Regulator will be required to award an appropriate score for each LED product.

Evidence and reporting

Question

Do you think that the cost, carbon and wider assumptions set out in the associated impact assessment are fair? If not, please provide evidence to support how the assumptions should be amended.

Consultation proposal

155. The consultation stage impact assessment provided a range of evidence based on a number of assumptions.

Summary of responses

156. Fourteen respondents commented on specific details of the impact assessment. These have been considered and incorporated as part of the impact assessment, where appropriate.

Government response

Government decision

Government will retain the current scoring system and provide the carbon scores described in the final impact assessment. DECC will continue to enhance the evidence base for carbon scores and conduct a full review of carbon scores before any future scheme.

157. The cost, carbon and wider assumptions detailed in the consultation and final stage impact assessments were calculated using the best available evidence. The evidence base utilised and the assumptions made in their analysis are described in the impact assessment and its annexes. Sensitivity analysis was conducted where appropriate to illustrate the impact of variations from the assumptions and different policy decisions and are also available in the published impact assessment. Government has noted all the comments on the scoring of measures and will conduct a full review of carbon scores before any future scheme.

Question

Do you think that the current reporting and monitoring arrangements are robust enough to ensure that Ofgem identify and avoid the risk of double counting between different programmes? If not, how can this risk can be avoided?

Consultation proposal

158. It was noted that DECC had taken steps to increase evidence and transparency on where CERT benefits had accrued; for example, negotiations on a revised voluntary agreement with energy suppliers. When in force this would require energy suppliers to transmit data to the Energy Saving Trust (to upload onto their Home Energy Efficiency Database) the location of all professionally installed measures.
159. To avoid the risk of double counting under schemes such as CERT and CESP, and also in the future under other programmes such as the Renewable Heat Incentive and Feed in Tariffs, consultees were asked to consider whether the current reporting and monitoring process in article 16 and 19 of the existing CERT Order were sufficient to guard against this risk. In particular the Department asked whether the information supplied to Ofgem was of sufficient detail to ensure that a proper audit of measures installed and thus the effectiveness of the scheme could be carried out.

Summary of responses

160. Sixty-six respondents answered either by directly addressing the compliance question or by making comment on the general reporting arrangements in CERT. Only 24% agreed that the current reporting and monitoring arrangements were satisfactory, but they were not all necessarily referring specifically to double-counting risks. The majority of those answering the question strongly suggested the reporting and monitoring arrangements in CERT were inadequate.
161. The insulation industry was particularly dissatisfied with existing reporting and monitoring arrangements (of the 32 responses received, 31 felt current arrangements were inadequate). They, and several other respondents, argued that more robust monitoring of where DIY insulation was being installed was needed to avoid double counting and to assess the current rate and quality of installation. There was also some concern that new products, such as low flow shower heads, could be distributed without robust monitoring of where they were being sent, if they have been installed and how often the showers in question are actually used. A number of respondents argued that a full audit of all active programmes under CERT is needed to assess the carbon savings these programmes are actually achieving.

162. All the energy companies felt that the current reporting arrangements were adequate and noted that when issues of compliance had been raised, the suppliers had acted quickly; for example, the packaging and markings on DIY insulation were changed when concerns on double counting were raised. They argued that any future reporting and monitoring arrangement should bear in mind the administrative costs, time and the difficulty in capturing data for suppliers.
163. Several respondents across a range of sectors noted that the voluntary agreements being negotiated with energy suppliers to supply installation data to the Home Energy Efficiency Database were gradually leading to more and better CERT information being made available to interested parties. However, some thought that these arrangements were not strong enough to fulfil the vital role they now have.

Government response

Government decision

Government will require that, where necessary for compliance checking purposes, energy suppliers provide to the scheme regulator the address of each property where measures are installed under the CERT extension. This Government will bring urgency to the development of a system for regularly reporting the geographical distribution of measures installed under CERT, so as to improve the transparency of delivery.

164. In line with the majority of respondents, Government agrees that the reporting requirements placed on suppliers to date are no longer adequate. We recognise that robust data is required by the regulator, Ofgem, to ensure that suppliers remain in compliance with scheme rules, but is also needed by Government and other interested parties to understand how the policy is being delivered and to inform policy development. It should be made clear that the legal basis of these arrangements will remain distinct.
165. To date Government has not required energy suppliers to provide address level data on where measures have been installed, as this was not seen as essential for ensuring compliance with the legislation. However, since the CERT was introduced a number of requirements, policies and programmes have been introduced or proposed, including; legally binding Carbon Budgets, the Community Energy Saving Programme (CESP), Feed in Tariffs (FITs) and the Renewable Heat Incentive (RHI; proposed). As CERT interacts with these policies, address level data will be required by Ofgem to avoid double counting of carbon across schemes and will help Ofgem ensure suppliers are in compliance with all scheme rules.

166. The provision of address level information will allow better scrutiny of possible fraudulent claims within the scheme; for example, the requirement to report address details for professionally installed loft insulation and DIY insulation will help detect if subsidised insulation is being installed at a property receiving a CERT score.
167. Address details¹⁰ will be required at the time of notification of a completed action. Further details of reporting requirements and conventions will be described in Ofgem's Supplier Guidance.
168. As stated previously written consumer requests will be required for non-professionally installed measures supplied outside of retail routes (potentially including low flow shower heads) and that the extension period will be used to consider the design of any future supplier obligation.
169. This Government will ensure that there is a transparent and regular published update on the geographical distribution of measures delivered under CERT. To this end, it is essential that urgency is brought to bear on the work between DECC, energy suppliers and the Energy Saving Trust to agree a Voluntary Agreement committing suppliers to transmit household level data to the Energy Saving Trust held Home Energy Efficiency Database.

¹⁰ Including the house name or number, street name, full postcode and where possible a National Land and Property Gazetteer Unique Property Reference Number.

ANNEX A: Consultation Questions

Consultation Question

1. Do you agree that there should be an extension to CERT rather than a new obligation period i.e. that the current CERT mechanism is largely retained but the end date extended to December 2012? If not, why not?

Consultation Question

2. Given the potential costs, do you agree that the size of the extended CERT obligation should be increased pro rata to the existing overall CERT obligation (which was increased by 20% in summer 2009)? If not, what should the level of the new overall target be, and why?

Consultation Question

3. Do you agree that under the CERT extension there should be a requirement for ensuring a proportion of the Priority Group target to be delivered to a subset of the most vulnerable customers (a Super Priority Group), who are also more likely to be in fuel poverty? Please explain your answer.

Consultation Question

4. Do you agree that Pension Credit recipients should be at the heart of the Super Priority Group? Should Child Tax Credit households that qualify for the Priority Group also be included in the super Priority Group? If not, what groups would you suggest, and what evidence do you have to support alternative proposals?

Consultation Question

5. Do you think that lower income thresholds or sub sets of the identified benefit groups should be identified to form the Super Priority Group if this means it is likely to result in better targeting of those with a greater propensity to be in fuel poverty? Is your answer the same if this required a lower 'super' Priority Group target to be applied?

Consultation Question

6. Do you agree that we should introduce a limited list of heating and insulation measures of which Super Priority Group households benefit from at least one? How far should this list extend? Are there other ways of promoting these measures and so significant bill savings?

Consultation Question

7. Do you think that the options and incentives proposed will encourage more help to vulnerable rural households? What else can we do to help rural households access CERT?

Consultation Question

8. Would a CERT obligation based on energy supplied (kWh) by an energy supplier to its customers, rather than its customer numbers, represent a fairer, more equitable method by which to apportion the overall CERT obligation and thus lead to a more equitable scheme?

Consultation Question

9. Do you agree with the proposals for setting an insulation minimum and removing CFLs as eligible measures so as to secure and drive insulation levels?

Consultation Question

10. Subject to your views on the desirability or otherwise of introducing an insulation minimum what level of minimum do you consider justifiable? Within this, should the minimum exclude DIY insulation as a qualifying measure?

Consultation Question

11. Do you have any evidence on alternative options which could successfully drive a sustainable increase in insulation levels?

Consultation Question

- 12.** Do you agree with the proposals for ensuring that only the most energy efficient products and appliances should be eligible measures under the CERT extension? Do you have views on how else this can be best delivered?

Consultation Question

- 13.** Do you agree that only providing carbon scores for A rated LEDs provides the greatest certainty on delivering carbon savings from lighting products?

Consultation Question

- 14.** Should micro-generation measures remain eligible measures under the CERT extension? If so, it may be sensible to introduce new rules e.g. that these measures or subsets of these measures only remain eligible to Priority Group and/or proposed Super Priority Group households; or no longer be eligible for a carbon uplift; do you agree?

Consultation Question

- 15.** Do you think that the cost, carbon and wider assumptions set out in the associated impact assessment are fair? If not, please provide evidence to support how the assumptions should be amended.

Consultation Question

- 16.** Do you think that the current reporting and monitoring arrangements are robust enough to ensure that Ofgem identify and avoid the risk of double counting between different programmes? If not, how can this risk can be avoided?

ANNEX B: consultation respondents

1. ABBE (Awarding Body for the Built Environment)
2. ACE (Association for the Conservation of Energy)
3. Age Concern Help the Aged
4. AMDEA (Association of Manufacturers of Domestic Appliances)
5. B&Q
6. BEAMA
7. BMF (Builders Merchants Federation)
8. British Gas
9. Brufma (British Urethane Foam Manufacturers Association Limited)
10. BT
11. Ceres Power
12. Changeworks
13. CIGA (Cavity Insulation Guarantee Agency)
14. Citizens Advice
15. Combined Heat and Power Association (CHPA)
16. Comhairle nan Eilean Siar (CNES)
17. Commission for Rural Communities (CRC)
18. Construction Products Association
19. Consumer Focus
20. Eaga
21. Earth Energy Ltd
22. EDF Energy
23. Effective Energy Solutions
24. E.ON
25. Energy Retail Association (ERA)

26. Energy Saving Trust (EST)
27. Environment Agency
28. Eurisol: Mineral Wool Insulation
29. Groundwork
30. Havells Sylvania
31. Heating and Hotwater Industry Council
32. Home Retail Group
33. INCA (Insulated Render & Cladding Association Ltd)
34. InstaFibre Consortium <i>Including individual responses from:</i> 35. Baring Insulation 36. B.E.S.T Energy 37. Central Insulation 38. DS Insulations 39. Energy Care UK 40. Energy Saving Solutions 41. Excelsior Homecare 42. Homecare Home Improvements 43. InstaFoam and Fibre Limited 44. Insulate Your Home 45. JMC Insulations Ltd 46. K.H.I Ltd 47. Lion Insulation 48. Phoenix Insulations Limited 49. Polybead Insulation UK Ltd 50. RIS Insulation Ltd 51. Smethwick Energy Action Ltd

52. Summit Insulation
53. Tameside Insulation
54. Toasty Homes
55. Warmerhome Southern Ltd
56. Warm-Space Insulation Limited
57. West Anglia Insulation Ltd
58. Isover (Saint-Gobain Isover)
59. Joyner Group
60. Jtec
61. Keep Newcastle Warm
62. Kingspan
63. Knauf
64. LA & LIF Joint Letter
65. Lighting Association (LA)
66. Lighting Industry Federation (LIF)
67. Local Government Association (LGA)
68. Low Carbon Bradford and Avon
69. Mark Group
70. Micropower Council
71. Miller Pattison
72. Mould Growth Consultants
73. Mr. David Magnus
74. Mr. Frank Seymour
75. National Energy Action (NEA)
76. National Housing Federation (NHF)
77. NIA (National Insulation Association)
78. Northgate

79. Ofgem
80. OFT
81. Philips Consumer Lighting
82. PhotonStar
83. Polypearl
84. RDA
85. REA
86. RLtec: Smart Grid Solutions
87. Rockwool: Future-Proof Insulation
88. RWE npower
89. Scottish Government
90. SFHA
91. Scottish Power
92. Severn Wye Energy Agency
93. SIG
94. Solarwall
95. SSE
96. Status International Ltd
97. Warm Zones
98. Waterwise
99. Waterwise and Water Companies
100. Welsh Assembly Government
101. Westminster
102. Which?

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