

**COMMUNITY ENERGY SAVING  
PROGRAMME (CESP)  
CONSULTATION DOCUMENT**

Consultation

FEBRUARY 2009

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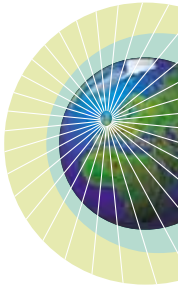
Full text of the consultation, Executive Summary and Partial Impact Assessment can be found on DECC's website: <http://decc.gov.uk/consultations/>. If you wish to obtain a hard copy of this consultation, please email [cesp.consultation@decc.gsi.gov.uk](mailto:cesp.consultation@decc.gsi.gov.uk)

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# Ministerial Foreword



The Community Energy Saving Programme (CESP) is the next step in the radical shift we require in our use of energy to heat, light and power our homes and buildings.

We know that improving energy efficiency offers the chance to reduce energy bills and fuel poverty, to improve our energy security and, above all, to meet our climate change ambitions – reducing our greenhouse gas emissions by 80% by 2050.

CESP is an opportunity to mobilise communities across the country.

Local authorities and other public services already work in partnership with energy companies to deliver energy saving programmes. CESP gives them the opportunity to raise their ambition, to do more for:

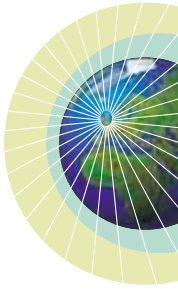
- each home, through the ‘whole house’ approach;
- fairness, by targeting the most disadvantaged communities, most in need of intense support;
- those urban areas where community heating makes sense.

CESP is a significant opportunity for all our partners, public, private, voluntary and community to begin the radical shift to a low carbon Britain. We know it will take community involvement, public services, private and third sectors and the knowledge, passion and commitment that everyone can bring to make the radical energy shift we need a reality.

CESP is the next step in the Government’s contribution to the challenge, a step up to the effort we will require to realise the ambition and vision of the Heat and Energy Saving Strategy.

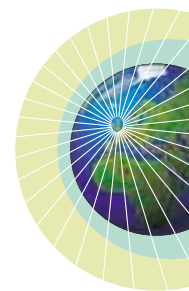
Ed Miliband

Hazel Blears





# Executive Summary



1. On 11 September 2008 the Prime Minister announced the launch of the £1bn Home Energy Saving Programme aimed at helping families to permanently cut their energy bills. A key part of the announcement was the creation of a new £350m Community Energy Saving Programme (CESP). This Programme will target households, across Great Britain, in given geographical areas to improve energy efficiency standards, and permanently reduce fuel bills. It will promote a whole-house approach and will be delivered through the development of community-based partnerships (involving local authorities) along with suppliers and generators. Partnership working will allow CESP to be implemented in a way that is best suited to individual areas and coordinated with existing initiatives. The CESP measures will be funded by a new and additional obligation on energy suppliers and electricity generators. We expect around 100 schemes will be funded benefiting some 90,000 households, and delivering a saving of nearly 4m tonnes of CO<sub>2</sub> emissions. By focusing on areas of disadvantage it will also help to take hard-pressed families out of fuel poverty.
2. This document is the Government's statutory consultation on proposals for the design of the CESP. It has been developed with the close involvement of a large number of stakeholders with experience of providing energy efficiency measures and tackling fuel poverty. Once the consultation has closed the Government will consider all of the consultation responses before making final decisions about the design of the CESP. These final policy decisions will be reflected in a draft order (i.e. Statutory Instrument) which the Government will then lay before Parliament for approval<sup>1</sup>.
3. The Government proposes that the CESP will work on the following lines:
  - Energy suppliers and electricity generators will be required to achieve an overall carbon emissions reduction target. The scale of this target, and how it will be divided between suppliers and generators, is considered in this document (*Section 2*).
  - Companies obligated by the CESP will have to achieve their share of the overall target by promoting carbon-reduction measures to domestic energy users. These measures will include better insulation and small-scale, low-carbon energy generation (*Section 2*).
  - Ofgem will administer the scheme (*Section 3*).
  - Energy suppliers and electricity generators will be expected to work with local partners to help deliver the programme. Local Authorities are always likely to be crucial to effective delivery on the ground, and other

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<sup>1</sup> The Government is working towards publishing a draft order (for the purposes of accompanying this consultation) early in consultation period. Please refer to <http://decc.gov.uk/consultations/index.htm> for further information.

community-based organisations are often innovative and able to reach sections of the community traditionally considered hard to reach. On balance, however, the Government does not believe this partnership approach needs to be prescribed in law (*Section 4A*).

- The list of eligible measures will be restricted to those that deliver significant CO<sub>2</sub> and fuel bill savings, and work together to form a whole-house approach (*Section 4B*).
- Bonuses will be offered as incentives for companies to deliver multiple measures to the same properties as well as serving multiple properties within the same targeted area (*Section 4B*).
- All measures will need to be offered to households in areas which feature in the lowest decile of the Index of Multiple Deprivation's (IMD) income domain (*Section 4C* and *Annex 1*).
- The CESP obligation will run until December 2012 (*Section 5B*).

Trading, and potentially some transfer of credits and obligations between suppliers and generators, would be allowed and details of how this might work can be found in *Section 5C*.

4. This document sits alongside the consultation documents on the Heat and Energy Saving Strategy<sup>2</sup> and amendments to the Carbon Emissions Reduction Target (CERT) 2008-11<sup>3</sup>, which have also been launched today, 12 February 2009. The Heat and Energy Saving Strategy sets out the Government's vision of a comprehensive, long-term strategy to transform how we use energy in our homes, businesses and industries up to 2020 and beyond and seeks views on a range of policies to achieve the Government's goals on energy-saving and low-carbon heat. The proposed amendments to the Carbon Emissions Reduction Target 2008-11 seek to: increase the overall CERT target by 20%; provide new incentives to encourage professionally installed top-up loft insulation and DIY loft insulation; encourage energy suppliers to promote Real Time Display Devices; increase the proportion of the CERT target that can be met through innovation activity, and introduce new reporting requirements.
5. The Government would like this to be an active consultation and looks forward to receiving many comments to help design this innovative and exciting scheme, which is aimed at delivering measures to some of the poorest communities and thus helping vulnerable members of our society.
6. The consultation questions in the document (with reference to the relevant page numbers) are set out overleaf.

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<sup>2</sup> <http://decc.gov.uk/consultations/index.htm>

<sup>3</sup> <http://decc.gov.uk/consultations/index.htm>



## Consultation Questions

### Statutory Instrument

Q1. Do you have any comments on the draft Statutory Instrument?<sup>4</sup>

### Impact Assessment

Q2. Do you have any comments on the partial Impact Assessment? Do you believe there are other sources of evidence that could be used to help refine the assessment? In particular:

Q3. Do you agree with the identified costs and the main groups on which they fall? If not, please explain why and suggest other costs which may exist and groups which may be affected.

### Distribution between suppliers and generators

Q4. Do you agree that the CESP obligation should be split equally between supplier and generation companies? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

### Limits for exemption of small companies

Q5. Do you agree with our proposed approach to providing an exemption from the CESP obligation to small companies? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

### Distribution of the obligation between companies

Q6. Do you agree that the CESP obligation should be distributed between companies in proportion to their annual electricity generation? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

### The regulatory approach

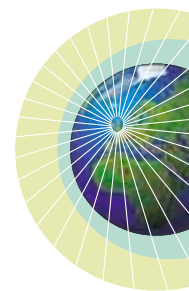
Q7. Do you agree that the scheme should be flexible to allow for the development of different forms of community partnership working? If not, why not?

Q8. Do you agree that it is reasonable to envisage that the natural incentives are strong enough to ensure an effective partnership approach for CESP? If not, why not?

Q9. Do you agree that there should be a requirement for some form of evidence of Local Authority endorsement, such as a letter of support?

### Creating incentives

Q10. Do you agree that CESP should target fewer homes but provide greater CO<sub>2</sub> and fuel bill savings for homes targeted? If you do not agree, please explain your reasons and offer an alternative approach.



<sup>4</sup> to be published very shortly



### High efficiency boilers

- Q11. English building regulations require replacement boilers to be B-rated or better. Can CESP therefore add anything to the replacement of boilers mandated by the building regulations?
- Q12. Is there a need for a mechanism that would protect households who have a boiler replaced under CESP from any potential early failure of the new boiler? If so, how might that protection be provided?

### Central heating

- Q13. The Government requests stakeholders to explain whether or not they support the inclusion of installing gas central heating in non centrally heated homes and provide evidence in support of their comments.

### Solid wall insulation

- Q14. What types of Solid Wall Insulation are available and what are their relative costs and CO<sub>2</sub> savings?

### Scoring

- Q15. Do you agree with the proposed list of measures available under CESP?

### District heating criteria

- Q16. Should district heating projects be included within the list of potential CESP measures? Please include an explanation of your answer.
- Q17. Are there any particular types of scheme which merit inclusion more than others or which it would be easier to include?
- Q18. Is it possible to attribute any base-line scores to particular types of scheme, or would this need to be on a case-by-case basis?

### Creating incentives for a whole-house approach

- Q19. Do you think our proposed bonuses for scoring measures encourage the delivery of a whole-house approach? If not, please explain why and offer an alternative set of incentives.

### Calculating bonuses

- Q20. Do you agree that this scoring system will encourage the delivery of measures that will meet the CESP objectives of reducing CO<sub>2</sub> and fuel bills? If not, please explain your reasons and offer an alternative methodology.

### Delivering intensive action in specific areas

- Q21. Would uplifts on a points score, proportional to the density of homes reached or measures introduced, encourage intensive action within a targeted area?
- Q22. Do you think any of the described options will deliver intensive action in specific areas? If so, which option do you favour? If not, please explain your reasons and offer an alternative.

### Low income housing

- Q23. Do you agree CESP should use the income domain of the Index of Multiple Deprivation as the as the measure of income deprivation? If not, what should be used and why?

### Targeting low-income households

- Q24. Do you agree with the proposal not to prescribe in legislation what suppliers and generators can charge for measures?
- Q25. Is the assumption that suppliers and generators will themselves have to bear the whole cost, or the very great majority of the cost, of the measures which they deliver a reasonable one? If not, please state why.

### Working with other initiatives

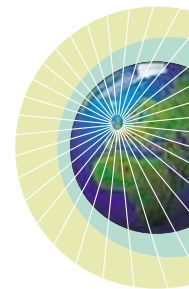
- Q26. Do you agree that a flexible approach, allowing communities to identify how best to integrate the range of initiatives in their areas, should be followed?
- Q27. Or should there be an attempt to develop a more prescriptive approach? If so, how would the concerns expressed in paragraph 5.10 be overcome?
- Q28. Are there any other initiatives we should consider when thinking about the design and interaction of a new CESP obligation?

### Programme timing

- Q29. Do you agree that CESP should run from autumn 2009 until December 2012? If not, what other option do you prefer and why?


### Transferring of credits and trading of obligation

- Q30. Do you agree that obligated parties should be allowed to transfer credits that they have achieved with other obligated parties?
- Q31. Do you agree in principle that trading of the obligation itself should be allowed? If so what level?
- Q32. Should Ofgem be required to approve any trading arrangements?



# Section 1:

## Introduction

- 
- 1.1 This document sets out the Government's proposals for the Community Energy Saving Programme (CESP)<sup>5</sup>. It also aims to prompt feedback from stakeholders on the design of the scheme.
  - 1.2 Under the Electricity Act 1989, the Gas Act 1986 and the Utilities Act 2000, electricity and gas suppliers must meet carbon emissions reduction targets set by the Secretary of State.
  - 1.3 The 2008 Climate Change Act amends the Gas and Electricity Acts. The Secretary of State is now able to place more than one obligation on energy suppliers and electricity generators simultaneously, and specify how each must be achieved.
  - 1.4 The Secretary of State can therefore place a new carbon emissions reduction obligation on energy suppliers and electricity generators, in addition to the Carbon Emissions Reduction Target (CERT)<sup>6</sup>. This places obligations on energy suppliers to reduce the carbon emissions of domestic energy customers by promoting carbon abatement measures (such as cavity wall insulation and low energy light bulbs). Suppliers and generators will have to meet the new target as a requirement of their licences. This will force them to reduce CO<sub>2</sub> emissions by introducing energy efficiency and small-scale generation measures to domestic energy users in specified areas throughout Great Britain.
  - 1.5 The proposed CESP obligation will have the same primary legal basis as the CERT. Details of the obligation will be set out in a separate Statutory Instrument (SI), which will be published very shortly, early in the consultation period, and will be available on the consultation website. The draft SI will show how it is proposed to give technical, legal effect to the policies set out in this consultation document.

**Q1: Do you have any comments on the draft Statutory Instrument?**

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<sup>5</sup> <http://decc.gov.uk/consultations/index.htm>

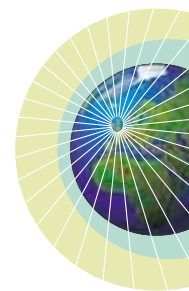
<sup>6</sup> <http://decc.gov.uk/consultations/index.htm>

## Impact Assessment

- 1.6 The Government has published a partial Impact Assessment to accompany this consultation document at <http://decc.gov.uk/consultations/index.htm>. This will be refined as more evidence is gathered and as views on preferred options become clearer. The potential impact and the linked figures and costs are, of course, preliminary. We welcome any view that may help refine and deepen the assessment.

**Q2: Do you have any comments on the partial Impact Assessment? Do you believe there are other sources of evidence that could be used to help refine the assessment? In particular;**

**Q3: Do you agree with the identified costs and the main groups on which they fall? If not, please explain why and suggest other costs which may exist and groups which may be affected.**



## Policy context


- 1.7 In September 2008, the Prime Minister announced a package of measures designed to help people permanently reduce their fuel bills while ensuring that the most vulnerable receive help this winter<sup>7</sup>. The CESP was one part of this package, building on ideas in the Energy White Paper (2007)<sup>8</sup>. This sets out the long-term energy challenges we face. It includes tackling climate change by reducing carbon dioxide emissions and ensuring secure, clean and affordable energy.
- 1.8 Improving the energy efficiency of existing housing allows us to tackle the challenges of climate change, energy security and affordable energy together. It will reduce energy demand and therefore cut both carbon emissions and fuel bills. The Government has already started to tackle this twin challenge through the Energy Efficiency Commitment (EEC), EEC2 and CERT programmes. These have resulted in fuel bill and carbon savings for millions of households. The Government is now looking to increase the overall target energy suppliers have to meet under CERT<sup>9</sup>. The Heat and Energy Saving Consultation Document has been released alongside this document, and sets out the proposed direction for the long term heat and energy saving strategy; the current proposals for CESP are consistent with this and will help to test aspects of the proposed future strategy in terms of tackling 'hard to treat homes' through a 'whole-house' approach, based on a house-by-house, street-by-street community approach.
- 1.9 By making our energy more affordable, energy efficiency measures will help play a role in tackling fuel poverty when taken up by customers who would be struggling to meet their fuel bills. As detailed in the UK Fuel Poverty Strategy<sup>10</sup>,

7 <http://www.number10.gov.uk/wp-content/uploads/energy-saving-programme110908.pdf>

8 <http://www.berr.gov.uk/whatwedo/energy/whitepaper/page39534.html>

9 <http://decc.gov.uk/consultations/index.htm>

10 The Sixth Annual Progress Report on the UK Fuel Poverty Strategy  
<http://www.berr.gov.uk/whatwedo/energy/fuel-poverty/strategy/index.html>



the aim of the UK Government and the Devolved Administrations is to eradicate fuel poverty, as far as is reasonably practicable. The Government has a range of programmes and measures that address the three main factors widely regarded to cause fuel poverty<sup>11</sup>. These are: the energy efficiency of a home, energy prices and the level of household income. The proposed CESP will contribute to this by reducing fuel bills and improving the energy efficiency of eligible homes through, for example, better insulation and heating.

- 1.10** Despite the success of the EEC and CERT programmes, barriers remain to the uptake of energy efficiency measures, especially in areas where incomes are low and homes are 'hard to treat'. In these circumstances, low awareness of available help and its cost-effectiveness; lack of capital for initial investment; and hidden costs such as the difficulty of installation may affect take-up.
- 1.11** Under CERT, energy suppliers employ what they consider to be the most cost-effective ways of meeting their carbon saving targets. Suppliers tend to target large numbers of households with relatively low cost energy efficiency measures (such as loft insulation). Usually they target households who are able to contribute a proportion of the cost. CERT requires 40% of the overall target to be delivered to a 'priority group', made up of people on certain benefits and those aged 70 and over. However the Government wishes to focus CESP more keenly on relatively disadvantaged populations. It proposes that all CESP activity should be directed at those living in areas with significant levels of low income. There should be incentives to encourage suppliers and electricity generators to take a holistic approach, delivering the maximum possible benefit to each home they treat, and thus the maximum reduction to household energy bills.
- 1.12** The challenge is to achieve household energy efficiency on a national scale. Over time the issues will only become more pressing. CESP will act as a bridge to the future, testing out particular approaches to the treatment of houses and communities, and how householders might interact with a community-based approach. This process will provide evidence that will feed into long term national work in this vital area.

## Process

- 1.13** Before making any new CESP order, the Secretary of State must consult on his proposals. This document is part of that statutory process. It describes the various proposals which the Secretary of State is considering in relation to a new CESP order. These proposals were developed with a wide variety of stakeholders, including energy suppliers, electricity generators and other bodies or organisations with an interest in the areas of carbon reduction, energy efficiency and fuel poverty. The Government is very grateful for the assistance it has received from these bodies. During the consultation period, a number of events will be organised in different parts of Great Britain to help gather views on the proposals. The Government looks forward to continued close dialogue with all interested in developing its proposals and finalising the scheme.

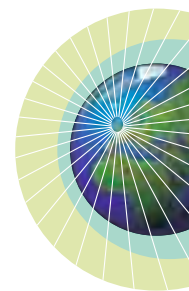
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<sup>11</sup> A household is said to be in fuel poverty if it needs to spend more than 10% of its income on fuel to maintain an adequate level of warmth (usually defined as 21 degrees for the main living area, and 18 degrees for other occupied rooms).

**1.14** Comments on these proposals should be sent by post or email, to the addresses below, by deadline 8 May 2009:

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Department of Energy and Climate Change  
Area 2D  
3-8 Whitehall Place  
London  
SW1A 2HH

[cesp.consultation@decc.gsi.gov.uk](mailto:cesp.consultation@decc.gsi.gov.uk)





## Section 2:

# What CESP aims to do

### Reducing CO<sub>2</sub> emissions, cutting fuel bills, helping to tackle fuel poverty

- 2.1 There are two key aims of CESP. The first, improving the energy efficiency of the existing housing stock, will support the second, which is to reduce energy demand in the domestic sector. This will help reduce CO<sub>2</sub> emissions and will also ensure that householders, including tenants on lower incomes, are likely to see permanent fuel bill reductions so that they will be able to heat their homes more easily. It is proposed that these twin goals could be achieved through three key principles:

#### The community approach – working in partnership

- 2.2 The community and voluntary sector has been active in energy reduction for many years and has developed innovative ways of connecting with communities.
- 2.3 Community-based organisations are at the root of civil renewal, bringing local people together and empowering them to meet local needs or transform local environments. They are often innovative and are able to reach sections of the community traditionally considered hard to reach by other organisations. Their involvement contributes to long-term behavioural change in the communities in which they work. The Office of the Third Sector has also provided guidance on how to work with the third sector<sup>12</sup>.
- 2.4 Suppliers and generators will therefore benefit greatly from working in partnership with relevant local authorities and community organisations to help promote and deliver the measures. We have termed this the 'community approach'. The programme should be designed to be as flexible as possible to allow for different partnership structures and a variety of participating bodies. The Government believes that this approach to partnership working will ensure CESP is always implemented in the most suitable way for local situations. It will also help coordination with existing initiatives such as Warm Front and Decent Homes (and similar initiatives in Scotland and Wales) and with local regeneration initiatives that have an energy efficiency element.



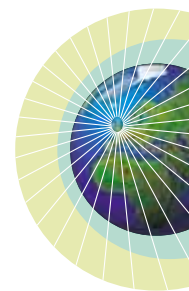
## The 'whole-house' principle – delivering measures

**2.5** CESP will encourage energy suppliers and electricity generators to deliver a package of CO<sub>2</sub> and fuel bill cutting measures in each individual home, with the aim of improving energy efficiency and lowering energy consumption for each particular household: the 'whole-house' principle. The Government believes that this is the best way of reducing energy bills in targeted individual households, and will be evaluating the outcomes of CESP to assess the impact. As discussed in Chapter 4B, the approach will be secured by incentivising suppliers and generators to do more than just the most basic or straight forward measures (as is currently the case under CERT).

**2.6** This whole-house approach should enable householders to make a single decision about which measures are installed rather than a series of decisions about a range of individual measures, so improving their experience as customers.

## The high-impact principle – targeting low-income households

**2.7** It is proposed that CESP should target those areas of Great Britain that have significant levels of low income households. It is these areas that have the densest concentration of households in need of assistance, and where energy efficiency improvements should have the greatest impact on fuel bills while also delivering carbon savings.

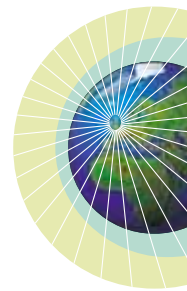


## Section 3

# How CESP will work

### The overall target

- 3.1 The overall target for the CESP obligation will be specified in legislation as a score. This target will be split equally between the supplier companies and the generating companies, with each individual company then receiving an individual target according to its share of the supply and/or generation market as appropriate.
- 3.2 The companies will discharge their obligation by delivering carbon abatement measures in homes. Each measure will be worth a particular points score. The scores for individual measures will be set out clearly so that companies can plan how many measures they need to deliver, and of what type, in order to ensure that they meet their target.
- 3.3 The scoring system is discussed later in this document but in broad summary, the score for each measure will be built up of two components:
- a baseline assessment of the amount of carbon emissions which that measure is likely to save over its lifetime. (These baseline assessments will be in line with those already used under CERT);
  - a points increase, or decrease, applied to that baseline carbon assessment, to reflect how well the measure fits with the overall policy intentions behind the CESP scheme.
- 3.4 The score for each measure will thus be *related* to the amount of carbon which the measure will save, but will not necessarily be identical to it. Companies may then score bonuses, on top of the individual measure scores, where they deliver several measures in one home, and/or treat many homes in one area.
- 3.5 Companies will have flexibility to meet their individual target by installing any combination of measures that adds up to their points target. However, the scoring system is designed to make the delivery of certain types of measure more attractive than others (for example, it is proposed that solid wall insulation should attract a significant points score uplift on top of its baseline carbon savings assessment, making it a high-scoring measure which companies are likely to be keen to install).



- 3.6** Chapter 4 discusses one model – in the Government’s view, a plausible and realistic model – of the sort of mix and volume of measures which companies might collectively install against the background of the scoring system proposed in this document. On this model, suppliers and generators would meet their target by installing measures with an estimated cost of £350 million, and delivering around 3.9m tonnes of lifetime CO<sub>2</sub> savings. Companies will, of course, be free to meet their target in whatever way they wish, within the constraints set by the legislation.
- 3.7** The Government proposes that the total points score for the CESP should be set at a figure of 19.25 million<sup>13</sup>. However, the actual CO<sub>2</sub> emissions savings may be more likely to be around 3.9m tonnes.
- 3.8** The Government is keen to set the overall target at a level which delivers significant energy efficiency and permanent fuel bill benefits to large numbers of households. This will require activity on a scale which will be challenging for the companies concerned, but the target should nonetheless be achievable within the timescale of the programme.

## Setting the obligation

- 3.9** The obligation will apply to gas and electricity suppliers and electricity generators. Companies that are both suppliers and generators will have separate obligations for their supply and generation functions.


### Distribution between suppliers and generators

- 3.10** The Government proposes to split the duty equally between suppliers and generators. It believes that all companies in the energy market need to bear some responsibility for making the nation’s housing stock as energy efficient as possible, and thus helping consumers who find it difficult to pay their energy bills. There have been suggestions that one or other party should bear a larger share of the burden.
- 3.11** Suppliers, for example, already face significant costs under CERT (which is subject to a parallel consultation). For these companies CESP will represent an additional obligation. Electricity generators who are not vertically integrated with a supplier arm, on the other hand, are currently free of any obligation in this area. It has been suggested that they will find it more difficult and more expensive to meet their CESP obligations. On balance, the Government believes it is right to split the obligation equally between suppliers and generators.

**Q4:** Do you agree that the CESP obligation should be split equally between supplier and generation companies? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

<sup>13</sup> For technical reasons, this points score will appear in the legislation expressed as “19.25mt of CO<sub>2</sub>”, but, as discussed in the text, this will not mean that companies are obliged to deliver 19.25m tonnes of actual carbon savings.

## Limits for exemption of small companies

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- 3.12** To avoid introducing barriers to entry in the energy supply market, suppliers with fewer than 50,000 domestic customers are exempt from the CERT programme. The Government proposes using the same limit, for the same reasons, for the CESP programme.
- 3.13** As a parallel measure, we propose that generators who generate less than 10 TWh/yr of electricity should also be exempt. This should avoid creating barriers to entry in the energy generation market, and reduce the administrative burdens on smaller companies. However, generators who are linked to each other (directly or through third parties, by outright ownership or share holdings of 50% or more) should have their generation figures combined for the purposes of determining inclusion.
- 3.14** Some smaller generators may therefore find themselves with obligations as a result of their participation in a group structure that collectively exceeds the 10TWh/yr threshold. In these cases it is reasonable to expect the obligation will be assumed at group level. Ofgem will receive updated information each year on the customer numbers, generation output, and market share of the various companies. Ofgem will annually review, and as necessary amend, the individual targets for each obligated company; and determine whether any new companies should become party to the obligation for the first time.

**Q5:** Do you agree with our proposed approach to providing an exemption from the CESP obligation to small companies? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

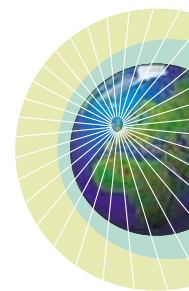
## Distribution of the obligation between companies

- 3.15** The Government proposes that the CESP obligations on suppliers should be distributed in proportion to customer numbers, as they are under the CERT programme. It proposes that the obligation on generators should be distributed in proportion to the amount of electricity they generate. This will be calculated from a three-year average to avoid distortions caused by short term changes in output.

**Q6:** Do you agree that the CESP obligation should be distributed between companies in proportion to their annual electricity generation? If you do not agree, please provide an alternative approach and explain why you believe this is preferable.

Table 1: Splitting the obligation between companies.

Company	Share of customers <sup>13</sup>	Share of supply obligation by customers	Share of generation <sup>14</sup>	Share of generation obligation by generation
British Energy			19%	22%
E.On	15%	15%	11%	13%
Scottish and Southern	16%	16%	11%	13%
RWE npower	14%	14%	9%	10%
EDF Energy	10%	10%	7%	8%
Drax Power			7%	8%
Scottish Power	10%	10%	7%	8%
International Power Mitsui			5%	6%
British Gas/Centrica	34%	34%	4%	5%
Intergen			3%	3%
Teesside Power			3%	3%
10TWh cut-off				
Barking Power			2%	
Seabank Power			1%	
Immingham CHP			1%	
Baglan Generation			1%	



**3.16** Ofgem will be responsible for setting the size of individual obligations, according to rules set down in the CESP statutory instrument . To allow Ofgem to determine the size of obligations and which companies are exempt, suppliers and generators will be obliged to provide all relevant data to Ofgem each year.

<sup>14</sup> Share of customers data from Ofgem Domestic Retail Market Report <http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Pages/Compet.aspx>

<sup>15</sup> Share of generation from information supplied by generating companies.

## Penalties and enforcement

- 3.17** Ofgem will be responsible for enforcing every CESP obligation. This will be a requirement of the licenses under which generators and suppliers operate. These enforcement provisions will allow Ofgem to take whatever steps are necessary to ensure compliance with obligations. If energy suppliers and electricity generators fail to meet their CESP obligations they will be subject to a penalty. Ofgem will set the level of this penalty which can be up to 10% of annual global turnover (which is in line with CERT).

## Notification and reporting requirements

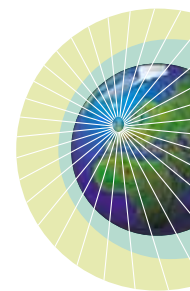
- 3.18** To ensure consistency and simplicity, it is proposed that CESP should have similar notification and reporting requirements to CERT. In CERT, Ofgem is responsible for monitoring performance and can require relevant information from energy suppliers and electricity generators. The Government proposes to adopt similar provisions for the CESP obligation.
- 3.19** Before embarking on CESP projects, energy suppliers and electricity generators can apply for approval from Ofgem which will give an initial indication of that project's predicted score. This process will help suppliers and generators understand how much each project will contribute towards achieving their individual CESP obligation. It could also inform any changes to the programme over the period of the project.
- 3.20** Once the CESP obligation is underway, Ofgem will be required to produce an annual report for the Secretary of State. This should set out the total number of measures installed but might also be broken down to include information showing the number of measures installed in Scotland, England and Wales. This report will help the Government to evaluate how CESP is performing against its objectives. A full review of the CESP programme will be conducted at the end of the obligation period.

## Guidance

- 3.21** Ofgem is responsible for issuing guidance to cover its statutory obligations. Once the draft CESP Order has been laid before Parliament Ofgem will begin drafting the guidance in consultation with energy suppliers and electricity generators. This will then be subject to formal consultation.

## Section 4:

# CESP in principle



- 4.1 This section details how the Government's three delivery principles could operate in practice.

### A. Partnership working

- 4.2 Community partnership is a key component of CESP. The Government does not propose to prescribe any specific form that this partnership working should take. Instead, it plans to use existing incentives for suppliers and generators to work in partnership. What follows is an exploration of what a partnership approach might mean and how a voluntary partnership approach might work, building on experience of similar arrangements already in place. There is then a detailed description of the policy options, including a statutory basis for requiring partnership working, although this is not the Government's preferred option.
- 4.3 Through intensive action in targeted areas CESP aims to bring help to as many homes as possible within the context of a community-based approach. The Government believes this is appropriate since homes in close proximity, such as those in a Victorian terraced street, are likely to be physically similar and therefore require similar measures. This kind of 'intensive action', delivering multiple measures to groups of homes, should improve efficiency and lower costs. It can also help build a sense of community action.

#### Defining the 'community approach'

A 'community approach' in this document is taken to mean energy suppliers, electricity generators, local community organisations and local authorities working together in partnership to promote energy efficiency measures and associated activities to domestic energy users in geographical communities in areas with high levels of low income households.

### Key players in the community partnership

- 4.4 Local authorities can play a vital role in such partnerships because of their detailed local knowledge. They are trusted by their local communities and can integrate other public services and strategies. Local Strategic Partnerships,

Local Service Boards and Community Planning Partnerships are in place in England, Wales and Scotland respectively. They should be well placed to co-operate with suppliers and generators.

- 4.5** Other local and regional programmes and agencies have an interest in energy efficiency, fuel poverty and the regeneration of deprived neighbourhoods. They might also act as key partners within a CESP scheme, identifying synergies with related objectives. In England, for example, the Regional Development Agencies (RDA) include environmental concerns in their plans for regenerating deprived areas. The Homes and Communities Agency (HCA), established in December 2008, also has a focus on regeneration and the creation of high-quality, low-carbon places to live.
- 4.6** In addition, Social Enterprises, Housing Associations and Community Groups are traditionally able to reach the most deprived and hard to reach groups that are inaccessible to statutory organisations. Many of them also have experience of working in this field in innovative ways.

#### Community action in practice: a case study

##### Warm Zones

Warm Zones is an area-based programme that aims to address fuel poverty. It integrates funds and grants from a wide range of sources, co-ordinating the delivery of benefits that include: energy efficiency, carbon savings, fuel poverty reductions, income maximisation, health improvements, fire and home security, employment skills and training.

Warm Zones works right across the housing sector, aiming to deliver 'something for everybody'. This means accessing the hard-to-reach and vulnerable households at greatest risk from the adverse impacts of fuel poverty.

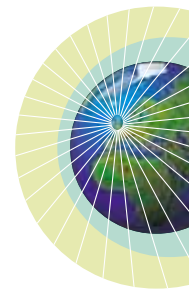
- 4.7** With its network of advice centres across Great Britain, the Energy Saving Trust (EST)<sup>16</sup> can also play an important role in facilitating projects. By providing tailored advice, reports and running the Government-funded ACT ON CO<sub>2</sub> helpline, EST helps householders reduce their carbon footprint and energy bills. The advice centres develop their own work plans which are tailored to the local area. In doing so they work closely with a range of local and regional stakeholders including: local authorities and local strategic partnerships (and similar partnership structures in Scotland and Wales) as well as RDAs, Government Offices, and energy efficiency and renewable energy contractors. The Practical Help Programme and The One to One Support Programme are specifically aimed at helping local authorities. In addition to this, the Community Action for Energy (CAfE) offers support for community energy initiatives and community outreach work through initiatives such as the Low Carbon Communities Programme.



## The additional benefits of community partnership

4.8 Communities, and their representatives, can add value by:

- helping energy suppliers and generators identify potential areas for measures, tailor CESP projects to specific locations and give additional local credibility to schemes;
- identifying synergies with other initiatives that have similar objectives, such as CERT and community-based schemes (the possible interactions between CESP and other initiatives are considered further in *Section 5A*) through invaluable local knowledge on what works;
- providing input through related activities which serve the overall policy objectives but are outside the statutory scope of CESP, benefit entitlement checks, and give closer contact with the target audience.



### Establishing a community partnership

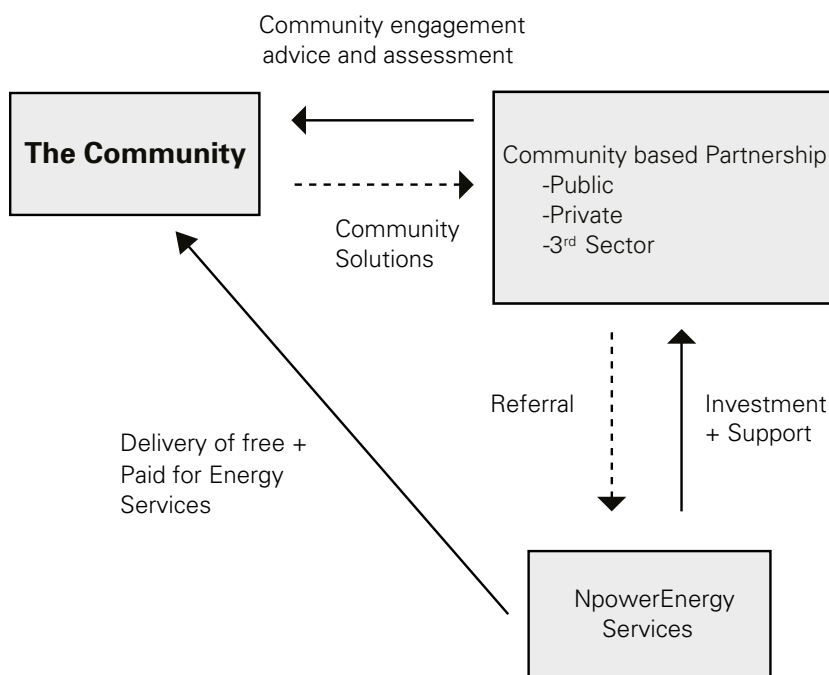
4.9 A community partnership could be founded on a voluntary approach, bringing people and groups together in a coalition to deliver shared objectives, or it might be prescribed through regulation.

### Voluntary community partnership

4.10 The Government believes that a community approach to CESP can be delivered voluntarily. Discussions with stakeholders suggest that there are enough natural incentives already in place to encourage generators and suppliers and local groups, particularly local authorities, to work together.

### Community partnership: a case study

Since 2001, the gas and electricity supplier npower has been supporting a wide range of community-based energy saving projects, including Warm Zones. During 2008, npower Community Warmth pilots were established in Leeds and Lincolnshire and this winter a city-wide Community Warmth programme in Bradford was launched. The diagram below shows the interactions which underpin this approach.



This case study is provided by way of illustration, there are of course many other approaches that could work on the ground. This is the benefit of a flexible community based approach; it can deliver what works best in each area.

**4.11** Discussions with stakeholders suggest that there are enough incentives already in place to encourage voluntary partnership working. For Local Authorities these incentives include:

- The need to deliver related targets/outcomes under Local Area Agreements<sup>17</sup>, Local Delivery Agreements and Single Outcome Agreements in England<sup>18</sup>.
- The possibility of securing new funding for areas containing high levels of low-income households.

<sup>17</sup> In England there is a single set of national indicators which cover the Government's priorities for delivery by local government working on its own or in partnership with other bodies. NI 186 concerns per capita CO<sub>2</sub> emissions in the LA area and NI 187 concerns tackling fuel poverty – % of people receiving income based benefits living in homes with a low energy efficiency rating. The LAA reward scheme rewards ambitious but realistic targets through the payment of a Performance Reward Grant.

<sup>18</sup> In Scotland it could assist LAs working towards the commitments they have made under Scotland's Climate Change Declaration and the emission reduction and climate change goals in many of their SOA. It could also contribute to the shared Scottish Government/COSLA goals contained in Scotland's Tackling Fuel Poverty Framework and contribute to other linked agendas such as work on health inequalities and early years.

- A new source of support for existing planned local authority work (e.g. Decent Homes and devolved equivalents).

**4.12** For electricity generators and energy suppliers, a partnership approach could mean:

- Local Authority help with the targeting of households who could benefit most from CESP.
- Local Authorities acting as a 'trusted partner' in dealing with communities (particularly helpful for generators who do not have a 'household' customer base).
- Access to valuable local knowledge, as Local Authorities have experience of rolling out initiatives in their areas.
- Third sector organisations can also help to reach the most excluded groups, leverage additional funding from trusts and other sources, and mobilise volunteers from the community to help deliver projects.

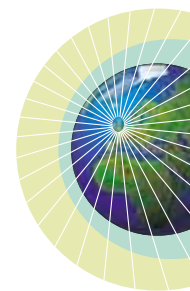
**4.13** It will also be in the interests of third sector organisations to work in partnership as it provides them with opportunities of scale, to expand innovative practices and share learning. Benefits of a partnership approach for third sector organisations (community and voluntary groups) include:

- Funding or in-kind support to deliver their objectives to beneficiaries.
- Opportunity to grow innovative energy-saving schemes.
- Opportunity to develop links with national partners.

**4.14** It therefore seems likely that delivering measures in partnership will be the most cost-effective and efficient way for suppliers and generators to meet their obligations.

**4.15** The proposed scale of the CESP programme suggests that demand will be greater than supply. This is also a view reflected in discussions with stakeholders. It is therefore reasonable to expect competition for local CESP initiatives between Local Authorities and community groups and engagement of these partners in the delivery of CESP from the outset.

**4.16** Research undertaken on behalf of the Energy Efficiency Partnership for Homes<sup>19</sup> indicates that there is already widespread action in areas of carbon reduction, energy efficiency and fuel poverty at the community level, confirming that there is also a wide range of partnership formats across Great Britain that could be used to deliver CESP. A brief summary of the types of community schemes already operating can be found in Annex 2.



19 <http://www.eeph.org.uk/resource/consultations/CESP/>.

## A regulatory approach

- 4.17 In line with Better Regulation practice, all other options should be considered before resorting to legislation. However, it is possible that a voluntary community partnership approach might not work in practice, despite the number of incentives in place. One way of avoiding this risk would be to place the partnership approach on a legislative footing – requiring co-operation between suppliers/generators and local authorities or community groups as a condition for CESP status. Any legislative basis for this would require the term ‘co-operation’ to be defined in the underpinning legislation. When approving actions, Ofgem would then have to assess whether the way the measures were provided was in line with the definition of ‘co-operation’ as described in the legislation.
- 4.18 There are a number of difficulties with this legislative approach. First, the complex nature of trying to define ‘co-operation’ in law could lead to unforeseen consequences, excluding certain types of partnerships or partners if the definition were too precise for example. Second, requiring Ofgem to rule whether a measure had or had not been delivered in partnership would put a large administrative burden on the regulator.
- 4.19 In the Government’s view, Local Authorities will and should be at the heart of CESP activity. While it is important that there should be flexibility to allow a variety of different partnerships models to develop on the ground, it might be unhelpfully prescriptive to attempt to define exactly what the Local Authority’s role should be (as opposed to that, say, of other community organisations). It is difficult to envisage any successful programme where the Local Authority is not as a minimum aware of, and supportive of, the energy companies’ plans.
- 4.20 The Government is therefore attracted to the idea of requiring suppliers and generators to produce a supporting letter from a Local Authority as part of their initial plans presented to Ofgem for approval. This letter might for example, confirm that the Local Authority had been involved from the planning stage and was content with the implementation methods. Approval would only be granted for the plans if evidence of this sort was provided to Ofgem’s satisfaction.

**Q7: Do you agree that the scheme should be flexible to allow for the development of different forms of community partnership working? If not, why not?**

**Q8: Do you agree that it is reasonable to envisage that the natural incentives are strong enough to ensure an effective partnership approach for CESP? If not, why not?**

**Q9: Do you agree that there should be a requirement for some form of evidence of Local Authority endorsement, such as a letter of support?**

## B. The whole-house approach

### Policy background

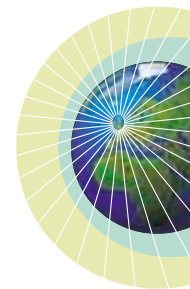
- 4.21 The Government believes the CESP should be delivered in partnership with communities. The aim is to provide a full package of energy efficiency measures to significant numbers of houses in specific, targeted communities.

#### Definitions

**Hard-to-treat homes:** homes that are currently fuel inefficient in terms of their energy use because of their design (e.g. solid wall) or age (e.g. building standards at the time of construction or an inefficient boiler). These homes may require more than one significant energy efficiency improvement measure. For example, a fuel-efficient boiler is most useful when combined with good insulation.

**Whole-house approach:** installing as many energy efficiency improvement measures as possible and appropriate within a single home. The terms 'house' or 'household' in the consultation should be taken to also refer to other types of dwelling such as flats or maisonettes.

**Intensive action:** measures promoted to as many houses as possible in the targeted area.



### Whole-house and hard-to-treat approaches

- 4.22 To meet its objectives, CESP should take a whole-house approach, delivering whole packages of energy efficiency measures. CESP should also be geared towards 'hard-to-treat homes', particularly where they have not been able to benefit under CERT.
- 4.23 Incentives for partners to take a whole-house approach could be provided by giving scoring incentives for CESP measures delivered in this way. This system is considered in paragraphs 4.47–4.49.

### Creating incentives

- 4.24 CESP seeks to promote the measures which give households the biggest fuel bill and carbon savings. Low-cost energy efficiency measures such as loft insulation may offer the most cost-effective CO<sub>2</sub> savings, but they will not deliver the reductions CESP is trying to achieve on their own. This is where CESP's approach differs from CERT, which is designed to deliver CO<sub>2</sub> savings in the most cost-effective way.
- 4.25 By focusing on the measures that have the most significant impact, CESP projects will tend to be more expensive than those typically delivered under CERT. For the same cost, CESP will therefore treat fewer households. The homes which do benefit, however, will gain significant reductions in energy demand, CO<sub>2</sub> emissions and running costs. This is a trade-off that the Government believes is appropriate, because of the potential for bringing down long-term costs and creating a market for supplying new technologies.

**Q10: Do you agree that CESP should target fewer homes but provide greater CO<sub>2</sub> and fuel bill savings for homes targeted? If you do not agree, please explain your reasons and offer an alternative approach.**

### Scoring the measures

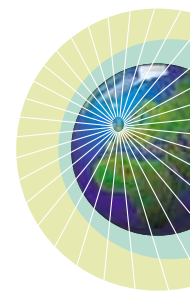
- 4.26** The Government believes that incentives are required to secure the intensive, whole-house approach. It therefore proposes to 'score' the CESP measures deployed according to the life-time CO<sub>2</sub> savings they deliver, with a bonus for actions taken in combination within the same property.
- 4.27** Initial feedback from stakeholders favours a flexible approach based on point scoring as opposed to a more restrictive system that requires (possibly in legislation) the delivery of a set numbers of expensive measures to be carried out within each house.
- 4.28** This consultation seeks views on all aspects of the scoring system. Through engagement with stakeholders the Government wants to find the best way that energy suppliers and electricity generators can meet the CESP objectives.

### The whole-house approach in hard-to-treat homes

- 4.29** The Government wants to encourage electricity generators and energy suppliers to adopt the whole-house approach. It aims to do this by:
- focusing on the measures that make significant improvements to energy efficiency and CO<sub>2</sub> reduction;
  - creating incentives for the use of more significant measures by scoring those measures more highly (e.g. solid wall insulations);
  - promoting combinations of complementary measures within single homes by providing bonus scores.
- 4.30** The measures available under CESP will focus on making significant improvements to the energy efficiency of homes. This means that fewer measures will be available under CESP than under CERT. The measures which the Government proposes should be available under CESP are:
- external solid wall insulation;
  - internal solid wall insulation;
  - cavity wall insulation;
  - virgin loft insulation (including anything less than 60mm existing insulation);
  - loft insulation top up;
  - fuel switch (to gas);
  - connection to a district heating scheme;

- ground source heat pumps;
- air source heat pumps;
- micro-generation (PV, Solar Thermal, mCHP, biomass boiler, micro wind, micro hydro);
- heating controls;
- home energy audits;
- replacing old boilers (G rated) with high efficiency models;
- installing gas central heating in homes without central heating.

The Government welcomes stakeholder views on all these measures and the scoring incentives or uplifts applied to the measures (see table 2). We are particularly interested in views and evidence on the final two measures: high efficiency boilers and gas central heating.



## High Efficiency Boilers

- 4.31 Given that target households are unlikely to be able to afford the capital expense of replacing a boiler early, the Government would like views on whether it would be appropriate to consider replacing old (G rated) boilers with high efficiency models within this programme.

**Q11: English building regulations require replacement boilers to be B-rated or better. Can CESP therefore add anything to the replacement of boilers mandated by the building regulations?**

**Q12: Is there a need for a mechanism that would protect households who have a boiler replaced under CESP from any potential early failure of the new boiler? If so, how might that protection be provided?**

### Installing gas central heating in non-centrally heated homes

- 4.32 Promoting good quality central heating appears to be one of the most significant measures available to people living in non-centrally heated homes. It lets them control their heating and gives them the benefits of a more efficient system.
- 4.33 Including this as a CESP scoring measure would require strong evidence that installing central heating would provide households with fuel bill and emissions savings as well as thermal comfort. This evidence would need to come from the heating industry or from independent authoritative sources.

**Q13: The Government requests stakeholders to explain whether or not they support the inclusion of installing gas central heating in non centrally heated homes and provide evidence in support of their comments.**

## Solid wall insulation

- 4.34 There are many different types of solid wall insulation available in the insulation market and there may be differences in their cost and CO<sub>2</sub> reduction performance. As part of this consultation, the Government would like information on what types of solid wall insulation are available and their related costs and CO<sub>2</sub> savings.
- 4.35 Types of solid wall insulation that vary significantly in terms of CO<sub>2</sub> savings and costs may be treated differently within the scoring system.

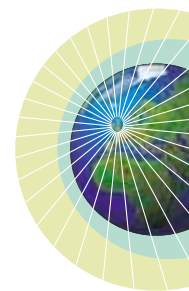
**Q14: What types of Solid Wall Insulation are available and what are their relative costs and CO<sub>2</sub> savings?**

## Home energy audits

- 4.36 Home energy audits provide householders with advice on reducing energy usage in homes. The advice could include making alterations to the home as well as changing behaviour, for example using less energy by using existing heating controls more effectively. These audits can include measures for individual households but can also be particularly helpful in the delivery of intensive action. CESP's community approach could mean that almost every home in a targeted area would receive one. These measures could be scored individually or collectively (delivering audits to 90% of the households in an area would constitute one score, for example). For further discussion on energy audits as a community measure see *Option 3: delivering intensive action in specific areas*, below.
- 4.37 If advice offered under CESP is to be trusted and credible, advisers must have had suitable training and be appropriately qualified. In addition, Ofgem must be able to have clear criteria to accredit home energy audit proposals put forward by the energy companies, including the training and qualifications of personnel involved. Domestic energy advisers (DEAs), who currently provide EPCs, are well-equipped to assess the measures which are suitable for a household, and they already provide basic behavioural advice. There are currently approximately 8,000 qualified and accredited DEAs. There is, therefore, a large cadre of existing qualified energy assessors who would be able to take on this work. DEAs must belong to an accreditation scheme, providing reassurance to the consumers that advisors are competent and provide independent, impartial advice. The scheme also allows for consumers to complain and seek redress if something goes wrong.



- 4.38** The Government is currently developing a new National Occupational Standard which will set out the skills and competences and training levels required to provide behavioural advice on ways of improving energy efficiency and energy savings products to individual householders. With additional training, these advisers will also be able to provide advice to the wider community on energy reduction and sustainability, and renewable energy technologies.
- 4.39** The person delivering the Home Energy Audits in communities is ideally placed to help the community in their decision making as to the measures they might choose under CESP, by providing robust advice about what measures may be suitable for their properties. We will explore this wider role of community level energy saving advice and how this could assist in the delivery of CESP.



**Q15: Do you agree with the proposed list of measures available under CESP?**


## District heating schemes

- 4.40** The Government is consulting on whether district heating schemes should be included within the list of eligible CESP measures. District heating has been identified as a possible option for providing sustainable domestic heating, because it can deliver high fuel efficiency levels and can also be powered by a range of different fuels.
- 4.41** There are a number of examples of successful district heating schemes. They have been shown to reduce total CO<sub>2</sub> emissions from groups of dwellings and have proved particularly successful with homes that are grouped together in flats or tower blocks, for example<sup>20</sup>.

### District heating case study: Aberdeen City Council

Between October 2000 and December 2003, Aberdeen City Council installed a CHP district heating system into a multi-storey block of flats in the Seaton area of the city. 288 flats have benefited from 40% cuts in their fuel bills and an estimated CO<sub>2</sub> reduction of 936 tonnes per year. The cost of the scheme came to approximately £1.5 million.

- 4.42** There are therefore good reasons why it might be appropriate to include district heating on the list of eligible CESP measures. These could cover both new schemes which start from scratch, and opportunities for assisting, expanding or improving projects that are already underway or, for whatever reason, on hold.

- 
- 4.43** District heating schemes vary widely, and it may not be possible to attribute a fixed CESP points score to such schemes on a generic basis in advance. Instead, Ofgem could assign a score on a case-by-case basis. This score would reflect both the CO<sub>2</sub> savings and the scheme's ability to meet the other CESP objectives in each individual case. Ofgem could assign a point scores to district heating schemes on a case-by-case basis. This score would reflect both the CO<sub>2</sub> savings and the scheme's ability to meet the CESP objectives in each individual case.

## District heating criteria

- 4.44** District heating projects would still need to conform to the same fundamental criteria as all other CESP measures in order to be eligible. For example, they would need to achieve significant CO<sub>2</sub> and fuel bill reductions for households as part of a whole-house approach. While district heating schemes can deliver fairly high carbon savings due to the increased efficiency of a centralised generator, users do not always notice significant decreases in their fuel bills. The CESP approach would mean that any proposed scheme might need to incorporate other energy efficiency measures, such as insulation.
- 4.45** Schemes would also need to be delivered within the CESP timeframe (which could be challenging for many start-ups). Ofgem would find it difficult, if not impossible, to audit the credits the scheme should receive if this was not the case.
- 4.46** Finally, while in principle the Government would not wish to constrain the scope for projects of different sizes (since district schemes are often tailored to the particular circumstances of the local community), there could be concerns if a large number of district schemes, each with relatively large numbers of customers, were delivered under CESP. This could concentrate the overall programme into fewer areas around the country than might otherwise be desirable. The Government would be interested in any evidence from consultees on whether this is a realistic prospect.

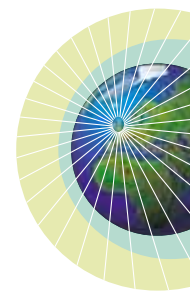
**Q16:** Should district heating projects be included within the list of potential CESP measures? Please include an explanation of your answer.

**Q17:** Are there any particular types of scheme which merit inclusion more than others or which it would be easier to include?

**Q18:** Is it possible to attribute any base-line scores to particular types of scheme, or would this need to be on a case-by-case basis?

## Creating incentives for a whole-house approach

- 4.47** Each measure available under CESP will have an associated points score. This points score will be based upon the lifetime CO<sub>2</sub> savings provided by the measure and how well the measure meets CESP objectives. The points score will ensure that the most significant CO<sub>2</sub> and fuel bill cutting measures are the most cost-effective options for generators and suppliers to install.
- 4.48** To promote the whole house approach (encouraging the installation of combinations of complementary measures) the Government proposes to introduce a points increase for every additional measure installed within a single house. The proposal is to add a 10% bonus to the score of all measures in a house for each additional measure installed.
- 4.49** The points score of a particular measure, or combination of measures, would not necessarily reflect the lifetime CO<sub>2</sub> savings of those measures. The total will, however, show how well they meet the CESP objectives.



### Applying a score in a whole house approach: a practical example

A Victorian terraced house in a deprived area of Doncaster has solid stone and brick walls and 50 millimetres of loft insulation. The house loses large amounts of energy through its roof and walls, and has a very inefficient 1980s G-rated boiler, which burns a lot of fuel for the heat it produces.

A whole-house approach could provide loft insulation to current building regulation standards, internal solid wall insulation and replace the boiler with an efficient condensing model.

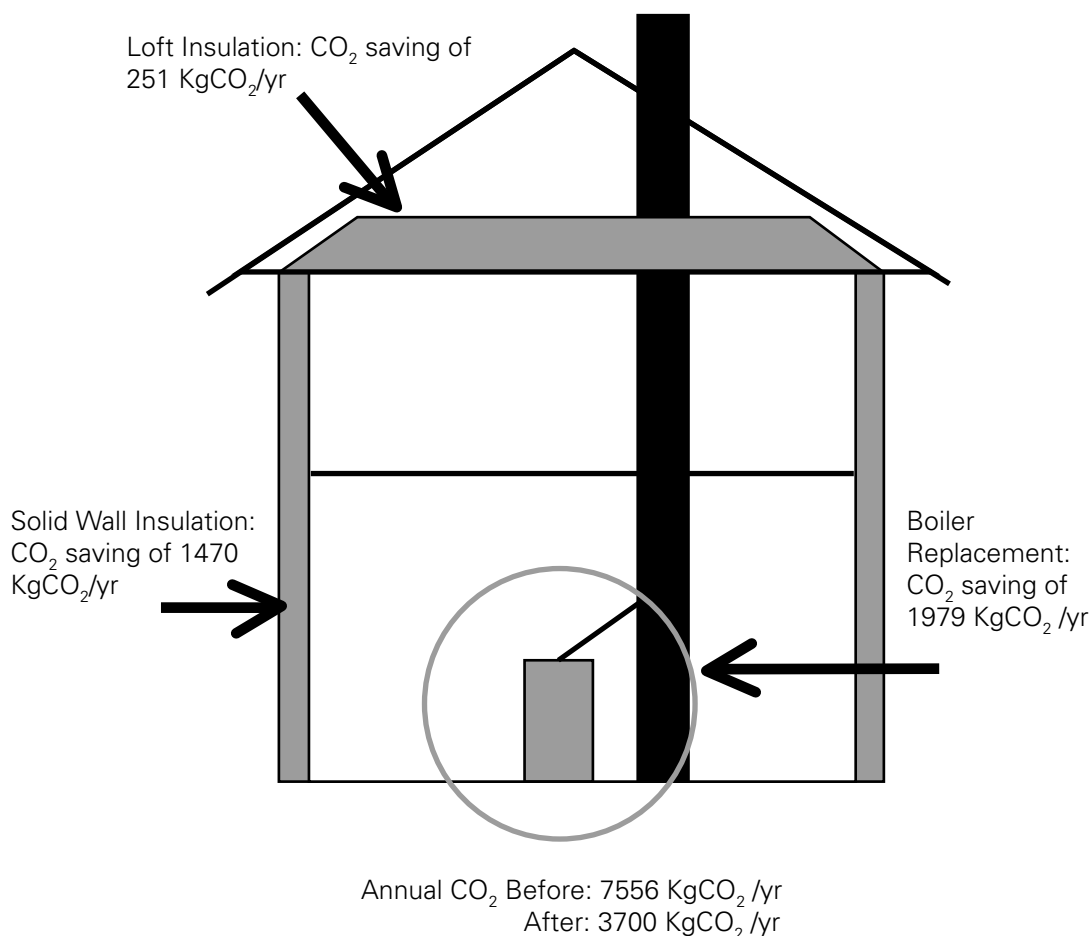
The loft insulation would cost approximately £338 offering CO<sub>2</sub> savings of around 251kg CO<sub>2</sub>/year, or around 10 tonnes CO<sub>2</sub> over the lifetime of the measure. The score for this measure would be 5 points.

The internal wall insulation would cost around £3056 with CO<sub>2</sub> savings of roughly 1470kg CO<sub>2</sub>/year, or around 44 tonnes CO<sub>2</sub> over the lifetime of the measure. The points score of this measure would be 132. As this would be the second measure installed within the house, all measures installed in this house would receive a whole house bonus of 10%.

Installing a new boiler would cost approximately £2500, the CO<sub>2</sub> savings roughly 1979kg CO<sub>2</sub>/year, or 24 tonnes CO<sub>2</sub> over the lifetime of the measure. The points score for this measure would be 24. As this would be the third measure installed within the house all measures would now receive a 20% bonus rather than a 10% bonus.

The total cost for introducing loft insulation, internal solid wall insulation and a replacement boiler would be approximately £5894. The total CO<sub>2</sub> savings would be around 3700kg CO<sub>2</sub>/year. The total score for the individual measures would be 161 points. Since all measures would also then get a 20% bonus, the final score of measures in this house would be 193.2 points. The carbon savings and scores would also be modified by Ofgem depending on the size of the property (measures can produce smaller savings in smaller properties).

Diagram 2: CO<sub>2</sub> savings from a 'whole house' approach



**Q19:** Do you think our proposed bonuses for scoring measures encourage the delivery of a whole-house approach? If not, please explain why and offer an alternative set of incentives.

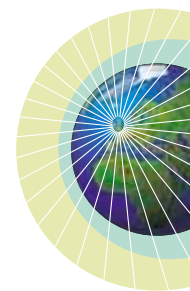
## Delivery on the ground

**4.50** Across the country there are already numerous examples of groups and partnerships working to address fuel poverty and/or climate change through energy efficiency measures. Many are working with their Local Authority and will be part of Local Strategic Partnerships. In some areas partnerships are working actively on local energy planning, with suppliers also involved as part of their current obligation.

**4.51** As described above, CESP will incentivise generators and suppliers to seek out and develop local partnerships if they are not already working within them in communities which will meet the relevant criteria. Developing new partnerships will require engagement and agreement on the approach, taking account of delivery methods that already exist. To establish which energy

efficiency measures would be most suitable within each community and home, the scheme developers will probably wish to contact householders as they draw up their plans – a stage at which partnerships with local authorities can be particularly helpful.

- 4.52** In partnership with the community groups, generators and suppliers will encourage groups of householders to agree to the installation of suitable measures. Once an agreement has been made with sufficient targeted homes, a calculation can be made on the estimated score available. This calculation and other relevant details will then be sent to Ofgem who will be able to confirm whether the proposed action is eligible for CESP scoring.
- 4.53** Assuming that the scheme meets the criteria, the members of the partnership will then draw up a delivery plan with installers. The most cost-effective approach would be installers of a particular measure working on a house-by-house basis within the specified area.
- 4.54** It will also be open to Local Authorities and existing community projects to approach suppliers and generators who have obligations under CESP and propose a partnership which would bring in new resources to their scheme: a degree of competition to participate in CESP funded projects will incentivise further development of existing models of partnership.
- 4.55** However, it is assumed that any resource which Local Authorities and other community bodies choose to contribute towards CESP activity will generally take the form of assistance with planning and administration. For example the identification of suitable homes, marketing and engagement with the community – with small or zero contributions to the direct financial cost of measures (though some form of third-party part-funding might not be unexpected in the case of large measures such as district heating schemes).
- 4.56** The Government believes that this approach will secure effective delivery of CESP policy objectives because:
- the measures available under CESP all deliver significant CO<sub>2</sub> and fuel bill savings;
  - the points bonuses encourage the installation of many complementary measures within a single home;
  - designing and delivering installation programmes in a street by street way should be more cost effective;
  - partnerships will be established with community groups.



## Ofgem’s role in auditing credits

**4.57** Ofgem will be responsible for the detailed administration of the CESP. During the CESP timeframe, generators and suppliers will be able to submit evidence of measures already installed. Ofgem can then use these submissions to inform suppliers and generators of their progress towards their overall target, reassuring them that they are on the right track.

**Diagram 3: A CESP project from start to finish.**

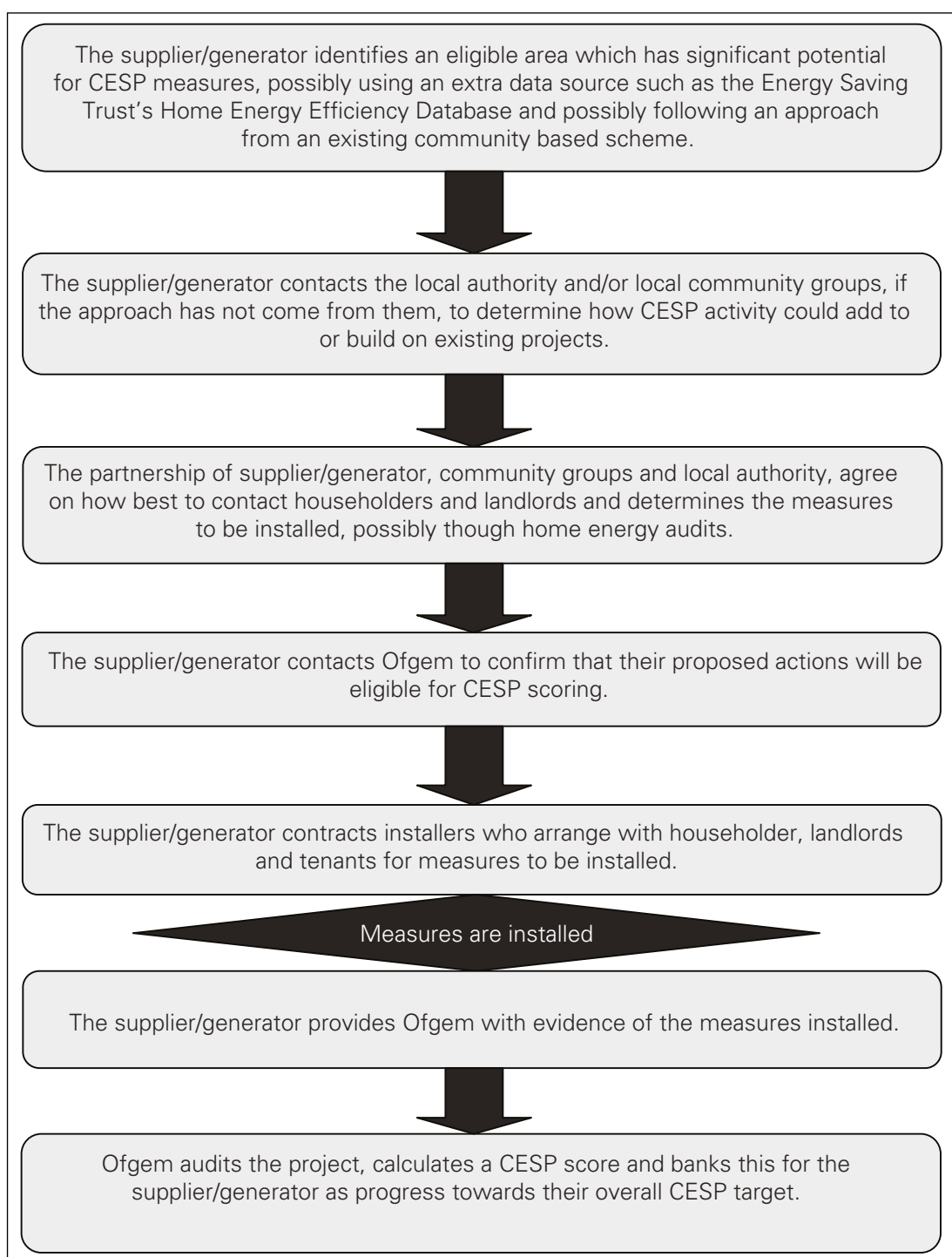
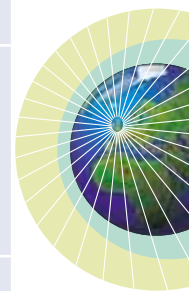



Table 2: Proposed mix of CESP measures and bonuses

	Fuel bill saving	CO <sub>2</sub> saving	Lifetime CO <sub>2</sub> saving	Cost including searches and admin	Cost to supplier/generator	CESP bonus	Cost -effectiveness	Number of measures delivered
Cavity wall insulation	127	448	18	443	364	-50	26	35 000
Loft insulation	72	251	10	338	276	-50	20	10 000
Loft top-up	21	87	3.5	338	276	-50	7	60 000
Solid wall insulation (external)	444	1560	47	4486	3930	+300	47	15 000
Solid wall insulation (internal)	420	1470	44	3056	2653	+200	50	15 000
Fuel Switching	694	4220	84	4150	3630	0	46	12 000
Heating controls – upgrade with boiler	6	35	0.4	110	89	0	5	50 000
District heating	67	2414	72	9463	4731	0	16	1 000
Solar water heater	57	326	8.1	3757	3278	0	2	700
Solar PV (2.5 kWp)	254	911	23	6623	5846	0	4	50
Air source heat pump	443	3076	46	6126	5400	0	8	300
Ground source heat pump	474	2204	88	10596	9416	0	9	300
Replacing 60% efficient boiler with 90%	242	1979	24	2736	2250	0	10	60 000
	£ per year (at Q1 2008 prices)	Calculated using the BREDEM model – reduced by comfort taking (kg/yr)	Tonnes	£ per measure	£ per measure	% applied to lifetime CO <sub>2</sub> saving	KgCO <sub>2</sub> per £ spent after bonus	



- 
- 4.58** In most cases, the cost of installing measures will be met by the suppliers and generators, but there may be opportunities for interaction with existing schemes such as Warm Front. Partnership with community groups will provide other benefits which may help to reduce costs. These include finding appropriate households, building trust and providing measures such as benefit checks which are not eligible under CESP, but help deliver overarching policy objectives.
- 4.59** The Government proposes to make micro-generation measures eligible for CESP projects, although only expects a small number to be delivered. This is because these measures are less cost-efficient than insulation and heating options.
- 4.60** District heating is only mentioned once in *Table 2*. All forms of district heating could be eligible, however, and these will be assessed for carbon saving and scoring on a case-by-case basis. The figures for district heating in the table are a rough estimate of the carbon and fuel bill savings that might be expected from using waste heat as a heat source (*For more on district heating see page 32*).

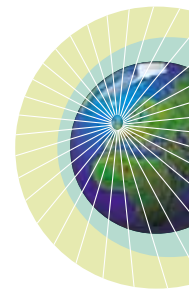
## Calculating bonuses

- 4.61** Under this scheme, cavity wall and loft insulation would only score half as many points as their lifetime CO<sub>2</sub> savings would otherwise suggest. This is because these measures are already at the centre of the existing CERT programme, scored fully there, and the Government wants to avoid unnecessary overlap between the two schemes. The Government therefore expects that cavity wall and loft insulation will continue to be delivered primarily under CERT.
- 4.62** However, it is important that these measures should not be entirely ruled out from CESP. For example, they will sometimes be needed to ensure that a particular home receives *all* the measures which are appropriate to it (the whole-house approach), or that all the homes in a particular street or block can receive whatever energy efficiency measures are appropriate to them at the same time (the intensive whole-street approach).
- 4.63** Scoring these measures at a lower rate than CERT should ensure that they do not come to dominate CESP or distort its fundamental focus on higher-value measures, while still allowing them to be installed where this is necessary to meet the other objectives of the programme.
- 4.64** Significant bonuses have been applied to solid wall insulation measures, as these measures are *not* well supported by other programmes (they are not, for example, installed very frequently under CERT). Solid wall insulation can make a very big difference to fuel bills and emission savings, and the bonuses set out in these proposals aim to make it a cost-effective CESP measure for the energy companies, and one which they will want to deliver in large numbers. Areas with predominantly solid wall homes will therefore be attractive as targets for CESP activity.



**Q20:** Do you agree that this scoring system will encourage the delivery of measures that will meet the CESP objectives of reducing CO<sub>2</sub> and fuel bills?

If not, please explain your reasons and offer an alternative methodology.



## Delivering intensive action in specific areas

**4.65** The community emphasis of CESP means that promoting intensive action within a targeted area is a central focus. Following initial discussions with generators and suppliers it seems that the most effective way of delivering CESP measures in a specified area will be through engagement with every home within that area. The Government would like to find a way of incentivising this way of working. So far it has identified three options, each of which has advantages and disadvantages:

### Option 1: Bonuses based on density

**4.66** CESP measures could receive a points increase in proportion to either the percentage of homes, or the number of measures introduced per Super Output Area/Data Zone (see section 4C). For example, delivering in 20% of homes in an area might make all measures eligible for a 10% bonus while a 40% delivery would mean a 20% increase. The intention would be to encourage the targeting of a greater number of homes and the installation of a larger number of measures within them.

#### Advantages

- This is a flexible approach, allowing generators and suppliers to look for bonuses where they can (i.e. they are not required to achieve a stipulated percentage in any particular area).

#### Disadvantages

- This approach could encourage the introduction of unnecessary measures within one home in order to gain a bonus on all other homes in that area.
- Introducing one measure in every home in an area, rather than two measures in some of them, may work out to be more cost effective. This would work against the whole-house approach which is a key component of CESP.

**Q21:** Would uplifts on a points score, proportional to the density of homes reached or measures introduced, encourage intensive action within a targeted area?

## Option 2: Minimum number or percentage of homes

4.67 For any of the measures to score, CESP could require that a minimum number or percentage of homes had measures installed per Super Output Area (see *Section 4C*).

### Advantages

- As there are no scoring incentives in this approach, there would be no distortions, so the unintended consequences of option 1 (installing unnecessary measures) may not arise.

### Disadvantages

- Some areas may not have enough homes that require CESP measures to meet the minimum target so these areas would receive nothing.
- This type of prescriptive option may lead to generators and suppliers going for a smaller number of larger schemes.
- In order to reduce liability/risk, generators and suppliers may want to get at least the minimum number of homes in the target area to sign up to having measures installed before work would begin on the first one. This would increase the length of time required, introduce uncertainty for householders and might hinder the delivery of auditable CESP measures within the timeframe set for CESP.

## Option 3: Energy audits score

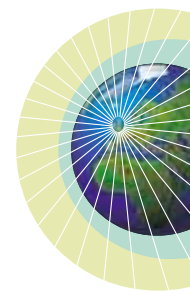
4.68 There could be a points score available to generators and suppliers if they deliver energy audits to a significant proportion of the homes within a super output area (e.g. 90% or more). This would be an additional scoring measure considered separately to other scoring measures. This option assumes the energy audits will provide a sufficiently high score to make them cost effective and a realistic delivery option.

4.69 The Government would not want to encourage generators and suppliers to meet their targets through energy audits alone. The consultation on increasing the target of the CERT programme suggests that energy audits are included in CERT but under a cap of 10% for innovative measures. This means that suppliers cannot fill more than 10% of their obligation through these measures alone. It is assumed that if this option were incorporated into CESP a cap of some form would apply.

### Advantages

- This option would provide incentives for most of the homes in the area to be reached, in tune with the CESP's community approach.

- As generators/suppliers would already be engaged with the majority of homes in the area when delivering audits, offering CESP measures as well would be a simple step, further expanding the take-up of CESP measures within the area.
- Generators/suppliers are likely to conduct some sort of audit in order to target homes under CESP. This option expands and enhances the value of this practice.



### Disadvantages

- Although there would be an incentive to conduct energy audits for the majority of the homes, there would be no incentive to introduce CESP measures to the majority of homes.
- There are the inevitable problems of generators/suppliers just missing out on achieving the points score by just missing out on achieving the energy audit target.

**Q22: Do you think any of the described options will deliver intensive action in specific areas? If so, which option do you favour?**

**If not, please explain your reasons and offer an alternative.**

## C. Low-income housing

- 4.70 One of CESP's stated aims is to target areas of low income across Great Britain. The Government is proposing a methodology for identifying those broad areas within which suppliers and generators can form local partnerships, which can then use local knowledge to identify housing with the potential to benefit significantly from CESP.

### Targeting areas with high levels of low incomes

- 4.71 There are a variety of potential approaches to targeting areas for CESP. These include:
- **Homes Energy Efficiency Database (HEED)** – HEED is an online resource that provides detailed information on the energy efficiency of the UK housing stock. In its current stage of development, HEED is not comprehensive enough to provide accurate targeting information. A key focus of CESP is activity in deprived areas and this data is currently outside HEED's remit. However, HEED could help local partners looking to target measures within areas they know to be eligible.
  - **Selecting the country's 100 most deprived local authorities** – allowing work to be done in these large areas alone might result in benefits to a significant number of households not in the lowest income levels. It might also lead to cherry-picking customers who may be able to contribute to the cost of measures.

- **Fuel Poverty Indicator** – this is a statistical model developed by the University of Bristol to target areas of fuel poverty. It does not operate in Scotland, however.
- **Local Area Agreements** – another approach is to select areas where Local Authorities have already highlighted issues of climate change and fuel poverty through their Local Area Agreements, although this will only work in England.
- **Gas network** – targeting areas off the gas network would be very difficult to monitor and would not necessarily mean concentrated areas of income deprivation would be targeted.

## Indices of multiple deprivation

**4.72** Having considered these options, the Government has concluded that the most suitable approach would be to use the Indices of Multiple Deprivation<sup>21</sup> (IMD) to identify areas with the highest levels of low income households. England, Scotland and Wales each have their own index designed to identify small area concentrations of multiple deprivation. The IMD combine a number of indicators, covering a range of economic, social and housing issues, and each ranks small areas in each country accordingly. Within the IMD's the proposed methodology uses the income domain (or subset) of the data.

**4.73** This tool appears to be the most open and transparent way for suppliers, generators and their local partners to select areas that could benefit most from CESP. However, although the methodologies are similar, the IMDs are not directly comparable across countries. The deprivation levels in the bottom 10% of deprived areas in England will be different to those in the bottom 10% in Scotland or Wales.<sup>22</sup> *Annex 1* explains a methodology that has been used to create a comparative cut-off across Devolved Administrations.<sup>23</sup>

## Who will be eligible for CESP under this proposal?

**4.74** IMD data is measured at Lower Layer Super Output Area (SOA) level in England and Wales. The Scottish equivalents are known as Data Zones. The CESP eligible areas are broken down by Super Output Areas in England and Wales, consisting of approximately 1500 people per area (approximately 650 households<sup>24</sup>), and Data Zones in Scotland with average populations of 750 people and approximately 300 households.

**4.75** The Government proposes that SOAs or Data Zones eligible for a CESP scheme must be within the lowest income decile in England and the 15% most income deprived areas in Scotland and Wales, based on comparable level of income deprivation.<sup>25</sup> Suppliers and generators will need to work with local partners to identify areas with a significant potential to benefit from CESP and then apply to Ofgem before work starts to ensure an area is eligible for

21 <http://www.scotland.gov.uk/Topics/Statistics/SIMD/>

22 <http://new.wales.gov.uk/topics/statistics/theme/wimd2005/results/?lang=en>

23 <http://www.imd.communities.gov.uk/>

24 This is based on an average figure of 2.3 people per dwelling. <http://www.statistics.gov.uk/census2001/profiles/commentaries/housing.asp>.

25 See Annex 2

CESP. The estimates of the numbers of households which would fall within the proposed criteria are set out in *Table 3*. Maps and details of proposed CESP areas are set out in *Annex 1*.

- 4.76** There may be changes to the IMD or over the duration of CESP, this may affect which SOAs and Data Zones are eligible. It is proposed that areas eligible for CESP are set as according to the IMDs at the start of the obligation rather than being changed throughout the duration of the programme. Equally, it is proposed the geography of data zones or SOAs should be set at the start of the programme and not subject to change during the duration of CESP.

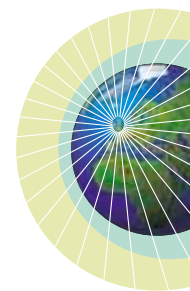


Table 3: Households eligible for CESP

Region	No. Super Output Areas/ Data Zones	Approximate no. Households	Approximate population
England	3248	2,100,000	4,850,000
Scotland	976	300,000	750,000
Wales	284	175,000	450,000
Total	n/a	2,575,000	6,050,000

## Tenure

- 4.77** As the intention of the scheme is to provide intensive community action, the Government proposes to target work at all households in the area, regardless of tenure. This will mean both social housing and private sector housing will benefit from CESP measures. There is concern that landlords under-invest in energy efficiency when tenants pay the bills and that, conversely, tenants do not economise when landlords pay the bill. It is envisaged that the improved asset value of the property and the provision of low-cost or free measures available to the householder under CESP will encourage private landlords to participate in the scheme.
- 4.78** Local Authority involvement may help, as they are ideally positioned to facilitate investment in energy efficiency by private landlords and owner-occupiers. Ability to act in these sectors have been reinforced through the introduction of 'well-being' powers. These increase the ability of Local Authorities to act on behalf of their areas to promote economic, social and environmental well-being.<sup>26</sup>
- 4.79** An Energy Performance Certificate (EPC) is required whenever a property is constructed, sold or rented out. The EPC records a rating from A to G on how energy efficient a property is. These are similar to the labels now provided with domestic appliances such as refrigerators and washing machines. An EPC will include a recommendation report that lists cost effective and other

<sup>26</sup> <http://www.communities.gov.uk/localgovernment/localregional/localcommunity/wellbeingpower/>  
<http://www.scotland.gov.uk/Publications/2004/04/19276/36159>

measures (such as low and zero carbon generating systems) to improve the energy rating of a property. The EPC report may therefore act as an incentive for householders to take up CESP measures.

## Social housing

**4.80** There is a view that Britain's social housing generally has a better energy efficiency rating than private sector housing, and a question as to whether social housing should therefore be included as part of the programme. CESP is aimed at intensive action, in small geographical areas. This will often include a mixture of tenures, with a property-owning household living next door to a social housing tenant, for example. As CESP is intended to assist all households in targeted areas, its objectives would not be met if social housing were removed from the scheme, and if it were, the scheme might not be seen as fair to all those within a CESP area.

## Equity across Great Britain

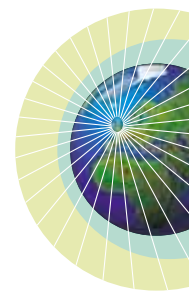
**4.81** CESP is designed to be community led, with electricity generators and energy suppliers working with local partners to identify areas that are likely to benefit from it. The scheme offers an innovative approach and aims to benefit around 90,000 households. Introducing additional regulatory requirements on targeting might have unintended consequences or introduce distortions in a scheme of this size. It would move away from the transparent approach and would be unlikely to make the scheme fairer. The Government does not therefore want to stipulate where schemes have to be promoted.

**4.82** Projects will be able to be developed anywhere in GB within those areas with the lowest income and we do not intend to specify targets, for example in urban and rural areas. It is recognised that fewer rural areas are likely to qualify for this intensive scheme due to the lower levels of concentrated deprivation in rural places. Nevertheless, we recognise that there are rural communities that will qualify for this scheme and that fuel poverty, for example, can be a particular issue in rural areas. We will therefore work with the Commission for Rural Communities and the Rural Community Action Network to explore the most effective ways to make those eligible rural communities aware of this opportunity, and help put them in a position where they can, if they wish, develop propositions for local partnerships that could help attract CESP activity to their areas.

**4.83** National area-based reporting has been proposed, and this would clearly show which areas were being helped. The data would provide information which could be used to design or target any future schemes.

**Q23:** Do you agree CESP should use the income domain of the Index of Multiple Deprivation as the measure of income deprivation?

**If not, what should be used and why?**



## Targeting low-income households: the cost of measures

**4.84** While it is important that CESP offers measures to those who are unable to pay for them, the scheme should not be inflexible or designed in a way that prevents the cost-effective delivery of measures. The Government therefore proposes (in line with CERT) not to prescribe what suppliers and generators can charge for measures. It will not insist that measures are offered free of charge. Nor will it penalise companies who are able to leverage in other sources of finance to help with the cost of measures although, as noted earlier, this is expected to be rare.

**4.85** This approach seems to strike the right balance between reaching those households most in need and allowing suppliers and generators to deliver schemes in the most cost-effective way. The design of the programme, however, will mean that suppliers and generators are likely to offer the vast majority of measures free, or at very low cost. This is because:

- CESP targets areas in the lowest decile of the income domain, so the majority of people targeted are likely to be unable to contribute to the cost of measures.
- The scoring incentives for working on an intensive basis in these areas means that it will not be in the suppliers' and generators' interest to 'cherry pick' people who are able to pay for measures.
- The whole-house approach will mean that most measures offered will be relatively costly, making it less likely that people would be able to contribute to the cost.

**Q24:** Do you agree with the proposal not to prescribe in legislation what suppliers and generators can charge for measures?

**Q25:** Is the assumption that suppliers and generators will themselves have to bear the whole cost, or the very great majority of the cost, of the measures which they deliver a reasonable one? If not, please state why.

## Supply chain considerations

**4.86** The Government considers that supply chain issues should not hinder the supply of measures or installations expected under CESP. The number of measures expected to be installed through CESP is relatively small (in comparison to EEC and CERT) while the focus is on measures that are not key parts of other programmes. The flexibility of CESP, which enables generators and suppliers to meet their obligations in a wide variety of ways, should also help to minimise any potential supply chain issues.

## Delivering in targeted areas

- 4.87** Using target areas which include approximately 10% of the British housing stock will provide a large pool of possible homes for suppliers and generators to target (around 2.5 million homes). The number of households which are suitable for CESP measures is likely to be smaller, however.
- 4.88** For insulation, data suggests that approximately 36% of target houses have untreated solid walls, almost all of which can be insulated (either internally or externally). Also, 34% of target households have cavity walls that are currently not treated and 11% have loft insulation of 50mm or less<sup>27</sup>.
- 4.89** For heating measures there is less data available. Approximately 15% of homes are not currently gas heated and thus suitable for either fuel switching or a heat pump. G-rated gas boilers make up approximately 15-20% of the domestic gas boiler stock. This represents a significant number, assuming they are represented proportionately in the target areas.
- 4.90** The potential for district heating schemes is very large although such schemes are likely to make up a very small part of the programme. This is because district heating solutions are difficult to deliver within the timeframe, with other constraints also playing a part (see para 4.40).
- 4.91** Micro-generation measures may not be a cost-effective solution for many homes, although there has been some interest expressed by generators and suppliers. These measures will probably make up a small part of CESP programmes. Given the physical condition of the housing stock, there appears to be nothing to stop the programme meeting its overall CO<sub>2</sub> reduction targets.

## Size and number of projects

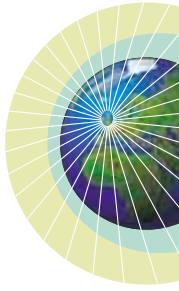
- 4.92** The Government estimates that CESP will consist of 50 to 100 projects, delivering energy efficiency measures to roughly 90,000 homes across Great Britain. The Energy Efficiency Partnership for Homes (EEPH) has conducted research into the spread of energy efficiency community schemes<sup>28</sup>. This shows that schemes are naturally spread across the UK (*see Map 1 below*). The Government envisages that CESP will follow this trend and may fill in some of the gaps between other programmes. The figure of 90,000 homes is considered to be the most cost efficient way of meeting the CO<sub>2</sub> savings target and also reflects Government projections for how generators and suppliers will respond to whole-house incentives.


<sup>27</sup> [www.communities.gov.uk/ehcs](http://www.communities.gov.uk/ehcs)

<sup>28</sup> <http://www.eeph.org.uk/resource/consultations/CESP>



**Map 1:** the spread and number of existing community schemes, including Warm Zones, Health Through Warmth, Green Streets, British Gas Council Tax Scheme, and approximately 67 other individual schemes. An interactive version of the map can be found at <http://www.eeph.org.uk/resource/consultations/CESP/>





## Section 5: CESP in practice

### A. Working with other initiatives

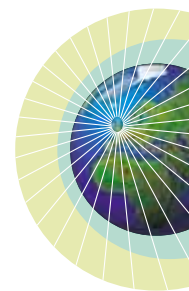
- 5.1** The Government believes the ‘community approach’ will ensure the CESP dovetails with other related Government schemes. The proposals set out above have been designed to be complementary to existing schemes, with a new focus on substantial measures in hard-to-treat properties. The ‘community approach’ should also encourage local partners to look for effective ways of working with other programmes. The main examples of these are:

#### Fuel poverty programmes

- 5.2** Warm Front is a key tool in tackling fuel poverty in the private sector in England. Households receive assistance with a range of heating, insulation and other energy efficiency measures. The Home Energy Efficiency Scheme is the main vehicle for helping improve energy efficiency for vulnerable householders or tenants in Wales. Up to March 2008 in Scotland, the Warm Deal Programme and the Central Heating Programme were the key tools used to tackle fuel poverty. A new Energy Assistance Package will replace these in April 2009.
- 5.3** To maximise the range of measures householders can benefit from, fuel poverty programmes will continue to operate within CESP areas.

#### Carbon Emissions Reduction Target (CERT)

- 5.4** CERT is an obligation on energy suppliers to achieve carbon reduction targets by cutting carbon emissions in the household sector. It is the principal driver of energy efficiency improvements in existing homes in Great Britain.
- 5.5** CERT should remain the primary vehicle for promoting cost effective, mainstream energy efficiency measures. CESP will focus on the kind of measures required in hard-to-treat properties. In a single home, therefore, CESP could provide solid wall insulation and a new boiler with CERT providing the loft top-up insulation. In this way, the two schemes complement each other.



## Social housing programmes

- 5.6** The Government continues to make progress towards ensuring that all social sector housing meets a decent standard through the Decent Homes programme, the Scottish Housing Quality Standard and the Welsh Housing Quality Standard.
- 5.7** CESP partners will work together to complement these existing programmes.

## Area-based schemes

- 5.8** Schemes such as Warm Zones (*see page 22*) deliver affordable warmth to low-income and other vulnerable households. Projects under the Community Energy Efficiency Fund which are working to develop cost effective options for delivering Warm Front and CERT on a local basis in England, are also examples of existing schemes which suppliers and generators may wish to support under CESP.

## Policy proposal on interaction

- 5.9** The expertise of community groups and Local Authorities, who know what schemes are already happening in their local area, should ensure that CESP is co-ordinated with existing programmes.
- 5.10** The community approach under CESP should allow local partnerships the freedom to target the programme in their area as appropriate. The alternative would be to set detailed prescriptive rules for how CESP 'projects' interact with other schemes. This would be complex and could lead to unintended consequences and/or unnecessary administrative costs. In addition, a detailed and prescriptive approach may require frequent review as other policy initiatives are introduced or adjusted.

**Q26:** Do you agree that a flexible approach, allowing local partners to identify how best to integrate the range of initiatives in their areas, should be followed?

**Q27:** Or should there be an attempt to develop a more prescriptive approach? If so, how would the concerns expressed in paragraph 5.10 be overcome?

**Q28:** Are there any other initiatives we should consider when thinking about the design and interaction of a new CESP obligation?

## B. Programme timing

- 5.11** The Government is consulting on the timescale for the new CESP obligation. In the Government's view there are strong reasons in principle for aligning the duration of CESP with that of CERT, since the two schemes are designed to

be complementary. In parallel with this consultation, the Government is consulting on an uplift to CERT for the period through to March 2011 (the point at which the existing CERT scheme is currently due to end).

- 5.12 One simple option, therefore, would be to run CESP through to March 2011. However, the Government has separately stated that it expects the overall period for the CERT scheme to be extended to December 2012. It is also important that the CESP period should be long enough to enable companies to discharge their obligations in a well-planned and effective way, recognising that the scheme will be new to them, and that a longer period might be helpful to facilitate development of schemes that require significant capital investment or have longer lead times, such as district heating. The Government is therefore minded to specify a period for CESP extending beyond 2011, and up to December 2012.

**Q29: Do you agree that CESP should run from autumn 2009 until December 2012? If not, what other option do you prefer and why?**

## C. Transferring of credits and trading of obligation

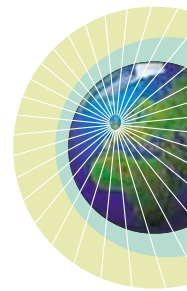
- 5.13 In line with current CERT arrangements, the Government proposes that those parties under a CESP obligation should be allowed to achieve their obligations through transferring completed actions.<sup>29</sup> Suppliers under CERT are able to transfer completed qualifying actions, for which they will be entitled to a carbon score, to another CERT supplier. We propose that this type of transfer mechanism is available under the CESP framework.
- 5.14 In addition, unlike CERT, we also propose that those under a CESP obligation should be able to trade away a proportion of their CESP obligation to another party who falls within the scope of a CESP obligation.
- 5.15 It is important to appreciate the difference between these two proposals. The first allows a party to *acquire carbon savings* from another generator or supplier falling under a CESP obligation. The overall size of each party's CESP obligation remains the same. The second proposal allows a generator or supplier to actually *reduce the size of their overall CESP obligation*. In this scenario, one party's CESP obligation would increase in size whilst the other party's CESP obligation would be reduced by a commensurate amount.
- 5.16 At present, the Government believes that allowing generators and suppliers to be able trade away up to, say, 75% of their obligation is unlikely to undermine the overall purpose of the CESP scheme. It is also possible that the trading mechanism may actually aid the delivery of energy efficiency assistance to households in the most cost-effective way.

- 5.17 If trading of the CESP obligation is to be allowed, the Government believes that Ofgem should have a role in ensuring that trading arrangements work effectively and do not undermine the proper working of a future CESP Order. The Government welcomes views on whether Ofgem should be required to approve any trading agreements between the parties, similar to the process of transferring qualifying actions outlined above.

**Q30:** Do you agree that obligated parties should be allowed to transfer credits that they have achieved with other obligated parties?

**Q31:** Do you agree in principle that trading of the obligation itself should be allowed? If so to what level?

**Q32:** Should Ofgem be required to approve any trading arrangements?



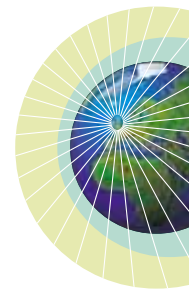


## Section 6: What happens next

- 6.1** The deadline for responses to this consultation is 8 May 2009. As part of this process the Government will be discussing the proposals with stakeholders. It will also be running public engagement events such as road shows. A summary of responses to this consultation will be published within three months of the deadline for comment.
- 6.2** In line with the Department of Energy and Climate Change's policy of openness, at the end of the consultation period copies of the responses we receive may be made publicly available on the DECC website. The information they contain may also be published in a summary of responses and shared with other Government Departments and the Devolved Administrations. If you do not consent to this, you must clearly request that your response be treated confidentially. Any confidentiality disclaimer generated by your IT system in e-mail responses will not be treated as such a request. You should also be aware that there may be circumstances in which DECC is required to give information to third parties on request, in order to comply with its obligations under the Freedom of Information Act 2000 and the Environmental Information Regulations.
- 6.3** If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to: [consultation.coordinator@decc.gsi.gov.uk](mailto:consultation.coordinator@decc.gsi.gov.uk)
- 6.4** Once the consultation is completed, the draft Statutory Instrument will be laid before Parliament and debated in both Houses. Once Parliament has approved a draft CESP order it will come into force early in autumn 2009.

# Annex 1:

## Maps of proposed target areas



### Using the Interactive Mapping for the Index of Multiple Deprivation

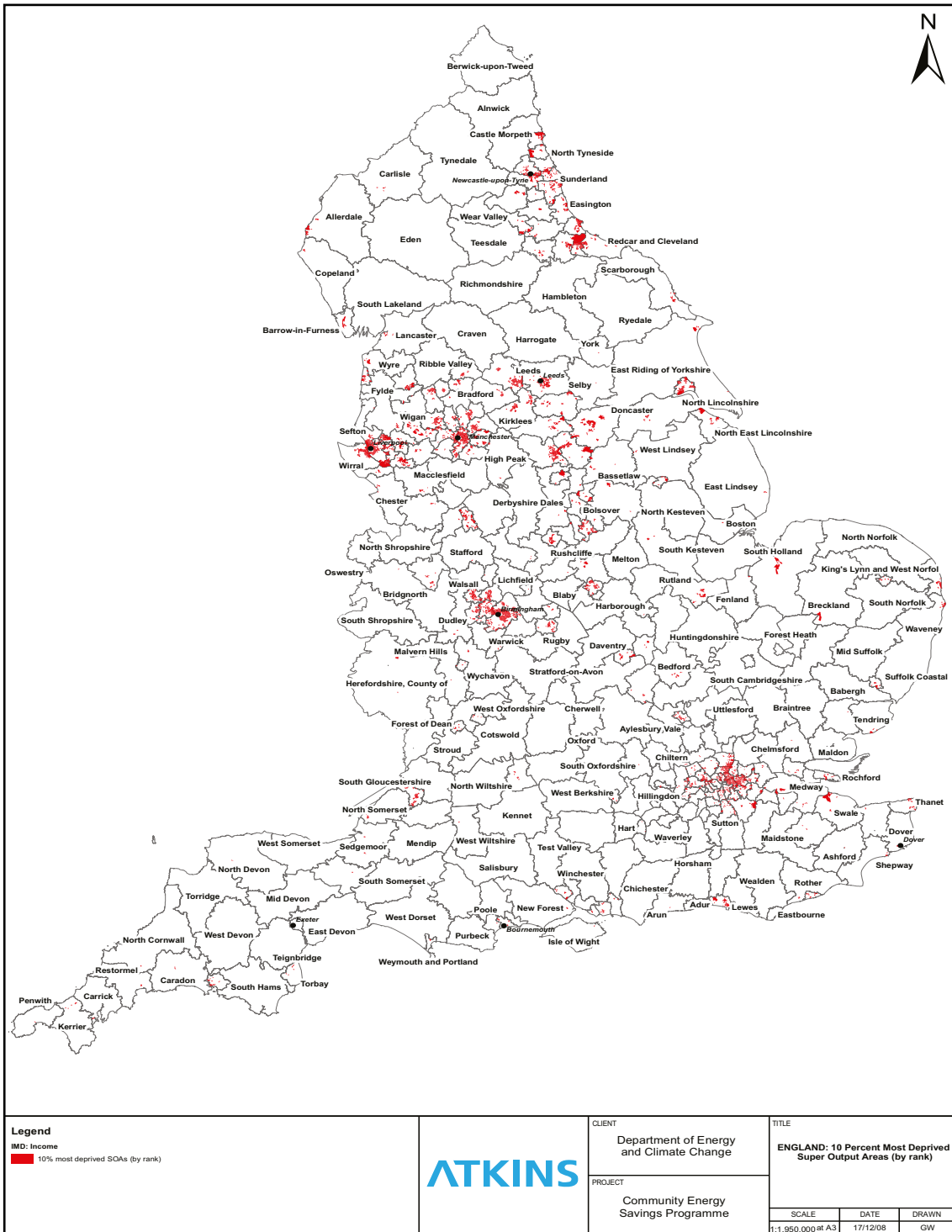
- A1.1** Each of the Indices of Multiple Deprivation in England, Scotland and Wales have an interactive mapping tool on their websites to identify the most deprived areas, and their location, within each local authority. These can be found at:

England – <http://www.imd.communities.gov.uk/>

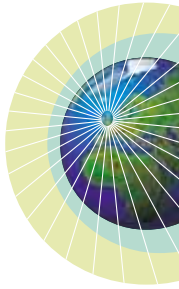
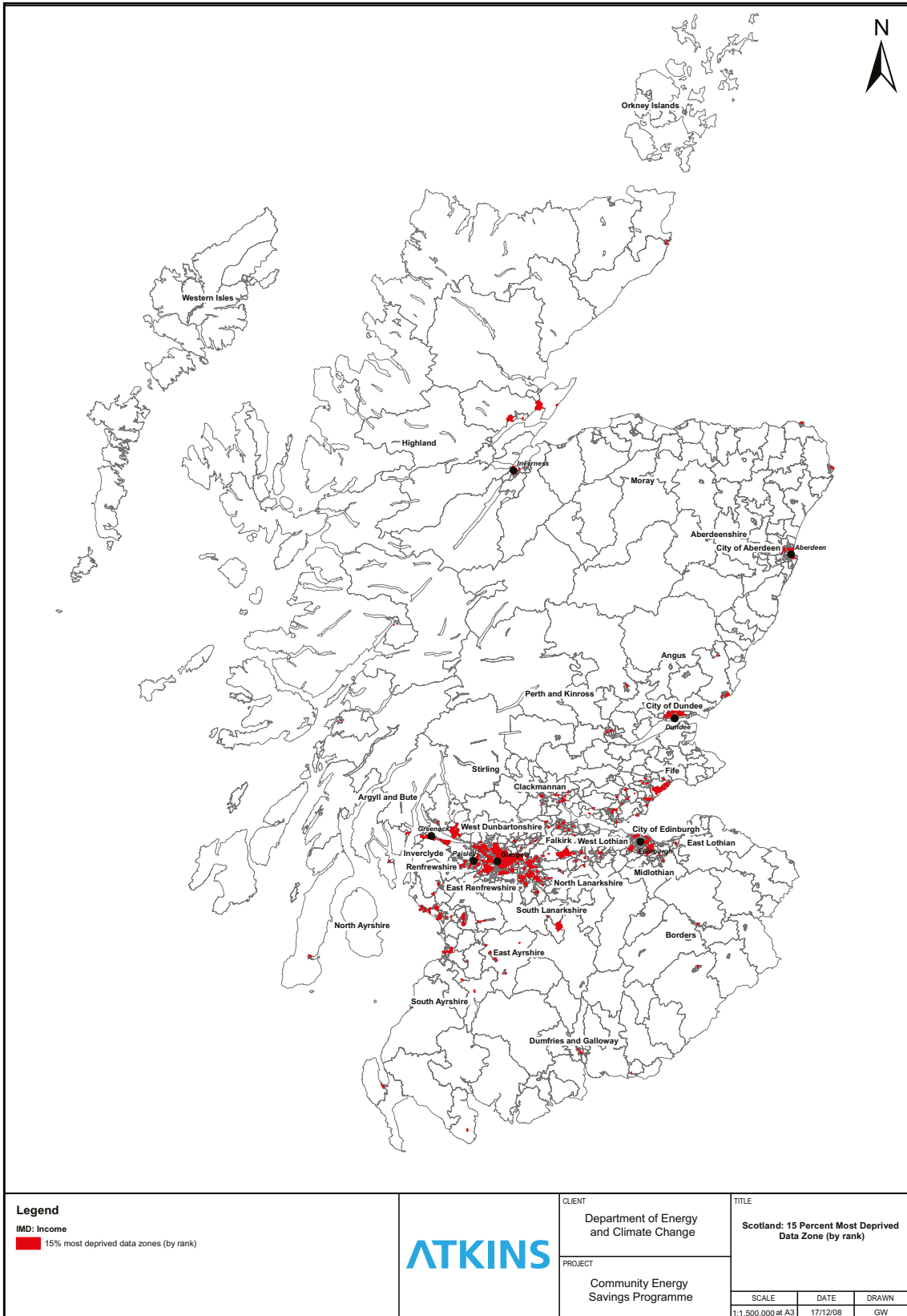
Scotland – <http://www.scotland.gov.uk/Topics/Statistics/SIMD/map.asp>

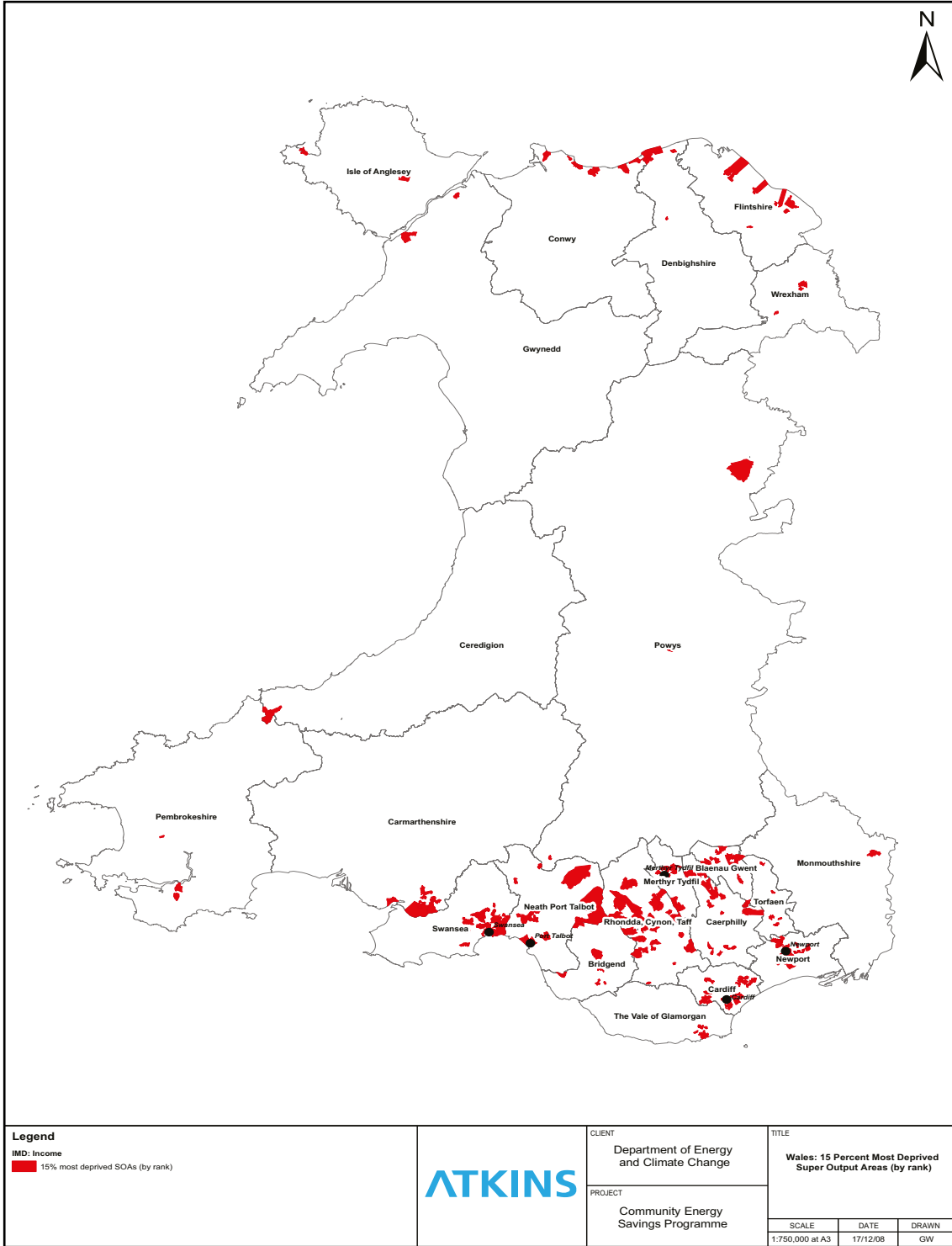
Wales – <http://new.wales.gov.uk/topics/statistics/theme/wimd2005/results/?lang=en>

Indicative maps showing areas eligible for CESP in red are set out overleaf.



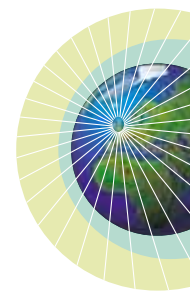






# Index of Multiple Deprivation

- A1.2** England, Scotland and Wales each have their own Index of Multiple Deprivation. These have been designed to identify small concentrations of multiple deprivation within each country. The IMDs use similar methodology based on groups of indicators combined by topic (domain) to rank each small area on the different aspects of multiple deprivation. The domains are then combined to provide a rank for each small area within a country with 1 being the most deprived area. The index can then be used to focus on the most deprived areas within a country.
- A1.3** Although the methodologies are similar, the IMDs are not comparable across countries for a number of reasons:
- the ranks relate to other areas within a country and not between countries.
  - the IMDs are on different update timetables, so use different time periods (the most recent version for Scotland was published in 2006, England in 2007 and Wales in 2008).
  - the IMDs use different indicators within some domains (e.g. England and Wales use Tax Credit data in the income domain which was not available for Scotland).
  - different geographies are used – England and Wales use SOAs which have an average population of 1500 people while Scotland uses Data Zones with an average population of 750.
- A1.4** This means that IMDs work well within an individual country to identify small concentrations of multiple deprivation and that domains can be used to identify particular aspects of deprivation. Analysis across Great Britain, however, needs to take an alternative approach as the 10% most deprived areas in Wales will not necessarily have the same levels of deprivation as the 10% most deprived areas in England. Areas in the 10% to 15% most deprived in Wales may be more deprived than some of those in the 10% most deprived in England.
- A1.5** To get around these issues, a set of socio-economic indicators relevant to neighbourhood deprivation was made available in comparable formats for the countries within the UK. These could also be split by Government Office Region (GOR). The Devolved Administrations are then compared to an English region to establish a comparator area. For example, Wales compares with the North East on most indicators so the proportion of small areas in the North East eligible for the scheme was also applied to Wales.
- A1.6** Taking into account the other socio-economic indicators relevant to neighbourhood deprivation, the Government proposes that using the 10% most deprived areas in England and the 15% most deprived in Wales and Scotland provides a more comparable approach across Great Britain as the basis for CESP.





## Annex 2: Examples of other initiatives

### Supporting evidence for a voluntary community approach

#### National programmes at local level

**A2.1** These include programmes such as Warm Zones and Health Through Warmth (the latter is an npower scheme in partnership with the NHS and NEA using Warm Front funding).

#### Area-based with supplier involvement

**A2.2** These are targeted at ward, district and county level using either a street-by-street approach or targeted marketing. They are generally open to all householders and draw CERT and local authority funding. Partners include the Local Authority housing department, voluntary sector (Energy Agency), fuel suppliers and a broad range of partners involved in promotion.

#### **Area-based case study: Girvan Community Energy Project, Scotland**

Managed by the Energy Agency with funding from Scottish HydroElectric and South Ayrshire Council, this project involves energy assessments of every home and free insulation for suitable properties. Since January 2008 the project has identified 663 households in the area which could benefit from free insulation.

#### Community-based, supplier led

**A2.3** These schemes engage communities offering in-depth support for a small number of households. The emphasis is on flexibility and community ownership with competition and rewards for reducing energy usage. Behavioural change is a big factor in some schemes.

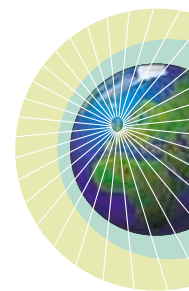
#### **Case study: Council Tax rebate schemes**

These schemes are run in 64 local authorities in England, Wales and Scotland. They target the home owner sector and each householder who invests in home insulation from British Gas will receive a rebate of up to £125 from the local authority. The schemes are led by the energy supplier in partnership with local authorities.

## Community-based, community-led without supplier involvement

**A2.4** There are two types of these schemes. Some are led by the voluntary sector/energy agency/Local Authorities and do not install measures. Instead they act as referral schemes and promote area based projects. These partnerships often establish cross-referral networks with bodies such as home improvement agencies, DWP, the Fire Service, Police, Age Concern. The second type is based within the community sector and involves grass-roots activity. This type of scheme focuses on advice, raising awareness and behaviour change, often driven by a climate change/carbon reduction agenda. They do not usually make referrals or have links with area-based schemes. Transition Groups and Low Carbon Community Groups are typical examples.

**A2.5** As demonstrated by these examples, there is a wide range of partnerships and partnership formats across Great Britain that could be used to deliver the benefits of CESP.



## Annex 3: Glossary



CESP	Community Energy Saving Programme
CERT	Carbon Emissions Reduction Target
IMD	Index of Multiple Deprivation
DEA	Domestic Energy Advisers
EEC and EEC2	Energy Efficiency Commitment
EST	Energy Saving Trust
HCA	Homes and Communities Agency
EU ETS	European Union Emissions Trading Scheme
NDC	New Deal for Communities
EPC	Energy Performance Certificates
EEPH	Energy Efficiency Partnership for Homes
Ofgem	Office for Gas and Electricity Markets
HEED	Homes Energy Efficiency Database
SOA	Super Output Area
LSOA	Lower Super Output Area
GOR	Government Office Region



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