



Department for  
Business, Energy  
& Industrial Strategy

# ENERGY EFFICIENCY SCHEME FOR SMALL & MEDIUM SIZED BUSINESSES

## A CALL FOR EVIDENCE

Closing date: 08 May 2019



**OGL**

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# General information

## Why we are consulting

Improving energy efficiency is one of the most cost-effective mechanisms for businesses to reduce their energy use and associated bills while also reducing their carbon emissions. While high energy bills can be a burden on smaller businesses, a lack of information about how much energy any measures might save, and the upfront capital costs of installing energy efficiency measures can deter investment.

At Budget 2018, the Government committed to a call for evidence on introducing a new energy efficiency scheme focused on smaller business. Over time, this scheme will reduce business energy bills and carbon emissions. This call for evidence sets out some possible delivery options for the scheme and asks for views. We also invite respondents to suggest additional options for delivering the scheme.

## Call for Evidence details

**Issued:** 13 March 2019

**Respond by:** 8 May 2019

### Enquiries to:

Business Energy Use Team  
Department for Business, Energy & Industrial Strategy  
2<sup>nd</sup> Floor, Orchard 3  
1 Victoria Street  
London, SW1H 0ET  
Tel: 020 7215 5000  
Email: [smeenergyefficiency@beis.gov.uk](mailto:smeenergyefficiency@beis.gov.uk)

**Consultation reference:** Energy efficiency scheme for small & medium sized businesses

### Audiences:

We are keen to hear from energy companies, network operators, SMEs, financial institutions, Energy Service Companies (ESCOs), Local Enterprise Partnerships, academics and anyone else with an interest about how a new scheme for SMEs can be designed.

### Territorial extent:

The promotion of energy efficiency is devolved in Scotland and Wales when done other than by prohibition or regulation. Energy efficiency is devolved in Northern Ireland.

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## How to respond

The use of Citizen Space would be the preferred response method.

**Respond online at:** <https://beisgovuk.citizenspace.com/heat/sme-energy-efficiency-scheme-cfe> (preferred)

or

**Email to:** [smeenergyefficiency@beis.gov.uk](mailto:smeenergyefficiency@beis.gov.uk)

### **Write to:**

Business Energy Use Team  
Department for Business, Energy & Industrial Strategy  
2nd Floor, Orchard 3  
1 Victoria Street  
London, SW1H 0ET

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

## Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

## Quality assurance

This consultation has been carried out in accordance with the Government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: [beis.bru@beis.gov.uk](mailto:beis.bru@beis.gov.uk).

# Introduction

The Government's Industrial Strategy focuses on boosting productivity by backing business to create good jobs. By supporting investment, skills, industries and infrastructure, we will help increase the earning power of people throughout the UK. Clean Growth is one of the four grand challenges within the Industrial Strategy and has the explicit aim of supporting industry to move to cleaner economic growth through low carbon technologies and the efficient use of resources.

The [Clean Growth Strategy \(CGS\)](#) set out the Government's proposals for decarbonising all sectors of the UK economy through the 2020s. It explains how the whole country can benefit from low carbon opportunities, while meeting national and international commitments to tackle climate change. The CGS set out a stretching ambition to support businesses to improve their energy efficiency by at least 20% by 2030. This could deliver up to £6bn in annual cost savings in 2030 and contribute up to 22MtCO<sub>2e</sub> of non-traded carbon savings towards the fifth carbon budget. Approximately £2.7bn of these cost savings are attributed to SMEs, leading to a potential 30% reduction in SME energy bills in 2030<sup>1</sup>.

Improving energy efficiency is one of the most cost-effective mechanisms for business to reduce their energy use and associated bills while also reducing their carbon emissions. While high energy bills can be a burden on smaller businesses, a lack of information and the upfront capital costs of installing energy efficiency measures can deter investment. This call for evidence asks for views on how to develop a business energy efficiency scheme for SMEs that responds to these barriers.

The scheme will be aimed at commercial and industrial **building** energy efficiency improvements. Manufacturing **processes** already benefit from a range of energy efficiency schemes such as the [Industrial Heat Recovery Support Programme](#) and will benefit from the forthcoming Industrial Energy Transformation Fund<sup>2</sup>.

BEIS issued a Call for Evidence: [Improving the way that businesses use energy](#) in July 2018 setting out the Government's proposed overall approach to delivering the 20% ambition. The [Government response](#) to that call for evidence is being published alongside this document. The response summarises the stakeholder views and sets out the action the Government plans to take on each of the key themes that impact energy efficiency in the non-domestic sector.

The call for evidence included a chapter on SMEs. It asked for views on how to overcome the market failures and barriers experienced by small and medium sized enterprises (SMEs). SMEs account for over 99% of businesses in the UK and are responsible for over 50% of energy use. Respondents were clear on the need for the Government to do more to engage SMEs with energy efficiency, whilst recognising the difficulty of doing this. The challenges around effectively implementing policy instruments such as advice, voluntary audits, grants and loans were raised and the need for policy mix to deliver both bill and carbon savings was suggested. A new energy efficiency scheme for SMEs would form an important element of this mix. The Government will also publish a spring consultation on the future trajectory of the

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<sup>1</sup> Cost savings are calculated by estimating the SME proportion of potential identified in the CGS, using Building Energy Efficiency Survey data. Energy bills are estimated using EEP and Price projections. We will be developing this methodology in the future.

<sup>2</sup> <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8428>

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Private Rented Sector Regulations. Tightening these regulations will benefit the SMEs that rent their work premises.

At Budget 2018, the Government committed to a call for evidence on introducing a new energy efficiency scheme focused on smaller business. Our intention is that over time, this scheme will reduce business energy bills and carbon emissions and deliver a significant net average benefit for business energy bills. This Call for Evidence sets out a range of possible delivery options for the scheme and asks for views as well as further ideas for the scheme.

BEIS will publish a full consultation on the preferred option later this year, following evaluation of the responses to this Call for Evidence.

# Rationale for a Business Energy Efficiency Scheme for SMEs

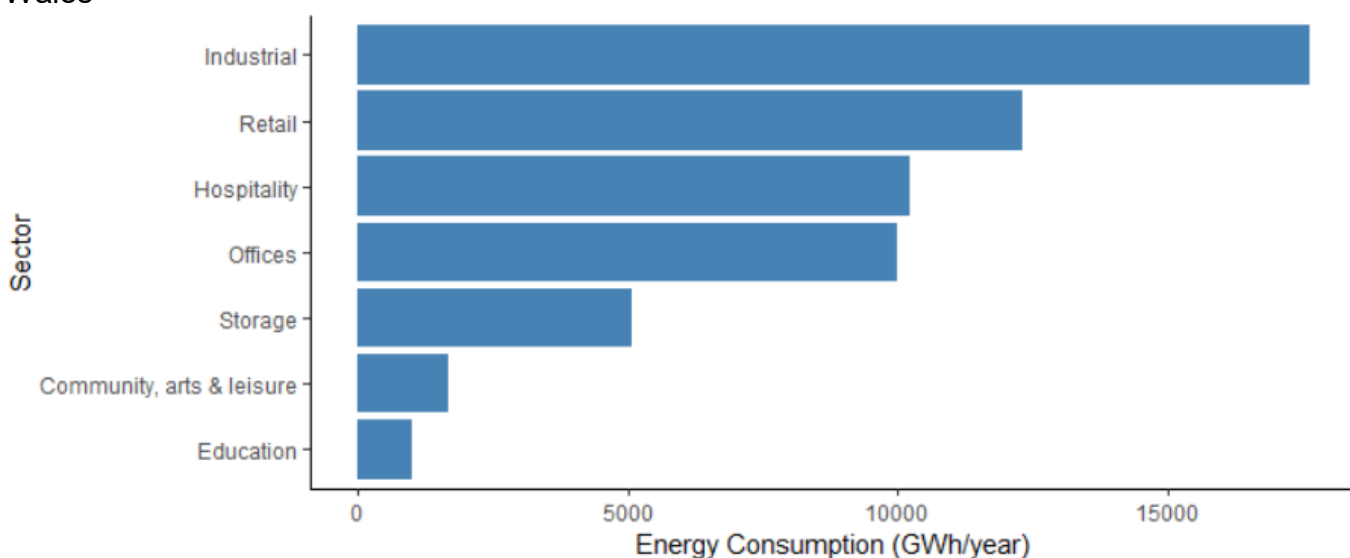
SMEs are central to the UK's economy. At the start of 2018, there were a record 5.7 million SMEs, accounting for 99.9% of UK businesses. Overall, the number of SMEs has increased by over 1.2 million since the start of 2010 and SMEs employ 16.3 million, accounting for 60% of total UK private sector employment<sup>3</sup>.

SMEs are extremely diverse, operating in every region and in every sector and they vary widely in size, ranging from 0 to 250 employees. SMEs include everything from a small hairdresser to a medium sized manufacturing company. Individually SMEs consume modest amounts of energy, but collectively their energy demand is considerable, accounting for around 50% of business energy use, using 58TWh/year<sup>4</sup> in England and Wales.

The SME segment is dynamic: new businesses are established every year, while others close down, grow or shrink, change focus or move operations into new sectors. This diversity and dynamism, alongside relatively low individual energy consumption, make it difficult to reach SMEs and engage them in energy efficiency.

The following chart sets out SME's energy consumption by sector. It shows that the industrial sector uses the most energy, followed by retail and hospitality. This chart only considers energy use from buildings (industrial energy processes are not included).

Chart 1: Energy consumption for private SME buildings by sector (GWh/year) in England and Wales



The market failures and barriers to energy efficiency are well documented<sup>5</sup> and prevent many SMEs from adopting energy efficiency measures. SMEs face various barriers that deter them from adopting energy efficiency measures; they often lack the time and resources to explore

<sup>3</sup> <https://www.gov.uk/government/statistics/business-population-estimates-2018>

<sup>4</sup> Buildings Energy Efficiency Survey (2015). <https://www.gov.uk/government/publications/building-energy-efficiency-survey-bees>

<sup>5</sup> [http://sro.sussex.ac.uk/53957/1/WP102011\\_Barriers\\_to\\_Industrial\\_Energy\\_Efficiency\\_-\\_A\\_Literature\\_Review.pdf](http://sro.sussex.ac.uk/53957/1/WP102011_Barriers_to_Industrial_Energy_Efficiency_-_A_Literature_Review.pdf)



energy efficiency options, and they lack information about where and how energy is used in their businesses. They do not have the internal capacity to develop and implement energy efficiency projects, and rarely view energy efficiency as a priority. In many cases, their access to financing for energy efficiency measures is constrained by insufficient capacity to develop bankable projects with financial institutions, who often remain reluctant to provide financial products due to perceived risks and a lack of a suitable product.

The Department of Energy and Climate Change<sup>6</sup> (DECC) commissioned research into the later stage barriers to energy efficiency i.e. those that occur after a business is made aware of the specific energy efficiency actions it could take, including the potential cost savings and wider benefits of such action. It found that implementation rates are still low, with only a 25% implementation rate for opportunities with cost savings of over £10,000/annum<sup>7</sup>.

The International Energy Agency (IEA), in its paper [Accelerating Energy Efficiency in Small and Medium Sized Enterprises](#) suggest that SMEs are lagging behind larger business on energy efficiency measures because of lack of information, technical expertise and funding. In response the IEA suggests that successful energy efficiency programmes for SMEs should include three core components.

**IEA analysis recommends the following three core components for successful energy efficiency programmes for SMEs:**

- **Information: SMEs often focus on the day-to-day tasks of the core business, leaving limited time and resources to investigate and pursue energy efficiency opportunities. Just providing information to SMEs rarely results in the implementation of energy efficiency. To learn about the benefits of energy efficiency SMEs need information tailored to their specific needs and delivered in a convenient form from a trusted source. To be successful, any scheme would have to be easy for SMEs to participate in.**
- **Expertise and capacity building: Unlike larger businesses, SMEs can rarely develop in-house expertise on energy efficiency; they are more likely to rely on external advice and support for implementation. Energy efficiency programmes should therefore aim to build the capacity of energy consultants and financial institutions as well as that of SMEs themselves**
- **Financing: SMEs face particular difficulty in accessing the finance required to purchase, install and operate more energy efficient equipment or to implement more efficient operating practices, so access to finance tailored to their needs is important.**

We are presenting three options for delivering the Business Energy Efficiency Scheme for smaller business. These options are designed to meet the core components recommended by the IEA. Each option should increase the salience of energy efficiency among SMEs, while providing expertise to ensure that measures are appropriately targeted, as well as providing

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<sup>6</sup> The Department of Energy and Climate Change became part of the Department for Business, Energy and Industrial Strategy in July 2016

<sup>7</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/392908/Barriers\\_to\\_Energy\\_Efficiency\\_FINAL\\_2014-12-10.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/392908/Barriers_to_Energy_Efficiency_FINAL_2014-12-10.pdf)

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funding to pay for these measures. We invite your views on these three options and are interested in finding out about your experience of participating in similar schemes.

## Option 1 – Energy Efficiency Auction

### Introduction

Our first option is to introduce energy efficiency auctions that third parties, such as energy efficiency installers or energy service companies could bid into to deliver energy efficiency measures in smaller businesses. This could take the form of a periodic auctions based on competitive tenders. This could be funded through a number of different mechanisms, including a levy on suppliers, alongside co-funding from businesses benefitting from the measure.

Auctions for energy efficiency specify outcomes (e.g. energy savings, cost-effectiveness) to be delivered by market actors, without prescribing the delivery mechanisms or the measures to be used. They are voluntary in nature, allowing participants to opt-in to the auction process. If this approach is developed further, it would be designed to ensure it worked through market mechanisms, to drive competition within the energy services market and to minimise costs.

In energy efficiency auctions bidders compete on the basis of price to win funding to deliver energy savings. They offer the potential to achieve cost effective deployment and the best price for the product being auctioned by means of a structured, transparent and competitive process.

An energy efficiency auction would meet elements of the three core components of successful energy efficiency programmes for SMEs promoted by the IEA. It targets the information barrier by making the winning bidders responsible for engaging businesses to participate in the programme. It targets the expertise barriers by providing experts from the energy services market to select and implement energy efficiency measures and it targets the finance barrier by providing capital for these measures.

### Current UK position and international comparators

A number of energy-related auctions have taken place in the UK over the past few years. One example is the Capacity Market (CM) auctions<sup>8</sup>, which secures peak demand through auctions held four years and one-year ahead of delivery, and the Contracts for Difference (CfD) Scheme, which is the government's main mechanism for supporting low-carbon electricity generation. Both the CM and CfD Scheme have proven to be a cost-effective mechanism, driving competition. Another recent UK example is the Electricity Demand Reduction pilot which provided a proportion of the funding to business for energy efficiency measures with the explicit aim of incentivising business to take action. The funds were allocated through 2 auctions.

There is evidence from Switzerland that auctions can deliver energy savings at relatively low cost<sup>9</sup>. Switzerland has run energy efficiency auctions since 2010, with two separate auctions, one for projects and one for programmes. Project bids are submitted by owners of installations, while programme bids are submitted by third parties who can aggregate a number of smaller measures from small companies and households. The aggregation of smaller measures into programmes reduces the costs of participating in the auction for the individual

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<sup>8</sup> The Capacity Market is currently in standstill following the judgement of the General Court of Justice of the European Union, who removed state aid approval for the scheme.

<sup>9</sup> [https://www.eceee.org/library/conference\\_proceedings/eceee\\_Industrial\\_Summer\\_Study/2016/1-policies-and-programmes/competitive-tenders-for-energy-efficiency-8211-lessons-learnt-in-switzerland/](https://www.eceee.org/library/conference_proceedings/eceee_Industrial_Summer_Study/2016/1-policies-and-programmes/competitive-tenders-for-energy-efficiency-8211-lessons-learnt-in-switzerland/)

projects as well as potentially allowing for economies of scale when implementing the measures. To be eligible for funding, measures need to have a payback period of at least four years. This avoids funding measures that should be economically viable without support.

A German pilot auction<sup>10</sup> has two different types of auction slots: an ‘open’ slot, which is technology and sector neutral, and ‘closed’ slots, which are sector, beneficiary or technology specific. The German pilot only supports measures that have long lifetimes, with measures needing to produce savings for at least ten years.

Both the Swiss and German auctions place restrictions on maximum bid sizes in order to limit the possibility of a single bid dominating an auction.

## Option

The Government could set up an energy efficiency auction targeting measures for smaller businesses. This could take the form of a periodic auction based on competitive tenders for projects (measures directly submitted by the owner of an installation) or for programmes (measures implemented for a bundle of different owners). This is a complex approach and conditions would need to be set for entering the auction and, at the same time, ensure the scheme is sufficiently attractive so that participants, such as energy efficiency installers or energy service companies, are willing to take the time and effort to submit a bid. If auctions proved to be the preferred approach, we would want to ensure that auctions brought forward energy efficiency at the lowest possible cost, while ensuring a diversity of measures are funded.

## Delivery

If an auction proves to be the preferred approach, BEIS would be responsible for the design and scope of the auction. We would research similar schemes overseas and follow good practice, for example, there may be a case for following the Swiss and German examples and applying a minimum pay-back period for measures eligible under the scheme. This would incentivise measures with longer pay-back periods, which businesses may have less of an incentive to deliver outside of a scheme.

There is no clear single best auction format, and any choice around auction design would need to involve balancing many different design considerations. There are pros and cons to both the “sealed bid” and the “descending clock<sup>11</sup>” auction designs. Through the Capacity Market we have experience of the “descending clock”, model. Alternatively, a “sealed bid” auction would pay bidders their asking price as was the case in the EDR auctions<sup>12</sup> for energy efficiency savings (rather than capacity). We would be interested in stakeholder views on the most appropriate auction design to deliver energy efficiency savings.

## Costs

There are different potential options for funding the auctions and we would need to consider these in more detail before a scheme is announced.

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<sup>10</sup> <https://webstore.iea.org/insights-brief-energy-utility-obligations-and-auctions>

<sup>11</sup> <https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Capacity%20Market%20Auction%20User%20Guide%20v3.pdf>

<sup>12</sup> <https://www.gov.uk/guidance/electricity-demand-reduction-pilot>

Businesses benefiting from the measures will see an immediate reduction in their energy bills, with lower average bills for smaller businesses accruing in the short to medium term, depending on the scheme design. We could include an element of co-funding from businesses who receive the energy efficiency measures. This would allow the auction to support a larger number of measures, maximising value for money, whilst minimising any competitive distortions created by giving support to some businesses to access energy efficiency measures but not others.

If auctions turn out to be the preferred route, it will be designed to ensure it delivers a significant net average benefit for business energy bills. If BEIS took the proposal forward, there would be a further detailed consultation on the optimum delivery model.

#### Questions

**Q1: To what extent do you think that competitive tendering could be an effective mechanism to achieve energy savings through energy efficiency? What do you see as the pros and cons?**

**Q2: What are the different ways of designing an auction, and which would be the most appropriate for energy efficiency measures targeted at SMEs?**

**Q3: What approach should Government consider for funding a business energy auction scheme?**

**Q4: What level of co-funding would maximise the value for money from the auctions and minimise competitive distortions, while providing a sufficient incentive for SMEs to take up the measures?**

## Option 2 - A business energy efficiency obligation (EEO) - Business ECO

### Introduction

Our second option builds on the success of the domestic Energy Company Obligation scheme (ECO) by exploring whether to expand it to smaller businesses or create a new version for that purpose.

The domestic ECO scheme requires obligated energy suppliers to deliver energy efficiency and heating measures to homes in Great Britain. ECO measures have helped households to keep their homes warmer, reduce their energy bills and reduce carbon emissions. The scheme started operating in January 2013, and as of December 2018 has delivered around 2.5 million improvements, in around 2 million homes. Costs are recovered by suppliers through energy bills, but the investment generates net bill savings over time as many of the measures installed continue to provide bill savings for years as well as making homes warmer and healthier.

A business ECO scheme would meet the three core components of successful energy efficiency programmes for SMEs promoted by the IEA. It targets the information barrier as the obligated party will be responsible for promoting the benefits of energy efficiency to the recipient of the measures. It targets the expertise barriers by arranging for experts to assess the relevant energy efficiency measures appropriate for the business and arrange procurement and implementation of those measures. Finally, it overcomes the finance barrier, using the levy collected to pay for the measures.

### How EEOs work

The GB ECO scheme is an Energy Efficiency Obligation (EEO). An EEO puts a regulatory obligation on third parties to deliver a set amount of energy savings. The current ECO is delivered by obligating energy suppliers. Obligated suppliers have flexibility over the delivery mechanisms and the energy efficiency measures to be installed, within certain parameters. The obligated party is required to achieve energy efficiency targets either through their own actions or by contracting with third parties. The costs are then passed on to energy consumers through energy bills on the basis that suppliers will seek to deliver as cost-effectively as possible to maintain competitive advantage in the market.

An EEO usually has 3 features:

- A quantitative target for energy efficiency improvement;
- Obligated parties that must meet the target; and
- A system that defines the energy saving activities that can be implemented to meet the targets. This system would measure, verify, and report on the energy savings achieved through these activities, and confirm that the activities actually took place.

### Current UK position and international comparators

Great Britain is relatively unusual in Europe in having an energy efficiency obligation that applies to domestic premises only, as most international examples cover both domestic and business premises.

The UK domestic ECO puts an obligation on energy suppliers (as does Ireland, France, Spain, Slovenia, Lithuania, Austria, Poland and Luxembourg). Some other countries including Denmark and Italy put the obligation on network operators.

## Option

The Government could set up a business equivalent to the domestic ECO which would require an obligated party to deliver a set amount of energy savings each year.

## Delivery

If an EEO proves to be the preferred approach, BEIS would have responsibility for the design and scope of the obligation. There are a range of actors that the obligation could be placed on, which includes energy suppliers, network operators, generators etc. If placed on suppliers, those who already deliver the domestic ECO (which is not all suppliers) could build on existing expertise and administrative processes, reducing their set-up costs.

Alternatively, the obligation could be placed on network operators who might be able to find efficiencies by delivering energy efficiency measures that also resulted in lower network costs. Some network operators have piloted energy efficiency projects but on a much smaller scale than would be necessary for an EEO. However, we recognise that most network operators do not have experience of delivering energy efficiency programmes.

If an EEO is taken forward, there would be a number of important decisions to be made. These include the types of energy brought into scope of the obligation, as these can differ, or whether to allow a “white certificates” process. This would allow achieved savings to be traded to help the obligated party reach their target or allow other obligated parties to buy out a proportion of a target.

The potential for a new EEO for business would need to be considered in the context of wider work underway within Government such as the conclusions from the joint BEIS-Ofgem review into the future of the retail market and the Government’s commitment to ensuring that electricity networks open up their networks to competition.

If an EEO proved to be the preferred route, there would be a further detailed consultation on the optimum delivery model.

## Costs

The current ECO is funded through costs passing to obligated parties. We would have to consider whether this would be an appropriate approach for business EEO.

If an EEO turns out to be the preferred route, it will be designed to ensure it delivers a significant net average benefit for business energy bills, as the Domestic ECO does now for households. We could include an element of co-funding from businesses who receive the energy efficiency measures. This would allow an obligation to support a larger number of measures, maximising value for money, whilst minimising any competitive distortions created by giving support to some businesses to access energy efficiency measures but not others.

## Questions

**Q5: What are the pros and cons of implementing a new business EEO?**

**Q6: What are the relative merits of placing the obligation on suppliers, network operators, generators or other bodies?**

**Q7: What models of EEOs would minimise costs while delivering efficiencies?**

**Q8: A number of countries operate EEOs, what can we learn from their experiences?**

**Q9: What level of co-funding would maximise the value for money from an EEO and minimise competition distortions, while ensuring a sufficient incentive remains for SMEs to take up the measures?**



## Option 3 – Expanding access to finance options to SMEs

### Introduction

Currently a business has three main sources for energy efficiency financing: a businesses' own funds, a bank loan or an energy service contract from an Energy Service Company (ESCO). There are several tailored finance products for energy efficiency available, whether through ESCOs or banks. However, most of these products are targeted towards larger organisations/projects. This option explores how we could support this market to expand their services to SMEs.

Government policy has supported the growth of the Energy Service Company (ESCO) market through Government energy efficiency programmes for retrofit of public buildings, such as [RE:FIT](#) as well as access to interest-free capital through [Salix](#). This has resulted in the ESCO model becoming well established in the public sector but there is still a great deal of potential for expansion in the private sector, particularly to SMEs.

A scheme that facilitated the expansion of green loans and ESCO services, could meet some of three core components of successful energy efficiency programmes for SMEs promoted by the IEA.

Green loans and ESCOs partly tackle the information barrier by promoting energy efficiency amongst businesses. However, they are less likely to overcome the barrier of limited capacity within SMEs to pursue energy efficiency opportunities, as this approach would still rely on SMEs taking the initiative to approach and engage with ESCOs or banks. This option can target the expertise barrier as ESCOs provide the full service of advice and implementation required to deliver energy efficiency measures. Green loans can involve relevant advice, as lenders are in a strong position to use their relationship with their customer base to stimulate demand by explaining and promoting the benefits of energy efficiency. Both approaches help overcome the barrier of access to finance.

### How green loans and ESCOs work

Most of the high street banks offer a green loan with each bank offering different packages. These range from offering corporate commercial real estate clients loans to improve the energy efficiency of their estates, discounted funding to reduce environmental impacts, to linking customers to energy audits and providing the associated financial support for installation costs.

ESCOs offer energy services ranging from the initial assessment of energy efficiency measures, procurement through to implementation. Payment can be made on a fee basis or through energy performance contracting (pay as you save), where the occupants benefit from energy savings and the fee is paid over an extended period and is guaranteed to be less than the bill reduction from energy savings. The fees are used by the ESCO to pay back the capital cost of the project over a 5 to 20-year period. This model has the potential to address concerns typical to many SMEs, who are reluctant to divert working capital from daily administration and production costs.

### Current UK position and international comparators

UK businesses are generally less engaged in energy efficiency than businesses in some other countries such as Germany who have an ESCO tradition spanning 20 years, which consists of

around 500 companies offering different types of contracts and services. While Germany has the strongest energy services market, energy performance contracting remains only 15% of the total contracts for energy services<sup>13</sup> with the vast majority of energy efficiency services delivered and paid for through more conventional methods.

A GB-wide Pay as You Save (PAYS) scheme was introduced by the Government in 2013 through the Green Deal. In practice this offered similar services to ESCOs, covering assessment, finance, installation and repayment. Uptake was significantly below expectations and, in July 2015, the Government ended public investment in the scheme. However, the PAYS mechanism at the heart of the Green Deal could still have a role to play in supporting investment in energy efficiency and the government is reviewing the scheme. A [Call for Evidence](#) was published in 2017 and a summary of responses published in July 2018. Broadly, there was strong support for the PAYS concept and for simplifying the scheme. The Government would consult before making any changes to the scheme, including any that impact use of the scheme for the non-domestic sector.

There are a number of successful international examples of access to finance for improving business energy efficiency:

ING<sup>14</sup> has worked with partners in the Netherlands to develop a tool to help borrowers identify the energy improvement measures for their buildings that provide the best financial returns and greatest carbon emissions reductions. The top 10 measures per building are recommended showing indicative costs, financial returns and carbon reductions. If energy savings are found to be greater than £15,000/annum for a building, the client is offered a free on-site Building Research Establishment Environmental Assessment (BREEAM<sup>15</sup>) and energy audit.

US revolving loans – a revolving loan fund is a pool of capital from which loans are made and to which the loan repayments are returned and lent out again. The [Energy Efficiency Revolving Loan](#) (EERL) program was established through the US Department of Energy/Energy Office using stimulus funding. The purpose of the loan fund is to enable business and industry to save money by saving energy. It is administered by the Business Development Corporation who offer loans with attractive terms, such as below-market or 0% interest rates, or longer loan terms. As they are typically goal-oriented, they can create a financing product to solve a very particular need, catering to both the borrower and the goal (e.g. to be bill neutral).

## Option

We want to understand how we can encourage banks and ESCOs to engage in the SME market, including whether there would be any value in a Government guarantee to underpin loans to SMEs from ESCOs, financial institutions, energy efficiency lenders (e.g. banks, building societies) and partner organisations, to de-risk these products.

In particular, we want to understand whether a Government guarantee could enable faster mobilisation of green mortgage products, helping the market to deliver energy efficiency, carbon and bill savings without the need for long-term Government subsidy. In the case of ESCOs, we would also like to understand what is stopping them engaging with SMEs and whether such a guarantee could help kick-start this section of the market.

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<sup>13</sup> <http://publications.jrc.ec.europa.eu/repository/bitstream/JRC106624/kjna28716enn.pdf>

<sup>14</sup> <https://www.ing.com/Newsroom/All-news/How-to-save-money-and-energy-in-buildings.htm>

<sup>15</sup> <https://www.breeam.com/>

As this option is unlikely to deliver on the information and capacity barriers, we do not believe it would be sufficient on its own to deliver the step-change in SME engagement that we require. However, we are keen to gauge whether this approach could have merit as part of a wider package of measures.

## Delivery

To be attractive to SMEs, any financing product for energy efficiency must be simple to access and apply for, provide payback within an acceptable period and be readily available at a time when the business is considering renovating or upgrading its premises.

## Questions

**Q10: How could the ESCO 'pay as you save' model be adapted for SMEs?**

**Q11: Do ESCOs and banks see additional risks operating in the SME market?**

**Q12: Do you believe a scheme encouraging and helping lenders develop more innovative and attractive finance products will help generate interest amongst SMEs?**

**Q13: What types of innovative finance products or banking initiatives would attract SMEs into taking action on energy efficiency? Please provide examples.**

## Conclusion

As set out in the rationale section, over 99% of the 5.7 million businesses in the UK are SMEs, and they account for over 50% of business energy use. There is a considerable level of energy efficiency abatement potential available for SMEs but there are significant and persistent barriers preventing action. We know it is difficult to persuade SMEs to take action. Most SMEs do not have the time to engage with this issue, instead they are concentrating on delivering their day-to-day business. This means that energy efficiency rarely becomes sufficiently high priority.

We are interested in hearing your views on the 3 options we have put forward for a business energy efficiency scheme, and the relative merits of each option.

Many of these options have been implemented overseas and we would be interested in hearing about your experiences in engaging in similar schemes, in particular what has worked well and what has not.

We would also like to hear about any alternative models for the business energy efficiency scheme you think the Government should consider.

We are particularly sensitive to adding extra costs to business and will consult businesses fully before taking any option forward.

**Q14: Do you have an alternative model for the business energy efficiency scheme that we should consider?**

# Call for evidence questions

- 1. To what extent do you think that competitive tendering could be an effective mechanism to achieve energy savings through energy efficiency? What do you see as the pros and cons?**
- 2. What are the different ways of designing an auction, and which would be the most appropriate for energy efficiency measures targeted at SMEs?**
- 3. What approach should Government consider for funding a business energy auction scheme?**
- 4. What level of co-funding would maximise the value for money from the auctions and minimise competitive distortions, while providing a sufficient incentive for SMEs to take up the measures?**
- 5. What are the pros and cons of implementing a new business EEO?**
- 6. What are the relative merits of placing the obligation on suppliers, network operators, generators or other bodies?**
- 7. What models of EEOs would minimise costs while delivering efficiencies?**
- 8. A number of countries operate EEOs, what can we learn from their experiences?**
- 9. What level of co-funding would maximise the value for money from an EEO and minimise competition distortions, while ensuring a sufficient incentive remains for SMEs to take up the measures?**
- 10. How could the ESCO 'pay as you save' model be adapted for SMEs?**
- 11. Do ESCOs and banks see additional risks operating in the SME market?**
- 12. Do you believe a scheme encouraging and helping lenders develop more innovative and attractive finance products will help generate interest amongst SMEs?**
- 13. What types of innovative finance products or banking initiatives would attract SMEs into taking action on energy efficiency? Please provide examples.**
- 14. Do you have an alternative model for the business energy efficiency scheme that we should consider?**

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