



Energy Act 2011: Green Deal

Lead Directorate: International Climate Change and Energy Efficiency

Issue:

Establishment of the “Green Deal” – a scheme to encourage energy efficiency improvements paid for by savings from energy bills, avoiding upfront costs to households, private landlords and businesses.

Policy commitment:

In the Coalition Agreement, the Government made a commitment that: *“through our ‘Green Deal’, we will encourage home energy efficiency improvements paid for by savings from energy bills”* (page 16). It is intended that the Green Deal will also help to enable improved energy efficiency in non-domestic buildings.

Green Deal Finance will create a new legal mechanism allowing the obligation to repay the costs of energy efficiency measures to attach to the energy bill at a property, rather than to an individual. The obligation to pay will pass to the new occupier or bill payer should the applicant (of the Green Deal) move away. At present we know that most people who expect to move again in the next 20 years or more are put off making large investment in energy efficiency because the costs are only affordable by factoring in savings generated after they expect to have moved; Green Deal will mean they only pay whilst they remain at the property enjoying the benefits. This scheme will let householders, private landlords and businesses enjoy the benefits of energy efficiency measures and the energy bill savings they can bring, without the need for up-front finance from the customer. Payments will be collected through energy bills. The Energy Act creates powers allowing any tenant asking for reasonable energy efficiency improvements to receive them from 2016 onwards.

Provisions include:

- Ensuring an accurate and accredited assessment takes place as the first step to a Green Deal, so consumers have confidence that the measures are right for their property;
- Ensuring only accredited measures are installed, by appropriately-qualified installers, giving consumers confidence that the measures are high-quality;
- Limitations over how much finance can be attached in this way, to ensure that only packages of measures which are likely to pay for themselves over time are included;
- Consumer protection measures;
- Requirement for energy suppliers to collect Green Deal payments, and pass these onto the finance provider;
- The liability to make Green Deal Payments to rest with the person who pays the energy bill for the property; and

- That people are informed of whether there is a Green Deal Finance arrangement in place (before assuming responsibility for paying energy bills for a particular property).

Background:

The Green Deal is a solution to the problem of a current lack of investment in energy saving measures in homes and non-domestic buildings, resulting in many properties with poor energy efficiency ratings. This is despite the fact that investment in such measures can produce savings on future energy bills. The Green Deal aims to provide finance to fund fixed improvements to the energy efficiency of domestic and non-domestic properties, which will provide savings for the bill payer (and future bill payers).

The Green Deal will include a financial framework that enables energy saving measures to be paid for in instalments via energy bills. The core principle is “The Golden Rule”, meaning that the instalment payment for the energy saving measures should not exceed the projected associated cost savings on an average bill for the duration of the Green Deal Finance arrangement, which could be for as long as 25 years.

The domestic Green Deal model will be supplemented by a new Energy Company Obligation from the end of 2012, which draws on the strengths of the existing energy company obligation but also avoids some of its limitations. The new obligation will underpin the Green Deal and focus particularly on those householders (e.g. the poorest and most vulnerable) and those types of domestic property (e.g. the hard to treat) which cannot achieve financial savings without a measure of additional support on top of the Green Deal finance.

Is the Green Deal another Government policy that will make it more cumbersome to businesses to taking up energy efficiency measures?

No, the Green Deal will be a market led initiative that avoids overly bureaucratic Government intervention.

The sums don't add up without a subsidy – will the government be providing one?

No. We are developing the details of the model to ensure the lowest possible costs for bill payers, and will regulate to ensure that Green Deal Finance is only offered on packages of measures expected to pay back those costs over time.

Which measures will be available for Green Deal finance?

Only cost effective measures that satisfy the ‘Golden Rule’ (see background) will be eligible. However, due to the diversity of the non-domestic building stock, qualifying measures in the non-domestic sector may be different from those in the domestic sector.

What differences will there be between the domestic and non-domestic Green Deal?

It is envisaged that the core model for non-domestic properties will be very similar to that of the domestic proposal. However, due to the diversity and high turnover of the non-domestic building stock, it is likely that there will be some differences in the approach taken for different sectors.

Next Key Event:

- Autumn 2011 Consultation on development of secondary legislation
- First half 2012: Secondary legislation and guidance produced
- Second half 2012: Green Deal launched