

The Department of Energy and Climate Change (DECC): The Green Deal and Solar Energy

Purpose of Report

To familiarise members of the Environment and Housing Programme Board with the key issues on the feed-in tariffs for solar and the Green Deal to facilitate discussion with representatives from the Department of Energy and Climate Change (DECC).

Summary

The Phase 1 Comprehensive Review of the Feed-in Tariffs (FITs) for Solar consultation sought to halve the tariff for solar installations from 12 December 2011. This element of the consultation was deemed not legal by the High Court. The effect of the consultation has been for councils to axe many of their solar schemes, particularly on social housing, and for councils to lose thousands of pounds in setup costs. We have invited DECC to explain the implications of the High Court ruling.

The Green Deal consultation closes on 18 January 2012. It is a new mechanism for paying for the installation of energy efficiency improvements in domestic and non-domestic buildings. It is being proposed that some elements of the Energy Company Obligation, designed to subsidise the Green Deal, will not be available to social housing tenants

Recommendations

1. That the Board asks DECC about the implications of the High Court judgement and that the LGA takes action and informs its members accordingly.
2. That the Board asks DECC about key issues in the Green Deal consultation to direct officers in their Green Deal consultation response.

Action

1. Officers will take forward any actions agreed based on the discussion with DECC officials on the feed-in tariffs consultation.
2. Officers will reflect the discussion with DECC officials on the Green Deal in the LGA's consultation response.
3. Officers will take forward any actions agreed on the Green Deal.



**Environment and Housing
Programme Board**

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The Department of Energy and Climate Change: The Green Deal and Solar Energy

Background

1. At the previous Board meeting, members were concerned that, given the nature of the consultation on changes to the feed-in tariffs for solar energy and the proposals to prevent social housing tenants from being eligible for subsidy to address fuel poverty, that the Memorandum of Understanding that had been signed with DECC in March 2011 was not being adhered to. As such, members requested the presence of a DECC minister to discuss these issues.
2. The Greg Barker was unfortunately not able to attend this meeting, but we are negotiating for him to attend a future Board meeting. In his stead, two members of his staff, one from the Green Deal team in the Office for Energy Efficiency, and one from the Feed-in Tariff team from the Office for Renewable Energy Deployment will be present on the issues.

The Feed-in tariffs

3. The main items in the Phase 1 Comprehensive Review of the Feed-In Tariffs for Solar were:
 - 3.1 Halving the tariff for solar panels from 42p to 21p per kWh.
 - 3.2 Introducing this change before the end of the consultation. DECC referred to this as a 'reference date', naming 12 December 2011, whereas the closing date for consultation was 23 December 2011.
 - 3.3 An additional multi-installation tariff reduction of 20 percent down to 16.8p per kWh where installations are taking place on more than one building. This would impact on councils putting solar panels on public buildings and social housing.
 - 3.4 An additional minimum energy efficiency requirement before the property can claim the full tariff.
4. This uncertainty around the 'reference date' of 12 December meant that most councils axed their schemes, incurring both internal costs and losing millions of pounds in investment. Internal costs were on average £100,000 and investment losses are collectively in the hundreds of millions across the country. Many councils were just about to let large contracts when the consultation was announced. This was because of the lead-in time of these council projects, including due-diligence requirements, legal procedures, decision-making processes, procurement procedures, and engaging with the public.

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5. The additional multi-installation tariff reduction makes the tariff too low for councils to invest. For example Dorset County Council requires a minimum of between 23p and 32.5p per kWh is required for their schools scheme to pay for itself.
6. We have had strong representation from councils that the use of the 'reference date' has undermined their confidence in DECC-led initiatives. We were expecting a reduction in the new financial year, rather than before, and councils were working to complete their projects by 31 March 2012.
7. In our response to the consultation, we:
 - 7.1 agreed that the FITs need to be reduced due to the lowering cost of solar panels;
 - 7.2 disagreed with the 'reference date' being before the end of the consultation;
 - 7.3 disagreed with the additional multi-installation reduction;
 - 7.4 agreed with minimum energy efficiency standards, but stated that these should be reasonable and integrated with the Green Deal.
8. On 21 December 2011, the High Court deemed that DECC, in setting a 'reference date' for 12 December 2011 when their proposed changes to halve the FITs rate would come into force, as a date before the end of their consultation (23 December 2011) was not legal. The case was brought by Friends of the Earth with support from two solar industry representatives. The reference date is the only element of the consultation deemed not legal. DECC can still consult on reducing the tariff, the multi-installation additional reduction and the energy efficiency requirement.
9. We are waiting now to see whether this judgement means that the entire consultation will have to be abandoned, which means DECC would need to consult again, or whether they can continue the consultation process and just set a date for the introduction of the halved FITs rate after 23 December 2011.
10. We will be undertaking a survey of councils to fully establish the extent of the cancelation of projects and the costs involved.
11. Key questions:
 - 11.1 What are the implications of the High Court judgement on the status of the feed in tariff for solar consultation?
 - 11.2 What are you intending to consult on in phase 2 of the comprehensive review of the feed in tariffs for solar?
 - 11.3 What are the Department's latest thoughts on the multi-installation tariff, considering its impact on public buildings and social housing?

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- 11.4 What are the Department's latest thoughts on the proposed additional incentives for projects that can demonstrate genuine community benefit?
- 11.5 What are the Department's latest thoughts on future reductions or increases in the feed-in tariffs, and how will the incentive be structured to respond to the market?

The Green Deal

- 12. There is currently a consultation underway on the mechanics of the Green Deal, with a closing date of 18 January 2012. The LGA is currently developing its response. There is opportunity at this meeting to help officers shape the LGA's consultation response. **An information note on the Green Deal is included as Appendix A to this report.**
- 13. The Green Deal is a new funding mechanism to allow occupants and owners of domestic and non-domestic properties to improve energy efficiency and reduce their energy bills. The Green Deal begins with an assessment of the property. A recommendation is then made for energy efficiency improvement works, such as cavity wall or solid wall insulation. The improvement work must cost less over the 25 year repayment period (including on-costs and interest rates) than the savings on energy that can be made from the work. This is called the "Golden Rule". The occupant then has to obtain the appropriate consent before going ahead with the work. Once the work has been completed, the bill payer then pays for it as an additional charge on their electricity bill. The charge stays with the property, which means that the occupant or owner does not take the repayment with them. Any new occupant or owner of the building or home would take on the charge for the improvements. The Green Deal should work in owner-occupied, privately rented and socially rented homes, as well as in the non-domestic and public sector.
- 14. Some energy efficiency measures are still costly compared with the bill savings they accrue. Where this occurs, particularly in the case of solid wall insulation, DECC is making additional funding available through an obligation on Energy Companies, called the Energy Company Obligation (ECO). This is called the Carbon Reduction Target element of ECO.
- 15. Around 4.1 million householders are in fuel poverty in England, which means they spend more than 10 percent of their income on their energy bills. Some householders also cannot afford to heat their homes to a healthy temperature, causing ill-health and other detrimental effects. Where this is the case, the Energy Company Obligation will be used to help these lower income householders and those most vulnerable to the effects of living in cold homes, to improve their properties for energy efficiency and heating. The aim here is to reduce the overall heating bill for the property. This is called the Home Heating Cost Reduction Target or the Affordable Warmth Target.

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16. In the Green Deal Consultation, DECC is proposing to allow everyone access to the Carbon Reduction target element of ECO, but wants to prohibit householders in social homes from receiving the Affordable Warmth target element. This is because DECC believe social housing has benefited 'disproportionately' from previous energy efficiency initiatives, and that Decent Homes funding should be adequate to improve the heating and energy efficiency of social homes.
17. The LGA, the National Housing Federation, and the Energy Companies, are currently of the opinion that the Affordable Warmth target should be available to all tenures, because it is paid for on everyone's energy bills. A joint letter has been sent to Greg Barker from all the above parties on this issue. We are also concerned that the incentive for Green Deal providers and Energy Companies to work with social housing is not strong enough, because tenants in social housing are less able to pay. This means that either Energy Companies spend more money to meet their obligation, or social housing providers are expected to part-fund the improvements.
18. Many councils are taking a leading role in working out how they can deliver the Green Deal to their local residents. Some excellent examples of this include Birmingham City Council, the Association of Greater Manchester Authorities, Bristol City Council, West Sussex County Council, among others. Councils are working to three models:
 - 18.1. As Green Deal Provider – councils are unlikely to be direct financiers of the Green Deal, but many are seeking to procure an organisation to deliver the Green Deal, in line with a local ethos of job creation, and are seeking to provide some initial investment.
 - 18.2. As Green Deal Partner – councils are likely to want to partner with Green Deal providers, installers and the Energy Companies to continue to help their local residents and businesses improve the energy efficiency of their buildings. This is similar to the existing operational models.
 - 18.3. As Green Deal promoter – DECC are keen that councils generally promote the Green Deal and encourage their residents to take it up. They also want councils to provide additional incentives, such as council tax discounts.
19. Whilst councils of course want to support the Government in making the Green Deal a success, and there are opportunities to use this new initiatives to help meet local priorities, there may be reputational risks from using the 'trusted brand' of the local authority to promote what is essentially a commercial offering from companies on a profit-making basis.
20. The Home Energy Conservation Act has been retained by the Government, and we are expecting new statutory guidance for councils. Originally, councils were (and still are) statutorily required to collect information on the average energy

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efficiency of all domestic properties in their area. Based on speeches given by Greg Barker, we are expecting the new statutory guidance to require every council to do something on the Green Deal, possibly submitting an annual plan. We want this new guidance to be useful to councils, and not to be an additional burden to what is already expected.

21. The LGA has been working with DECC, leading councils, and other agencies to help develop the architecture of the Green Deal. We have also been providing updates, information, and training to councils to familiarise themselves with the Green Deal, and help them prepare. An example of this is the 'Green Deal information note' for councils, published alongside the consultation on the Green Deal. A copy of this information note is attached. **Officers welcome ideas from the Board on additional support they can be giving to councils to help them prepare for the Green Deal.**
22. Key Questions for Department of Energy and Climate Change (DECC):
 - 22.1. DECC to explain the reasoning behind proposing social housing tenants do not benefit from the Affordable Warmth element of the Energy Company Obligation?
 - 22.2. DECC to clarify whether the Carbon Reduction Target element of the Energy Company Obligation is only for solid wall – is it DECC's intention to support this technology even where other solutions are available?
 - 22.3. What do DECC see as the role for councils in ensuring the success of the Green Deal? What incentives does DECC see for councils to play a part?
 - 22.4. Is it DECC's expectation that councils will provide additional funding to incentivise Green Deal providers and energy companies to work with social housing tenants, as occurred in the Community Energy Saving Programme (CESP)?
 - 22.5. Would DECC explain the details about what we can expect from the new statutory guidance for the Home Energy Conservation Act?

Financial Implications

23. There are no immediate financial implications from this report.
24. There may be costs associated with any additional support we provide to councils based on the recommendations of the Board.