

## **A year to shout about demand side measures? What to expect from the energy efficiency industry in the UK in 2014**

**19<sup>th</sup> January 2014**

The drama around energy price rises, releases about strike prices for nuclear and renewables and progress of the Energy Bill meant that energy was rarely out of the UK news in the second half of 2013, albeit only the supply side of the equation. 2014 looks like it may be no different with Cameron stating that he is “all in” for shale and throwing out sweeteners to councils that may encounter difficult planning challenges in the year(s) ahead. The government seems to have bought itself some time by tinkering with “Green Levies” (ridiculous as it is to reduce energy efficiency support to achieve lower retail prices in the short term). However, it is probably only a matter of time before there is another row about the cost of energy or support for one technology or another.

Of course, a more straightforward way to help people with bills over the longer term is in doubling down on energy efficiency measures. Will 2014 be a year of breakthroughs for energy efficiency? They may never capture attention as energy generation issues but in a lot of cases they are a less risky and simpler way to address the same problems. The government would of course claim with some justification that they are putting a lot of time and effort into energy efficiency. Are these measures enough and will anyone outside of the sector actually notice in 2014?

### **Green Deal**

On the domestic side, the Green Deal appears to be on life support before it has got going. The Green Deal accounted for only 2% of energy savings measures installed in UK houses during 2013 with less than 500 loans provided to individuals by the year end<sup>1</sup>. Granted it was always going to take a while to scale up, but the general impression is of an instrument that is going nowhere. The list of complaints is long, from unrealistic interest rates, to adverse impact on mortgages and tough penalties and may explain the slow uptake. The key to improving uptake has to be better value with the financing packages. DECC is aware of this and launched a consultation last week around it plans to improve consumer information. It’s possible there may be progress here, but no one is holding their breath.

2014 may hold some more potential for the Commercial Green Deal. There haven’t been any transactions to date, but the complex arrangements may be better suited to commercial or local authority activity. There has been some momentum for building retrofits with the local authority sector and the RE:FIT scheme, albeit it is under an ESCO (Energy Service Company) model, has driven significant activity originally inside London, but now with other regional authorities as well (Nottingham and Leeds for example). Expect a lot more of this in 2014.

### **Financing**

With all of these schemes, public or private sector, the key is to find the right financing model. The ESCO / Energy Performance Contract model has proved suitable for large public sector programmes in the US, but it involves a lot of complexity and cost. It maybe that simpler models are more deliverable and it may also be that

---

<sup>1</sup> Reference from DECC; <http://www.theguardian.com/environment/2013/dec/30/number-households-insulation-lofts-plummets-green-deal>

relatively simple innovations such as insurance have a role to play. Third party investors remain anxious about deliverability of these long term investments even when the technology has become well established. A transparent, but low cost structure with risks identified and managed should not be beyond the wit of the finance community.

The Green Investment Bank (GIB) undoubtedly has a role to play in unlocking the non-domestic market. They have very challenging targets for to deploy capital in this sector, but have made limited headway to date, at least in the announcement of large deals. There were good signs in late 2013 with the announcement of £10m investment in a lighting project for NCP Car Parks by SDCL, one of the GIBs funds. These will presumably over time only get easier to do, so one would imagine that more announcements are likely as we go through 2014.

### **Policy support**

Other measures will bring some more policy support in 2014. DECC has recently consulted on its proposed ESOS (Energy Savings Opportunities Scheme)<sup>2</sup> that that will standardise compulsory energy audits and ensure senior (board) level sign off. This may assist with one of the key barriers to implementation, namely management time and buy in.

The issues of split incentives for landlords and tenants and a plethora of long leases providing a drag to the building retrofit sector will not disappear in 2014, but on the other hand it is one year closer to 2018 when the MEPs (minimum energy performance) start to bite. Recent information shows that about 17% of the currently let commercial property has an EPC (energy performance certificate) of F or G that will not be able to be leased from 2018<sup>3</sup>. If, as anticipated, the standards tighten further to include E, then the share of the commercial rental market moves to 35%. No one is being forced to do anything in 2014, but at some point soon more efficiency retrofits need to start happening at scale.

Monitoring & verification (M&V) is an area that could use some policy support as well. During 2012, only 7 out of 10 projects used a recognised M&V protocol like IPVMP with many in the commercial sector having not M&V at all and unable to evaluate the success of the project<sup>4</sup>. IPVMP is however becoming increasingly established through the RE:FIT program and the NHS Carbon & Energy Fund and it should continue to gain ground in 2014. If the IPVMP was formally incorporated into the Commercial Green deal it could make the difference in turning it into a truly industry wide standard.

None of these measures are likely to hit the headlines like a good argument about shale gas but it's just possible that there is finally a confluence of factors that will result in some solid progress in the UK in 2014. The GIB estimates that there is the potential to save 196 TWH by 2020 from demand side measures<sup>5</sup>. Things need to start to happen soon if this is to be realised.

**Chris Villiers for Parhelion Underwriting Ltd. 2014 ©**

---

<sup>2</sup> DECC consultation in H2 2013;  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/211977/20130708\\_-\\_ESOS\\_Consultation\\_Document\\_FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211977/20130708_-_ESOS_Consultation_Document_FINAL.pdf)

<sup>3</sup> Construction Index (<http://www.theconstructionindex.co.uk/news/view/epc-failure-set-to-blight-commercial-property#!>)

<sup>4</sup> Westminster Sustainable Business Forum and Carbon Connect; Reducing Energy demand in the Commercial Sector, released November 2013

<sup>5</sup> <http://www.greeninvestmentbank.com/what-we-do/energy-efficiency/default.html>