



Amendments to the Carbon Emissions Reduction Target **Consultation response from the National Insulation Association**

This submission is from the insulation industry and has been produced by the National Insulation Association (NIA).

The NIA represents the manufacturers and installers of insulation products including cavity wall and solid wall insulation, loft insulation, draught proofing and other innovative products. We have consulted widely in producing this response and have no objection to its contents being made public.

Summary

We are extremely concerned by the proposals recommended in this consultation which are already being enacted by energy suppliers and if unchanged will continue to seriously damage the insulation industry and prevent Government from achieving its long term carbon saving goals.

The insulation industry was asked by Government to gear up for a major increase in installed insulation volumes in CERT which it duly did with significant investments in both contracting and manufacturing capacity despite a 15% decline in insulation volumes in 2007. This was supported by the review of the insulation industry supply chain undertaken by ESD on behalf of Defra in February 2007 which concluded that 3m cavity wall installations and 2.1m professional loft installations were achievable.

However, based on the current level of installed insulation activity and forecasts provided for professionally installed insulation measures by energy suppliers we expect overall insulation volumes under the amended CERT proposals to be some 20% down (40% for cavity wall insulation) on the original CERT illustrative mix. This is despite a 20% increase in the overall CERT target, a commitment to insulate 6m households by 2011 and the creation of new green jobs announced by the Prime Minister in September 2008.

This significant shortfall in insulation activity against what could and should be delivered in order to meet other policy aspirations has a number of serious consequences:

- The aim of insulating all cavity walls and lofts by 2015 included in the HES Consultation could not be achieved.

- Rather than creating new jobs in the insulation industry (we estimate around 4,000 if the CERT illustrative mix volumes were delivered) there will be serious job losses within the industry. There is currently around 25% under utilization of contracting capacity and this is expected to worsen considerably over the spring and summer as energy suppliers reduce their levels of marketing activity.
- A downturn provides the wrong signals for investment to those companies who will need to invest in systems and capacity to make the transition from cavity wall and loft insulation to solid wall insulation.
- The whole basis of CERT as a credible and successful delivery framework and model will be undermined with notional and inflated carbon savings being delivered at the expense of real carbon savings through hard insulation measures.

We are therefore calling on Government to take the following actions:

- Remove the proposed behavioral change measures and uplifts for loft insulation and retain the existing rewards system for measures.
- Take action to restrict the number of CFL's undertaken during the remainder of CERT.
- Increase the volume of installed insulation measures undertaken during the remainder of CERT to ensure a trajectory to achieve the HES aims by:
 - Ring fencing the additional 20% target to insulation measures.
 - Making an early announcement of the shape and structure of CERT2 to include:
 - The provision of an incentive in the form of an uplift for energy suppliers on professionally installed insulation measures carried forward from CERT to CERT2 where these are over and above a threshold.
 - A significant increase in the carbon saving ambition for CERT2 and an intention to ring fence the insulation contribution within this.

Consultation Questions

Do you agree with the Government's proposal to raise the CERT target by 20%?

We welcome the increase in target but do not feel that this goes far enough. Almost 25% of the original target was carried over from EEC2 and after just nine months, 49% of the original target has been achieved.

The target should be increased further so that CERT becomes a stepping stone to the ambitious post 2012 plans, specifically the aim of insulating all cavity walls and lofts by 2015 outlined in the Heat and Energy Saving Strategy Consultation.

Do you agree with the Government's proposal to increase the cap on innovative activity to 10%, and to retain a further 2% cap for additional microgeneration activity?

Given our responses on behavioral change measures later in the document, we do not support such an increase. The scoring for the new behavioral measures is notional and not based on firm carbon saving data from real GB households. Therefore to increase the scope for these to be increased further is unjustified.

In addition, the scores for the two new measures are inflated and when combined with the energy suppliers marketing expertise and creativity and ability to deliver these at marginal cost they are likely to be installed on a mass basis even without an uplift. Uplifts will result in unnecessary carbon savings being lost from the programme and should only apply to measures that are genuinely innovative such as solid wall insulation.

Do you agree with the Government's proposal to give RTDs a predetermined carbon score in the CERT Order? Do you agree with the scores proposed?

No. While we support the Government's efforts to tackle behavioral change in order to engage householders and stimulate action, we are fundamentally opposed to the inclusion of RTDs in CERT, especially at the proposed scores. Whilst these measures should be encouraged, they should be supported and funded from outside of CERT.

Significant investment decisions have been made by insulation companies based on the signals given by Government on the likely insulation volumes under CERT. Introducing new behavioral change measures with the capacity to be rolled out on a mass basis at marginal cost by energy suppliers and significantly reduce professionally installed insulation volumes part way through the programme is unacceptable.

The inclusion of RTDs runs contrary to the primary aim of CERT which is to deliver hard energy/carbon saving measures. If included, there is a significant risk that RTDs will be rolled out on a mass basis similar to CFLs reducing the number of hard measures installed and compromising the Government in their aim of insulating all cavity walls and lofts by 2015.

It has been suggested by some that at the scores proposed, RTDs are unlikely to be 'cost effective' for energy suppliers. We do not believe this as consumer electronics prices fall rapidly on a mass scale and with the energy suppliers marketing expertise and creativity we believe

that they are capable of delivering on mass at marginal cost and thereby flooding the market with RTDs. In fact energy suppliers are already offering RTDs free with cavity wall insulation.

The aim of behavioral change measures is to stimulate hard action and therefore to include RTDs within CERT as proposed seems illogical because every £ spent on an RTD is a £ less spent on a hard measure such as insulation. The perverse effect is that RTDs could potentially stimulate demand for insulation measures which cannot be satisfied due to a lack of funding.

In terms of the notional scores, others better qualified to comment than ourselves insist that there is insufficient evidence to justify the proposed scores. Furthermore, we have severe doubts about the lifetime of 15 years being awarded to the savings from RTDs. The lifetime is unrealistic as the UK is committed to having all households fitted with smart meters within ten years. So the RTDs cannot have such long lifetimes as they will be superseded by much more effective feedback devices when the smart meter is installed. In addition, when combined with the fact that short life batteries (need to be replaced within one year) will repeatedly need replacement and yet command a 75% score of the long life version, there does not appear to have been account taken of the electricity consumed by mains powered units, there is no requirement to install hard measures alongside the RTD or check usage or consumption post installation and no account is taken of them breaking then the notional carbon saving scores appear to be significantly overstated.

In summary therefore whilst we support the principle of behavioral change measures we do not believe that they should be included in CERT.

If however, Government decides to include them in CERT despite the serious issues and risks identified above, the scores need to be revised to be more realistic and strict rules put in place to restrict their deployment and ensure that they do not dominate and destabilize the programme in the way that CFLs are doing at the present time. This should include a cap on the number of RTDs that can be undertaken by each energy supplier which is only large enough to provide statistically robust data to determine their true benefits.

Responders are invited to comment if displays with these or other attributes should be given a higher score and if so, what it should be and how it should be determined.

Given the above it is not appropriate and as previously stated we do not believe that RTDs should be included within CERT.

Do you agree with the proposal to give home energy advice a fixed score under CERT, and do you agree with the score proposed?

As with RTDs, while we support the principle of home energy advice we do not believe that it should be included in CERT, especially at the scores proposed. Whilst home energy advice should be encouraged it should be supported and funded from outside of CERT.

Significant investment decisions have been made by insulation companies based on the signals given by Government on the likely insulation volumes under CERT. Introducing new behavioral change measures with the capacity to be rolled out on a mass basis at marginal cost by energy suppliers and significantly reduce professionally installed insulation volumes part way through the programme is unacceptable.

The aim of behavioral change measures is to stimulate hard action and therefore to include home energy advice within CERT as proposed seems illogical because every £ spent on this is a £ less spent on a hard measure such as insulation. The perverse effect is that home energy advice could potentially stimulate demand for insulation measures which cannot be satisfied due to a lack of funding.

While others better qualified than ourselves do not believe that the proposed carbon savings and lifetimes attributed to them can be justified, we would make the following points:

- The most relevant UK example is the Green Doctor trial carried out in Leicester. The results showed that with a sample of 794 homes, savings were obtained which averaged £12.5/year cash saving and 0.31 tCO₂/year **i.e. half the DECC proposed value.**
- Sarah Darby's report referred to in the DECC consultation says "It could be argued that this was solely due to physical measures, but the strong emphasis on participation and learning suggests a contribution from inadvertent feedback.". In other words, the values quoted often include energy savings from advice and from the physical measures that were installed as a result of that advice – clearly there is a risk of double counting energy savings.
- The Enviro report referred to in the consultation says on page 172 that "**little evidence exists to show how behaviors can be influenced in the long term**".
- **EST only counts EEAC/EST advice centre savings for 1 year.**

Again we believe that DECC should be concerned that the energy suppliers are fully capable of rolling this measure out on a mass market basis at marginal cost through the wealth of individuals that currently visit their customer's homes including service engineers, meter readers and insulation surveyors. Once again this would be at the expense of proven energy saving measures with long lifetimes and real carbon savings such as insulation and could compromise the programme and the Government's longer term objectives on insulation referred to earlier.

In addition, advice is already included as standard in many CERT insulation schemes and as a means of energy suppliers generating leads and enquiries. Providing a full carbon saving for advice given therefore means that Government would potentially be cross subsidising an element of the energy suppliers existing marketing and customer acquisition costs associated with hard measures.

Finally, we have serious concerns about how many different pieces of advice could be provided to a single householder by the same energy company and the potential for all energy suppliers to provide advice to the same householder.

If however, Government decides to include home energy advice within CERT despite the serious issues and risks identified above, the scores need to be revised to be more realistic and in line with the evidence presented and consistent with the metrics applied by others including the Energy Saving Trust. There would also need to be strict rules put in place governing their deployment. These should include:

- The advice can only be given alongside the installation of hard measures and must be given in the home.
- A follow up visit to the customer's home should take place each year that the advice is accruing carbon savings to ensure this is still being acted upon.
- Energy suppliers should be required to monitor and report energy usage from the householders receiving advice in a consolidated form on a before and after basis.
- Controls should be put in place to ensure that households can only receive one piece of advice from one energy supplier to avoid double counting.

In addition, to avoid home energy advice flooding the market and thereby dominating and destabilizing the programme, the amount of home energy advice measures that could be provided should be capped in total across all energy suppliers to a level which is only large enough to provide statistically robust data to determine their true benefits.

Do you agree with the proposal that the DEA qualification should form the basis for provision of CERT advice? If not, please state your reasons and suggest alternatives.

This should be based on the level of advice to be given and experience from other programmes.

Follow up contact with householders. We would welcome stakeholders' views and will explore this further as part of the consultation process.

If home energy advice is to be included in CERT, follow up contact must be a pre-requisite and not an option and should be via an annual home visit. No carbon score should exist without such continuous contact.

It has been suggested that there may be added value when a real time display is installed and its use explained as part of HEA. We welcome views on whether this warrants a slightly higher score.

As the savings and lifetimes for both RTD's and home energy advice are so uncertain then such a proposal seems to be totally unwarranted.

In addition, all RTDs should be provided with clear instructions and advice on how to use them and gain the maximum benefit and therefore additional explanation should not be needed or an enhanced score given.

Finally, where advice and an RTD are provided together to the same household there is a high probability that the carbon saving benefits will be double counted. Therefore should an overall score not be awarded where the two measures are delivered together which is lower than the total of the carbon savings from the two individual measures to reflect double counting of the benefit?

Do you agree with the principle of encouraging loft top ups even though these incentives represent a loss of carbon to CERT as a whole?

We agree with the principle of encouraging loft top ups as part of a whole house approach where they are undertaken alongside other hard measures such as cavity wall insulation and can be justified on the basis of the avoidance of additional acquisition and surveying costs in the future.

However, we do not support the proposed method of encouraging loft top ups which could largely result in extra carbon savings being awarded to energy suppliers on measures that will be undertaken anyway.

Are the proposed uplifts sufficient to provide an incentive for suppliers to promote loft top-ups to the priority group and others?

The level of uplifts proposed is insufficient to make loft top-ups cost effective for energy suppliers in the priority group (private sector) where energy suppliers have indicated that an uplift of around 300% would be needed. As far as non priority group customers in the private sector are concerned, DECC have not considered the issue from a customer perspective. Currently in CERT, topping up from an existing thickness of >60mm typically requires the customer to make a contribution of ~£250 out of a total cost of £300; the payback for the customer is more than 12 years. Awarding a 50% uplift to energy suppliers, reduces the customer contribution to ~£225 and the payback to 11 years. We are doubtful if that will affect the customer buying decision significantly.

Therefore in both cases the proposed uplifts will not incentivize additional uptake in the private sector but instead be given on measures that would have been largely undertaken anyway and result in a loss of carbon and less insulation measures overall.

Providing uplifts as proposed is the worst possible outcome and should not be applied!

Are there other ways within CERT in which we could achieve this outcome?

Uplifts could be considered in cases where lofts are topped up in conjunction with cavity wall insulation in the same property as a means of avoiding marketing, acquisition and surveying costs in the future (estimated to be around £70) and enabling the customer to have their home fully insulated. Customers do not understand the intricacies of the CERT scoring mechanism and cost effectiveness (and nor should they) and simply do not understand why they are unable to have their loft topped up when the cavity wall is being insulated! However, if this was introduced, to compensate for the reduction in total carbon delivered the overall CERT target should be increased.

Do you agree with the inclusion of DIY loft insulation and the level of uplift proposed?

No. DIY loft insulation already provides customers with a low cost option to top up their loft insulation, is already highly cost effective for energy suppliers and customers and being sold at very attractive prices. In EEC2, the average cost of DIY loft insulation to householders was £88 and payback periods were so attractive to householders that 60% more households bought DIY loft insulation than Defra anticipated in the illustrative mix.

Therefore, while there is a market failure in terms of professionally installed loft top ups to warrant the consideration of an uplift, there is no such failure for DIY loft insulation or evidence to justify the need for an uplift. If applied this will simply reduce the overall carbon savings from CERT unnecessarily.

In addition, as Government is aware there are issues with double counting linked to DIY loft insulation entering the trade supply chain and the provision of an unnecessary uplift will increase the likelihood of this.

Should the total uplift offered for loft insulation in this way be capped to limit potential carbon losses? At what level should any such cap be set?

We do not agree with the proposed loft uplifts.

Backdating the introduction of new measures and incentives to 11th September 2008.

As stated earlier we do not agree with introduction of the new measures and the uplifts on loft insulation.

However, if the Government decides to introduce these despite the issues and risks identified, we believe that this should be determined on a measure by measure and uplift by uplift basis with the start date linked directly to the point at which the detailed rules surrounding these were finalized by publication by Ofgem. For example if the uplift on DIY loft insulation goes ahead the uplift should only be applied from the date at which the new supplier guidelines to prevent double counting are published by Ofgem.

In addition, if the decision is made to backdate measures/uplifts, then the scores attributed as a result of this consultation should be applied from the same date.

If however, following the consultation the new measures and uplifts **do not** go ahead, then the scores for those measures already undertaken should be excluded or if this is not practical then the carbon savings awarded should be added to the CERT target and only be met through existing qualifying hard measures.

CFLs – We would welcome consultees’ views on this issue and how they could be managed for the remainder of the CERT period.

We are extremely disappointed that this issue has not been addressed and action taken earlier given that we formally alerted both Ofgem and Defra to the potential for multiple energy suppliers to supply four free CFLs to the same household in June 2008.

It is imperative that action is taken now to tighten the existing guidelines and limit the supply of CFLs for the remainder of the programme to avoid undermining CERT with carbon savings being attributed to products that are sitting in drawers and not being used at the expense of hard insulation measures that deliver guaranteed savings from the point of installation. The argument that it doesn't matter that the CFLs are in the drawer as they will be used at some point in the future ignores the fact that incandescent light bulbs are beginning to be phased out from next year and so householders would have to buy CFLs from that date anyway. Once again the genuine additionality of the action is questionable.

There are a number of ways that CFLs could be managed for the remainder of the CERT period:

- Not allowing any more CFLs to be used under CERT.
- Reducing the carbon saving score to reflect the large quantity of CFLs that will now be installed in low usage fittings or not used at all before incandescent light bulbs are banned.
- Prevent energy suppliers from delivering any further CFLs if they exceed the original CERT illustrative mix volumes of CFLs pro rata to their obligation.
- Not credit energy suppliers with carbon savings from delivering any further free CFLs if they exceed four times their average customer numbers in the CERT period.

In addition, Ofgem should issue clarification to all energy suppliers immediately that only one energy supplier is permitted to issue a total of four free CFLs to each household.

Do you agree with the Government's proposal to seek additional information on the delivery of measures under CERT?

Yes it is vital that CERT becomes more transparent in terms of the actual usage of measures. If new behavioral measures are introduced then robust controls must be put in place to prevent the potential for 'gaming' and double counting as has been the case with CFLs. This should include the requirement to provide details of the name and address of customers who receive RTDs and home energy advice.

In view of the concerns expressed in relation to DIY loft insulation, monitoring mechanisms need to be strengthened to ensure that it is only used for retrofit DIY loft top ups and not for example for new build and extensions carried out by small developers and self build which are covered by building regulations.

Given the importance of insulation measures and the Government's wish to see rapid delivery in this area, views are particularly welcomed on the incentive structure of any carry-over.

In order to meet the HES aim of insulating all cavity walls and lofts by 2015 the delivery rate for installed insulation measures and the associated industry capacity needs to be ramped up during the CERT period.

To increase the insulation volumes during CERT, the following two actions are proposed in relation to carry-over:

- To provide an uplift to energy suppliers for professionally installed insulation measures within the CERT2 scoring for measures carried forward from CERT at a level to enable them to make a business case for bringing forward investment and compensate them for the impact of cash flow. The way in which this is done is important to avoid the potential for 'gaming' which would undermine the objective. Therefore such uplifts should only be provided on professionally installed insulation measures 'over and above' a threshold level to be agreed based upon the likely volumes to be delivered in CERT+20% in any event. This incentive would need to be sufficiently attractive for energy suppliers to both achieve the threshold level and then exceed it.

And

- An early statement to be made by Government proposing an increased carbon saving ambition for CERT2 and an intention to ring fence the insulation contribution within this.

These two actions together would provide the incentive for energy suppliers to increase professionally installed insulation volumes during the remainder of CERT in order to take advantage of the uplift and to take advantage of an early start date on a more aggressive target.

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