



**A response by Summerlease Ltd to the 29 questions posed within
DECC's consultation-paper on heat and energy-saving, 2009.**

by B.G.Prior and Dr D.C.Pike.

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1. INTRODUCTION.

Summerlease Ltd (SLZ) is a family company based in the Thames Valley. Its original and core business is in extraction and supply of aggregates to the construction industry. SLZ has been investing in renewable energy since the mid 1980s, and this has come to be the largest part of its activities. It was one of the first renewable generators in the country, commissioning its first power station (on landfill gas) in 1987. The landfill-gas business grew to be one of the largest renewable generators, producing over 300 GWh p.a., before being sold to Infinis Ltd in 2007. Since the start of the decade, SLZ has been investing, to replicate its success in taking landfill gas from immaturity to maturity, in other renewable sectors, through subsidiaries in anaerobic digestion (AnDigestion Ltd), renewable hydrogen (Green Hydrogen Ltd), and wood-pellet distribution and supply (Forever Fuels Ltd).

Since before the privatisation of the electricity-industry, SLZ has been active, for example through trade-associations such as the Association of Electricity Producers and the Renewable Energy Association in pressing successive Governments for changes in policy to promote more effectively radical changes in the use of energy. SLZ has also commissioned several research projects in that area and made the results available to Government departments and to others. These activities and its corporate philosophy have led SLZ to distil some guiding principles that are quite different from those upon which the current Government is erecting its policies for energy.

- Social cooperation is best achieved through voluntary exchange.
- Government should support this cooperation by protecting individual freedom (in the narrow or negative sense).
- A key part of government's role in this regard is the creation and enforcement of the institutional framework for (a) protection of property rights and (b) competitive markets for all those goods and services for which voluntary exchange is possible.
- Where that institutional framework fails to take full account of the material, external impacts of activities on people or property, it should be improved through the introduction of measures to internalize those externalities.
- Activities and transactions that cause material external harm should be prohibited unless those who suffer the externalities can be satisfactorily compensated.
- The people best placed to judge what is satisfactory compensation are those who suffer the externality, and the best approach to internalizing externalities is the creation of institutions that allow inflictors and sufferers of externalities to reach a mutual valuation of the compensation.
- Transaction costs may make the above ideal impractical in the case of diffuse externalities with many sufferers or inflictors. In these cases, the least bad alternative is for government to impose a cost on inflictors and

compensate the sufferers, in a manner that most closely reflects a reasonable valuation of the externality.

- Where markets can be created to yield a realistic indication of the value of externalities to inflictors and sufferers, they should be preferred to calculation. But a market in a derivative whose value is not proportionate to the cost of the externality is not an adequate proxy for a market in the externality itself, and is worse than valuation by calculation. There is no inherent virtue in markets, unless the information and incentives conveyed through the price provide rational signals that allow people to weigh the merits of alternative actions.
- Measures to internalize externalities should be proportionate to the impact of the externality, regardless of who causes it, how it is caused, who suffers the impact, what technologies might be used in mitigation, or any other factor. Targeting, banding, and so on always produce a less efficient solution.
- A single externality should be internalized through a single mechanism. Creating two (or more) mechanisms for one externality or one mechanism that supposedly covers two (or more) externalities produces anomalies and obfuscates the signals that the market needs in order to direct investment to the most efficient solutions.
- Mechanisms should be as simple as possible. Complexity causes inefficiency, distortion, and opportunities for rent-seeking.
- It is important to “grandfather” any mechanisms introduced, in order to avoid deterring early-bird investment for fear of missing out on support when it is introduced.
- Mechanisms that present a material risk of modification by government deter investment and cost more per unit delivered, because of the fear and cost of sovereign risk. The more complex and the more targeted a mechanism, the more likely it is to be changed, and therefore the less effective it will be.
- Rewarding non-causation of externalities is no more a reasonable alternative to internalizing externalities than rewarding non-aggression is a reasonable alternative to punishing aggression.
- The government does not and cannot have good enough information to make a judicious choice of which technologies, solutions or projects are more likely to succeed. The record has been particularly poor in the energy sector. Grants should always be a mechanism of last resort, where no other option is feasible. They should be limited either to the sort of early-stage research that the private sector might not fund, or to small and widely-spread funding where no attempt is made to pick winners. Grants to pre-commercial and commercial technologies and projects usually do more harm than good, both to the recipient and to the competitors who are disadvantaged.
- Poverty is a welfare issue, not an energy issue, and should be addressed through welfare measures, not by distorting the energy market.

The rest of this response consists of the 29 questions set by DECC, and SLZ’s answers to them.

2. DECC'S 21 QUESTIONS, AND SLZ'S ANSWERS.

Q1: Do you agree with the level of ambition and the indicative pathway set out in this chapter? If not, why, and what alternative would you suggest?

No, we do not agree; we are disappointed with the low level of the Government's ambition, and we have grave reservations about the pathway that DECC has indicated.

It is important that the process of changing the behaviour of consumers is put into top gear as soon as possible, and it seems that the Government's plan is avoid serious changes until about 2015.

Furthermore, we object to the unduly prominent position that is again to be allowed to the large utility companies, which already have an unduly tight grip on markets, especially since a previous government abandoned undertakings given at the time of the privatisation of the electricity industry and then allowed the large utility companies to become vertically integrated generators and suppliers.

And we note with dismay that, although the Government now declares its intention, in relation to CESP, to move away from a *'supplier-led approach'*, this document makes no mention of close participation by companies in the private-sector other than the large utility companies.

So where will the responsibility lie in future for taking decisions at the level of individual projects? It seems that the intention to give more responsibility (and thus power) to local authorities, and somehow also to *'the community'*. The term *'community'* is not defined here, but one can imagine that it might mean a group of individual householders conceived as having common aims and ideas. This may seem superficially attractive, but deeper thought quickly leads to the observation that local authorities already have the (sometimes difficult) task of representing those communities, and resolving conflicting interests within and between them

Our experience is that local authorities have limited resources and relevant expertise and, in these times of recession/depression it will be necessary for extreme care to be used in any plans that will entail yet more public expenditure. We therefore recommend that local authorities focus on strengthening their relevant regulatory roles rather than expanding their scope, especially into the proper domain of the private sector. In particular, we recommend that Building Inspectorates are developed to the point at which all of the inspectors understand the challenges (in the context of this document) presented by both new construction and upgrading of existing buildings, and are conversant with the sources of viable solutions. They are already an important source of information for the general public and builders, but they will need much more support to widen their role as we

suggest. And, in addition to the impact that they could have on individual projects, there is a good opportunity for them to raise their game by making them part of the teams that draw up and implement sustainable energy action plans for local authorities, such as was done recently at Swansea, with the support of the authors of this response and others.

Although it is possible to train people to some extent in classrooms, on-the-job project-work, during planning, construction and extended operation (with proper monitoring and report-writing) produces much better technical professionals.

Our view is that EU-ETS will continue to fail to provide a secure basis for pricing the harm caused by emissions of fossil carbon. We therefore urge the Government to reconsider the application of a carbon-tax applied to fossil fuels at the point at which they enter the wholesale market.

Q2: Do you agree with the Government's policy approach set out in paragraphs 1.31 onwards to achieving our ambitions on heat and energy saving?

No, we are disappointed to see no reference here to reducing carbon or increasing efficiency. Proportionality and effectiveness must be given priority, but we see nothing about what will cause individuals and businesses to take action. Raising awareness will be almost useless unless people and bodies are motivated by incentives.

Q3: How can the Government encourage people and communities to change behaviour to save energy? What is the appropriate balance between changing attitudes, and providing advice and information?

As has already been written above, the Government should apply a carbon-tax to fossil fuels. Some of the proceeds thereof could be used to support poorer households. All the time that fossil-fuel energy for heating is as cheap in the UK as it is again today, encouragement of individual people to change their behaviour to save energy will achieve only partial success.

Some people have already made substantial changes without much support from the Government and a growing number are now showing interest, but there are many who will still fail to achieve much in the way of savings unless the government adopts more radical tactics than encouragement.

Advice and information of a general kind is readily available but site-specific advice from competent professionals who will take responsibility for the consequences of their advice (which is what people will want if a 'whole-house' policy is pursued), is costly.

Q4: How can home energy audits be made most useful, and do you agree that the Government should use Domestic Energy Assessors, who have been suitably trained, to deliver them as widely as possible?

A fairly simple energy audit can be conducted remotely by questionnaire, and can, if the questionnaire is properly designed, identify at relatively low cost the scale and scope of main relevant features of a building. This, coupled with a quick site-visit, might be enough for the purposes of an energy-performance certificate (EPC).

Advertisements on the Internet offer EPCs for £50 to £85, and that scale of fee would not buy a lot. A full audit would surely have to include a more thorough site-inspection by a person who is thoroughly conversant with all of a very wide range of issues. Then there would have to be time to be allowed for thoughtful analysis and calculations, and discussions with the occupiers of the buildings. Some of that work could certainly be done by persons trained at the level of technician but they ought then to be supervised and supported by a higher level of qualified engineer or surveyor (or perhaps architect).

These professionals ought to work within a quality-management system that accords with the principles of ISO9000. The broad framework of the systems to be used for the energy-audit should be standardised, preferably in a British Standard.

But again, without adequate incentives, audit will achieve very little.

Q5: Should the Government work with industry to develop accreditation standards for advice about, and installation of, energy efficiency technologies? What would be the best model for such a scheme, and why?

The Government's proper role in accreditation is to ensure that any scheme for certification can be evaluated by a competent, independent body, and that is, in fact, the case as UKAS exists as the national accreditation body.

Standards for advice about, and installation of, energy-efficiency technologies should be produced within the ambit of the British Standards Institution, unless international (CEN or ISO) standards already exists or are being developed.

If the Government wants to promote such standards by discussion with the industry, the relevant trade-associations should be invited to nominate representatives for this purpose, and to propose a model.

Q6: Are the information, advice and support services provided by the Government to businesses effective in encouraging them to reduce their energy use and their CO₂ emissions? What other types of support services are useful and how can these be provided cost effectively? Is there scope to do more on behaviour change through businesses and their employees? Please support your suggestions with evidence.

No. All businesses will respond to a carbon-tax set at the right level by changing their behaviour. If the Government were to impose such a tax, and then do nothing else to encourage businesses to reduce their energy-use, businesses would quickly find out the information they need, as they do for every other aspect of their operations.

Q7: Are the existing commitments for public sector buildings sufficient for the public sector to fulfil its role in driving improvements and leading by example?

No; we see only sporadic gains so far; again, the imposition of a carbon-tax would be the most effective driver of change.

Q8: What will be the most effective way for Government to develop RHI and FIT policy so that combined financing packages of insulation, renewable heat and small-scale low carbon electricity technologies might be offered?

This level of packaging is probably too ambitious. One can see the logic of linking insulation and renewable heat – it is arguable for example that payments associated with the RHI should be scaled back in respect of buildings that are not well insulated. But current small-scale low-carbon-electricity technologies have no obvious link to the other two kinds of improvement. Incentives should encourage investments in those combinations of technologies that are most cost-effective for the particular locations. The market should decide what (if any) packages are appropriate for the circumstances.

It is relevant that combined packages for electricity and gas have not proved to be very successful, and indeed have been found to have been abused by some energy suppliers.

Q9: What action, if any, should the Government take to enable finance to be arranged for the higher cost energy efficiency and low carbon measures? Are there other options the Government should consider? Please provide evidence to support your response.

It is very worrying that the suggestion is being made that the DNO should be encouraged to intervene in parts of the market that are properly the

competitive domain of the private sector. If measures are viable, then the market will provide finance, and *vice versa*. Investments that do not yield acceptable pay-backs will exacerbate household debts.

Q10: What should the Government do beyond these initiatives to promote investment in energy saving and low carbon energy technologies in business and the public sectors?

The Government should avoid wagging the dog by the tail. If the business sector is sufficiently motivated to change its pattern of use of energy, then it will find the finance to do so in the same way in which it makes other investments. Of course, at the present time, business generally is finding difficulty in obtaining loans from banks for any purpose, but pressing the Government to borrow more and more so as to be able to rescue and/or incentivise particular sectors with gifts or loans of public money has led the country into very substantial levels of public debt already.

As to the public sector, investments in the field of energy must necessarily be made from public funds. As the public sector must soon start to be cut back, this means that progress with energy may be associated with the trimming of other budgets. With that kind of pressure, it is more likely that public bodies will take more care to find best value, by focussing first on insulation and then on renewable heat, and by avoiding schemes based on unproven technologies.

Parts of the public sector have played an important role as early adopters of renewable-heat technologies, even in the absence of an incentive that makes the technologies viable for organisations for which commerciality is more important. This may no longer be an option. If the public-sector is to continue to play its part, the Government may need to encourage the private-financing of future low-carbon installations, for instance through the establishment of ESCOs through which private-sector energy companies supply public-sector properties. This will only be possible if an adequate return can be achieved by the ESCO, which depends on the value of the energy-saved, which in turn depends on whether the mistaken efforts to keep fossil heating-fuel prices as low as possible continue.

Q11: Should levels of support through the Renewable Heat Incentive vary by technology and/or customer group? Are there any other ways of differentiating levels of support under the RHI?

The RHI should not be varied by customer-group. On principle, the RHI should not be banded because the aim should be to present customers (and other sources of funds) with best value.

If the Government were nevertheless inclined to try to target greater support towards smaller-scale models of the various technologies, on the

assumption that economies of scale made larger models more economic, a better way to achieve this than banding (which introduces many perverse incentives) would be to “front-load” the RHI, by providing a higher level of support per MWh for an initial number of MWh, falling back to a lower level of support per MWh thereafter. There are many ancillary benefits of this approach over size-banding, which we will set out in more detail when the Government consults on the detail of the RHI.

If the Government adopted a carbon-tax and set it at a sufficiently high level then consumers would naturally be interested in avoiding that tax at the least cost in their particular circumstances. Then natural market-conditions would operate, and the Government would avoid having to consider the perceived problem of ‘*over-subsidising some of the less expensive technologies*’. It should be the private sector, and not the Government, that funds the development of the more expensive technologies. Then the complexity and sovereign-risk of banding could be avoided.

Q12: How can we introduce the levy to fund the Renewable Heat Incentive so as to minimise suppliers’ administrative costs and reduce uncertainty among suppliers of fossil fuels for heat?

As already stated above, we urge the Government to apply a carbon-tax to fossil fuels at the point at which they enter the wholesale market.

Q13: Do you think that financial institutions, such as banks or other loan companies, would be an effective way of assisting potential small-scale heat generators (such as householders) with financing of the initial capital cost of renewable installations? What other considerations, if any, should be taken into account when determining eligibility for an up-front payment (for example, only generators with equipment below a certain size can apply, such as domestic customers)?

This is a question about capitalisation, which should be left to the market.

As ‘the underlying principle of the RHI is that it should reward the actual generation and use of renewable heat, rather than, say, the purchase of equipment that may be used rarely’ then it is important that even small-scale installations are fitted with meters if householders are to receive payments from public funds, unless such work is impracticable; for example, it is not sensible to fit a meter on a room-heating, wood-fired stove. This leads on to consideration of the level at which a *de minimis* exemption from metering might be set, and we suggest 5 MWh/year.

Arguments are often heard against this position on the grounds that heat-meters cost about £200, and thus significantly increase the capital cost of a small project. But there are larger arguments in favour of the compulsory

fitting of meters – indeed some are the very arguments that the Government itself uses to promote smart meters for electricity and gas – and it is important not reward the practice of running renewable heating flat out with the windows open (yes, it happens!).

If a carbon-tax were imposed at the right level, then there would be a financial incentive not only to install but to use small-scale systems for renewable heat. If the banking sector had not destroyed itself, and if it had not gobbled up sound old-fashioned building societies, it is likely that householders could have obtained extensions to their mortgages specifically to investing in such systems.

Q14: How can we maintain demand for renewable heat technologies before we introduce the Renewable Heat Incentive?

Our experience of the Bio-energy Capital Grants Scheme, and indeed other grants, is not favourable. The rules for grants should be tuned to particular circumstances. For example, when public funds are made available to promote innovation, there is a case to be made for a competition, and then for a selection of the best candidate(s) for the grant. But, in the case being considered here, the grant-money must be made available to **all** candidates who fulfil the selected conditions, which must be published in advance. To operate such a scheme fairly (and fairness is a word frequently used in this document), the Government will have to generate enough capital to cover two or three years of such a scheme. A levy on the fossil fuels used for heating could provide the funding.

According to an announcement included within the recent budget, the main mechanism through which bridging funds will be targeted at renewable heat before the introduction of the RHI will be an additional £45 million for the Low Carbon Buildings Programme Phase 2. An oligopoly of “framework suppliers” was deliberately created by the Government, through which money from this fund is directed. This provides a very significant commercial advantage to those framework suppliers and their allies, and a significant commercial disadvantage to their competitors. It is vital, if a competitive market is to develop, that this anti-competitive measure be removed, and all organisations be given equal access to the mechanism.

Q15: Do you agree with the proposal to continue with a CERT-type obligation until December 2012? Do you also agree that the proposed CESP framework should run concurrently to the same end date?

The Government should work towards systems that draw in the smaller-scale, competent and reputable companies and away from schemes that give prominence and preference to the large utility companies.

Q16: Do you agree with our analysis of the potential impacts of a cap-and-trade approach to delivering energy efficiency in homes? Please support your answer with evidence.

The cap-and-trade is always a bad approach, It did not worked with Phase 1 of the EU-ETS and is not working with Phase 2 now (the carbon-price is currently between 10 and 15 Euros, which is too low to incentivise radical change). There would be even greater difficulty obtaining value by imposing a cap-and-trade approach to delivering energy-efficiency in homes.

Q17: Do you have views on the merits of moving to a different approach for delivering energy efficiency to households? Do you have other suggestions of alternative delivery models which might be effective in achieving our objective?

The CERT programme and its predecessor have given too much preference to the large utility companies. One part of them could be kept – the collection of money from all users of electricity and gas *via* their ordinary bills: a form of carbon-tax. Some of the fund built up in that way could be used for a targeted welfare programme, and the balance should be put towards reducing the taxes imposed on employment.

If grants are to be made available, they should be individually small and spread widely.

Q18: Would you support a voluntary code of practice on energy performance for landlords and/or builders? How high do you think uptake would be, and would it achieve much additional action? Please support your response with evidence.

We believe that a voluntary code will not produce a sufficiently large beneficial effect because of concerns among individuals in the targeted sectors about the possible extra costs that will be put at their doors, or those of their customers, and hence their exposure to the risk that they will lose business to others who have not signed up to the voluntary code.

Q19: Should we require marketing material for property sales and rental to feature the EPC rating more prominently? If so how? What delivery bodies or industry groups could be given access to the EPC database, and how could they make best use of it whilst ensuring that it is not misused? Please support your answers with evidence.

We have reservations about the Government's general approach here, not least because of its poor record in the security of confidential data. And such marketing material is not the most effective way of incentivising customers. Most decisions to purchase property have many facets and,

without a mixture of compulsion and positive incentives, progress will be slow.

Q20: Besides removing the threshold for consequential improvements, which will be considered in the consultation on changes to the Buildings Regulation in 2009, are there any other options for wider building regulation that you would like to see considered in the longer term? Please support your answer with evidence for the effectiveness of your suggestions.

As already explained above, we favour the remit of the Building Inspectorates being extended to cover installation of renewables, and given the necessary resources to ensure adequate conformity and compliance, The Inspectors should not promote individual technologies but give impartial advice and check that the equipment is correctly installed (for which task they will need special equipment, such as thermal-image cameras). This will increase the costs of the Inspectorate and those too should be funded by the levy on fossil fuels that we mentioned above.

Q21: Do you agree with the approach of conducting a review in 2012 to assess the effectiveness of other policies before considering further policy interventions for the energy performance of existing buildings? Are there other options you think should be part of our strategy? Please support your answer with evidence.

No: we want more action earlier!

We feel sure that we have in common with many other people in various walks of life a deep sense of frustration at the government's method of using a constant flow of consultations and minor changes of policy in vain attempts to correct some earlier bad decisions, some of which were made in Brussels. The cumulative results are (a) a complex muddle of short-term measures; (b) a growing bureaucracy; and (c) the continuing poor performance of many buildings coupled with their dependency on fossil fuels.

Along with many others, we do not ask for more detailed intervention by Governments, we plead for less detail and more thought about principles. In particular, we believe that the Government ought to be carrying out a review now of the failed EU-ETS and developing an alternative that will produce the required results at least cost (and without undue complexity). We strongly recommend a carbon-tax.

Q22: Do you agree that the Heat Markets Forum should consider regulatory arrangements for district heating to ensure consumer protection? Are there specific issues you think it should cover?

There is no need nor money for yet another advisory quango, particularly if composed, in the usual way, of public-sector worthies, leaders of the corporate beneficiaries of policy, and a few “independents” to make it look like the body is somehow “balanced” and “representative”. Policy should be decided by principle, not by taking soundings from various interest groups.

For district heating to be viable, people will have to be able to enter into long-term contracts (to give the financial confidence to invest in the network). So long as they are not coerced or persuaded fraudulently to enter such a contract, they should be bound by the contract, regardless of how the energy market develops, and how attractive the contract looks in retrospect. This is one of the more likely cases in which a regulator would intervene, and the threat of such intervention would be an inhibitor to the development of the market.

If regulation is not appropriate in this case, which it is not, it is even less appropriate in the case of shorter-term contracts or any other terms that people might subsequently regret. Consumers should be protected by general consumer-protection laws, and nothing more. The heat market should either not be regulated, or regulated with the lightest touch, specifically excluding any efforts to constrain suppliers to change terms to suit what the government or regulator thinks is best for consumers.

Q23: There are a number of ways to tackle commercial barriers to district heating. These include using the planning system and heat mapping, encouraging or requiring certain buildings to connect to networks and engaging property developers. Which of these options should be taken forward and why?

Using the planning system outside of its conventional remit always causes problems.

Q24: What are your views on the options for reducing the risks of poor returns on investment in district heating networks? Which do you think would be most effective and are there other more appropriate solutions?

We strongly believe that it is the market that delivers the best returns on investment. The market discounts values in the face of risks and this chapter has omitted one of the most serious risks faced by developers of district-heating networks – sovereign risk. When the Government interferes with the market, especially when it does so repeatedly and when,

by so doing, it constantly gives preference to a handful of large energy utilities, other investors are dismayed and turn to other opportunities.

Many of the other European countries where district heating is well-established are New Member States, where the infrastructure installed during the Communist period continues to be used. Within the EU-15, two of the three countries where district heating achieves the greatest share (Denmark and Sweden) have instituted carbon and/or energy taxes. Two of these three countries (Sweden and Finland) have much colder winter weather than the UK, but the third (Denmark) has only a marginally higher number of heating degree-days than the UK. Other countries with a very much higher share of district heating than the UK, though lower than the Scandinavians, such as Austria, Germany and the Netherlands, also have significantly higher costs of domestic heating-fuels. Although clearly not the only factor, there can be little doubt that a higher cost for alternative heating options enables district heating schemes to charge prices that justify the investment and reduce the risk of poor returns.

Q25: Will the ETS and other policies, such as the Carbon Reduction Commitment and support for renewable combined heat and power, send a strong enough signal to encourage the development of CHP schemes and more efficient use of surplus heat? If not what measures do you believe would provide sufficient stimulus to accelerate new CHP capacity build? Can you provide evidence to support your view?

No: a carbon-tax is necessary to bring the cost of conventional heating to a level at which people will be motivated to look for alternatives.

Q26: As electricity generation overall becomes much less carbon intensive than today, the advantages of CHP powered by fossil fuel in reducing carbon emissions will diminish, although it will continue to be a cost-effective energy efficiency measure. When do you think CHP powered by fossil fuels will no longer help to reduce emissions because the alternatives are less carbon intensive?

This is a hypothetical question, and predictions are necessarily subject to many assumptions, some of which are open to wide doubts. But efficiency will be even more important in future, and it should be remembered that the key point will remain the replacement of heat obtained directly from fossil fuels with heat from a renewable source (or heat retrieved from waste).

Q27: Should the Government do more to publicise the opportunities and benefits of CHP and surplus heat? If so, how should it do this, and which are the key audiences we need to reach?

If a carbon-tax were imposed at the right level, that would give an adequate incentive and there would be less need for publicity.

Q28: Do you consider such cooling technologies can play a role in delivering a renewable and low carbon energy mix? What opportunities exist for their exploitation in the UK? What further factors do we need to consider?

Yes, these technologies obviously have a role to play. A carbon-tax would accelerate their adoption.

Q29: Do you agree with our analysis of the likely impacts of the proposals in this document and in the associated impact assessments on:

- carbon dioxide emissions?
- energy prices?
- fuel poverty?
- security of supply?
- sustainable development?
- the economy?

Are there any other wider issues that we should consider? Do you have any other comments on the Impact Assessments?

Please see the Introduction.