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23 January 2013

## Energy efficiency and supply issues

Chris Paul and Mark Robinson

Pioneering — Bahrain — Construction — Public sector — Energy — Real estate — London — Tax — IT — Dubai — Manchester  
Investing — Knowledge — Pragmatic — Malaysia — Exeter — Thought leadership — Housing — Agile — Creative — Connecting —  
Local government — Manchester — Environment — Focused — Islamic finance — Projects — Abu Dhabi — Corporate finance — Passionate —  
— Employment — Regulation — Procurement — Expertise — Specialist — Planning — Investment — Committed — Delivery — IT —  
— IP — Corporate — Infrastructure — Cairo — Development — Private wealth — Oman — Governance — Birmingham — Corporate finan  
— Dynamic — Pensions — Dispute resolution — Insight — Banking and finance — Arbitration — Diverse — Regeneration — Care — Comm



## Overview

- Background and legislation
- ECO and Green Deal
- Energy Performance Contracting
- Developing an energy strategy
- Questions

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## Background and legislation



## Fuel Poverty - Definition

- Definition of fuel poverty
  - Where a household needs to spend more than 10% of its income on fuel for adequate heating (21°C for living room/18° for other rooms during daylight hours – WHO recommendations)
- Fuel poverty is a significant concern
  - 4m households in England are in fuel poverty (DECC 2012)
  - Up from 1.2m in 2004
  - 7m households in UK by 2016 (Fuel Poverty Advisory Group)
- Three key issues
  - Household income
  - Energy prices
  - Energy efficiency of the building



## Fuel Poverty – Policy

- Warm Homes and Energy Conservation Act 2000
- UK Fuel Poverty Strategy 2001
  - Set target for elimination of fuel poverty by 2016
- ECC Fuel Poverty Report published March 2010
  - Since 2000 over £25bn spent on various programmes
  - Swamped by rising energy prices
- Hills Fuel Poverty Review
  - Published October 2011
  - Reviewed the definition of ‘fuel poverty’
    - Intention to drop the 10% ratio
    - New measurement of headcount and extent of poverty gap
  - Likely to change approach to meet the 2016 target



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## Fuel Poverty – Other issues

- Impact of Climate Change Act 2008
  - Sets legally binding targets for reduction in CO<sub>2</sub> emissions
    - 34% by 2020 (against a 1990 base)
    - 80% by 2050 (against a 1990 base)
  - These are separate from fuel poverty target
  - Is there pressure between social and environmental targets?
    - Policies currently add £89 to average energy bill (DECC 2012)
    - Legislation could push more people into fuel poverty
    - Landlords need to invest in energy efficiency measures



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## Energy Efficiency – Legislation

- Energy Act 2011
  - Intended to provide a step change in the provision of energy efficiency measures for homes and businesses
  - Covers three key policies
    - **Green Deal**
      - a financing framework to allow energy efficiency improvements to be funded through a charge on energy bills
    - **Private Rented Sector**
      - from 2016 landlords cannot refuse a tenant's request for consent for energy efficiency works, and from 2018 it will be unlawful to let buildings that do not meet a minimum standard
    - **Energy Company Obligation**
      - places obligations on energy companies to reduce carbon emissions and target specific households (replacing CERT/CESP)



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## ECO and Green Deal



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## Energy Company Obligation

- Initial period from 1 January 2013 to 31 March 2015
- Only extends to domestic properties
- Replaces existing obligations on energy companies
  - Carbon Emissions Reduction Target (CERT)
  - Community Energy Saving Programme (CESP)
- Works in conjunction with Green Deal
  - To make certain improvements affordable
  - To deliver measures for low income and vulnerable households



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## Energy Company Obligation

- **Carbon Emissions Reduction Obligation**
  - To pay for hard to treat cavity walls, internal solid wall insulation and external solid wall insulation
  - Additional measures where part of a package
- **Carbon Saving Communities Obligation**
  - Focus on energy and carbon savings measures to most deprived areas (ie the bottom 15% measured on indices of multiple deprivation)
  - Will support insulation measures (ie loft insulation, cavity wall insulation or solid wall insulation)
- **Home Heating Cost Reduction Obligation (Affordable Warmth)**
  - Low income, vulnerable households at risk of fuel poverty
  - Must be in receipt of qualifying means tested benefit
  - Only available to private tenures (owner/occupiers or PRS)



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## How should clients approach ECO?

- Various ways that ECO funding could be approached
  - Provider initiatives
    - Energy Companies approach residents directly
    - Green Deal providers (brokerage)
    - Intermediaries
  - ECO funding brought in by existing contractors
  - Client initiatives
    - Require contractors to secure ECO funding?
    - Use suitable frameworks for ECO measures?
    - Direct Brokerage – now unlikely
    - ECO funding agreements with energy providers



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## Procurement implications

- Obligations on Contracting Authorities
  - Thresholds for works and services/supplies
  - Pure funding outside scope of regulations
- How should ECO works opportunities be valued?
  - *Jean Auroux v. Commune de Roanne*
    - Not just amounts paid as contract sum
    - Consider wider value of opportunity
      - True cost of the works
      - Potential value in meeting ECO targets
- What are the procurement risks?
  - Direct award
  - Use existing contracts/frameworks
  - Risk review



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## Learning from CERT/CESP

- Market should consider the delivery of CERT/CESP
  - Developing client interest
    - Slow initial take-up (£12/tonne funding)
    - Concerns about need for client top-up funding
    - Funding levels increased towards deadline
    - Did clients leave it too late?
    - Procurement issues?
  - Dealing with bespoke agreements
    - Not always structured as construction contracts
    - Split between funding and works
  - Role of intermediaries and delivery concerns



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## What about the Green Deal?

- Green Deal is the Government's flagship scheme
  - 'Pay-as-you-save' financing mechanism
  - Cost of improvements paid for by savings on energy bills
  - Repayment obligation falls to tenants whilst in situ
  - Covers only 'recognised' measures
  - Links to ECO funding
  - Satisfaction of the 'Golden Rule' is a fundamental principle
    - Cost of measures and financing not to exceed estimated savings
    - Based on standard assumptions about energy use
    - Gives comfort to tenants (but not guaranteed)
- Green Deal has already gone live
  - No funding until 28 January 2013
  - Green Deal Cashback Scheme



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## Green Deal mechanism

- Assessment by accredited assessor (based on RdSAP)
  - Standard assumptions based on archetypes
  - Occupational assessment
- Green Deal Advice Report
  - Identifies a package of energy efficiency measures
  - Party initiating the Green Deal can then seek quotations
- Green Deal Plan agreed with Green Deal Provider
  - Finance arranged and measures installed
- Payment collected via electricity bills
  - Debt stays with the property
  - Landlord responsible during void periods



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## Implications for landlords

- Consent for Green Deal/alterations
  - landlord (both to Green Deal and installation of measures)
  - tenant (if bill payer)
  - lender
  - planning permission or conservation area
- Liability for Green Deal charges
  - Landlord liable during void periods = risk
- Disclosure obligations
- Wider implications
  - Risk of two-tier approach
  - Redevelopment cost
  - Controlling specification of works



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## Green Deal opportunities

- Becoming a Green Deal Provider
  - Lead on early uptake
  - Benefit of trusted brand
  - Already experienced in delivering major schemes
  - Potential revenue streams
    - DLO role
    - Green Deal marketing to private sector/other landlords
  - Maximise local content/involvement
- Opportunities for RP involvement
  - Green Deal Provider
  - Rebranding/White Label
  - Part of supply chain (Assessment, Installation etc)
  - Co-branding/arranger role



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## Energy Performance Contracting



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## Energy Performance Contracting

- Interest in alternative 'pay as you save' structures
- Energy Performance Contracts (EPCs)
  - Funding capital investment through long-term savings
  - Usually implemented in phases
    - Initial audit of building/estate
    - Detailed audit/measurement to identify suitable measures
    - Installation phase
    - Monitoring and verification
- Procurement issues
  - Point of selection of EPC Provider
  - Requirements of external funders
  - Maintenance obligations
  - Savings guarantee



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## Energy Performance Contracting

- Current interest with public sector estates (eg hospitals etc)
  - Not just energy efficiency, but also backlog maintenance
  - Needs to be larger scale to support external funding
- Is the structure transferable to housing?
  - Offices
  - Landlord's supply
  - Communal heating systems
- Complexities of multiple sites
- Is the market willing to offer these models?
- Are clients willing to enter into long-term commitments?



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## Other opportunities

- Clients may consider wider opportunities
  - Communal heating/cooling
    - Improved efficiency/maintenance costs?
    - Potential for third party funding (ESCO Concessions)
  - Feed-in Tariffs (FITs)
    - Tariffs for small-scale generation
    - Impact of the Solar PV experience
  - Renewable Heat Incentive (RHI)
    - Tariff paid for generation of heat from renewable sources
    - Domestic properties from Summer 2013
    - Renewable Heat Premium Payment



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## Developing an Energy Strategy



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## Energy Strategy

- Understand the energy efficiency of your stock
  - How do you capture/update stock data?
  - Do you know what needs to be done, and the potential cost?
  - Early identification of ECO opportunities
- Is fuel poverty an issue?
  - Becoming a smarter landlord
    - Energy efficiency of stock?
    - How tenants use energy?
    - How tenants buy energy?
  - Risk of developing a two-tier portfolio



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## Landlord role in Energy Supply

- Potential role for landlord in energy supply
  - Current licence barriers
    - Prevents preferential tariffs for tenants/local area
    - Small scale exemptions
  - Encouraging collective switching opportunities
  - Training to residents on best use of energy
- Getting best value from energy procurement
  - Interest in 'sleeving' arrangements where landlord already generates (eg CHP, PV systems etc)
  - Securing Landlord's supply
  - Procurement issues
- Potential link to energy efficiency initiatives



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## Questions


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### Contact

<p>Chris Paul Partner</p> <p><b>d</b> +44 (0)20 7423 8349 <b>e</b> cpaul@trowers.com</p>	<p>Mark Robinson Senior Associate</p> <p><b>d</b> +44 (0)121 214 8824 <b>e</b> mrobinson@trowers.com</p>
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