



**WWF** *for a living planet*

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## PARLIAMENTARY BRIEFING

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# Energy Bill – Second Reading Briefing

### 1. Executive summary

- WWF welcomes the Bill as it has great potential to help the UK's transition to a low carbon economy while at the same time providing new jobs, improved energy security and reduced fuel poverty.
- WWF believes the legislation should go further in three key areas: the Green Deal should be strengthened; an enabling power to establish an emissions performance (EPS) for the power sector should be introduced; and more certainty should be given to offshore wind leases.
- WWF's Green Deal policy recommendations are based on our work with key organisations and businesses involved in the housing retrofit sector, such as the Federation of Master Builders and Camco, in a coalition called the 'Existing Homes Alliance'. WWF is urging further improvements including:
  - A minimum level of ambition for the Green Deal to ensure the UK meets its carbon budgets and to give businesses certainty so they have the confidence to invest and build the necessary supply chain;
  - A cross-departmental strategy to deliver this ambition as extra incentives will be required;
  - Minimum standards for the private rented sector;
  - The eligible measures within the Green Deal to be defined as widely as possible (including water efficiency) to maximise environment improvements; and
  - Further reform to Energy Performance Certificates (EPCs) to make them visible in advance of buying/renting a home to create a market for energy saving improvements.
- The Bill also provides an excellent opportunity to provide investment certainty in the power sector by introducing an enabling power which allows the Secretary of State to introduce an EPS and requires this to happen within a certain time period. The Government has promised to introduce an EPS but another Energy Bill is not expected until 2012 and including enabling powers in this legislation would reduce the delay.
- The Energy Bill should also provide for the removal of the provisions in the Crown Estate leases currently granted to offshore renewable energy developers that provide for the early termination of these leases in the event that oil and gas licences are subsequently granted over a similar area of the seabed. These provisions provide an unacceptable risk to investment certainty in the UK's offshore renewable energy industry and risks



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undermining the UK's ability to meet its renewable energy and energy security objectives.

## 2. Introduction

WWF welcomes the Energy Bill as it has the potential to help put the UK on track towards becoming a low carbon economy. The legislation represents an important opportunity to put in place the necessary measures to reduce the UK's emissions whilst benefiting the economy and WWF would urge the Government to go further in the Bill.

Two key recommendations by the Committee on Climate Change (CCC) set the context in which the Bill should be viewed. Firstly, the CCC has recommended that the UK should move towards an 'intended' emissions reduction target of 42% by 2020. It has also identified the need to almost completely decarbonise the power sector by 2030<sup>1</sup>:

*"The path to meeting the UK's 2050 target to reduce emissions by 80% requires that the power sector is largely decarbonised in the period to 2030."* In the fourth carbon budget report published in December, the CCC recommended in particular that the average carbon intensity of the UK power sector should be reduced to around 50gCO<sub>2</sub>/Kwh by 2030<sup>2</sup>.

Reducing demand for energy by rapidly improving the energy efficiency of our homes and by setting a clear direction for decarbonising the electricity sector are key ways in which the Bill can contribute towards these recommendations.

WWF particularly welcomes the Green Deal which if ambitiously implemented could transform our housing stock, reduce emissions and fuel poverty while creating jobs and boosting energy security. WWF is also calling for an emissions performance standard for the power sector to be added to the Bill.

## 3. The need for a defined minimum level of ambition for the Green Deal

The Government has on occasion mentioned that as many as 14 million homes could benefit from a retrofit under the Green Deal by 2020. However, it has not formally stated this nor set a level of energy/carbon savings that this would achieve. This, therefore, makes it impossible to determine either the impact of the Green Deal or the size of the market.

It is vital that a minimum level of ambition is set by the Government on what the Green Deal will deliver for two reasons:

- 1) Firstly, the Green Deal represents the Government's flagship policy for reducing emissions from homes and it is essential that it helps meet the reduction targets set by the Committee on Climate Change (CCC) otherwise other sectors will have to make greater contributions.

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<sup>1</sup> Letter to Rt Hon Chris Huhne, Secretary of State for Energy and Climate Change, from Lord Turner, Chair of the Committee on Climate Change. 'CCC advice on the approach to investment in fossil fuel power generation', 17 June 2010.

<sup>2</sup> Committee on Climate Change - The Fourth Carbon Budget, Reducing emissions through the 2020s, December 2010. [http://downloads.theccc.org.uk.s3.amazonaws.com/4th%20Budget/CCC\\_4th-Budget\\_interactive.pdf](http://downloads.theccc.org.uk.s3.amazonaws.com/4th%20Budget/CCC_4th-Budget_interactive.pdf) p13

- 2) Secondly, businesses need clarity on the scale of ambition expected to be able to properly plan and invest.

As mentioned, the CCC has recommended that the UK should reduce its emissions by 42% by 2020 under its 'intended' carbon budget. As energy saving improvements are generally the easiest and cheapest approaches to tackle climate change in comparison to action in other sectors, it makes sense that the Government ambition for the housing sector is set with this in mind.

Furthermore, clarity on the scale of ambition and the pace and timings of the programme are essential for business to feel confident to invest in the Green Deal. Businesses will need to attract large scale finance for investing in the expansion of energy efficiency supply chains (equipment and workforce) and so will require certainty from Government on what is expected to be delivered.

**WWF, therefore, is calling for an amendment to be added to the Bill which establishes a minimum level of ambition for the Green Deal that the Government intends to deliver.**

#### **4. The need for a strategy to optimise the Green Deal**

Just as clear minimum ambition is vital for the success of the Green Deal so too is a robust Government strategy to ensure it is achieved. On its own the carbon and cost savings from the Green Deal will not be enough of a motivation for householders and additional incentives to encourage them to take up the offer will be required. This falls outside the legislation and thus demands an overarching strategy from Government.

With the Green Deal finance and a new energy company obligation (ECO) being the two proposed financial measures to deliver improvements it is important they are established at a sufficient scale and are attractive to householders.

Research into public appetite for the Green Deal undertaken by WWF with the Great British Refurb campaign suggests that a package of incentives will be needed to make the Green Deal sufficiently attractive to the majority. In a survey of over 2,300 people, the level of interest rates charged for taking up the scheme was viewed as a key issue. At 2% per annum 33% of homeowners said they were 'very' or 'fairly' likely to take up the Green Deal but this fell to 7% of homeowners when an annual interest rate of 6% was deemed likely<sup>3</sup>. With interest rates for the Green Deal expected to be above 6% it is evident that the Government must take steps, such as by linking energy efficiency finance to the proposed Green Investment Bank, to guarantee sufficient take up.

Another example is of fiscal incentives. A powerful driver of take-up would be the offer of council tax rebates or changes to stamp duty linked to the Green Deal. The survey found that almost half (49%) would take up the Green Deal if a one-off council tax rebate of £500 was part of the package<sup>4</sup>.

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<sup>3</sup> Great British Refurb, Green Deal – public appetite market research, 21 September 2010, <http://www.greatbritishrefurb.co.uk/images/pdfs/gbr-greendealmarketresearch.pdf>

<sup>4</sup> Ibid.

If the Government wants the Green Deal to be a success then it needs to include measures that are outside of legislation, through taxation and financial incentives. This needs to be an integral part of a strategy to ensure delivery of energy savings and carbon reduction across all nations in the UK.

**WWF is, therefore, calling for the Energy Bill to include a requirement on the Government to establish a strategy for delivering on a minimum level of ambition and for it to monitor and report on progress towards achieving this with appropriate impact indicators.**

## **5. Minimum standards for the private rented sector**

The ultimate ambition of the Green Deal is to “revolutionise the energy efficiency of the British housing stock” and this logically requires that the private rented sector must be involved. In England, for example, there are 3.1 million private rented homes<sup>5</sup> equating to nearly 15% of the housing stock. The sector has more homes in the worst energy efficiency bands with a greater proportion of homes in Energy Performance Certificate (EPC) Band G<sup>6</sup>. In addition, people living in private rented homes are over four times more likely to be living in a cold home (below SAP 35) than people living in social rented homes<sup>7</sup>.

WWF believes that additional measures are necessary to ensure that landlords take up the offer of the Green Deal. Previous initiatives, such as the Landlord Energy Saving Allowance (LESA) have failed to engage landlords in the energy efficiency agenda (In 2007-08 only 2050 landlords took up the incentive<sup>8</sup>) so other approaches are required. In addition to the provision of better data and advice for landlords and the continuation of incentives such as the LESA, minimum energy efficiency standards for the worst properties should be introduced.

The Bill gives the Government powers (subject to a review) to require landlords to improve the worst rated properties. If the review undertaken by the Government shows that landlords are not taking up the scheme voluntarily then the Bill enables the Government to introduce powers to allow tenants to ask their landlord to install ‘reasonable’ measures and for local authorities to insist that the worst performing properties (Band F and G) are improved.

WWF believes that the Government’s proposals for the private rented sector need to provide much more certainty and be simplified. The first proposal of leaving tenants to request the installation and for tenants to be responsible for seeking improvements to the property removes the landlord from the responsibility as owner of the property. The Scottish Government consulted on this issue in 2010 and found a majority not in favour of going down this route<sup>9</sup>.

The second proposal, of enabling local authorities to insist that landlords improve the worst performing stock, in WWF’s opinion, needs to go further. With the Government promising a

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<sup>5</sup> English Housing Survey, Headline Report 2008-09, Department of Communities and Local Government.

<sup>6</sup> English House Condition Survey - 2007 Annual Report (published September 2009), DCLG

<sup>7</sup> English House Condition Survey - 2007 Annual Report (published September 2009), DCLG

<sup>8</sup> Correspondence from HM Treasury to the Association for Conservation of Energy, 16 November 2009

<sup>9</sup> Scottish Government response to consultation ‘Conserve and Save: Energy Efficiency Action Plan for Scotland’ October 2010, <http://www.scotland.gov.uk/Publications/2010/10/07142301/6>

review before deciding on using any additional powers there is no clear message to landlords that they will need to take action and many may wait and see. If the Government then decides to implement these powers after a review (say in 2015) then it is likely that there will be a surge in activity after that date. This could lead to disruption in the sector and certainly would impact on the supply chain if massive unpredictable demand came on stream all at once.

**Ultimately WWF believes that a firm timetable for introducing minimum standards from 2016 onwards should be set. Local authorities should have these powers to insist that rented properties within Band F and G are improved and these standards should then rise further in the future and be signalled well in advance. This would give absolute clarity for all parties of what is expected and encourage the timely take up of the Green Deal and the growth of the supply chain.**

## **6. Eligible measures in the Green Deal**

The Government will establish a list of eligible measures that can be installed and financed as part of the Green Deal. To ensure that the Green Deal is ambitious WWF believes it is important that all possible measures for improving the environmental performance of the house are offered within the scheme even if funding is derived from elsewhere.

It is important, for example, that the Green Deal offers and incentivises the full range of energy saving measures. Some measures such as windows and underfloor insulation are more expensive than loft and cavity wall insulation but all are needed to ensure a typical home reduces its energy demand sufficiently as required to meet our 2050 carbon reduction targets. Each home will therefore will need a wide package of measures installed.

The Secretary of State for Energy and Climate Change, Rt Hon Chris Huhne MP, recognised the importance of an ambitious retrofit for each home when he said the Green Deal would be a *“once-and-for-all refit that will make every home in Britain ready for a low-carbon future. No more half-measures going off at half-cock.”*<sup>10</sup>

It is, therefore, important that all the energy saving measures required to make the home fit for 2050 are eligible and made viable through the Green Deal programme.

WWF also believes that the measures offered within the framework of the Green Deal should extend beyond just insulation measures to renewable energy technologies, smart meters and water efficiency to maximise energy and carbon savings and the opportunity offered by the scheme. This would also join up delivery of different Government priorities and reduce marketing and delivery costs across the programmes.

The Government, for example, has introduced feed-in-tariffs to encourage the uptake of micro-renewables as well as a renewable heat incentive (RHI). It has also committed to rolling out smart meters to every home. WWF believes the Green Deal programme creates the opportunity to offer householders a coherent package of measures for their whole house all at once and which minimises disturbance, marketing and installation costs whilst maximising take-up and environmental improvements. In practice, the Green Deal could offer a householder

numerous measures with some of these paid for under the Green Deal finance mechanism while others will be paid for by other sources (ie. the energy companies pay for the smart meters and the RHI covers a solar thermal panel) but they are all installed as part of the same process.

**WWF is calling for the eligible measures in the Green Deal to be as wide as possible and for the legislation (be it primary or secondary) to be designed so as not to preclude options for delivering energy efficiency, renewable generation, water efficiency, and smart meters.**

### **Water efficiency**

Just as the allowed energy saving measures should be flexible and the Green Deal should not preclude options at a later date, WWF believes this principle should extend to water efficiency. WWF is encouraged that the Government is investigating how this could be integrated into the Green Deal programme.

The Green Deal offers an excellent opportunity to improve the water efficiency of our homes in addition to saving energy. There are clear links between the two and there is a very real need to reduce our water usage due to the expected impacts of climate change on water availability. The Government has a water consumption target of 130 litres per person per day (compared to average use of 148 litres today) and water efficiency retrofits have a large part to play in meeting this target.

WWF believes there is a clear case for including hot water saving devices within the approved energy saving measures. A quarter of household CO<sub>2</sub> emissions are associated with using hot water (for cooking, washing and cleaning)<sup>11</sup>; heating water is the second biggest consumer of energy in the home after heating space; and it accounts for 5% of UK greenhouse gas emissions<sup>12</sup>. Pumping and treating water also uses considerable energy – the water industry already accounts for 1% of UK greenhouse gas emissions<sup>13</sup>.

Hot water efficiency measures (showers, hot taps) save water, energy and money. Products such as shower restrictors are already CERT approved due to carbon saving (approximately 1 tonne over product lifetime). For example, converting a high flow shower with a retrofitted aerated shower device produces annual household savings of: 43m<sup>3</sup> water, 345 Kg CO<sub>2</sub> and £68 on energy bills<sup>14</sup>. The capital cost of such devices is between £5-10.

Measures that save cold water (toilets, cold taps) can also help reduce water use, save customers money and save emissions. For example, retrofitting a device that converts a single flush toilet to a dual flush produces annual household savings of: 24m<sup>3</sup> water and 26 Kg CO<sub>2</sub> and £58 on water bills (if metered); such a device costs £25.<sup>15</sup>

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<sup>11</sup> Environment Agency and Energy Savings Trust. 2009. *Quantifying carbon emissions from water use in the home.*

<sup>12</sup> Defra, 2008. *Future Water.*

<sup>13</sup> Defra, 2008. *Future Water.*

<sup>14</sup> Environment Agency and Energy Savings Trust. 2009. *Quantifying carbon emissions from water use in the home.* Assumes cost water £2.30 per cubic meter.

<sup>15</sup> Environment Agency and Energy Savings Trust. 2009. *Quantifying carbon emissions from water use in the home.*

For cold water measures, WWF believes it is important that the Bill does not preclude these measures from being delivered by the Green Deal, even if they are not funded through the Green Deal pay-as-you-save mechanism. The opportunities to engage people about their homes to make improvements are very rare and the Green Deal could maximise its benefits by allowing other installations to be made, if funding for including these measures is found through other means. The Government, for example, is currently drafting a Water White Paper looking at how to encourage water companies to deliver more water efficiency. This could include a mechanism that encourages and enables water companies to fund cold water efficiency measures, which would be delivered, free to customers, as part of the Green Deal package.

**Therefore, hot water measures make sense to be included in the approved energy saving measures for the Green Deal finance and cold water measures should not be precluded from being delivered in the Green Deal.**

## **7. Energy Performance Certificates (EPCs)**

The Bill contains welcome changes to the EPCs. WWF believes that these reforms need to go further to better inform householders on the energy efficiency of their home and to provide sufficient information so householders are enabled in their decision making when considering the Green Deal. This is crucial in creating a market for the Green Deal. A key change should be to require EPCs to be displayed at the first point of marketing of a property ie. the advertisements related to the property should contain visible information on the EPC.

WWF believes that it is essential that potential purchasers and tenants are informed about the energy efficiency of a property before they decide to buy or rent. By having this information in advance, rather than after agreeing to buy/rent as is currently the case, customers would be able to compare properties and so factor energy efficiency and the related bills into their decision. As a consequence, the energy efficiency of a property would then become an upfront issue to consider which would create a market that demanded and rewarded energy efficient homes. It would also allow those in the private rented sector to avoid harder to heat properties. This will also be required for those properties that have taken up the Green Deal as the EPC will be the tool for communicating there is a Green Deal charge attached to the property.

**WWF is, therefore, asking for amendments which require EPCs to be produced when a property is placed on the market for sale or rent and for the EPCs to be prominently displayed in the property literature.**

## **8. Emissions Performance Standard (EPS)**

An issue which doesn't feature in the Bill but which WWF believes should be added is the power to introduce an Emissions Performance Standard (EPS) for the power sector. An EPS will be necessary to provide a clear timetable towards the decarbonisation of the power sector by 2030 and to introduce clear physical certainty as to where new investment needs to be directed in the power sector. By not having enabling powers in the Bill, there is a real risk that an EPS will not be introduced by the Government until 2014.

As mentioned previously, the CCC has recommended that the power sector should be nearly decarbonised by 2030 in order to ensure that the UK is on track to meet its emission reduction targets under the Climate Change Act 2008. With the carbon price under the EU Emissions Trading Scheme (ETS) expected to be too weak and inadequate to incentivise sufficient

investment in low carbon technology, the CCC has recommended additional measures to achieve this<sup>16</sup>:

*"Power sector decarbonisation by the early 2030s is central to cutting emissions more generally (eg through the application of low-carbon electricity to cars and vans, etc). Given the importance of moving to a low-carbon electricity system at affordable cost, the Committee believes that we should not accept the significant risks and costs associated with the current market arrangements."*

In particular, the CCC stated that one important new measure would be the introduction of an EPS for new power plants on the system, which would encourage the deployment of renewable energy capacity and require fossil-fuel plants to fit carbon capture and storage (CCS) technology<sup>17</sup>:

*"Reform of the current arrangements is required to provide more confidence to investors in low-carbon technologies. New arrangements could be strengthened through the introduction of an Emissions Performance Standard (EPS) for coal fired generation as proposed by the Government and, in parallel, an EPS for new gas generation."*

The House of Commons Energy and Climate Change committee published a report on 2 December, also supporting the introduction of an EPS. It concurred that the current measures in place would not lead to the decarbonisation of the power sector by 2030 and that an EPS could help play an important role in preventing the 'lock-in' to high carbon power plants.

The Government has promised to introduce an EPS. The Coalition Agreement commits to this and the Government will shortly launch a consultation on electricity market reform (EMR) which will look into the detail of the issue.

WWF understands that enabling powers for an EPS will need to be introduced in primary legislation prior to the detail of an EPS being set out in secondary legislation. Given that a second Energy Bill is unlikely to be introduced until mid-2012, an EPS might not be in place until 2014. This will represent a significant delay in giving guidance to investors in the energy sector as to what is required by 2020 and 2030, adding to the existing uncertainty in the sector. The introduction of enabling powers for an EPS in the current Energy Bill, which would allow for the implementation of an EPS in secondary legislation shortly after the conclusion of the EMR consultations, is therefore very important to improve investment certainty in the power sector as soon as possible.

**WWF, therefore, is calling for an enabling amendment to be added to the Bill which would empower the Secretary of State to set an EPS and require this to happen within a certain timeframe. In practice, this would allow the Government to consider its findings from the EMR consultation in 2011 and then be able to implement them in full (including secondary legislation) by early 2012.**

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<sup>16</sup> Meeting Carbon Budgets—the need for a step change. First Annual Progress Report to Parliament, October 2009, p142-3

<sup>17</sup> Building a low-carbon economy: the UK's innovation challenge, Committee on Climate Change, July 2010, [http://hmccc.s3.amazonaws.com/CCC\\_Low-Carbon\\_web\\_August%202010.pdf](http://hmccc.s3.amazonaws.com/CCC_Low-Carbon_web_August%202010.pdf), page 24.

## 9. Investment Certainty for Offshore Renewables

As recently revealed by WWF, existing Crown Estate Leases granted to offshore renewable energy developers currently contain a provision that allows for the early termination of these leases, in the event that DECC subsequently issues new oil and gas licences over a similar area of the seabed. Not only does this mean that offshore renewable developers could face early decommissioning costs, the relevant provision in these leases does not even provide for compensation to be awarded to offshore wind developers in the event of the early termination of their leases. WWF understands from key developers and investors in the power sector, that the considerable uncertainty created by these leases could seriously undermine the financing of Round 3 projects as well as future leasing rounds of offshore renewable energy projects. This provision is also completely inconsistent with the UK's objective to move towards a near-decarbonised power sector and a low-carbon economy.

**WWF is calling for new legislation in the Energy Bill to remove the early termination provisions in the Crown Estate leases granted to offshore renewable developers, in order to provide certainty for investors that once leases have been granted for offshore renewable energy projects in the UK, these projects will be financially viable. Where there is a conflict between offshore renewables and environmentally damaging oil and gas exploration, priority should clearly be given to renewable energy projects, in light of the UK's climate change commitments and the sector's potential to create a substantial number of new jobs in the UK.**

## 10. Conclusion

WWF believes the Bill provides an enormous opportunity to put in place some of the urgent and necessary measures to help the UK's low carbon transition. Another Energy Bill may not come until 2012. Strengthening the Green Deal, introducing powers for an EPS and giving greater certainty to offshore renewables would greatly bolster the impact of the legislation.

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