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5<sup>th</sup> January 2018

**Please reply to:**

Sharon Darcy, Director  
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*Dear BEIS*

**Call for evidence on Building a Market for Energy Efficiency**

1. I am responding to this Call for Evidence on behalf of environment think tank Sustainability *First*. Sustainability *First* is a small charity that works in the energy, water and waste sectors. We have significant experience of consumer and public interest issues, regulation, the demand side and smart meter data (see [www.sustainabilityfirst.org.uk](http://www.sustainabilityfirst.org.uk)).
2. Energy efficiency is an important aspect of energy policy but one that too frequently is over-looked and undervalued. Improving energy efficiency performance can bring not only gains in terms of carbon saving but also in terms of sustained and greater comfort and enduring reductions in fuel poverty.
3. To realize this latter point, it is clearly important that any change in this area is accompanied by a full distributional impact assessment.

**Summary**

4. Sustainability *First* considers that it is important that the policies resulting from the Call for Evidence are sufficiently future proofed. Consumer needs and expectations are evolving and the energy sector itself is undergoing significant transformative change.
5. More thought could perhaps be given to market definition. If the focus is purely on energy efficiency, low levels of consumer awareness and interest may continue. Seeing energy efficiency as part of a package of home money saving and smart eco measures may get more traction with certain consumer segments.
6. A Low Carbon Obligation on DNOs and GDNs could be introduced to provide monopoly networks with an incentive to provide energy efficiency and other low carbon services.

7. Practically addressing access to smart meter data concerns will be important in order to realize the potential public interest benefits of this data.

### Response to questions

#### Barriers to market growth, Q5-9

8. In addition to the barriers outlined, we would also highlight the fact that even in the energy retail market, where significant short-term savings can often be made, this money is often 'left on the table' by consumers who do not switch suppliers.<sup>1</sup> As the Department is aware, following the CMA Energy Inquiry, Ofgem have been carrying out extensive Randomized Control Trials using different approaches to get consumers to switch suppliers. It may be helpful for BEIS to examine the early results of this work to assess whether there are any lessons here for improving uptake of energy efficiency / behaviour change in this area.
9. In other sectors where there have been similar difficulties (e.g. in raising awareness, overcoming concerns around hassle and low incentives to act), such as in recycling, approaches such as gamification have been successfully used to get behavior change. Making the challenges faced more exciting and offering prizes for change can help.
10. However, despite the potential benefits of the above approaches, the cost of energy efficiency measures can still act as a barrier for many consumers. Putting the benefits of enhanced energy efficiency together with the benefits of enhanced water efficiency may help, particularly if this is delivered through a joined up and targeted service such as Groundwork's 'Green Doctor' scheme. Even with this approach, however, finance is still likely to be a significant barrier.
11. A barrier that is not fully recognized in the Call for Evidence is the growing principal-agent problem that is emerging with the rise in the private rental sector, the growing number of people living in shared accommodation and the increase in carers.

#### Proposed principles for guiding our approach, Q10

12. Whilst generally being supportive of the proposed principles, we would make the following comments.
13. The principle that 'Policies must be coherent' is clearly important. However, this, and the whole discussion around market definition, is currently drawn relatively

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<sup>1</sup> [http://www.sustainabilityfirst.org.uk/images/publications/other/Sustainability\\_Firs\\_-\\_Jon\\_Bird\\_-\\_Discussion\\_paper\\_-\\_Engaged\\_and\\_Sticky\\_Customers\\_-\\_final\\_-\\_030417.pdf](http://www.sustainabilityfirst.org.uk/images/publications/other/Sustainability_Firs_-_Jon_Bird_-_Discussion_paper_-_Engaged_and_Sticky_Customers_-_final_-_030417.pdf)

narrowly - focusing primarily on policies directly related to energy efficiency. As many energy efficiency initiatives involve consumer behaviour change in the home, it would be beneficial to also recognise the need for consistency with other policy areas that may be relevant in this regard (e.g. water efficiency). The Call for Evidence is also silent on how energy efficiency policies need to link up with policies on shade (to reduce future cooling / air-conditioning needs).

14. We strongly support the principle that ‘Policies must align with consumer needs and motivations.’ Although the references to consumer trigger points for change are helpful, the Call for Evidence provides little information on how the needs and motivations – and attitudes - of different groups of consumers may differ. In July 2017 Sustainability First held a ‘*Tomorrow’s World for Energy and Water*’ workshop with the National Infrastructure Commission to explore this issue. The workshop report on our website provides more information on the future requirements of different consumer and citizen segments in this area.<sup>2</sup>
15. The list of principles doesn’t include the need to future proof any resulting policy. The Call for Evidence recognises how the housing market is changing but pays less attention to how consumers are changing (e.g. growing elderly population) or indeed how the energy sector itself is evolving (e.g. the future decarbonisation of heat and the importance of demand side response for flexibility).

### **Awareness and advice, Q23-26**

16. See comments in paragraphs 8,9 and 13.

### **Supply side measures - key players in the market, Q 27-34**

17. As the energy sector goes through significant transition, the scope for existing licenced distribution companies (DNOs and GDNs) to proactively participate in some of the changes is to some extent limited by their licences. For example, DNOs can’t undertake certain activities (such as owning storage, acting as aggregators or providing local balancing services) within their regulated activities. Although DNOs can undertake some energy efficiency work, the benefit to them of doing this is currently limited to constrained network hotspots. As the energy system evolves, flexibility becomes more important and DSOs emerge, the potential for them to become more active in this and other areas is likely to increase.
18. A Low Carbon Incentive or Obligation could be used to give network monopolies a freer hand in deciding their areas of operation and enable DNOs and GDNs to think

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<sup>2</sup> [http://www.sustainabilityfirst.org.uk/images/publications/new-pin/Sustainability\\_First\\_Tomorrows\\_World\\_Consumer\\_\\_Citizen\\_Checklist\\_-\\_FINAL\\_as\\_at\\_15.9.117.compressed.pdf](http://www.sustainabilityfirst.org.uk/images/publications/new-pin/Sustainability_First_Tomorrows_World_Consumer__Citizen_Checklist_-_FINAL_as_at_15.9.117.compressed.pdf)

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about the full range of options for delivering their services. A Low Carbon Incentive or Obligation could be a target formulated to promote investment in carbon reduction where cost-effective and efficient (such as energy efficiency, heat networks, biomethane, hydrogen conversion etc.) but without being prescriptive. It could enable networks to focus on those activities that they considered could have the biggest low carbon impact in the most efficient way.

19. To be effective, it would be important to be able to measure the steps that the GDNs and DNOs took as a result of the Incentive / Obligation and ensure that they did this in an efficient manner.
20. Getting monopoly network companies to deliver wider environmental and social policy objectives in this way, and spreading these costs across the wider customer base, may be less optimal than paying for these changes through progressive taxation. However, previous work for Sustainability First's New Energy and Water Public Interest Network (New-Pin) programme has identified that in the current economic climate, this is unlikely to happen.<sup>3</sup>
21. If DNOs and GDNs are used as a vehicle of environmental and social policy, it is important that any funding / incentive arrangements are as transparent as possible. It would also be important to acknowledge that this may have associated implications on the need for more robust governance processes that give due consideration to the public interest.<sup>4</sup>

### Enabling innovative products and services, Q35-37

22. Much of the discussion on innovation in the Call for Evidence is focused on developments in technology. Recent research for Sustainability First's New-Pin programme has also highlighted the importance of consumer facing and commercial innovation in the energy sector – often as necessary pre-requisites for technological innovation. More focus on change in these areas may be beneficial, particularly if consumer behaviour change continues to be a barrier.<sup>5</sup>

### Improving data to open up the market for investment, Q38-39

23. The Call for Evidence rightly notes the potential for smart meter data, combined with sensor information, to provide information on actual rather than modelled

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<sup>3</sup> [http://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin\\_-\\_Affordability\\_Workshop\\_28\\_Oct\\_2015\\_-\\_FINAL\\_PAPER\\_PDF.pdf](http://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin_-_Affordability_Workshop_28_Oct_2015_-_FINAL_PAPER_PDF.pdf)

<sup>4</sup> [http://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin\\_-\\_Checklist\\_for\\_energy\\_and\\_water\\_board\\_eff.pdf](http://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin_-_Checklist_for_energy_and_water_board_eff.pdf)

<sup>5</sup> [http://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin\\_Innovation\\_in\\_Energy\\_\\_Water\\_and\\_Regulation\\_and\\_Government\\_Interventions\\_FINAL\\_Discussion\\_Paper\\_-min.pdf](http://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin_Innovation_in_Energy__Water_and_Regulation_and_Government_Interventions_FINAL_Discussion_Paper_-min.pdf)

energy requirements in the home. This has a range of potential uses from allowing different forms of contracts linked to the provision of certain levels of comfort through to wider research and monitoring of the impacts of different measures and links to health and wider benefits. The idea of a “virtual EPC” is a particular example that BEIS are looking to take forward.

24. The consultation does acknowledge that data privacy is an important consideration but does not address the practical ramifications of this in terms of access to this valuable data. Under the current Data Access and Privacy Framework for smart metering data third parties can only obtain access to smart metering with the customer’s consent. This is an important protection to maintain consumer confidence in the smart meter rollout but risks this data not being able to be used for valuable public interest purposes such as those highlighted in this consultation.

25. To explore these issues further Sustainability First and the Centre for Sustainable Energy have established a smart meter data Public Interest Advisory Group. The over-arching aim is to facilitate a policy dialogue to explore how household smart meter energy data could be:

- Put to appropriate use to better serve GB policy-development, chiefly in the areas of energy and the environment.
- Accessed for purposes of public policy by government and other organisations able to demonstrate a strong ‘public interest’ remit.

26. The project will build on analysis commissioned by CSE & SF in 2015 on household smart meter data and the public interest agenda.<sup>6</sup>

27. BEIS are involved in this group and we hope that it will help identify practical ways to take forward some of the ideas set out in this consultation while safeguarding consumers’ interests.

Yours sincerely

Sharon Darcy

Director  
**Sustainability First**

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<sup>6</sup> <http://www.sustainabilityfirst.org.uk/images/publications/other/Teddinet,%20CSE%20&%20SF%20-%20Discussion%20Paper%20by%20Simon%20Elam%20UCL%20-%20Smart%20Meter%20Data%20&%20Public%20Interest%20Issues%20-%20National%20Focus%20-%2010%20March%202016%20-%20FINAL.pdf> and [http://www.sustainabilityfirst.org.uk/images/publications/other/Teddinet\\_CSE\\_\\_SF\\_-\\_Discussion\\_Paper\\_by\\_Jess\\_Britton\\_Exeter\\_-\\_Smart\\_Meter\\_Data\\_\\_Public\\_Interest\\_Issues\\_-\\_10\\_March\\_2016\\_-\\_FINAL.pdf](http://www.sustainabilityfirst.org.uk/images/publications/other/Teddinet_CSE__SF_-_Discussion_Paper_by_Jess_Britton_Exeter_-_Smart_Meter_Data__Public_Interest_Issues_-_10_March_2016_-_FINAL.pdf)