The voice of the energy industry

The Non-domestic Private Rented Sector Minimum Energy Efficiency Standards

Energy UK response

07 January 2020

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to BEIS's consultation on the Non-domestic Private Rented Sector Minimum Energy Efficiency Standards. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with BEIS or any other interested party if this is considered to be beneficial. This response is not intended to be confidential.

Executive Summary

The benefits of improved energy efficiency are clear. There is an immediate improvement to comfort levels, energy costs reduce in the short term and, over the longer-term, businesses are insulated from future energy price shocks. For businesses and industry, which account for 25% of the UK's carbon emissions, it is estimated that a 20% improvement in energy productivity by 2030 could deliver up to £6 billion in cost savings and reduce carbon emissions by 22MtCO2e in the fifth carbon budget (2028-2032)[1].

[1] BEIS (2017), The Clean Growth Strategy: Leading the way to a low carbon future,

The market for energy efficiency outside of domestic-focused supplier obligations has, however, remained limited. Further action is needed to drive progress across all sectors. Without it, it is unlikely Great Britain will be able to meet its targets in alleviating fuel poverty and reducing carbon emissions. A joined-up/holistic approach to policy making in the energy efficiency space is needed. As set out in our Future of Energy report[2], we believe action is needed across four areas if we are to see demonstrable improvements in the efficiency of Great Britain's building stock and we are to meet our 2050 net-zero carbon targets:

- Ambitious timebound regulations on both domestic and non-domestic buildings, as well as new builds.
- A suite of incentives, financial mechanisms and information that drive demand for energy efficiency across households and businesses and encourages regulatory compliance ahead of time. This needs to include a robust quality and standards framework to engender trust and confidence.
- Support for innovation to develop new energy efficiency measures and installation methods, to drive improvements over and above more established methods.
- Government-funded support for those in fuel poverty and less able to pay for energy efficiency improvements, through a government-funded national energy efficiency scheme.

To this end, Energy UK welcomes the Government proposals to improve the energy performance of non-domestic private rented buildings through tighter minimum energy standards.

We would, however, caution that without a more robust approach to ensuring compliance and enforcement, any improved standards will continue to be undermined. Government must also ensure that it adequately funds the activities of all local authorities so that they can carry out any and all required compliance and enforcement activity.

In addition, we would welcome government reviewing the Minimum Energy Efficiency Standards for the Domestic Private Rented Sector and setting a similar trajectory. We note that such intervention could play a significant role in helping the government to meet both its 2030 Fuel Poverty and 2050 Net-Zero Carbon targets.

Detailed response to questions

Questions

Question 1: Do you have any evidence which can improve the Government's understanding of energy use in the non-domestic building stock?

A: Energy UK welcomes the Government's interest in understanding energy use in the non-domestic sector and expects that the Government's interest is driven by its consideration of how its proposed EPC B by 2030 standards are likely to work in practice.

We note that there is currently a lack of data to sufficiently understand energy use in the non-domestic private-rented sector (PRS) building stock. For example, the information which is collected through mechanisms like the Simplified Building Energy Model is very basic.

Different sections of the non-domestic sector also have different drivers and appetites to take up energy efficiency measures, for example SMEs who rent their properties may lack the incentive or power to make improvements. This is mirrored in the domestic sector with different actions needed to drive the market in the owner-occupied, private rented and social rented sectors.

We believe that in order to ensure regulations and incentives have the desired long-term effects, the way buildings are used and operated post-retrofit needs to be reviewed more systematically. This area hasn't received enough policy focus in the past and needs to be addressed in the non-domestic sector, if we are to maximise the value of energy-efficient investments.

[2] Future of Energy: Reducing Emissions from Buildings, *Energy UK*, April 2019.

The stated rating of a building is often not fully achieved because of a lack of understanding about its design and how it can realise its potential. This can happen in the commissioning of a building, or after it has changed hands between owners or tenants.

We support the introduction of Green Building Passports for commercial properties by 2020, as recommended by the Green Finance Taskforce. A digital passport would set out a customised retrofit roadmap for a building based on fabric and operational data, initially using EPCs and additional data over time. The passports would support businesses to plan investments, and to track and evidence the minimum standard of their buildings.

We also support the Committee on Climate Change's suggestion that, for larger buildings, the Government should explore approaches such as Design for Performance (Better Buildings Partnership). This makes a distinction between 'base building' energy, which is the responsibility of the owner, and the additional energy demands of the occupying organisation.

Question 2: It has now been over a year since the minimum energy efficiency standards for the non-domestic private rented sector were introduced. What have been the positives and areas for improvement of their introduction?

A: Energy UK supports robust minimum energy efficiency standards for the non-domestic private rented sector. We, therefore, welcome government's proposals to tighten the existing regulations, given the shortcomings outlined below.

The existing regulations:

- Provide significant leeway for exemption, a view backed up by 56% of respondents to a recent survey[3];
- Have insufficient enforcement and compliance. The Committee on Climate Change (CCC) highlighted in their summer update a recent Environmental Industries Commission report suggesting that landlords are not making EPCs available in the first place and fines are not being issued for non-compliance[4]; and
- Exclude large industrial buildings, which are covered instead by the EU Emissions Trading Scheme, and/or Climate Change Agreements.

Question 4: To what extent do you think an EPC B trajectory provides sufficient certainty of demand to encourage suppliers in the energy efficiency market to grow, scale and innovate?

AND

Question 5: What do you think are the opportunities and challenges of the Government's preferred 2030 EPC B trajectory?

A: Energy UK welcomes the Government's ambition and desire to set a clear marker to the sector with its EPC B by 2030 trajectory. We note the Government's expectation that approximately 64% of buildings will be able to reach an EPC B, 20% failing to meet EPC B but able to reach EPC C and the remaining 17% unable to reach an EPC C.

Whilst it might not be possible for all buildings to reach EPC B, landlords will nonetheless be encouraged to carry out cost-effective improvements improving the energy efficiency of the property. As the energy efficiency market develops, new innovative products will be introduced which should help to ensure all properties can eventually achieve EPC B.

Energy UK believes that the target of EPC B by 2030, while welcome, will, however, need to be supported by Government initiatives. Energy UK urges the Government to pursue policies that also incentivise the necessary consumer demand for an energy efficiency market to thrive.

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[3] EEVS insight and Bloomberg New Energy Finance (2017), Energy Efficiency Trends Report Vol. 21, http://www.eevs.co.uk/pastreports.html

[4] (Q3 2017) Committee on Climate Change, Reducing UK emissions, 2018 Progress Report to Parliament, June 2018, https://www.theccc.org.uk/publication/reducing-uk-emissions-2018-progress-report-to-parliament/

We consider that greater incentives would encourage building owners to invest in energy efficiency and support a pathway to comply with strengthened minimum standards. In particular, we believe that greater use could be made of the tax system (for example through business rates) to help drive improvements in energy efficiency.

We also urge the Government to consider carefully the practicability of the proposed payback period suggested. We consider that a payback period of seven years is likely to be too short and will unnecessarily limit the number of proprieties to benefit from improvements.

Question 6: We estimate an EPC C trajectory will only bring 42% of the non-domestic PRS building stock into scope of the regulation. Are there any alternative approaches that could complement an EPC C trajectory that would guarantee the necessary action across the remaining stock to drive clean growth and deliver sufficient energy and carbon reductions?

A: As stated in our Future of Energy report, we believe that financial incentives alongside robust, backstop regulatory obligations on property owners are both needed to create the necessary demand in the energy efficiency market.[5]

Further promotion of smart meters will also help drive the increase in energy efficiency that the Government would like to achieve. We suggest that there should also be a requirement, where appropriate for the business (i.e. is eligible for a smart meter), that a smart meter must be installed prior to the start of a new tenancy and/or renewal.

In order to ensure effective promotion of energy efficiency, it will however also be important that intermediaries are tasked with delivering messages about the benefits of energy efficiency. Examples of such intermediaries could be local authorities, estate agents who are tasked with selling or letting a commercial property and the local supply chain where there will be opportunities for them to engage with customers when other renovation work is being carried out at a customer's premises.

Question 7: Can you identify any issues regarding the current administration of the seven year payback test which could be improved to support the goals that a tightened regulatory trajectory to 2030 aims to deliver?

A: As stated in our response to question 5, consideration needs to be made around the payback period and whether 7 years is a realistic time period to expect a return from energy efficiency upgrades.

To register for an exemption landlords currently must provide three separate quotations for the purchasing and installation of improvements from qualified installers, alongside an assessment of the expected savings from a package of measures and the last 12 months of energy bills. Energy bills are used to determine the relative energy price, however, estimated reads are common and we would suggest that Government consider whether actual meter readings should in fact be required to provide a more accurate picture of energy use.

We also believe, that the 5-year validity period for exemptions should be reduced to 3 years and possibly key trigger points, for example Change of Tenancy, to ensure landlords are obligated to reconsider the cost effectiveness of measures. The increased certainty provided by the 2030 trajectory should allow industry to invest in new innovative products which should be more cost effective. Landlords should be obligated to reconsider cost effectiveness as cost factors change.

Question 12: At this stage we welcome views on how the Government could most effectively improve enforcement of minimum energy efficiency standards under an EPC B or C by 2030 trajectory.

A: As mentioned in our response to Question 2, more robust energy efficiency standards will continue to be undermined if they are not complimented by more robust enforcement and compliance activities.

[5] Future of Energy: Reducing Emissions from Buildings, *Energy UK*, April 2019.

Government must, therefore, ensure that that it is adequately funding the activities of all local authorities so that they can carry out any and all required compliance and enforcement activity.

Consideration also needs to be made in relation to exemptions and whether the existing criteria works particularly around the payback time and the use of energy bills to determine the payback time.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2964 or at Candice.Orr@energy-uk.org.uk**.**