



01 Overview

Green Deal Briefing Paper
January 2013

This is the first in a series of briefings on the UK government's flagship energy efficiency programme, which summarises some of the current issues and progress around the release of the Green Deal and Energy Company Obligation.

The Green Deal and Energy Company Obligation ("ECO") are set to be fully launched on 28 January 2013 with the aim of providing a funding mechanism for thousands of domestic and non-domestic properties to be retrofitted in ways which increase energy efficiency and reduce energy usage.

Under the Green Deal property owners / tenants are able to make energy efficient improvements to their properties at no "up-front" cost, instead borrowing the money from a Green Deal Provider and then repaying this over a prolonged period via a levy on their energy bills.

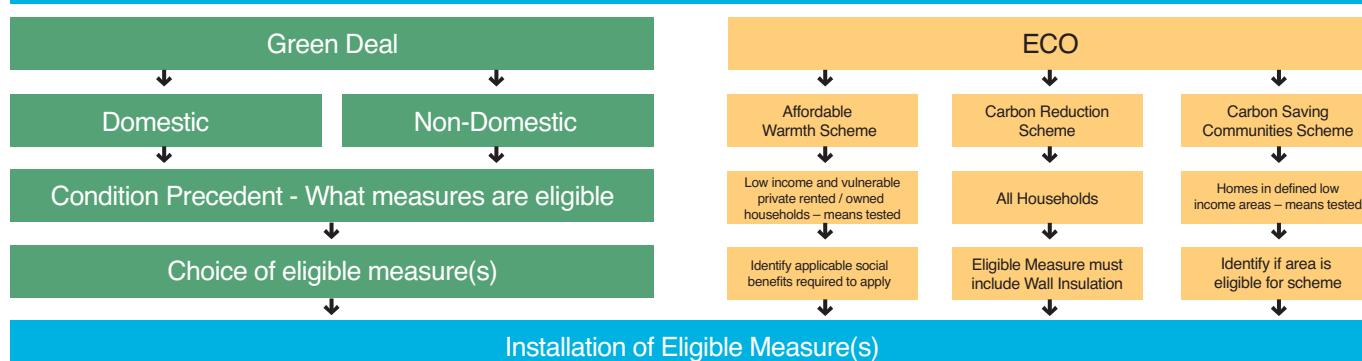
All properties looking to retrofit their properties require to be properly assessed by an approved Green Deal Assessor who will then recommend various appropriate measures. The intention is that the total cost of the measures installed will not exceed the total reduction in energy bills over the repayment period therefore resulting in no increase to the property owner / tenant's energy bills – the so called "Golden Rule".

Unlike under the Green Deal, projects funded by ECO do not require to be repaid, although the availability of

ECO is far lower than that of the Green Deal, which is potentially available to everyone. There are three main eligible schemes under ECO namely; (1) Affordable Warmth; (2) Carbon Savings Communities; and (3) Carbon Reduction with each scheme being available to a different demographic and containing a different number of "eligible measures".

The Government have released a list of "eligible measures" which can be adopted under the various schemes. A wide range of these measures are available under the Green Deal both to domestic and non-domestic properties with owners / tenants then being advised on which of the variety of measures is most likely to achieve the "Golden Rule" in their property. Under ECO the number of "eligible measures" are limited. The Affordable Warmth Scheme has the widest range of eligible measures available however due to it being "means tested" based on benefits data it is available to the smallest demographic. The Carbon Savings Communities Scheme has a smaller range of eligible measures but is potentially available to a wider demographic. Finally, the Carbon Reduction Scheme is available to all domestic households however has an extremely limited range of "eligible measures" restricted mainly to wall insulation. The number of "eligible measures" can however be extended where they are installed as part of a wider project which also installs specific wall insulation options at the same time.

Potential Funding Routes



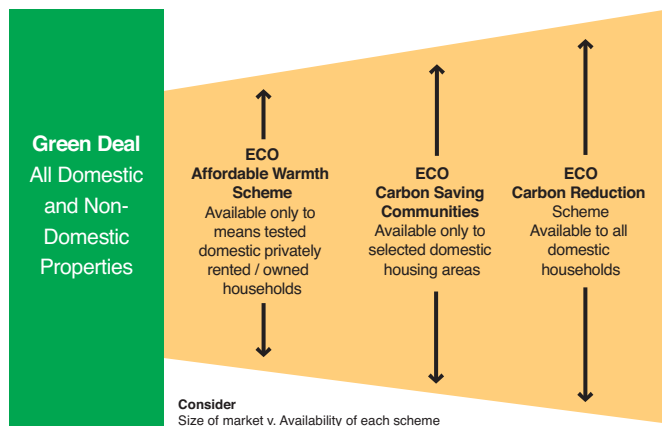
Other Considerations:

- "Self Fund" or Green Deal / Eco Contribution
- Installation of "non-eligible" measures
- ECO Funding where "Golden Rule" is not achieved

Alternative to Green Deal / ECO:

- Feed in Tariff
- Renewable Heat Incentive
- Affordable Warmth Grants

Availability of each Scheme

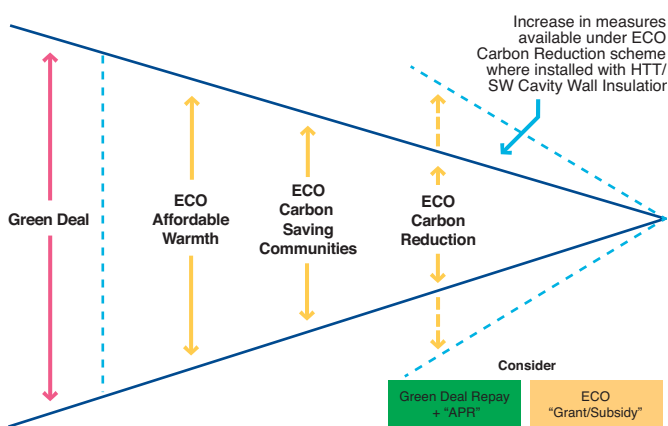


If property owners / tenants are considering an energy efficiency retrofit project (big or small) then they should consider the various funding options under Green Deal and ECO. Under Green Deal any finance will not be “free” with interest rates on the borrowed amount expected to be between 7% – 9%. The potential benefit for landlords however is that by using the green deal method they can pass the costs of this finance down to the tenants, as it is the energy bill payer who is obliged to make the levy payments. ECO however does not come with a finance cost as it is effectively a “grant”.

Therefore property owners / tenants should fully explore the possibility of obtaining ECO funding prior to initiating any Green Deal project.

There is of course the alternative option to “self-fund” projects or look towards the various alternative funding options which remain such as the Feed in Tariff, Renewable Heat Incentive or other Government grants such as Affordable Warmth grants.

Availability of “Eligible Measures” within each Scheme



Points to consider include:

- > Different stakeholders will have different agendas for Green Deal / ECO
- > Key for ECO suppliers will be scale of project and speed to market/delivery
- > Are stakeholders looking for “low hanging fruit” (i.e. simpler/quicker projects but potentially with less impact on carbon reduction) or larger scale / cost projects with a greater CO₂/affordable energy impact?
- > Supply chain – confidence in markets and client side to invest and achieve scale to reduce costs/finance
- > Consumers – will consumers be protected and will they understand against backdrop of inevitable rising energy costs

If you require advice on any of the matters raised in this paper please get in touch with any of our lawyers listed below, who have been focusing on keeping updated on Green Deal/ECO developments, or your usual Shepherd and Wedderburn contact.



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