

Business Energy Use team,
Department for Business, Energy & Industrial Strategy
1 Victoria St,
London
SW1H 0ET
09 June 2021

Sent by email to: businessenergyuse@beis.gov.uk

Dear BEIS Business Energy Use team,

Introducing a Performance-Based Policy Framework in large Commercial and Industrial Buildings in England and Wales

Centrica supports the introduction of a performance—based framework

We agree with the Government's ambitions of introducing a performance-based policy framework in large commercial and industrial buildings above 1,000m². The introduction of a system that measures actual energy usage alongside the widely recognised EPCs, will provide building owners and tenants with the correct data with which to make energy efficiency and low-carbon heat investments.

Many in the built environment sector have long argued that as EPCs mainly provide modelled performance data, the actual energy performance of a building is not captured and therefore, the EPC ratings were not accurately demonstrating a building's performance. Complementing EPCs with a performance-based policy framework is a step in the right direction.

Increasing the amount of data available should assist installers with offering product offerings to building owners to reduce their energy consumption more effectively and accurately.¹

However, we do not believe that reputational pressures alone will be sufficient to drive the decarbonisation needed in buildings to meet the net zero target. The Government should therefore provide incentives in this scheme to drive energy efficiency. In due course, we believe that low energy efficiency buildings should be penalised with carbon emissions appropriately costed.

Methodology

We support the proposed performance rating system following the same tabular methodology as the NABERS scheme. This methodology will help ascertain the actual energy intensity of a building. Basing on a benchmark factor allows for greater control defining the value of the individual rating bands and avoided numerical rounding issues between different applications.

¹ UKGBC (2018). UKGBC responds to Call for Evidence – Energy Performance Certificates for Buildings. Page 1 of 4

However, the methodology remains relatively simple as it is based on the annual metered energy use and compared to other similar buildings. We believe that the methodology could be enhanced by considering the following:

As the methodology is based on metered data, it is crucial that these data are accurate and sufficiently granular. Half-hourly data has gaps and therefore for businesses to have confidence in the scheme, it is important that these data are reliable and investment grade. To drive a reduction in energy use, BEIS should promote asset-level metering to better establish energy saving opportunities. Such an approach is likely to reap rewards when addressing sectors beyond phase 1, for example when assessing buildings with industrial processes on site.

We accept that other sectors will be consulted on in due course, but we want to flag now that the EPC methodology only applies to regulated load (e.g. HVAC) and does not cover manufacturing load. This needs to be carefully considered for the benchmarking – how will these be compared, and should different units be used for different sectors?

We support the scheme encouraging flexible energy use as a core component of the rating. A smart, flexible energy system is key to ensuring that the energy system is used cost-effectively and efficiently. Any ratings should consider the time of day of the energy use and ensuring the building owner is appropriately credited if responding to market signal to shift load.

We accept that the primary focus for the scheme will be on kWh of electricity equivalent (kWh_e), however, we believe the scheme would be more effective if the benchmarking also considered the carbon emissions of the site. This should then incentivise both low-carbon heating alternatives and energy efficiency installs.

Incentivising building owners and businesses

We note that the Government views the reputational driver as one of the key instruments in ensuring compliance. We agree that this is one way of making building owners and businesses act on improving their energy efficiency and should have greater impact on large building owners with an international presence. However, the threat of reputational damage is not enough and may not produce majority compliance. We believe that the Government should consider introducing fiscal and regulatory interventions from the commencement of the scheme to ensure the scheme drives the required decarbonisation; rather than waiting until the scheme has been introduced and monitored for some years.

Therefore, the clean heat rating cap, as suggested in the consultation, should be introduced from the outset. Therefore, buildings would not score above a certain star rating unless its primary heating system is low-carbon. Centrica believes that the suggested cap of 4.5 is too high; it should be set at the median (3.5) to produce better results.

Building owners and businesses should be free to install a mixture of low-carbon heating technologies. These technologies should include Hybrid Heating Systems. Hybrid Heating Systems can maintain comfort levels in all buildings, regardless of a buildings energy efficiency rating with a greater opportunity to decarbonise today. With Hybrid Heating Systems there is an opportunity to incrementally reduce carbon emissions over time through improved energy efficiency measures.²

Decarbonisation of heat is the toughest challenge we face on the way to net-zero. Approximately 65% of non-domestic buildings use natural gas as their primary heating source,

² Wales & West Utilities Ltd (2020). Benefits of Hybrid Heat Systems in a Low Carbon Energy System. Page 2 of 4

with non-domestic users mainly using heat to keep their workplaces warm, cooking and washing facilities.³

To further incentivise businesses to comply with this new scheme, the Government could include a business rates relief as part of the proposal, this should be dependent on the properties star rating. Previously, Policy Exchange recommended energy efficiency be linked to business rates via linking EPCs. This would further incentivise landlords to invest more in energy efficiency measures.⁴

A notable challenge for installing low-carbon technologies is getting a timely, cost-effective connection to the electricity network. BEIS should consider whether connections for low-carbon technologies could be fast-tracked using the ratings in this new scheme.

Whilst separate to this scheme, we welcome that the UK Government will be considering whether the UK Emissions Trading Scheme (UK ETS) is consistent with the UK Government's net zero ambitions. As sectors decarbonise, there should be appropriate price on carbon emissions to drive the move to net zero.

Finally, it is important that these leverage and work in tandem with existing schemes that focus on energy use, energy-saving opportunities and carbon emissions of large non-domestic energy users; namely the ESOS and SECR schemes. Our concern to date about the ESOS scheme is that energy saving opportunities are identified but then companies are not appropriately incentivised to act upon these. Combining the ESOS findings with this new scheme would better enable these opportunities to be realised. Furthermore, introducing incentives to improve the performance of the buildings (and/or disincentives if they are not acted upon) should better encourage businesses with large buildings to act upon the energy savings opportunities.

Non-compliance

Centrica believes that a mixture of reputational and financial penalties should be used to maximise compliance. However, this approach must be done in a targeted way, with the main aim being lifting as many building owners and businesses into compliance. While we believe that fiscal and regulatory incentives should be in place from the outset to encourage compliance, it may be prudent to allow a transitional arrangement before applying financial penalties to under-performing buildings.

The three potential enforcement bodies outlined in the consultation are acceptable. Our preference is that BEIS, working with a council of experts in the built environment, should ensure compliance. Working with professionals in the built environment is an important element of this and would make sure that everyone is on the same page and to ensure that BEIS has 'on the ground' information on the appropriate actions for businesses / building owners to achieve compliance. Additionally, there should be an independent auditor, working with BEIS, that ensures businesses and building owners are doing their disclosures properly.

We would be happy to discuss any of the areas above in more detail.

Yours sincerely,

Jack Presley Abbott
Head of Wholesale & Trading Regulation,
Centrica Regulatory Affairs, UK & Ireland

³ BEIS (2018). Clean Growth – Transforming Heating.

⁴ Policy Exchange (2017). Clean Growth: How to boost business energy productivity.

