Energy Service Companies: Do they represent a means of increasing take-up of the Green Deal?

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Energy Service Companies (ESCos) offer reduced energy costs and/or guarantee energy savings by signing clients up to fixed–term energy contracts under which the ESCo installs, and takes on some of the risk of, energy efficiency measures (Bertoldi et al. 2007; Boait 2009). Under a shared saving contract the ESCo *shares* the energy savings, and the performance risk, with the client while under a guaranteed saving contract the ESCo *guarantees* a level of savings to the client, and therefore takes on all the performance risk.

By reducing the risk to the client ESCos have the potential to increase take-up of the Green Deal as consumer research for the Green Deal has indicated that consumers would find savings guarantees attractive: "A lack of a guarantee for the savings reduced interest in the Green Deal with 62% of participants saying it would make them less likely to take it out, of which over a fifth (22%) said it would make them much less likely" (Department of Energy and Climate Change 2011b, p.8). Guaranteed savings contracts would also give some level of energy price security to clients and so could also be attractive from this perspective (Morris-Marsham 2012).

The Green Deal and Energy Company Obligation Impact Assessment suggests that energy service companies (ESCos) could become Green Deal providers (Department of Energy and Climate Change 2011a). Indeed the Green Deal establishes a finance arrangement that could encourage ESCo operation; allowing households or businesses to take out long term commitments to pay for energy efficiency and tying the costs of measures to the property rather than the occupant.

Financial modelling[1] suggests that 5-year ESCo contracts for virgin loft insulation and cavity wall insulation could deliver savings, to domestic clients, of 2-9% on baseline energy bills and 25-year shared savings contracts for internal wall insulation (with ECO subsidy) or 3kWp solar PV (with 50% funding from householder) could deliver savings of 3% and 7%

[1] using transaction and installation costs from the Green Deal Impact Assessment

respectively, while delivering internal rates of returns of 5-20% to the ESCo (Morris-Marsham 2012).

This implies that ESCos could viably deliver energy savings over timescales compatible with Green Deal agreements. However research suggests that in the past the ESCo business model has been hindered by institutional and market factors, such as lack of commercial incentive by existing energy suppliers (UK Energy Research Centre 2005) and institutional lock-in (Hannon et al. 2011). Furthermore surveys have found that only 11% of European ESCos were willing to work with clients whose energy bills were less than €10,000 (£8,400) per year (Rezessy et al. 2005). This implies there are significant barriers to ESCo operation, particularly in the domestic and SME sector. Therefore, despite their potential to increase take-up, it remains to be seen whether there will be sufficient commercial incentive for energy service contracts to be offered to households or SMEs under the Green Deal.

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