

# DECC Call for Evidence: the Energy Technology List

## Feedback from the UK technology sector

January 2016

### Introduction and context

Capital allowances have existed for a long time so that companies can accommodate the cost of investment in plant and machinery by reducing payback periods and helping businesses overcome hurdle rates. Traditionally they are set at 8% a year.

In 2001, Enhanced Capital Allowances (ECAs) were introduced as part of a wider package of environmental policy measures. They allow the full cost of investment to be set against tax in the first year of purchase. The objective was to incentivise (and therefore accelerate the uptake of) more efficient technologies and in turn to reduce emissions, help drive the market and encourage R&D in green technology.

The ETL, or Energy Technology List, is the register of energy efficient products that are eligible for ECAs. The ETL is administered by the Carbon Trust. There is also a WTL, or Water Technology List, that provides a register for water-efficient products. Other, non-environmental ECA schemes exist.

We asked our members for their feedback on the ETL and received views from businesses in the digital technology sector who buy or might potentially buy equipment from the list, from businesses who supply equipment, and from specialist advisors. Their views are summarised below. More detailed comments are captured in subsequent pages.

While this submission is made on behalf of the digital technology sector, the majority of responses were received from the data centre and cloud provider subsector. This is unsurprising in view of the fact that data centre infrastructure is heavily dependent on engineering plant and is both capital intensive and energy intensive. There was, however, clear consensus across the wider industry.

### Summary points

- A scheme that drives investment in efficient technology has an important role to play in driving business efficiency and competitiveness, in reducing energy consumption, greenhouse gas emissions and in stimulating the market for energy efficient products. This is especially true if it helps to bridge the “payback gap” for major, long term investment. However the ETL does not deliver a large enough incentive to provide this tipping point. Evidence from other schemes suggests that if the allowance were escalated to 150% or 200% this would drive a step-change in investment.
- The ETL is good in principle but suffers from a number of process-related shortcomings.
- It is limited in scope because it excludes system level approaches and does not necessarily help companies to identify the most energy efficient products available on the market.
- Awareness and uptake appear to be low, which suggests that the list could be better publicised.
- Although free at point of use it is bureaucratic and resource intensive for suppliers to register products.
- It is resource intensive for buyers to claim ETL, especially if they procure a wide range of qualifying products. The ETL therefore works best for large operations that purchase a very limited range of equipment in large quantities or a very small number of very expensive products.
- Under certain circumstances the process can be too resource intensive to add value (see below).
- Its complexity means that interaction with the ETL is usually outsourced to specialists.
- The ETL is beyond practical reach for most SMEs.

## Detailed Feedback

### BASIC PRINCIPLES

- Members recognise that the ETL is beneficial. Climate Change Agreements (CCAs) and other incentives can drive investment to a certain degree by improving the business case (i.e. making investments with longer payback periods viable). However, CCAs are not able to provide the necessary tipping point to drive investment in the really big ticket items with payback above four years. A further catalyst is needed and in theory the ETL should be able to help companies make the business case for those longer term investments in energy efficient plant and machinery. So there is an important role for the ETL. However, it has not delivered against expectations to date.
- The arrangements for loss making companies were also identified as being good in principle and in some cases companies view this facility as more important than the ECAs.
- In principle companies support the basic operating model and agree that there has to be some kind of register or list - or at least a means to evaluate or validate eligible products. There were mixed views as to how products and equipment might qualify, however, which will be discussed below.

### AWARENESS

- Awareness of the scheme is generally low.
- This is particularly the case among SMEs but a surprising proportion of larger businesses were not conversant with the list.
- A working knowledge of the scheme seemed to be restricted to advisory services specialising in taxation or capital allowances, to companies providing specialist asset management services and a few very large entities with significant asset registers.

### UPTAKE

- Within the ICT sector the greatest scope for ETL uptake is within the data centre environment. When a data centre is constructed a very high percentage of the equipment qualifies for ECAs; 80-90%. In a standard office building this would be nearer 10%. This is because data centre infrastructure is highly engineered: communications, generators, uninterrupted power supplies, batteries, chillers and other cooling technologies are all required. So there is significant scope for the ETL to drive the uptake of efficient technologies in this particular environment.
- Uptake has been very slow although over recent years anecdotal evidence suggests there has been a slight increase.
- Uptake by SMEs seems to be very low indeed; this is not surprising in view of the resource intensity of using the scheme, coupled with low awareness. This is a shame because we are particularly keen for our SME members to be able to take advantage of ECAs.
- It is disappointing that there is no systematic means of measuring uptake via allowances claimed as this would provide a better way of evaluating the level of engagement in the scheme.

### IS THE ETL DRIVING BEHAVIOUR CHANGE?

- The ETL should be driving behaviour change but in its current form, it is not as effective a driver as it could be.
- A minority of respondents took a strategic view of the ETL and used the list at the design stage of construction. However, the only companies we identified who did this had been acting on the advice of specialist third parties or had contracted out the service to specialist consultants.

- Feedback was patchy regarding retrofitting and on plant and machinery upgrades. Some companies looked at the ETL to help them identify qualifying equipment, although they did not always buy those products. For most the ETL did not feature in the procurement process.
- Some businesses apply the ETL retrospectively (they review their installations and then identify those that qualify for ECA) and in these cases it cannot be seen to be driving behaviour.

## RESOURCE ISSUES

- The ETL is viewed as complex enough to warrant specialist consultancy. So the functions of identifying listed products, claiming the ECA and justifying the case are likely to be outsourced to a third party. The following comment is typical of a number of respondents *“To take full advantage of the ETL you would really the kind of large operation with the economies of scale that can justify deep pockets for professional and/or consultancy services”*.
- When companies balance the resource needed to go through the process of applying for ECAs for equipment against the savings made they often find the business case unconvincing. One member commented that *“the resource implications effectively place the list out of range for SMEs”*.
- Another member commented that LED lighting had been subject to changes in the qualification rules. *“Previously all LED lights qualified. Qualification now depends on where the lights are positioned and lux levels. If we want to claim ECA on these we have to go through very detailed processes, including listing serial numbers, and make an evidenced case that the items qualify. The benefit is now marginal at best and no longer justifies the resource needed”*.
- Several members commented that reviewing design or purchase specifications against the ETL was *“cumbersome”*.
- Several companies noted anecdotally that they were obliged to make an evidenced case to justify their ECA claims, which was bureaucratic and resource intensive. Since we know it is not necessary to make the case on application, this may be the result of consultants wishing to ensure that as well as identifying products they equip clients with any justification they may need subsequently.

## DOES THE ETL IDENTIFY THE BEST PRODUCTS?

- The specificity of ETL was regarded as a major disadvantage. It is restricted to specific products from specific manufacturers rather than applying minimum standards. It doesn't allow companies to identify the best in class.
- Getting a product on to the ETL is not straightforward and many suppliers don't bother. This means that choosing a product from the list does not guarantee that it is more energy efficient than a product not on the list. Similarly, machinery or plant not on the list is not necessarily less energy efficient than plant on the list.
- There are therefore doubts that the ETL actually points operators towards the most energy efficient equipment on the market, in view of the speed of the testing process and the rapid rate of technology development.

## GENERAL ISSUES

- The ETL does not provide a visible financial benefit: it simply shortens the time for reclaiming expenditure against tax. Many companies felt that the benefit did not justify the effort required.
- All businesses that commented said that the ETL system was difficult to use and the process was bureaucratic and user-unfriendly. The move to the Gov.UK website had made information less accessible.

- The ETL is limited in scope because it only applies to physical equipment. For many companies, especially those that have already made the necessary investments in efficient plant and machinery, the next step is to implement system level improvements. Within data centres, system level improvements can often deliver much more substantial savings than mechanical and engineering solutions.
- The ETL will be more effective in situations where the UK market is large and there is competition (such as lighting) because inclusion on the list confers competitive advantage and the market share is sufficiently large to make registering products worthwhile. In smaller, more oligarchic markets and for suppliers with less market share (for example, suppliers of sector-specific niche technologies), a less representative share of product categories is likely, if it appears at all.

## ALTERNATIVE MODELS

- Members drew attention to three alternative models.
  - Simply to include products on the basis of efficiency ratings rather than via a complex and costly testing process.
  - Learn from Government Buying Standards, where minimum standards are set based on sustainability criteria including TCO (total cost of ownership). Products that meet those standards are eligible for government procurement. While members were noncommittal about this approach as an alternative, it could certainly inform any revision of the ETL.
  - ETV – Efficient Technology Verification: this is a European Commission pilot. Observers felt that this looked less attractive and more bureaucratic than the ETL. However they raised the important point that if multiple lists, all requiring individual applications by suppliers, are likely to emerge, then a centralised European register of approved technologies would be preferable to multiple lists. There would also be a stronger incentive for suppliers of a wider range of products to register their products as the market is larger, and therefore the effort of registering products more justifiable.
  - Apply allowances above 100% as for R&D tax credits (200%) or contaminated land (150%)
  - Explore the potential for companies to secure ECAs for system-based investments if energy efficiency is demonstrably improved by a threshold amount.

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