



Department
of Energy &
Climate Change

Energy Company Obligation (ECO) delivery costs



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Energy Company Obligation (ECO) delivery costs

Introduction

1. DECC receives monthly summary information from the seven obligated energy suppliers on their costs associated with delivering the Energy Company Obligation (ECO). The figures quoted below relate to all costs reported by suppliers as at the end of August 2013.
2. The latest aggregate delivery costs (up to the end of August 2013) are included in **Table 1**. These are historic costs and future costs may go up or down depending on a range of factors. Projected costs are based on scaling up information from the first eight months of the scheme. These are only indicative of the amount energy suppliers are likely to pass through to customers on their bills to fund their compliance with their share of the obligation. These figures suggest that customers pay an average of around £50 per annum to fund ECO. Projected costs are in line with the central scenario in the [DECC Impact Assessment](#) for ECO and with DECC's estimates of the costs of delivering previous obligations. Provisional figures on measures installed under ECO are published every month [here](#).

Table 1: ECO delivery costs by obligation (up to end August 2013)

Estimated ECO delivery costs as reported by energy suppliers (up to end August 2013)				
Obligation	Average price ¹	Total delivery costs	Scaled-up annual cost ²	Central Impact Assessment
Affordable Warmth	0.17	171,652,809	321,303,068	350,000,000
Carbon Saving Communities	£60.35	61,904,407	182,393,607	190,000,000
Carbon Saving Obligation	£89.68	186,546,289	833,056,977	760,000,000
Total		£420,103,505	£1,336,753,651	£1,300,000,000

Notes:

¹Average price refers to per £ saved on energy bills for Affordable Warmth and per lifetime tonne of CO2 saved for Carbon Saving Communities and Carbon Saving Obligation.

²Annual costs have been scaled up on the basis that the total obligation is met and assumes that the average prices to date continue to be paid throughout the obligation period.

3. **Table 2** shows the average price by obligation and the highest and lowest prices reported by suppliers for each obligation as at the end of August 2013. The suppliers have not been identified to protect commercial confidentiality. This shows that some energy suppliers are discharging their obligation more cost effectively than others. If the highest prices for each ECO obligation are scaled up, the overall scheme would cost around £1.9bn per year – which would mean an extra impact on energy bills of around £25 per year assuming suppliers pass the full costs through to consumers. This would bring the total impact on the average energy bill to around £75 per year.
4. Scaling up the lowest prices would bring the overall scheme in at around £1.1bn per year – which would mean a reduction in the potential ECO costs passed through to bills of around £5 per year (compared to the central estimate). This would bring the estimated ECO costs passed through down to around £45 per year.

Table 2: Average, high and low ECO delivery costs by obligation (up to end August 2013)

Estimated average ECO delivery costs as reported by energy suppliers (up to end August 2013)			
Obligation	Average price ¹ (all suppliers)	Highest price (individual supplier) ²	Lowest price (individual supplier) ²
Affordable Warmth	£0.17	£0.21	£0.14
Carbon Saving Communities	£60.35	£136.41	£38.20
Carbon Saving Obligation	£89.68	£125.65	£71.81
Scaled up annual cost ³	£1.3bn	£1.9bn	£1.1bn
Potential ECO costs passed through (per customer per year)	£50	£75	£45

Notes:

¹Average price refers to per £ saved on energy bills for Affordable Warmth and per lifetime tonne of CO2 saved for Carbon Saving Communities and Carbon Saving Obligation.

²Suppliers have delivered different amounts against each obligation. 'Highest' and 'lowest' average prices for individual suppliers should therefore be treated with caution as they may relate to relatively low levels of delivery, different measures installed and different routes of meeting the obligation.

³Annual costs have been scaled up on the basis that the total obligation is met and assumes that the average/highest/lowest prices to date continue to be paid throughout the obligation period.

Definitions

- The full definitions are included in the accompanying tables. **ECO delivery costs** are defined as the cost of installing an ECO measure in a property. This includes the costs of technical monitoring, cost of assessment, costs involved with searching for ECO properties, installation costs and marketing costs by delivery partners involved with promoting the ECO obligations. Administrative costs are not included in delivery costs (see para 6). Suppliers make returns on delivery costs at the end of the month following each reporting month.
- In addition, **administrative costs** are collected every quarter from suppliers and include: reporting and compliance, own marketing and direct administrative costs. Figures up to the end of June 2013 show aggregate expenditure of £35m. However, overall administrative costs reported are likely to be relatively small compared to delivery costs and, in addition, they may be front-loaded as suppliers will invest significantly in the development of IT / reporting systems to support delivery of the scheme. Suppliers make returns on administrative costs at the end of the month following each reporting quarter.

Caveats

- These figures are unverified costs as reported by energy suppliers. Trade prices on ECO brokerage already provide an indication of the current and future delivery costs (see para 8).

ECO Brokerage

- There have now been 20 fortnightly auctions on the brokerage system, under which ECO suppliers buy compliance against their obligations from Green Deal Providers (compliance in the form of contracts for future delivery). These cost data therefore

gives some sense of the forward price for ECO delivery. Details on each auction are published on the [gov.uk website](http://gov.uk)

9. These brokerage auctions have seen over £250m of activity traded in total. While prices for the three ECO targets have, of course, fluctuated over time, taking the price of compliance from the average of the past three auctions suggests a total cost of ECO compliance of around £1.35bn per annum, broadly in line with projected delivery costs and the central scenario in DECC's Impact Assessment.