

The Rt Hon Edward Davey MP
Secretary of State

Department of Energy & Climate Change
3 Whitehall Place
London
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www.gov.uk/decc

15 April 2014

Dear

ENERGY COMPANY OBLIGATION

I am writing to require you, pursuant to section 103B of the Utilities Act 2000, to provide in writing the following information, using the relevant templates in Annex A and Annex B, and in accordance with the guidance and definitions attached to those templates:

- Monthly ECO delivery costs (£) – Annex A, Table A, required for all licensees. This information is to be provided in relation to each calendar month starting with October 2012 and ending with March 2015. Information for a given month to be provided monthly and by the last working day of the following month. If you are content, I would be grateful if you would provide the monthly information for March 2014 onwards to Ofgem who will pass this to my Department. If you are not content, please send it directly to my Department. Information on previous months for the period October 2012 to February 2014 is required to be resubmitted in an initial return to my Department and is to be provided by 13 May 2014.
- Quarterly ECO administrative costs - Annex A, Table B, required for all licensees. This information is to be provided in relation to the following three month periods: January to March 2013, 2014 and 2015, April to June 2013 and 2014, July to September 2013 and 2014, October to December 2013 and 2014. Information on a given quarter is to be provided by the last working day of the month following that quarter. If you are content, I would be grateful if you would provide the information for 2014 and 2015 to Ofgem, who will pass it on to my Department. If you are not content please provide it directly to my Department. Information on 2013 is required to be resubmitted in an initial return by 13 May 2014 to my Department.
- Information on the proportion of Bill Costs which are attributable to ECO – Annex B, Table C-A required for gas suppliers only, Annex B Table C-B required for electricity suppliers only. This information is required quarterly to cover the previous 12 months of activity: January to December 2013, April 2013 to March 2014, July 2013 to June 2014, October 2013 to September 2014, January 2014 to December 2014, April 2014 to March 2015. Information on a given quarter is to be provided by the last working day of the month following the quarter. Information on January to December 2013 is to be provided by 13 May 2014. If you are content, I would be grateful if you would

provide this information to Ofgem who will pass it onto my Department. If you are not content, please send it directly to my Department.

The above is all information which your group has agreed to provide using the electronic MS Excel templates agreed with my Department and as reproduced in the Annexes to this letter and I require that you continue to use these reporting formats. I request that the data continue to be provided at group level in line with current voluntary practices, and that your group's return includes confirmation from each licensee in the group that information relating to its ECO costs is included in the group figures.

In addition, I require the following information in writing by 13 May 2014.

- An explanation of the quality assurance, auditing and verification process to which i) information previously provided to my Department using the attached templates has been subject and ii) information you will be providing on these templates in future will be subject. This is to include information on the likelihood and potential extent of updates or changes to data which have been already submitted to my Department, together with reasons for any changes, and whether an "end of policy" data reconciliation may be required to obtain a final costs dataset. In addition please state the level to which the data have been cleared, for example independent audit, sign-off by the Board, Finance Director or other internal process.
- Details of contracts in place for future ECO delivery, in respect of each ECO target, including: the guaranteed (i.e. contracted) volume of activity, the expected (i.e. forecast) volume of activity, and the proportion of your expected targets for which you are contracted; the delivery timescales for this activity; and the contract prices.
- Information about the extent to which ECO costs are passed onto consumer bills, as follows:
 - An explanation of how ECO costs are apportioned between customers and reflected in customer bills (e.g. is a certain amount added to each customer's account (and if so how), or is the cost reflected in the unit price for gas or electricity)? Is there a difference between the way in which costs are apportioned between different types of customers (e.g. "single fuel" customers versus "dual fuel" customers, vulnerable customers, direct debit customers)?
 - Details of how ECO costs have been considered and factored into pricing from the point where they were first evaluated for the current ECO period (2013-15), through to present date. Please explain and give details of how and where this differs or has differed by customer tariff type.
 - If and where costs originally projected and factored into pricing have proved different in the actual outturn (including consideration of timing of those costs), the action you have taken and your policy should this prove the case in future.
 - Details of any particular instances of accounting policy resulting in outcomes, in relation to your company's accounting treatment of ECO or your pricing in relation to ECO, which you consider undesirable or areas of concern, to assist future policy design. In particular, please

provide information on the extent to which expected obligations were recognised in advance of actual expenditure and how this has been reflected in customer bills.

I anticipate that your responses would be discussed with my Department, and that this process might give rise to a further notice requiring similar information to be provided on a regular basis and/or for additional information to be provided.

I recognise that much of this information to be provided is commercially sensitive, however I am keen that there should be as much public transparency as possible to underpin the consultation process, and will continue to consider how this can best be achieved, particularly in the short term. My officials will be in touch with you to discuss what might be published.

A handwritten signature in black ink, appearing to read "Edward Davey", with a horizontal line underneath.

EDWARD DAVEY

These Annexes reproduce the electronic MS Excel templates that should be used for reporting. Note that DECC keep the template under regular review and may update them to capture information relevant to ECO policy changes.

Annex A: ECO Cost Reporting Guidance, Definitions and Tables

General information and timescales

- X1 please insert the name of the energy supplier that this return refers to.
- X2 Please insert the month/quarter that this return refers to (e.g. "October - December 2012", "January - March 2013" etc.).
- **Table A** returns are required **monthly** and should be made by the last working day of the month (e.g. by 28th February 2013 for the January 2013 return). In addition, each supplier should make a return that covers activity between October and December 2012 by 28th February 2013.
- **Table B** returns are required quarterly and should be made by the last working day of the month following each quarter (e.g. by 30th April 2013 for the January - March 2013 return)
- All returns should be final. There will not be chance to revise figures following subsequent months/quarters.
- It is acceptable to provide estimates for some of this information (e.g. when a team are concerned with multiple projects), but please note in accompanying text when estimates have been used.
- All costs should be reported in the month (Table A) or quarter (Table B) when they are incurred.

Delivery costs and carbon costs – Table A

Operational **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. These costs should include Value Added Tax (VAT) when it is not applicable for suppliers to claim this back from HMRC. These costs should not include those ordinarily associated with Green Deal (e.g. insurance-backed guarantees). Some costs may be provided in relation to costs incurred prior to full installation of the measure or prior to when the carbon or cost savings are reported.

Lifetime carbon saving is defined as tonnes of carbon saved through ECO measures installed under each (sub)obligation over its expected lifetime including any adjustments for In Use Factors.

- AT ECO: Total delivery costs and lifetime carbon saving (i.e. sum of A1:A3)
- A1 Carbon Target: Delivery costs and lifetime carbon saving
- A2 Carbon Saving Communities Obligation: Delivery costs and lifetime carbon saving (excluding 'Rural' sub-obligation - see A3)

- A3 Rural: Delivery costs and lifetime carbon saving

Lifetime cost saving is defined as notional fuel bill reduction by the installation over its expected lifetime (Affordable Warmth obligation only)

Table A: Delivery costs and carbon/cost saving, monthly reporting

ECO cost reporting: Table A template			
General information			
X1	Energy supplier		
X2	Reporting period		
Table A: Delivery costs and carbon/cost saving			
	ECO Obligation	Delivery cost (£)	Lifetime carbon saving (tonnes)
AT	Total		
A1	Carbon Target		
A2	CSCO		
A3	Rural		
		Delivery cost (£)	Lifetime cost saving (£)
A4	Affordable Warmth		

Administrative costs of delivering ECO – Table B

- BTA Total admin costs (i.e. sum of BTD and BTI)
- BTD Total direct admin costs (i.e. sum of B1:B3)
- B1 Reporting and compliance: cost of complying with the requirements of the legislation, including meeting Ofgem's reporting requirements and costs of administering auditing and fraud prevention
- B2 Marketing: cost of direct marketing of ECO by energy supplier (i.e. not through Green Deal Provider or other related organisations) provided under any of the obligations

- B3 Other direct admin costs: cost of ECO brokerage (including relevant staff costs), delivery strategy (including negotiations with installers, LAs), additional IT infrastructure, telephony, procurement, bi-lateral demands and costs of staff involved in procuring carbon savings. All set up costs should be applied to the quarter where the expenditure was incurred and not spread across a longer period.
- BTI Total indirect admin costs: includes costs of additional support from corporate functions for legal, finance, HR, policy, accommodation and staffing

Table B: Administrative costs of delivering ECO

Administrative costs of delivering ECO: Table B Template		
General information		
X1	Energy supplier	
X2	Reporting period	
Table B: Administrative costs		Administrative cost (£)
BTA	Total admin costs	
BTD	Total direct admin costs	
B1	Reporting and compliance	
B2	Marketing	
B3	Other direct admin costs	
BTI	Total indirect admin costs	



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Annex B: ECO costs in Energy Bills Reporting.

General information and timescales

- X1 Please insert the name of the energy supplier that this return refers to
- X2 Please insert the 12 month period that this return refers to (e.g. "January - December 2013")

Table C-A and C-B returns are initially expected to forecast activity (C1) and costs (C2, C3) for January to December 2013. This one-off forecast should be made by the last working day of May 2013 to cover the 2013 calendar year.

Table C-A and C-B returns are thereafter required quarterly from January 2014 onwards to cover the previous 12 months of activity (i.e. first return would cover January – December 2013, second return would cover April 2013 – March 2014) and should be made by the last working day of the month following each quarter (e.g. by 31st January 2014 for the January - December 2013 return).

All returns should be final. There will not be chance to revise figures following subsequent quarters

Table C-A/C-B: Proportion of average bill price that is used to fund ECO

- C1 Total amount of gas (C-A) / electricity (C-B) provided to customers in previous 12 months (kWh). This will allow DECC to aggregate up all of the suppliers' returns to provide a more representative 'all supplier' figure for C3.
- C2 Average gas (C-A) / electricity (C-B) bill price from previous 12 months (in average £/kWh). This should take into consideration all variations in bill price (e.g. by region and tariff).
- C3 % of average £/kWh that is used to fund ECO for gas (C-A) and electricity (C-B). This should be the proportion of C2 that is used to fund the delivery and administrative costs of ECO over the previous 12 months. If costs are not specifically allocated against one fuel or the other, please split this in the ratio of the obligation against each fuel.
- C4 Please include any contextual information that will aid interpretation of C3 (e.g. what factors have been considered in the calculation of C3, whether it is likely to change over the lifetime of ECO, any data issues) in this text box.

Table C-A: Proportion of average gas bill price that is used to fund ECO

ECO cost reporting: Table C-A template		
General information		
X1	Energy supplier	
X2	Reporting period	

Table C-A: Proportion of average gas bill price that is used to fund ECO		
C1	Total amount of gas provided to customers in previous 12 months (kWh)	
C2	Average gas bill price from previous 12 months (in average £/kWh)	
C3	% of average £/kWh that is used to fund ECO	
C4	Please include any contextual information that will aid interpretation of C3 (e.g. what factors have been considered in the calculation of C3, whether it is likely to change over the lifetime of ECO, any data issues) in the text box below	

Table C-B: Proportion of average electricity bill price that is used to fund ECO

ECO cost reporting: Table C-B template		
General information		
X1	Energy supplier	
X2	Reporting period	
Table C-B: Proportion of average electricity bill price that is used to fund ECO		
C1	Total amount of electricity provided to customers in previous 12 months (kWh)	
C2	Average electricity bill price from previous 12 months (in average £/kWh)	
C3	% of average £/kWh that is used to fund ECO	
C4	Please include any contextual information that will aid interpretation of C3 (e.g. what factors have been considered in the calculation of C3, whether it is likely to change over the lifetime of ECO, any data issues) in the text box below	

