Department of Energy & Climate Change

The Future of the Energy Company Obligation

Government response to the 5 March 2014 consultation

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The consultation and Impact Assessment can be found on DECC's website:
https://www.gov.uk/government/consultations/the-future-of-the-energy-company-obligation

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Executive Summary

Introduction and Overview

This document sets out the Government's position on the proposals contained within 'The Future of the Energy Company Obligation' (ECO) consultation which was launched on 5 March 2014 and closed on 16 April 2014.

Published as an 'open' document on DECC's website, the consultation sought views across England, Scotland, and Wales on a range of proposed changes to ECO.

We received 266 written responses from a variety of organisations and individuals. We would like to thank all respondents who submitted a formal response.

We have now carefully considered all the views expressed.

Key policy decisions

Changes to apply in relation to the current obligation period finishing on 31 March 2015

- The March 2015 Carbon Emissions Reduction Obligation (CERO) target will be reduced by 33 per cent, with the inclusion of loft insulation, cavity wall and District Heating Systems (DHS) as eligible measures if installed on or after 1 April 2014.
- The March 2015 Carbon Saving Community Obligation (CSCO) and Affordable Warmth (also known as the Home Heating Cost Reduction Obligation (HHCRO)) targets will remain the same.
- Eligibility for the CSCO element of ECO is extended from 15 per cent to approximately the 25 per cent lowest areas on the Index of Multiple Deprivation. In addition, the qualifying criteria for the CSCO rural sub obligation will be simplified by allowing energy suppliers to deliver against this sub-target to any domestic property located in approximately the poorest 25 per cent of rural areas, as well as to households in rural areas who are members of the Affordable Warmth Group. These changes will apply for measures installed from 1 April 2014.

Changes to apply for the first time in relation to a new obligation period commencing on 1 April 2015

- The ECO scheme will be extended to March 2017 with new targets imposed for CERO, CSCO and Affordable Warmth at a pro rata of the new March 2015 levels.
- Overachievement against March 2015 targets can be carried forward to count against March 2017 targets, subject to certain criteria. In the case of Affordable Warmth, only

measures installed from 1 January 2014 may be carried forward and, if so, they will be subject to an 'exchange rate' which equalises the value across both ECO periods.

- A deflated Affordable Warmth score will apply for replacement gas 'qualifying boilers'.
- An uplifted Affordable Warmth score will apply for insulation measures and 'qualifying boilers' in households whose main space heating systems are 'non-gas'.
- A new measure, a 'qualifying electric storage heater', will be introduced under Affordable Warmth. The savings from repair or replacement of a 'qualifying electric storage heater' will be scored in the same way as a 'qualifying boiler' and in doing so, receive a higher notional bill saving.
- All replacement boilers and electric storage heaters delivered under Affordable Warmth will be required to include a minimum warranty.

Next steps

The Government will lay amendments to the current ECO Order and a new order to establish an obligation period for the period 2015 – 17 in Parliament on the basis set out in this document. Subject to Parliamentary approval, we expect the amendments to come into force in Autumn 2014.

Conducting the consultation process

DECC carried out a public consultation for 6 weeks and also directly informed key Green Deal and ECO stakeholders – including Ofgem, Energy Companies, Green Deal Providers, product manufacturers, Local Authorities and NGOs – of the opportunity to feed in views. In addition, DECC had received representations from a number of stakeholders on these issues prior to the formal consultation. DECC undertook six consultation events across the UK to provide further opportunities for discussion of the issues raised in the consultation and for stakeholders to communicate views.

Numerical summary of consultation responses:

Of the 266 responses received, the breakdown by stakeholder sector is as follows:

Category	**Total number of responses in each category**
Energy Companies	10
Local Authorities (including bodies	45

representing multiple authorities)	
NGOs/not for profit organisations	33
Others (including the devolved administrations and Ofgem)	36
Supply Chain bodies and trade associations	142
TOTAL	266

To note: The Energy Company Obligation Administrator, Ofgem, also provided two responses to the consultation, and these have been included in the category ‘Other’.

Responses by territory

We received 233 responses from England, 24 from Scotland, 8 from Wales and 1 from Northern Ireland.

Detailed analysis of consultation responses and the Government's response

Level and Nature of targets

Carbon Emissions Reduction Obligation

Question 1

Do you agree that the 2015 CERO target should be reduced by 33 per cent from 20.9mtCO_2 to 14 mtCO_2?

Consultation response

A high proportion of respondents (68 per cent) disagreed with the proposed reduction. Concerns were raised that this proposal would lead to a sizeable reduction in investment in energy efficiency. A local council opposed the proposed change because they believe reductions to CERO would not resolve the issue of insufficient insulation in hard to treat properties. They also expressed a wider concern that the proposed changes will have a detrimental effect on the job market for the solid wall insulation sector. One energy industry association was concerned about the consequences of the target reduction on low income households and those living in the worst properties and deprived areas, as historically a large number of CERO measures have been delivered to this type of household.

One environmental charity is opposed to the target because they believe it significantly reduces the opportunities to secure ECO funding for properties with solid walls in their area. They argue that the UK will be more vulnerable to fluctuations in world energy prices and supplies. An insulation company's response was that the reduction runs contrary to the level of ambition set by science and government advisors on climate change and does not tally as a commensurate response to the stated drivers of the policy. The view of one green deal provider was that the proposed obligation extension, together with the proposed 33 per cent reduction, decreases considerably the ambitions of the original ECO framework. A housing association felt that the proposed reduction will have a large impact in tackling hard to treat properties, which are those affected most by fuel poverty. A local authority suggested the target should be increased in order to eradicate fuel poverty and reduce carbon emissions.

Government response

The Government proposes to reduce the 2015 CERO target by 33 per cent as set out in the consultation. As raised by many respondents, we recognise that this will inevitably lead to a reduction in ECO delivery for the remaining obligation period. However, as set out in the statement of 2 December 2013, the Government believes, at this time, it is right that the impact of environmental programmes on consumer energy bills should be reduced. The changes to ECO, based on information from the supply companies, will result in the average bill being £30-£35 lower than it would have been otherwise in 2014/15.

We are also in the process of rolling out a £540million mitigation and incentives package. This package was announced last year alongside the proposed changes to ECO, and is designed to mitigate losses of carbon emission reductions as a consequence of changes to ECO, and will deliver measures which would otherwise have been delivered under ECO.

Question 2

Should the new 2015 CERO target be applied to phases 1, 2 and 3, or to Phase 3 only?

Consultation response

110 respondents did not answer this question, while 15 disagreed with the proposal altogether. Many respondents were in favour of applying the proposed 33 per cent reduction to the 2015 CERO target to Phase 3 only, as it would stabilise the market over the duration of the obligation. Some respondents, including energy companies, were in favour of applying the target to all three phases.

Government response

The 33 per cent reduction to the 2015 CERO target will be applied to Phase 3 of the current CERO obligation period. Whilst we acknowledge some suppliers' preference to have the reduction applied across all three phases of the current CERO obligation period, it is important to note that all other changes to the current obligation period will be made in relation to 1 April 2014 i.e. the commencement of Phase 3. This approach will ensure that energy suppliers who may have become obligated part-way through the scheme are not placed at a disadvantage, particularly as Phase 1 and 2 are now complete.

Question 3

Do you agree that underachievement against the CERO target at 31 March 2015 should be to be carried forward at a penalty rate of 1.1 times the amount of the shortfall?

Consultation response

Of those who agreed, many felt the proposed multiplier rate was fair, and would achieve the right balance in encouraging overall delivery. There were several respondents who questioned whether the multiplier rate was high enough. One energy company stated that the multiplier rate of 1.1 was insufficient to drive delivery, and could lead to delays or reductions by obligated parties in order to achieve a financial gain. Alternative suggestions included calculating a multiplier rate on a sliding scale with higher penalties for the worst completion rates, which would provide a greater incentive for companies to deliver. Some respondents suggested linking the multiplier rate to market costs, in a similar way to the levelisation uplift.

Government response

Whilst supplier delivery progress against 2015 CERO targets has improved in recent months, Government remains of the view that it is important to avoid unnecessary price spikes and supply chain bottlenecks in the period leading to a compliance deadline which could lead to an ensuing impact upon consumers' bills. On that basis, we intend to enable a more consistent delivery profile across the whole obligation period from 2013 to 2017 by permitting suppliers to choose not to achieve their 31 March 2015 CERO compliance requirements. However, Government will ensure that companies have an appropriate incentive to deliver a sufficient percentage of their 2015 CERO obligation, and will penalise those suppliers who have underachieved at 31 March 2015 by multiplying their carbon shortfall at a rate of 1.1, which will then be added to that supplier's 2017 CERO target.

Obligated energy suppliers staging the bulk of their delivery later would therefore need to deliver a greater amount of carbon saving than energy companies who plan delivery profiles more smoothly across the whole period to 2017. This mechanism would therefore have a net overall impact of increasing the amount that suppliers are collectively required to achieve by 2017. Failure to achieve the CERO target in 2017 will mean companies are likely to be in breach of their statutory obligations which may ultimately lead to enforcement action by the Regulator.

Affordable Warmth and Carbon Saving Communities Obligation

Question 4

Do you agree that CSCO and Affordable Warmth targets should remain unchanged for 2015?

Consultation response

There were 193 responses to this question, of which 140 agreed that the targets should remain unchanged.

Of the respondents that disagreed, the general view was that the Affordable Warmth target does not go far enough to help those in fuel poverty and therefore should be increased, but by and large, these respondents did not specify a figure. Another concern raised by a number of respondents was the current low levels of delivery in rural areas under the CSCO Rural Sub Target and the need for greater flexibility to ensure increased delivery in these areas.

Finally, some energy suppliers noted the merits of additional 'data matching' with the Department of Work and Pensions to assist energy suppliers in locating customers in the Affordable Warmth Group more cost-effectively.

Government response

We remain committed to maintaining support for the fuel poverty objectives through ECO and as such the March 2015 targets for Affordable Warmth and CSCO will remain unchanged. Changes proposed to aid delivery to rural areas under the CSCO Rural Sub Target are outlined in response to questions 19 and 20.

Carry Forward of Surplus Actions from 2015

Question 5, 6 and 7

Do you agree that all excess activity under CERO, CSCO and Affordable Warmth should be compliant with rules put in place for these sub obligations from 1 April 2015?

Do you have a view on whether, and what proportion, of over-delivery against 2015 CERO, CSCO and Affordable Warmth targets should be permitted to count towards 2017 targets?

Do you have views on how such a cap mechanism should be calculated and then implemented? Do you have a view on how such a cap could work alongside the proposed SWI minimum threshold, and whether there are distinct implications for any of the three ECO sub obligations?

Consultation response to Questions 5, 6 and 7

On the whole, respondents did not support the concept of a cap on carry forward. Respondents argued that, in light of delivery to date, energy suppliers are delivering well against their CERO and Affordable Warmth 2015 targets. Concerns were raised that implementing a cap on carry forward would result in a continued pause on delivery which would have impacts for both the supply chain and also households receiving energy efficiency measures.

Alongside this, there was support for requiring all carry forward to be compliant with rules put in place for the obligation period 2015-17. Where respondents were against this proposal, the primary concern raised was that this requirement could jeopardise continued delivery throughout 2014 as delivery would slow down until the new scheme rules were clear. A number of respondents were of the opinion that early delivery was positive, as it meant households could be helped sooner.

Government response to Questions 5, 6 and 7

Over-delivery during the current obligation period of ECO (which we will now term 'surplus actions', to distinguish this activity from CERT and CESP excess actions) will be able to be carried forward to the next period without being subjected to a formal cap. Following consultation feedback, we feel it is preferable to enable more households to receive energy efficiency measures earlier, thereby delivering long-term benefits to these households sooner. By ensuring continuity of delivery, this approach will also go some way to support the supply chain. As is usual between obligations, the relevant sub-obligation for the 2015 obligation period will need to have been met before any actions can be carried forward – no actions will be able to be carried forward where these are required to meet the current ECO obligation.

As we stated in the consultation document, we also wish to ensure that the policy objectives of the scheme are met both within this period and also within the next, in light of the changes we are making to the regulations post-2015. Rather than requiring all surplus activity to be delivered on ECO2 rules to achieve this, we have decided to take a different approach to minimise the risk to our future policy aims. All surplus activity which is carried forward to count against a 2017 target will be scored using the version of the Standard Assessment Procedure that was used at the time of installation and installed in accordance with the version of the Publically Available Specification (PAS) in force also at that time.

CERO and CSCO

CERO and CSCO activity delivered during the current ECO obligation period but surplus to achieving individual supplier's 2015 obligations will be permitted to be carried forward to the next ECO obligation period and counted towards achievement of individual supplier's 2017 obligations.

Affordable Warmth

For Affordable Warmth surplus activity, the following conditions will apply:

a) Only measures installed between 1 January 2014 and 31 March 2015 (inclusive) will be eligible to be treated as surplus actions;

b) Scoring all surplus actions will be subject to an 'exchange rate' which equalises the value across both ECO periods (this concept is explained more below);

c) Replacement boilers installed between 1 January 2014 and 31 December 2014 (inclusive), which a supplier wishes to carry forward, will benefit from a slightly higher exchange rate if the measure includes an installation warranty that is provided at the point of installation and meets the 2015-17 requirements; and

d) Replacement boilers and electric storage heaters installed between 1 January and 31 March 2015 (inclusive), which a supplier wishes to carry forward, must meet the relevant 2015-17 warranty requirements in order to be eligible as surplus actions. This requirement will be reflected in the exchange rates used for these measures.

By using an exchange rate for Affordable Warmth measures, any activity which suppliers wish to carry forward is designed to have the same value as if it had been delivered under the rules of the scheme for the 2017 target. This approach should enable suppliers to manage their delivery in a way which avoids the risk of any activity during the current ECO period being 'stranded' (i.e. suppliers being unable to count this against either their 2015 or 2017 targets) as money invested towards over-delivery will be able to count towards the 2017 target. This provides greater certainty for the supply chain over the rules of delivery, allowing investment to continue while also ensuring that no one supplier disproportionately benefits or loses out as all delivery that counts towards the 2017 target has the same value. In addition, such an approach maximises the chance of our policy objectives being realised as measures installed before April 2015 which are likely to count towards the 2017 target will be delivered in line with our revised delivery incentives, while customers receiving replacement boilers and electric storage heaters may benefit from the additional warranty requirements being introduced in the next period.

For the avoidance of doubt, for replacement boilers the warranty referred to in (c) and (d) above must meet the conditions outlined in our response to Questions 44 and 45 as well as being provided at the point of installation. It will not be possible for suppliers to apply installation warranties retrospectively to measures which they wish to carry forward to the next period of ECO. We do not believe that this would be of benefit to the consumer: we are aware that most installation errors arise soon after the installation has taken place and so providing such a warranty retrospectively would diminish its value, while also requiring additional customer contact. Where a supplier opts to install a replacement boiler with an installation warranty prior to knowing the exact compliance requirements for such a warranty, they will be operating at their own commercial risk. However, we understand that some organisations already provide installation warranties as standard and it is right that, if such a warranty ends up meeting the scheme requirements once they come into force, the exchange rate used reflects this. We are therefore taking an approach which will provide suppliers with the flexibility to decide how they wish to deliver activity which is likely to be counted against the 2017 Affordable Warmth target.

The exchange rates which will be used are set out in the below table. These have been set using the difference in the estimated unit cost of delivering lifetime notional bill savings through these measures following the changes which we are making to Affordable Warmth. Therefore, apart from ‘qualifying electric storage heaters’ (please see below for more information) the figures in the final two columns are equal to the value of the Affordable Warmth score for measures in the 2015-17 period. For boiler replacements, the difference in the exchange rates reflects the cost of the installation warranty which will be required in the next period of ECO. For further explanation of these figures please see the Impact Assessment, as well as our responses to Questions 21-23 and Questions 44 and45 for more details on the policy changes being introduced for the 2017 target which affect these exchange rates.

Measure	**Installed 1 January-31 December 2014** **Exchange rate**		**Installed 1 January-31 March 2015** **Exchange rate**
	New warranty requirement not met	**New warranty requirement met**	**New warranty requirement obligatory**
Replacement gas ‘qualifying boilers’	0.75	0.8 (installation warranty)	0.8 (installation warranty)
Replacement non-gas ‘qualifying boilers’	1.40	1.45 (installation warranty)	1.45 (installation warranty)
Replacement boilers which are not ‘qualifying boilers’	0.95	1 (installation warranty)	1 (installation warranty)
Repaired non-gas ‘qualifying boilers’	1.45	1.45	1.45
Insulation measures in non-gas fuelled properties	1.35	1.35	1.35
All other measures	1	1	1 (warranty for replacement electric storage heaters)

As outlined in point (b) above, these exchange rates will be applied to the lifetime notional bill savings achieved for measures installed since 1 January 2014 which are scored against the 2017 Affordable Warmth target. For example if a non-gas replacement ‘qualifying boiler’ installed now without an installation warranty achieved a score of 100 under the current rules for 2013-15 obligation period, if this measure was carried forward to the next period of ECO the supplier would be able to count a score of 140 towards their March 2017 target. If this measure was provided with an appropriate installation warranty at the point of installation, the supplier could count a score of 145 towards their March 2017 target. For further information on how ‘non-gas’ will be defined in legislation, please see our response to Questions 21 and 22.

We have not included a specific exchange rate for electric storage heaters; the score from these will be carried forward at a rate of 1:1. This is because in 2015-17 we are introducing a new Affordable Warmth measure, a 'qualifying electric storage heater' (please see our response to Question 23 for more information), which currently does not exist within ECO. There are likely to be additional compliance requirements (similar to those required for a 'qualifying boiler') associated with this measure in the next period of ECO and without these in place, we would be concerned about creating perverse incentives to replace working electric storage heaters.

We are setting an end date after which surplus actions which are replacement boilers or replacement electric storage heaters must have been accompanied by a warranty, in accordance with the new scheme rules as our introduction of these warranties will improve the support available to Affordable Warmth customers. Ultimately, therefore, we do want to ensure that some over-delivery is compliant with this policy change.

Transfer of Obligation Activity

Question 8

Do you have views on whether the rules relating to transfer of activity can be improved or simplified?

<u>Consultation response</u>

A high proportion of respondents, (174) including housing bodies, did not answer this question. Of the respondents who answered, the majority of respondents were energy suppliers and were of the view that the rules required reforming, to simplify and speed up the process of transferring activity. Many respondents highlighted the importance of the ability to transfer activity between license holders as crucial in the way in which ECO is delivered cost effectively. Only two respondents disagreed with the proposal.

Some specific suggestions provided by respondents included: mirroring the same rules used under the previous energy efficiency schemes of CERT and CESP, requiring sellers instead of buyers to check measures are complaint. Finally, several respondents suggested that the requirement for the Administrator to approve transfers should be removed.

<u>Government response</u>

Current legislation requires that the Administrator must approve a transfer unless it has reasonable grounds to believe that the supplier would not achieve its obligation. This places an unnecessary constraint on suppliers as it is suppliers who are best placed to assess their delivery performance against their total obligations, particularly as they hold information about their future contracted delivery.

The rules for the transfer of activity between license holders will be amended for the obligation period 2015-17, with the removal of the requirement that the Administrator must assess whether the supplier would not achieve its obligation. Instead, suppliers will be able to notify Ofgem of a request to transfer, with Ofgem then transferring the compliance activity without having to undertake an assessment of whether the supplier is at risk of not meeting their individual obligations. The activity transferred must still be compliant with the rules of the relevant obligation to which the activity is being transferred.

The Energy Company Obligation to 2017

Question 9

Do you agree that the ECO scheme should be extended from March 31 2015 to March 31 2017?

Consultation response

The vast majority of respondents (77 per cent) agreed that the ECO scheme should be extended with new targets from March 31st 2015 to March 31st 2017. Some respondents argued that these extended targets should be set in line with the original level of ambition for the ECO scheme between 2013-15.

Government response

We will extend the individual CERO, CSCO and Affordable Warmth sub targets for the period March 31st 2015 to March 31st 2017. This will ensure that households continue to get help with installing energy efficiency measures and continue important efforts to reduce our carbon emissions and help the fuel poor in a real and meaningful way.

This will be on the following basis:

- CERO: the new CERO target (with the 33 per cent reduction) to March 2015 will be extended to the period April 2015 to March 2017 on the basis of a constant annual level of carbon delivery effort. This gives a target of 12.4MtCO2 over the two-year period.

- CSCO: the target will be extended for the period April 2015 to March 2017 on the basis of a constant annual level of carbon delivery effort. This gives a target of 6MtCO2 over the two-year period.

- Affordable Warmth: the notional bill savings target for Affordable Warmth between April 2015 and March 2017 will be set based on an estimated annual cost consistent with the original (2012) final ECO Impact Assessment i.e. £350million in 2011 prices. This target will be set at a level that reflects the change in delivery costs that result from any proposed change to the scheme, and gives a target of £3.7 billion of lifetime notional bill savings.

As the Government has previously confirmed, the obligation is intended to be both ambitious and long-term, extending through until at least 2022 but previous targets were set only until March 2015, which meant that there was a lack of long-term certainty for the supply chain and others interested in delivery. The conclusions in this document should provide longer term certainty by extending the scheme through to 2017.

Question 10

Do you have a view on the modelling approach taken to set the 2017 targets, and are there other approaches that Government should consider? If so, please provide justification for your answer.

Consultation response

135 respondents – just over 50 per cent of the total – answered this question. Of those who responded, energy suppliers disagreed with our approach to modelling the 2017 targets. Suppliers believe that the obligation period should be calculated on the basis of a 2.5 year pro rata, which would have the effect of reducing the targets from the levels proposed in the consultation.

Many other respondents made suggestions which they thought would improve or augment the modelling. One Green Deal Provider suggested that the real ECO cost per household should be used as the basis for modelling revised targets. A consumer organisation felt that national and local fuel poverty targets could be used to inform the direction of ECO, particularly with respect to Affordable Warmth and CSCO.

Government response

Suppliers disagreed with our approach to modelling the 2017 targets, arguing that they should be set by reference to a 2.5 year baseline period for the first phase of ECO, which would have the effect of reducing future targets from the levels proposed in the consultation. However the Government believes that they should continue to be set pro-rata to a 2.25 year obligation period, which is the length of the ECO obligation period for January 2013 to March 2015 explicitly set out in legislation[1]. Since the obligation period is clearly defined in legislation, and the 2.25 year period was explicitly modelled as the delivery period in the original ECO Impact Assessment, the Government's view is that a pro-rata of the 2.25 year obligation period is appropriate, and the 2017 targets continue to be modelled on this basis.

[1] Article 6 states that the obligation period starts on 1 January 2013.

Questions 11 and 12

Do you agree that the 2017 CERO target should be set at 12.4MtCO2?

Do you agree that the 2017 CSCO target should be set at 6MtCO_2?

<u>Consultation response to Questions 11 and 12</u>

The majority of respondents (140) disagreed with the proposed 2017 CERO target. Energy companies were among those who disagreed with the target and suggested an alternative calculation of 11.2MtCO2. Other respondents, who disagreed, stated that new targets for 2017 should be higher than the original 2015 targets. For the 2017 CSCO target, 74 respondents agreed with the proposed target. Respondents, who disagreed, notably energy companies, suggested alternative calculations, including 5.44MtCO2.

<u>Government response to Questions 11 and 12</u>

The CERO target for the period April 2015 to March 2017 will be set at 12.4MtCO2. This is based on a pro-rata of the current obligation period and the new 2015 target which will be 33 per cent lower than the original.

The CSCO target for the period to 31 March 2017 will be set at 6.0 MtCO2, and set on a pro rata of the current obligation period.

While the approach taken to set the targets was considered to be reasonable by stakeholders, there were some diverging opinions as to the level of the CERO and CSCO targets. Some respondents thought the level of ambition of the targets should be increased whilst others, considered our figures underestimated delivery costs. On balance, Government considers the targets to be appropriate in light of our desire to manage the impact of environmental programmes on consumer bills and the best available evidence on delivery costs at this time.

Question 13

Do you agree that the 2017 Affordable Warmth target should be set at £3.8 billion of lifetime notional bill savings?

<u>Consultation response</u>

We received a total of 165 responses to this question. There were 91 responses in favour of setting the 2017 target at £3.8 billion of lifetime notional lifetime bill savings while 65 respondents disagreed, many of whom felt the target should be increased to help more households living in fuel poverty. Those calling for the target to be increased were largely local authorities and not-for-profit organisations.

A number of energy suppliers queried aspects of the Assessment of Impacts in reaching this 2017 target figure, including that the calculation behind the target should be based on a 2.5 year pro-rata of the 2015 level of notional bill savings, and in so doing, arguing for a lower target than the proposed £3.8 billion of lifetime notional bill savings.

<u>Government response</u>

We will be setting the Affordable Warmth target in 2017 on the basis of a pro-rata of the original estimated cost of the policy, i.e. £350m in 2011 prices. This is designed to ensure that all policy changes to Affordable Warmth do not add pressure to energy bills. Therefore the policy for the 2015-17 period is designed to have a net zero impact on bills compared to its current level.

The final policy package proposed for Affordable Warmth in the 2015-17 period leads to a target of £3.7 billion of lifetime notional lifetime bill savings. This change from the figure of £3.8 billion set out in the consultation reflects the impact of the full range of Affordable Warmth policy decisions set out in this document and the use of updated market delivery data. The Impact Assessment explains the calculation methodology in full.

We recognise that many respondents argued the overall target – and spending levels – should be increased to provide further support to low income and vulnerable households. However, given the need to reduce pressures on consumer bills, this is not possible at this time. Nevertheless, the policy decisions set out in this document will mean ECO acts even more effectively to reduce fuel poverty, by providing incentives for additional activity to be delivered to those facing the deepest levels of fuel poverty, notably in off-gas grid areas.

Incentive Schemes and Mitigating Proposed Reductions to Carbon Savings

Question 14

Do you agree therefore that work carried out to fulfil obligations under ECO should be additional to work funded under the incentive package? If yes, do you have suggestions on how this additionality could be ensured?

Consultation response

A large majority of respondents who answered this question agreed with the Government's proposal. Agreement was cross-sectorial, and included installers, local authorities, consumer organisations and trade associations. A large trade association who expressed agreement offered the suggestion that consumers receiving measures under ECO should sign to confirm that they are not in receipt of any other funding and that any energy supplier found to have claimed savings that involved incentive funding might be subject to a punitive penalty being added to their respective target. A number of major energy suppliers disagreed, however, or expressed concern that any barriers to using incentives funding could distort the market and leave a funding gap for the more expensive measures, even when taking ECO and the Green Deal into consideration.

An energy efficiency organisation highlighted the position of the devolved administrations, saying that they should retain the ability to provide funding for domestic energy efficiency measures as they see fit in order to enable the measures to be delivered within the housing conditions that apply in their territories.

Government response

Government wants to ensure that the additional funding announced for energy efficiency measures in December delivers additional carbon emissions and represents value for money for citizens. Using part of the £540m announced in the Autumn Statement, Government announced on 1 of May the Green Deal Home Improvement Fund (GDHIF), an incentive scheme which is open to all householders, including landlords and tenants, who want to improve the energy efficiency of their homes. Up to £120m will be available this financial year, and rates are guaranteed at the levels available at launch for the first £50m. At these rates, householders could be eligible to claim up to £6,000 for fitting solid wall insulation and up to £1,000 for fitting two measures from the list of 12 other eligible improvements at their property. They could also claim up to an extra £500 if they have purchased the relevant property in the 12 months before making an application and up to an extra £100 towards the cost of a Green Deal Assessment. GDHIF opened to customer applications on 9 June at: www.gov.uk/greendeal.

Government decided that householders will not be eligible to receive Green Deal Home Improvement Fund money on measures installed under ECO. Under the GDHIF scheme Terms and Conditions, it will be the responsibility of the Green Deal Installer or Provider contracted to do the work to declare whether there is any ECO funding on the measures installed under the GDHIF scheme. They will need to provide confirmation to the customer about the absence of ECO funding on the measures installed before the work starts. In addition, once the work is completed, the Green Deal Installer or Provider will be required to sign a declaration to this effect. Government believes that companies should be aware about which measures they are installing as part of an ECO agreement – as this will have been agreed with the energy company, or through a Green Deal Provider commissioning the measures through brokerage, or through another third party.

A separate £15m Green Homes Cashback scheme operates in Scotland:

http://www.energysavingtrust.org.uk/scotland/Take-action/Find-a-grant/Green-Homes-Cashback-Scheme

Carbon Emissions Reduction Obligation

Loft insulation and easy to treat cavities as primary measures

Question 15 and 16

Do you agree that all forms of cavity wall insulation, including standard "easy to treat" cavities installed from April, should be eligible as a primary measure under CERO?

Do you agree that loft insulation which is installed from April 2014 should be eligible as a primary measure under CERO?

<u>Consultation response</u>

The majority of respondents who answered questions 15 and 16 agreed with the proposals. Those in favour included energy suppliers, local authorities and other social housing providers as well as insulation companies. However some of those who agreed expressed concern that including "easy to Treat" measures under CERO would enable the energy suppliers to achieve their carbon reduction targets by "cherry-picking" cheaper, easier measures, leading to a reduction in the number of "hard to treat" measures, particularly solid wall insulation. Many of those who disagreed with the proposal, which also included some local authorities, did so for this reason. One large trade association, while agreeing with the proposals, expressed concern that ECO was being subjected to "fundamental realignment" after only a year in operation, and highlighted the importance of ensuring that the change does not result in hard-to-treat insulation measures being installed without the necessary additional works and safeguards required in such cases.

Those respondents who agreed with the proposal in Question 15 tended, for the most part, to agree with the inclusion of loft insulation as a primary measure, as proposed in Question 16. Of those respondents who differed in their answers to the two questions, some felt that loft insulation should instead remain a secondary measure.

<u>Government response</u>

We believe that the inclusion of all forms of cavity wall insulation and "easy to treat" cavities installed from April 2014 as primary measures, along with loft insulation installed from this date, is the approach that will best drive an increase in the level of advancement toward the CERO target. We therefore intend to proceed with the proposals as outlined in the consultation document. Extending eligibility to these measures will increase the potential for carbon savings – the key aim of CERO – and will do so at a lower cost per tonne of ECO subsidy, allowing optimal carbon reductions to be achieved at a reduced cost to domestic energy consumers. We are mindful of the potential effect that these changes might have on the installation of solid wall insulation and other "hard to treat" measures going forward. However, the introduction of the SWI Minimum of 100,000 installations, alongside other initiatives such as the Green Deal Home

Improvement Fund, should enable a stable level of SWI installations to be maintained.

Question 17

Do you think it would be appropriate to make provision to ensure that low income and vulnerable households benefit from the delivery of loft and easy to treat cavity wall insulation under the 2017 CERO target? Please provide views on any appropriate mechanism by which to do this.

Consultation response

Responses to this question were divided with energy suppliers and some installers stating that there should not be a low income and vulnerable household provision for loft and easy to treat cavity wall installation (ETT CWI) under the 2017 target. This was due to concerns that this would increase costs of delivery, that vulnerable households were already receiving measures under CERO and that the number of opportunities in these households for interventions was limited due to previous energy efficiency schemes.

The majority of other respondents were broadly in favour of the proposal and felt this was appropriate and fair. Furthermore, some respondents suggested that all loft insulation and ETT CWI measures should go to low income and vulnerable households. Suggested mechanisms to enable this approach focussed upon those used under CERT with priority and super priority groups and a minimum percentage of delivery for these groups. The issue of increased costs was discussed by some respondents in favour of the proposal who noted that costs should be viewed alongside improved access to DWP information for Affordable Warmth eligibility data which is expected to reduce costs of identifying low income and vulnerable households. A rebalancing of the CERO target to move a proportion to either the Affordable Warmth or CSCO target was also seen as an option for achieving delivery of these measures to low income and vulnerable households.

Government response

The Government continues to believe that it would be appropriate to try to ensure that easy to treat measures are, wherever possible, delivered to those households that are most in need of subsidy. It is encouraged that many energy companies recognise this as a desirable outcome.

The Government has carefully considered the possible regulatory options for achieving this outcome. Requiring a proportion of measures to be delivered to individuals most at risk of fuel poverty would be one way of ensuring this, and would be consistent with the approach to the delivery of heating measures to fuel poor households under Affordable Warmth. But this could raise costs, or lower carbon outcomes – potentially significantly – given the possible difficulty of identifying eligible households in need of insulation (as opposed to, for example, boilers). Another way of achieving the outcome would be to rebalance the respective scale of the CERO and CSCO obligations. Such rebalancing would need to have a cost neutral and carbon neutral effect. However, the Government does not yet feel confident in putting forward a specific degree of rebalancing between the sub-obligations without better delivery evidence to support the calculation. We will, however, actively monitor delivery evidence with a view to developing possible options for the future. In the meantime we will continue to work closely with the obligated companies and wider supply chain to ensure that lower income and vulnerable households benefit to the maximum extent possible.

Heat Networks (also known as “District Heating” or “Communal Heating”)

Question 18

Do you agree that heat networks (district heating schemes) should also become eligible primary measures under CERO from 1 April 2014?

Consultation response

A total of 179 answers to this question were received. The majority of respondents who answered the question, 129, recognised the contribution heat networks can cost-effectively make to carbon emissions reduction and indicated that they would wish to see district heating included as a primary measure under CERO where loft or wall insulation had already been installed.

The small number (31) of respondents that did not support the proposal did so on the basis that inclusion of district heating, loft and cavity wall insulation as primary measures (all of which can be lower cost than solid wall insulation) could limit the amount of SWI that would be deployed under CERO.

The importance of insulating properties prior to changing a heating system, to ensure that the chosen heating system is optimally sized, was widely recognised. Some respondents, however, highlighted that in properties (high rise blocks for example) without cavities or lofts to insulate, the high cost of installing SWI (as the only remaining applicable insulation measure) may mean it is unlikely these properties could secure ECO funding to receive any measures.

Heat network respondents raised concerns around the ECO measure approval process, specifically the time frames as they relate to heat network approvals. Concerns were also raised over the ability of heat networks to deliver within the ECO time periods (circa two years) due to the longer lead times to design and build heat infrastructure in comparison to other measures. Respondents also requested additional clarification on heat network eligibility.

Government response

Our intention is to include heat networks as a primary measure under CERO from 1 April 2014. In general, loft or wall insulation will be required to be installed prior to making a connection to a district heat network; however, this requirement will not apply where wall insulation cannot be installed. Based on responses to the consultation and discussions with industry during the consultation period, requiring the installation of SWI along with retrofitting a heat network could mean that installation of heat networks in many tower blocks would result in the project being no longer cost effective. In these instances, this requirement could be considered inappropriate. Consequently, we are considering with the Administrator a test to ensure that installation of SWI is not required in such cases, and depending on whether such a test can be developed in practice, we are considering exempting solid walled properties, with effect from 1 April 2015, from the requirement to install wall insulation alongside a district heating system in certain circumstances. To be clear, this would not preclude or impact the installation of SWI to these properties in the future, and would also bring ECO in line with rules on RHI where only basic insulation measures are required.

Carbon Saving Community Obligation

Eligibility across CSCO

Question 19

Do you agree with the proposal to extend the number of eligible areas under CSCO from the lowest 15 per cent of areas, as identified using the Index of Multiple Deprivation, to the lowest 25 per cent of areas for measures delivered from 1 April 2014?

The CSCO Rural Sub Target

Question 20

Do you agree with the proposal to change the criteria for measures installed under the CSCO rural sub target so that, measures delivered from 1 April 2014 can count towards the sub target if they are installed at any domestic property located in the poorest 25 per cent of rural areas, as well as to households living in rural areas that are in the Affordable Warmth Group.

Consultation response to Questions 19 and 20

The majority of respondents supported both proposals. Most respondents argued that the proposal to increase the number of eligible areas would make CSCO easier to deliver for suppliers, as it would allow households which have not been previously targeted to receive support and will reduce search costs. Additionally, most respondents were of the view that the proposal to change the eligibility criteria for the rural sub-target would make the rural sub-target more straightforward to deliver.

Of those respondents who raised concerns with Question 19, these were centred on the possibility of ‘diluting’ the level of support available to the most deprived households by expanding the pool of eligible areas. Linked to this were concerns that affluent households located in the expanded pool of eligible areas would be eligible to receive support.

Those respondents who raised concerns with respect to Question 20 argued that allowing obligated suppliers to deliver to any household in the bottom 25 per cent (approx.) of listed rural areas would mean that members of the Affordable Warmth group would be less likely to receive support.

A few respondents suggested that there needed to be a cap on the household income in order to qualify for CSCO. Of those who disagreed with the proposal, one insulation company felt that the current target was approximately correct, and that an additional uplift to scoring for rural work would benefit eligible households more effectively. A social housing provider who disagreed with the proposals said that the categories needed to be kept separate in order to have a clear picture of activity in rural communities.

<u>Government response to Questions 19 and 20</u>

As proposed in the consultation, the pool of eligible areas for the main CSCO target will be expanded and the eligibility requirements of the CSCO rural sub-target will be simplified from 1 April 2014. Whilst we recognise the concerns raised by respondents around expanding eligibility, both changes will help facilitate more cost-effective delivery of the CSCO sub-obligation, which has been particularly slow to date, and will therefore ensure consumers benefit from lower energy bills over the coming year.

Expanding the pool of eligible areas under CSCO - As proposed in the consultation, we will amend legislation to ensure that measures installed in the lowest 25 per cent (approx.) of low income areas are eligible under CSCO from 1 April 2014.

Simplifying eligibility requirements under the CSCO rural sub-target - For the rural sub-target we intend to amend the legislation so that for measures installed from 1 April 2014, the following rules apply:

- From 1 April 2014 – 31 March 2015:
    - A measure can be installed to households in the Affordable Warmth Group in an area with a population of 10,000 inhabitants or less, as referenced in the document entitled "Energy Company Obligation, Carbon Saving Community Obligation: Rural and Low Income Areas".
    - A measure can be installed in *any* household in the list entitled "CSCO eligible deprived rural areas (25 per cent)" for England, Wales, or Scotland.
    - A measure can be installed in households in the Affordable Warmth Group living in one of the areas featured in the list entitled, "CSCO eligible rural areas" for England, Wales, or Scotland. These lists can be found in the document entitled, "The Future of the Energy Company Obligation: Small Area Geographies Eligible for ECO CSCO Support".
- From 1 April 2015 – 31 March 2017:
    - A measure can be installed in *any* household in the list entitled "CSCO eligible deprived rural areas (25 per cent)" for England, Wales, or Scotland.
    - A measure can be installed in households in the Affordable Warmth Group living in one of the areas featured in the list entitled, "CSCO eligible rural areas" for England, Wales, or Scotland. These lists can be found in the document entitled, "The Future of the Energy Company Obligation: Small Area Geographies Eligible for ECO CSCO Support".

Alongside the consultation, we published a document entitled “The Future of the Energy Company Obligation: Small Area Geographies Eligible for ECO CSCO Support”. To accompany the Government Response, we have made some revisions to the spread sheet, and an updated spreadsheet is published on the following website:

https://www.gov.uk/government/publications/the-future-of-the-energy-company-obligation-small-area-geographies-eligible-for-eco-csco-support

Affordable Warmth

Incentivising delivery to non-gas fuelled homes

Allowing a scoring uplift for non-gas fuelled households

Question 21

Do you agree that an uplift should apply to the notional lifetime bill savings of non-gas fuelled households? Please provide views on the form and level of the uplifts as suggested above.

Consultation response

Of the 177 responses to this question, 138 supported the principle behind this proposal – incentivising delivery of measures to non-gas fuelled households. The majority of respondents also supported the specifics of the proposals namely providing an uplift to the notional lifetime bill savings. Of those who provided substantial comments, they generally felt that the uplifts were too low – in particular the insulation uplift.

A number of respondents felt that renewable technologies under ECO should also be encouraged in non-gas fuelled homes, either through an uplift for renewables or greater alignment with the domestic Renewable Heat Incentive.

Where respondents did not support the proposal, they tended to feel that uplifts started from the wrong premise or that they devalued the 'real' notional lifetime bill savings being achieved. A few respondents suggested that a better approach would be to adjust downwards the savings achieved from a replacement 'qualifying boiler'.

Government response

Please see response to Question 22.

Other ways to incentivise delivery to non-gas fuelled households

Question 22

Are there other practical and effective means of incentivising delivery to non-gas fuelled households? In particular we are interested in views on a minimum level of delivery and changing the baseline heating technology for the replacement of 'qualifying boilers'.

Consultation response

There were 145 responses to this question with many respondents stating that a sub-target within Affordable Warmth would be a sensible approach and would ensure delivery to non-gas fuelled households. Some respondents were concerned that without this, delivery to non-gas fuelled households still would not be prioritised.

There was reasonable support for the idea of changing the baseline heating technology (an electric room heater) for a 'qualifying boiler' and a number of respondents felt that the current approach overinflates notional lifetime bill savings achieved by a replacement 'qualifying boiler'.

Other approaches were also suggested, for example working with the gas network operators to link ECO with extensions to the gas grid, supporting a 'fabric first' approach and using deemed scores which would be simpler and reduce costs.

Government response to Questions 21 and 22

We believe that incentivising the market to deliver measures to non-gas fuelled homes, and a more balanced profile of delivery in general, is preferable to setting an additional sub-target or a minimum level of delivery which would reduce flexibility and potentially add costs. Furthermore, while some respondents supported the idea of changing the baseline heating technology for 'qualifying boilers' from the current electric room heater, there was a lack of evidence provided as to what it could be changed to and the likely impact of that change. Therefore, in order to better align Affordable Warmth delivery with our improved understanding of fuel poverty[2], we will introduce an uplift to the Affordable Warmth score for measures delivered to households whose main space heating systems are 'non-gas'. This approach will incentivise delivery of measures to these properties as it will make them more cost-effective. The definition of 'non-gas' used in legislation will exclude households which use mains gas or a district heating system, i.e. such households will not be able to benefit from the uplifts.

The uplifts will be set at 1.35 for all insulation measures installed under Affordable Warmth in non-gas fuelled households (our consultation proposal was 1.05) and at 1.45 for all non-gas 'qualifying boilers' which are replaced or repaired (our consultation proposal was 2 for all

[2] See, in particular, the Fuel Poverty Strategic Framework published in July 2013, which includes analysis of the types of household affected by fuel poverty – as well as the households most badly affected.

heating measures). These uplifts have been set at a level designed to allow cost-effective measures in non-gas fuelled households to be economically viable under Affordable Warmth.

The increase in the insulation uplift from the proposal in the consultation document reflects the consultation feedback. Meanwhile, the uplift for non-gas 'qualifying boilers' reflects the introduction of a 'deflator' of 0.8 to the notional lifetime bill savings achieved by a replacement gas 'qualifying boiler'. The rationale for the 'deflator' is set out below. Its means that the uplift for non-gas 'qualifying boilers' can be lower than previously proposed: the combination of 'deflator' and uplift has the same overall effect in terms of the cost-effectiveness of different measures as our previously proposed uplift. This 'deflator' is also the reason why we will not be introducing an uplift for 'qualifying electric storage heaters' in non-gas fuelled properties.

The introduction of a 'deflator' is in line with feedback received from some respondents that replacement gas 'qualifying boilers' generate overinflated savings and are consequently dominating delivery. There was also strong support for a "fabric first" approach to delivery with packages of measures incentivised. This change is thus designed to incentivise a more balanced profile of delivery by allowing other measures to compete on cost-effective grounds. We estimate that the inclusion of a 'deflator' will contribute to reducing the delivery of replacement gas 'qualifying boilers' towards the 2017 target from 94 per cent of all measures (if no policy changes were introduced) to 75 per cent of all measures (in a scenario of all policy changes being introduced bar the uplifts to non-gas fuelled households). After applying the uplifts this figure reduces further still to 64 per cent. Thus the final policy package leads to an estimated increase in the proportion of measures delivered to non-gas fuelled households from around 1 per cent (of both current delivery and what we estimate it would continue to be in the absence of any policy changes) to around 30 per cent of delivery towards the 2017 target. For information on how the level of the 'deflator' has been set, please see the Impact Assessment.

For their part, both of the uplifts being introduced (but not the replacement boiler 'deflator') will only apply where the property's main space heating systems meet the definition of 'non-gas' prior to and after the installation of the measure. In many instances an uplift is not required to make the measure cost-effective where a fuel switch to gas takes place as this results in a large notional bill saving for the household as gas is the cheapest fuel. Meanwhile the heating uplift is limited to non-gas 'qualifying boilers' to focus the delivery incentive on boilers which are broken or not functioning as efficiently as originally intended (rather than inefficient boilers) and to exclude district heating systems due to the added complexity of hybrid gas/non-gas systems. This exclusion is unlikely to impact delivery as district heating systems are less attractive under Affordable Warmth than under CSCO or CERO due to the tenure restriction, with none being delivered to date.

With respect to renewables, properties which use these to provide heating will be eligible for the uplifts. In particular where such measures may be notified as a non-gas 'qualifying boiler' with a 12-year lifetime, suppliers will be able to use their own economics to guide this decision as they do currently, if they wish to take advantage of the non-gas 'qualifying boiler' uplift. However we appreciate that the level at which this uplift will be set may mean that these technologies are unlikely to be viewed as cost-effective by the market in this context. Given the scheme is designed to deliver measures at least cost to reduce its impact on consumer bills, we feel it would be inappropriate to prioritise renewables over more cost-effective measures. Finally, due to third party ownership issues, energy suppliers cannot claim for the domestic Renewable Heat Incentive (RHI) when installing renewable heating technologies under Affordable Warmth. This ensures energy suppliers cannot use RHI funding to subsidise costs incurred for the installation of measures and in effect receive an incentive to pay for activity against their ECO obligations. For clarity, the homeowner will be able to claim for the RHI, even if they have benefited from ECO, as long as they have paid for at least part of the renewable heating system themselves – and meet other eligibility requirements. Any funding from ECO will not be deducted from RHI payments. We will continue to work on ways to ensure the schemes complement each other in the future**.**

Defining electric storage heaters as a 'qualifying boiler'

Question 23

Do you agree that broken or not functioning efficiently electric storage heaters should be scored on the same basis as that used for 'qualifying boilers'? Do you foresee any unintended consequences of this approach?

Consultation response

There were 157 responses to this question of which 133 respondents agreed with the proposal. The most frequent comments or issues raised by those in agreement included:

- the individual nature of electric storage heaters and whether it would be better to treat them as being one heating system within the property – particularly where the electric storage heater may not be broken but are old and very inefficient – or to consider only those which are broken;
- what 'not functioning efficiently' or 'inefficient' means for electric storage heaters and how this would be defined in a simple and deliverable way; and
- concerns around how a broken or inefficient/not functioning efficiently electric storage heater would be evidenced and the need for this to be robust to guard against fraud.

For the small number of respondents who did not wholly support the proposal, their concerns were:

- electric storage heaters should not be incentivised on principle as they are more expensive for households, increase carbon emissions and are inefficient;
- the proposal may be complex and difficult to deliver; and
- notional lifetime bill savings would be inflated, rather than focusing on 'real' savings.

<u>Government response</u>

We will introduce a new eligible measure to be delivered under Affordable Warmth – a 'qualifying electric storage heater'. The repair or replacement of a 'qualifying electric storage heater' will be scored using the same baseline heating technology as a 'qualifying boiler' (i.e. an electric room heater) and therefore will achieve a higher notional bill saving than is currently the case. This will achieve our stated aim of further incentivising delivery to non-gas fuelled households.

A 'qualifying electric storage heater' will be:

a) In the case of repair, one which is broken and has a responsiveness rating of above 0.2 using the Standard Assessment Procedure (2012). This is to mirror the approach currently taken for 'qualifying boiler' repairs – we only wish to incentivise the repair of 'efficient' broken electric storage heaters and we are setting this as the threshold for 'efficiency' for the purposes of Affordable Warmth; and

b) In the case of replacement:

    i. one which is broken and cannot be economically repaired; or

    ii. one with a responsiveness rating of 0.2 or below using the Standard Assessment Procedure (SAP) (2012) which is located in the same property as an electric storage heater which falls within (a) or (b)(i) above.

We are incentivising the replacement of electric storage heaters in (b)(ii) as we recognise the benefit to the customer of ensuring the whole system is efficient when replacing one broken electric storage heater. We have chosen a responsive rating of above 0.2 using SAP (2012) as the 'efficiency' threshold because the higher the responsiveness rating, the higher the cost savings for the same energy used. In particular, for those electric storage heaters with a responsiveness rating at or below 0.2 SAP assumes that supplementary heating is required to supply 15 per cent of the total heat demand, as opposed to 10 per cent for those electric storage heaters with a responsiveness rating of 0.4 or above. Therefore, more modern electric storage heaters (i.e. those above 0.2) lead to reduced costs to households even if the energy usage is the same and so this threshold is in line with the scheme's objective of reducing the energy bills of low income and vulnerable households.

For replacement 'qualifying electric storage heaters', the notional lifetime bill savings will be scored for 20 years; for repairs, they will be scored for either one or two years depending on the length of the accompanying warranty. The warranty requirements for 'qualifying electric storage heater' repairs will be the same as those currently required for 'qualifying boiler' repairs, i.e. the details will not be specified in the legislation. In practice, we assume that this is most likely to take the form of a manufacturer's warranty. Please see our response to Question 46 for more detail on our approach on warranties for replacement electric storage heaters.

In line with the current cap on 'qualifying boiler' repairs under Affordable Warmth, the regulations will stipulate that no more than five per cent of a supplier's total Affordable Warmth obligation can be achieved by the repair of a 'qualifying electric storage heater'.

Whole house approach to delivery

Question 24

Do you have any views to why packages of measures may not be being delivered to Affordable Warmth households?

Consultation response

We received 154 responses to this question. The majority of respondents expressed concerns regarding the current scoring mechanism used to calculate the lifetime notional lifetime bill savings, stating that it does not encourage a 'whole house' approach. Respondents noted that it is more cost-effective to install single measures in households, rather than delivering multiple measures within the same household because the Reduced data Standard Assessment Procedure (RdSAP) scoring calculates cost-effectiveness on a property-by-property basis, rather than across a range of properties and the hierarchy of measures under RdSAP. To improve this, it was suggested that either the scoring methodology could be amended to take into account of and incentivise combined measures or a move to some form of deemed scoring.

Another concern raised by a number of respondents was that the many companies in the ECO supply chain are either insulation or heating companies with little or no cross over. This has meant that installers are only looking at what they can offer, and do not necessarily have the skill or qualification, let alone incentive, to look at providing a 'whole house' approach.

Government response

Please see response to Question 25.

Question 25

Do you have any views on whether incentivising or, where applicable, requiring packages of measures is justified? Do you think there would be any unintended consequences from such a change to the policy and if so, what would they be?

Consultation response

Of the 151 responses received to this question, many expressed views that where a boiler is replaced, this should be combined with other installations on a 'fabric first' approach. It was also noted that replacing boilers is currently the easiest and most cost-effective option but a package of measures is needed to ensure the householder receives the maximum amount of notional lifetime bill savings.

Another concern raised was that some customers do not want or need a package of measures and under previous schemes many basic measures such as lofts insulation have already been carried out. Furthermore, a number of respondents noted customers should not be penalised for not wanting or needing further work done, as having additional measures installed requires an extended period of work, and disruption to the customer which vulnerable customers may find difficult to cope with.

Finally, it was stated by some respondents that any forced requirements to install packages of measures would increase costs and could potentially lead to more customer contributions being sought.

Government response to Questions 24 and 25

We recognise the advantages of a 'whole house' approach which can reduce the need for energy to heat the home in the first place, thus significantly reducing energy costs. We also recognise that insulation offers the additional benefit of having a much longer lifetime than heating systems, meaning that the householder is less exposed to having to pay for it to be replaced.

We believe that delivery of insulation under Affordable Warmth will benefit from both an uplift of 1.35 in non-gas fuelled households and also the 'deflator' being applied to the notional lifetime bill savings of a replacement gas 'qualifying boilers'. These changes are designed to incentivise more packages of measures being delivered while focusing delivery on the most cost-effective options.

Solid Wall Insulation Minimum Threshold

Question 26

Do you agree that there should be a SWI minimum figure equivalent to 100,000 properties insulated with SWI by 31 March 2017? Should this be set as number of properties, or as a carbon equivalent? If the former do you have any views on how this should be set? If the latter, do you have suggestions as to how the target should be calculated?

Consultation response

The responses on this question varied, with 78 agreeing, 65 disagreeing, 60 other and 63 not answering the question. Some respondents suggested that the minimum target should be set on both the number of properties and aggregate carbon savings.

Many respondents felt the Solid Wall Minimum Threshold should be set higher, with some suggesting a figure equivalent to 200,000 solid walled properties to be insulated with SWI by 31 March 2017. In addition, many who responded were in favour of a minimum based on property numbers rather than a carbon equivalent. One supporter of a carbon equivalent stated that: “For many properties a full SWI retrofit will not be possible – either for practical or conservation reasons. Setting the target by house is likely to result in complex rules about when a house qualifies for CERO funding.”

One suggestion made by a local authority for setting the minimum figure equivalent to a number of properties is via the use of HEED data, and the target could be set on a percentage basis rather than a fixed figure as proposed. An insulation company suggested a dual target based on both number of properties (100,000) and a carbon equivalent (4MTCO2). In their opinion this would ensure all types of property from flats to large houses would be targeted. Failure to set a dual target could lead to gaming.

One housing body stated there were issues with both of the proposed options of a carbon equivalent and a number of properties. One concern was that properties would not qualify for SWI as their condition was not severe enough. One London Borough disagreed with the proposal on the basis that with the huge stock requiring SWI, and the householders contributing to ECO, it would be unfair to lower the number of solid wall insulations to be achieved by 2017. A charity that agreed with the proposal of a minimum figure for SWI also suggested it would be beneficial to ring fence some carbon saving measures for low income households.

Government response

As a result of the other changes introduced to the obligations, focus is likely to move away from SWI and shift towards measures now eligible under CERO – including loft and easy-to-treat cavity wall insulation. To protect investment in SWI, and to continue efforts to support the development of the SWI supply chain, Government will set a minimum floor for delivery of insulation to solid walled properties (including solid walls not made of brick, such as timber framed, metal frame and pre-fabricated concrete properties) in the period 2013 to 2017. Government is very clear that this should not be a limit, but a floor for the amount of solid wall insulation installed. The target will be set at 4MtCO2 lifetime savings. The decision to set the target in terms of carbon is driven by our desire to maintain consistency with the carbon sub-obligations, and to ensure suppliers find the most appropriate and cost-effective way of delivering carbon reductions. Such an approach allows more flexibility for energy suppliers to deliver their target on an area-based approach. Some respondents suggested the minimum target should be set on both numbers of properties and aggregate savings, however Government decided against this option to avoid the introduction of unnecessary complexity within the administration of the scheme.

In addition, in recognition of the role of SWI in delivering carbon emission reductions in the domestic sector, Government announced the Green Deal Home Improvement Fund (GDHIF) which provides significant support to SWI. Under the scheme, householders can claim 75 per cent of the costs of SWI up to a total value of £6,000. The GDHIF scheme is designed to be simple and is open to all householders in England and Wales. The level of incentive on offer represents a significant increase compared to the incentive levels provided under the previous Green Deal Cashback scheme. The scheme is aimed at driving uptake of SWI in households which make a private contribution towards the cost of installation of SWI measures. We believe that the combination of the Solid Wall Minimum under ECO, and the GDHIF, will provide support to the development of the SWI supply chain. To preserve the additionality of carbon emission reductions delivered by GDHIF, households receiving ECO funding will not be eligible for GDHIF funding on the same measures.

While it is recognised that Park Homes present opportunities for the delivery of SWI in some instances at a lower cost than other properties, treatments to Park Homes will not contribute towards the Solid Wall Minimum, in order to ensure delivery is targeted at solid walled properties. However, Government does recognise that some Park Homes residents are in need of a warmer home, therefore these properties will be eligible for funding under the GDHIF.

Question 27

Do you agree that we should specify SWI lifetimes in legislation for installations accompanied with an appropriate guarantee, and do you have any views on what the specified lifetime should be?

<u>Consultation response</u>

40 per cent of respondents agreed with the proposals while 40 per cent did not answer. It was noted that currently 25 year guarantees are in place for most measures i.e. CWI and HTTCWI.

Many were supportive of a lifetime of 36 years, but there was some uncertainty whether such a guarantee would be underwritten by insurers.

An insulation company suggested SWI measure lifetimes be written into legislation and should not be longer than they are currently. Longer lifetimes for measures result in maintenance programmes which cannot be guaranteed.

One Green Deal Provider recommended setting a minimum lifetime of 25 years with a guarantee of 25 years.

A number of heating and plumbing companies suggested the lifetime should be a variable dependent on the individual system designers' level of insurance backed guarantee for system design, materials and labours. Consequently, this rewards the SWI manufacturers' level of confidence in its products and systems and encourages innovation.

Government response

To create further certainty for investments in the SWI supply chain, SWI lifetimes will be set in legislation for solid wall insulation installed in the 2015-17 obligation period. The SWI lifetime will be set at 36 years where these measures are accompanied by an appropriate guarantee, much as the Administrator, Ofgem, currently require. This will not apply to insulation of a Park Home.

Question 28

Do you have a view on whether lifetime for other measures should also be set in legislation, and if, which measures?

Consultation response

The majority of respondents had no view on this question. Of those who expressed a view, a relatively small number either agreed or disagreed strongly with the idea of setting lifetimes for other measures in legislation. One large trade body suggested that all major measures should have their lifetimes prescribed by legislation in order to give the customer long-term certainty. A body representing the social housing sector recommended that all ECO measures should have lifetimes covered by secondary legislation. One of the consumer bodies which responded to the consultation suggested that lifetimes be harmonised across ECO the Green Deal and other Government schemes.

Government response

We asked for views on whether the lifetimes for other energy efficiency measures should be included in legislation. This proposal received a generally positive response, but some noted that the issue was not as acute as for SWI (in the context of the SWI Minimum). Government will therefore continue to look at options to provide certainty on the lifetimes of other energy efficiency measures, and continue to consider the introduction of expected lifetimes for other measures in legislation, but does not propose to do so at this stage.

Question 29

Do you agree that the SWI minimum threshold should be apportioned according to market share, and if so, should this be calculated on a phased basis? And if so, what principles should apply?

<u>Consultation response</u>

The majority of respondents had no view on this question. Most of the respondents who did address it either offered more detailed responses or expressed general agreement. The general view of respondents across sectors was that market share was the most favourable metric on which to apportion the threshold. An insulation industry body suggested in particular that the 2017 SWI minimum should be based on April 2014 market shares in order to give suppliers the opportunity to develop the forward capacity that would enable them to undertake SWI works. Energy suppliers were generally in favour of using market share as the key metric.

<u>Government response</u>

Government will apportion the SWI Minimum Threshold according to calculations of market shares of energy suppliers. This aligns with the approach to setting all other ECO targets. The allocation of the target will be determined on a phased basis, according to the individual company's market share for each phase of the 2015-2017 obligation period, so that a company's SWI target in effect goes hand in hand with its overall ECO target for 2017.

Question 30

Do you agree that secondary measures installed alongside SWI should not be counted towards the proposed SWI minimum threshold? What are the practical implications of this proposal, for instance, brokerage trading?

<u>Consultation response</u>

Of those who responded to this question, a large majority agreed that secondary measures should be excluded from the SWI minimum threshold, with only a small number disagreeing. Of those who disagreed, one company felt that excluding secondary measures would reduce the amount of time and money spent on SWI. An large industry trade body, while agreeing with the proposals, also suggested that it might require a consequential change to the brokerage system in order to identify SWI property numbers included in lots.

Government response

Government recognises that Solid Wall Insulation is an important element of ensuring that the nation's housing stock is energy efficient for the future. To give certainty to the SWI supply chain and investors around the minimum level of SWI required under ECO, we will not allow secondary measures to count towards the SWI Minimum Threshold, as that would reduce the certainty over the amount of SWI that needs to be delivered. To facilitate trading on the Brokerage market, Government will allow SWI lots to be separated from other lots offered, but given the particular circumstances of Brokerage, where offers of contract are non-negotiable, it may be appropriate to allow an element of carbon generated by secondary measures to facilitate cost-effective trading. We propose to restrict this to 10 per cent of the overall lot size.

Blended ECO and Green Deal Finance

Question 31

Were we to take legislative action[3] what would be your preferred option based on those set out above? Do you agree that scoring uplifts is likely to be the optimum approach?

Consultation response

Two options to incentivise blended ECO and Green Deal finance were detailed in the consultation document, namely to legislate to require blending or a scoring uplift or bonus within legislation. The response to this question was varied, with a large number of respondents having no comment and only a small number either agreeing or disagreeing. Most respondents who answered the question provided more nuanced views of the issue. One housing organisation expressed concern that legislating for blending could disadvantage housing associations as it was felt that the Green Deal currently does not meet their needs. Energy suppliers were also sceptical, pointing out that ECO is a legal obligation whereas the Green Deal is a commercial scheme, although their collective view was that a scoring uplift would be required if the legislative route was taken. An energy efficiency body expressed support for an uplift that would reward real innovation in financing, particularly with respect to new private sector funding sources.

Government response

At this time, Government will not pursue legislative options to drive blending of ECO with Green Deal finance. *Blending however remains a key priority for Government*, as it is fundamental to keep the cost of ECO as low as possible. There is an inherent incentive for energy suppliers to blend with other sources of funding, in order to reduce the overall cost to them and their consumers of delivering the obligation. Therefore before bringing forward legislative options, Government will monitor closely the impacts of several initiatives, including the impact of GDFC's efforts to reduce the complexity of the Green Deal Finance offer, and the SWI Minimum Threshold. Government will continue to engage with energy companies and the supply chain to collect evidence on the use of blending and the barriers to its use. In particular, Government intends to undertake a call for evidence on the delivery of SWI using blending, in order to reach a greater understanding of the ways in which Green Deal Finance and ECO can work together and the barriers to uptake.

Importantly, Government will continue to work on streamlining the Green Deal, which should address some respondents' concerns about the Green Deal finance product not being sufficiently appealing to customers. We will continue to work with stakeholders on this, and

[3] To encourage blending of finance

welcome any further feedback on how the streamlining work can support blending and make it a more attractive proposition to both suppliers and householders.

In terms of the specific legislative options included in the consultation document, respondents noted that a mandatory blending requirement would introduce complexity and have an impact on the cost-effectiveness of investment decisions made by suppliers. It was noted that this option could also lead to potential mis selling, unless appropriate safeguards were being put in place. Other respondents were concerned that providing uplift to measures delivered using blended finance would reduce the overall ambition of the targets, unless these were revised upwards to compensate.

Government will keep the option to legislate under review, should it become apparent that this is needed in order to ensure that blending does take place at the scale needed. Should we decide on the need to legislate, we will consult with stakeholders on the options.

Question 32

What are your views on a scoring uplift for blended finance and could you provide evidence for your view

Consultation response

Most of those responding opposed any legislative action to drive the delivery of blended finance, the arguments put forward include:

a) That this is something which should be left to the market;

b) seeking to drive the market in this way would be likely to drive up delivery costs;

c) If blended finance was an attractive product then it would be naturally taken up, the focus should therefore be on understanding why there has been limited uptake of blended finance and addressing any barriers identified;

d) It is undesirable to force/incentivise people to sell a “financial product”, it creates the danger of miss-selling, unethical behaviour and people being induced to enter into deals which may not be suitable to their circumstances; and

e) Allowing scoring uplifts would further dilute what is delivered under ECO.

However, in terms of options for legislation, providing for some form of scoring uplift was generally felt to be the least worst option.

Government response

The Government does not at this stage propose to pursue legislation as an option to drive increased delivery of measures supported by blended finance. This is because we are currently engaged in a process to improve and streamline the Green Deal which should make it a more attractive proposition. We are also particularly working to identify how the Green Deal Finance offer can improved, including looking at changes to the Golden Rule. We also continue to work with energy suppliers to understand what the barriers to delivering more blending are and how these can be overcome.

We are also in the process of rolling out the new Green Deal incentives packages and we believe it is important to see how the market continues to develop in light of these. However, we continue to believe that the delivery of measures using blended finance has important benefits, and will be monitoring uptake levels. Should the market for ECO blended finance not develop in a manner we consider optimal, then legislation still remains an option and we may look to consult further on it.

The role of customer contributions in Affordable Warmth

Question 33

Please provide views on whether, and if so, the extent to which Affordable Warmth measures should be part funded by customer contributions and other types of finance.

Consultation response

There were 158 responses to this question. The majority of respondents expressed their concerns that customer contributions are taking place under the scheme as they felt that it is not appropriate for this low income and vulnerable group to financially contribute to the installation of ECO measures.

The main reasons given for the occurrence of customer contributions under the Affordable Warmth obligation included:

- the scoring of Affordable Warmth: the current RdSAP scoring methodology for replacement 'qualifying boilers' creates an incentive to target larger houses in order to receive larger notional lifetime bill savings, compared to small flats for example. In instances where the level of calculated savings falls below a certain threshold, customers may be asked to contribute in order to make the installation economically attractive for the installer; and

- the price of Affordable Warmth: since January this year, Affordable Warmth has been trading on ECO brokerage at or below 10 pence per pound of notional lifetime bill savings and at this price few households are eligible for fully funded measures and therefore they may be asked to part-fund measures.

While third party funding such as from local authorities and landlords was encouraged by some respondents, the use of Green Deal Finance or other forms of credit was not considered appropriate given the makeup of the Affordable Warmth Group. Finally, some respondents noted that a return to deemed scoring would reduce the need for contributions being sought as it would provide clearer pricing structures.

Government response

Please see response to Question 34.

Question 34

Do you believe there is a case to limit customer contributions under Affordable Warmth?

Consultation response

There were 156 responses to this question. Of those respondents, 131 agreed that there is a case to limit customer contributions with the view that seeking contributions from low income and vulnerable households goes against the objectives of the scheme and it may mean that those most in need do not receive assistance. Some respondents stated that if the proxy (i.e. recipients of certain means-tested benefits and tax credits) used to determine households at risk of fuel poverty for the purposes of the Affordable Warmth obligation were not appropriate, then the proxy should be reviewed in the first instance.

However, a minority of respondents noted that by limiting customer contributions it could also exclude those customers from the scheme who would only receive measures if it was part funded – indeed, these respondents felt that 'blending' with other sources of finance should be encouraged for this reason. Some respondents also flagged there would be difficulties in enforcing any limit on contributions – and that this would add both to the administrative burden and costs of ECO.

Government response to Questions 33 and 34

We have decided not to limit customer contributions under the Affordable Warmth obligation. We have taken this decision for a number of reasons:

- Implementing a ban or imposing limits would be extremely difficult, if not impossible, in practice;
- If a limit were set it would lead to the exclusion of those customers willing to pay above that limit;
- A regulated limit could also incentivise more of the supply chain to seek contributions up to this limit in all cases, thereby *increasing* the prevalence of customer contributions; and
- Allowing customer contributions to be sought where appropriate brings private finance into ECO, maximising the efficiency of the scheme.

As set out in relation to Question 33, one concern expressed in the consultation was that delivery of Affordable Warmth has been steered towards larger properties given the opportunity for significant notional lifetime bill savings from such properties, compared to smaller properties. In this context, it is worth reiterating that a focus on larger properties is in line with the policy intent: these properties will be more expensive to heat, leading to higher energy bills and, all things being equal, colder homes in the absence of improvements. Also, the fuel poverty gap in such homes is likely to be higher.

For small properties with high energy bills, such as those which are heated by electricity, the introduction of a 'qualifying electric storage heater' measure and uplifts for certain other measures delivered to non-gas fuelled households should make it more cost-effective for suppliers to provide support under Affordable Warmth.

Despite not limiting contributions at this time, our strong view is that where measures are already being delivered at no cost to the customer this should continue to take place as we believe that customer contributions are not appropriate in all circumstances. This is an issue which we will continue to monitor through delivery of the next period of ECO and we may re-consider our position if further evidence comes to light which provides cause for concern.

Recognising company performance

The Levelisation Mechanism

Question 35, 36 and 37

Do you agree with the [above] "levelisation" proposals for recognising and rewarding early progress, and do they sufficiently address any adverse competitive implications of the other proposed changes to CERO?

Do you agree that the uplift threshold should be set at 35 per cent (primary measures only) of Phase 1 and 2 of the current CERO obligation?

Do you agree that an uplift of 1.75 should be applied to primary measures above the proposed 35 per cent threshold installed by the end of March 2014?

<u>Consultation response to Questions 35, 36 and 37</u>

The majority of respondents who answered Question, 35, 36 and 37 either disagreed with the Government's proposals or took alternative views. 12 per cent of all respondents agreed with the proposal in Question 35 as opposed to 30 per cent who disagreed and 20 per cent other. For Question 36, 7.5 per cent agreed while 32 per cent disagreed, with 12 per cent other. In the case of Question 37, 9 per cent agreed, 33 per cent disagreed and 12 per cent had other opinions.

In the case of each question, a large number of respondents – at least 100 in each case – did not answer.

Many consultees argued extensively in their responses that, given actual delivery rates (now apparent as updated statistics have become available since the consultation was published), the original proposals if implemented would lead to a greater loss in measures delivered and carbon saved, and a commensurately greater cost saving to the energy companies in aggregate, than had been anticipated in December or in the consultation Impact Assessment.

Some respondents argued that the levelisation threshold should be set on actual supplier performance to date in order not to distort the market, particularly as some suppliers have carried out SWI at a higher rate and should not be commercially disadvantaged.

Some ECO obligated companies also argued that there was a risk that the effect of maintaining the consultation proposals would be to fail to mitigate competitive distortions which they saw as otherwise arising from the overall package of changes. One obligated energy provider urged the Government to factor in recent changes, including commitments such as lots bought on ECO brokerage, when finalising the approach to levelisation. Others, however, argued that the Government should maintain the published levelisation proposals (which had been public knowledge since December) as all companies had been free to adjust their delivery patterns since December if they wished to, to take advantage of the scoring uplifts.

One major industry organisation did express concern that the proposals in the consultation were not the same as those in the Autumn Statement announcement.

Most insulation industry respondents and some related trade bodies tended to disagree with the levelisation proposals as stated in the document. One trade association said that 35 per cent was too low a threshold and would “reward failure”; suggesting instead that it be set at over 55 per cent of target as at March 2014, with an uplift of 1.66 applied.

The energy and insulation industries aside, there was no strong sector-based view either for or against the proposals, although a general view among those who disagreed with them was that they were “letting the energy companies off” with regard to their obligations.

Government response to Questions 35, 36 and 37

While many of the ECO changes consulted on were designed to lower overall costs of delivery, the intention behind the levelisation proposals was different, namely to seek to provide that the overall impact of the changes was fair across the different companies. Some companies will have delivered particularly heavily under the original ECO rules, and might therefore have incurred higher ECO costs than other companies who will deliver the greater proportion of their obligation later, when the change of rules to allow Easy-To-Treat (ETT) measures will make unit costs lower.

The levelisation threshold was therefore designed to be set at the level that it was assumed the slowest performer would have reached by March 2014; and the multiplier was intended to reflect the likely difference between the cost of Easy-to-Treat (ETT) and Hard-to-Treat (HTT) measures. The consultation proposal, reflecting the draft proposals set out publicly in December, suggested a threshold of 35 per cent and a multiplier of 1.75.

The Government notes that, given recent company delivery performance, maintaining the levelisation arrangements set out in the consultation document might well lead to lower carbon savings, and greater cost savings to the companies in aggregate, than originally expected. However, it is clear that the major driver of this difference in aggregate impacts, and of any difference in relative performance of different companies, between now and what might have been expected earlier in the year, is the actual, and freely chosen, delivery behaviour of companies at the end of 2013 and in the first few months of 2014 in the light of the proposals announced at that time, and re-iterated it the consultation document. Whilst those arrangements were of course no more than proposals, they represented the best information available to all companies, equally, to inform their delivery decisions in the period since December.

In the circumstances, the Government believes it is fair to maintain the consultation proposals as they stand.

Fairness to the various energy companies is of course important. Equally important is fairness to consumers. ECO companies are likely now to be in a position to make greater savings than they had originally projected in December. Government has very much welcomed the consumer bill reductions that companies committed to in December (around £30-35 of bill reductions attributable to ECO changes alone), and would expect companies to continue to pass through to consumers no more than the actual costs of delivering ECO. Government would therefore expect the energy suppliers to ensure that consumers benefit from this further reduction in delivery costs in a concrete way, and invite them to set out publicly how they propose to do this.

Question 38

Do you agree that Government should consider adopting a different approach to the delivery of SWI as part of the levelisation exercise? Should delivery of SWI above the 'expected delivery profile' for individual suppliers at 31 March 2014 be permitted to count towards the 35 per cent levelisation threshold?

Consultation response

One respondent, a support services organisation and Green Deal Provider, was against this proposal, because of the effect it may have on the supply chain. One energy company disagreed with the proposed approach and stated that SWI should be included as part of the overall CERO delivery. The majority of respondents either disagreed or had alternative suggestions to the approach. Some respondents felt it was up to DECC to make a decision based on the analysis of delivery reporting and associated costs to date from all suppliers.

Government response

In the consultation we proposed to calculate a delivery profile for each supplier in order to meet the SWI Minimum Threshold in March 2017. This trajectory would represent the 'expected delivery profile' required to meet the SWI Minimum Threshold, with only SWI measures delivered above this trajectory (by 31 March 2014) eligible for an uplift through the levelisation exercise.

After careful consideration, this proposal will not be pursued further. Whilst there was some agreement that such an approach would bring alignment between the requirement to deliver a legislative target and the logic of uplifting measures because they have been delivered early, we recognise that the proposal could disadvantage suppliers that have taken the decision to deliver proportionately more HTTC insulation compared to SWI. This may place that supplier at risk of not meeting the levelisation threshold, and does not square with the rationale behind the levelisation mechanism itself. The mechanism is intended to ensure that suppliers who had delivered HTTC and SWI earlier were not placed at a disadvantage relative to suppliers who would benefit from making up a larger proportion of their CERO obligation by investing in the newly eligible cheaper measures. Government recognises that precluding suppliers from accessing this uplift in spite of delivering early does not fulfil the aim of the levelisation exercise and we will therefore not pursue this option further.

Treatment of Excess Actions from predecessor schemes

Question 39 and 40

Do you agree we should amend the legislation to allow the optimum carry forward of excess action from CERT and CESP?

In amending the legislation (as set out above) should we allow the process for notifying and approving excess actions to rerun in its entirety?

<u>Consultation response</u>

Many respondents expressed concern about any increase to the amount of excess actions from previous schemes that are allowed to be carried forward to ECO. In particular there was a concern about the impact this may have on delivery under ECO, as inevitably there will be the need for companies to do less work than would otherwise be the case. Some respondents expressed the view that there was a danger of collapse in ECO delivery, especially in the light of the proposed reduction the CERO obligations and other changes which will also reduce delivery.

Some respondents also felt it was wrong to change the rules on excess action retrospectively and that this undermined confidence in the scheme.

<u>Government response</u>

The Government proposes to change the legislation to allow appropriate carry forward of excess actions from CERT, allowing suppliers who were in the same group of companies on 31st December 2012 to make an application showing how CERT actions could have been most effectively allocated between them.

We believe this is the right approach because:

a) The clear policy intent has always been to allow carry forward where appropriate. At the time of making the ECO Order, the Government did not foresee a situation arising whereby large amounts of excess actions would be effectively stranded, and the intention was not to prevent appropriate carry forward of measures concerned;

b) We have already amended the ECO Order to allow companies to transfer excess actions to another licensee;

c) Permitting carry forward would have the benefit of reducing the costs of ECO delivery and reduce costs being passed through to customers;

d) Consumers are likely to have already paid for these measures through their bills; and

e) We do not propose to make any changes to the CESP rules as there is no evidence companies have not been able to realise the most appropriate level of excess actions under CESP.

Excess actions and group excess actions which are eligible for carry forward to CSCO and can be demonstrated to have been delivered to a member of the Super Priority Group living in a rural area will be permitted to count towards achievement of the CSCO Rural Sub-obligation at March 31 2015.

Transfer and re-election of Adjoining Installations, Qualifying Actions, and Excess Actions

Question 41

Do you agree we should change the rules, as set out above, to:

- **Align the notification arrangements for Adjoining Installations with the arrangements for Qualifying Actions.**
- **Introduce greater clarity on the rules on the re-election and re-elections after transfer of Qualifying Actions, to ensure flexibility and aligning the rules on Excess Actions with these changes.**
- **Extending the final date for transfers by one month to align with the final notification date for work completed under ECO.**

Consultation response

Most respondents had no views on this question. Of those who expressed a view – mainly installers and energy suppliers – a majority agreed with the three proposed changes, which were generally considered to be non-contentious.

Government response

The Government proposes to make the changes consulted on, to:

- Align the notification arrangements for Adjoining Installations with the arrangements for Qualifying Actions.
- Introduce greater clarity on the rules on the re-election and re-elections after transfer of Qualifying Actions and align the rules on Excess Actions with these changes.
- Extending the final date for transfers by one month to align with the final notification date for work completed under ECO.

By increasing the flexibility available to obligated suppliers, these changes will help keep down the costs of delivery and ensure ECO is delivered as cost-effectively as possible.

Question 42

Are there any further technical changes we could make to the rules on Qualifying and Excess Actions which would add flexibility, but without undermining the scheme objectives?

Consultation response

A large majority of respondents had no views on this question. Of those who did respond, most made suggestions for technical changes. Greater transparency and prompt reporting deadlines were cited by one respondent as improvements that would increase certainty. A joint response from a number of local authorities suggested that adhering to strict LSOA boundaries "split communities apart" and that adjoining installations on the same property types should be allowed. A small number of respondents felt that no changes were necessary.

Government response

The Government does not propose to make any further changes to the rules on Qualifying and Excess Actions. We consider the changes we are already making allow for the right degree of flexibility and believe the current role exercised by the Administrator in overseeing the process is necessary to ensure the integrity of the scheme and to provide assurance on delivery against targets. As noted under Q.8 we are proposing to allow the transfer of actions to take place without requiring the Administrator to assess whether a supplier is at risk of not meeting their targets.

The Customer Experience

Consumer Protection

Question 43

Can you provide evidence for a need to strengthen consumer protections under ECO? If so, what do you suggest are the best options for strengthening consumer protection?

Consultation response

We received a total of 142 responses to this question. A key theme from all responses was that consumer protection was an important issue; however this was within the context of ensuring that the costs to the scheme remain low. Of the respondents who answered the question, 23 were of the view that adequate levels of consumer protection are currently in place and 7 felt that it did need strengthening while 112 gave other opinions or evidence.

Some respondents provided options outlining additional consumer protection requirements that should be required. These included extending the consumer protections set out in the Green Deal Code of Practice to apply to measures delivered under ECO. Some respondents suggested that for Affordable Warmth, the installation of boiler repairs should be accompanied by a warranty. Finally, it was suggested that Ofgem should publish the results of their Technical Monitoring regime.

Government response

In most respects, we received no firm evidence that the scheme has inadequate levels of consumer protection, and on this basis we will generally make no changes to the policy. We are committed to ensuring the scheme provides the right standard of consumer protection and on the whole stakeholders appeared content that current requirements, which for example require all measures to be installed by a PAS compliant installer, combined with Ofgem's Technical Monitoring regime, achieve this aim. It should be noted that Ofgem published a Technical Monitoring Report[4] on the 13 June 2014 presenting the results of independent Technical Monitoring of the installation quality of ECO measures. The report also provides the failure rates for the most common ECO measures along with a list of the main areas of failure. We are mindful that a number of respondents made suggestions to strengthen consumer protection further in respect of vulnerable/lower income households. Following consultation feedback for the Affordable Warmth obligation we will require a one year installation warranty for all replacement boilers (along with a one year warranty for all electric storage heaters) during the obligation period 2015-17. For further details please refer to Questions 44, 45 and 46.

[4] https://www.ofgem.gov.uk/publications-and-updates/energy-companies-obligation-eco-technical-monitoring-report-%E2%80%93-june-2014

Ensuring quality of Affordable Warmth installations

Question 44

Do you agree that boiler replacements should require a warranty to cover parts and labour, which should not be invalidated by incorrect installation/commissioning, and that it should provide for the actual repair/replacement rather than compensation?

Consultation response

There were 156 responses to this questions of which 144 agreed with the need for boiler replacements to require a warranty.

A number of respondents felt that the liability for such a warranty should sit with the installer and that the terms of the warranty should include cover for problems in the heating system which occur as a result of the boiler installation, as well as problems with the boiler itself. Several respondents noted that they already offered this or something of a similar nature to customers. It was suggested that an annual service should be included within the warranty and it was generally felt that this should be at no added cost to the customer.

A small number of respondents questioned whether the warranty should be insurance-backed or similar, or felt that there should be a clear route to removing installers who did not meet these standards.

Lastly, it was suggested that this type of warranty would not be required for ‘qualifying electric storage heaters’ as their installation is very different and any issues become apparent almost immediately, leading to swift correction.

Government response

Please see response to Question 45.

Question 45

Do you have views on what minimum period such a warranty should cover?

Consultation response

Responses to this question were quite evenly split between two years, five years and suggestions over five years (ranging from six to 15). For those respondents suggesting the period should be in excess of five years, they argued that this was appropriate as the warranty should be linked to the lifetime cost savings of the boiler.

A number of respondents suggested one year, with a few feeling that this length was particularly appropriate given the focus of the warranty on the quality of the installation – these respondents cited that installation errors tend to become apparent shortly after installation. Of respondents who suggested two years, a number also felt that this would require a service at the 12-month point to be provided, free of charge to the customer.

Government response to Questions 44 and 45

To ensure the quality of boiler installations are guaranteed we will require a one year installation warranty to be included with the delivery of all boiler replacements. For the avoidance of doubt, this means that this requirement will not be limited only to 'qualifying boilers'. This approach will ensure the quality of all replacement boilers installed under Affordable Warmth, not only those which are 'qualifying'. We have chosen a one year period as this is the time during which issues due to poor installation tend to become apparent.

Manufacturers' warranties are often voided by incorrect installation and provide cover for failures of the boilers' parts; hence our focus on an installation warranty. This installation warranty will be required to provide cover – free of charge to the customer – for the rectification of all problems which affect the functioning of the boiler or the heating system it serves, which relate to the installation of the boiler or the suitability of the boiler for the heating system. The warranty will be required to be accompanied by a declaration from the customer that, to the best of their knowledge, no consumer has been charged for the warranty. We appreciate that there is a slight risk that consumers are charged indirectly through other costs where these are being applied; however, we expect the supply chain to reflect the cost of this requirement within the unit price they offer to energy suppliers.

The warranty will not be required to provide cover in the following situations:

- for the rectification of a problem which arises after the boiler has been installed as a result of negligence, misuse, accident or as the result of a repair, by a person other than the individual who installed the boiler, provided the warranty, or is acting on behalf of either of these people; or

- for the rectification of a problem which is covered by a manufacturer's warranty for the replacement boiler.

Organisations will, however, be free to provide such cover of their own volition.

We will not include a requirement for an annual service, primarily as the installation warranty will cover a one-year period but also in recognition of the additional costs this would impose. While we recognise that annual services are best practice, we do not think it is appropriate for this additional cost to be met by ECO, particularly as it will be impossible to ensure the service takes place in practice without placing additional administrative burdens on those delivering the scheme.

Given the legitimate concerns expressed by the supply chain and by customers themselves, we feel that these proposals are appropriate to ensure that boiler replacements are carried out to standards of industry best practice. We understand that installation warranties which provide this kind of cover are already available within the supply chain. The regulations will not specify who should provide this warranty; however, as it is a warranty for the installation, we expect that in most cases it will be provided by an installer or an installer organisation. We also recognise that this requirement will add to the cost of delivering boiler replacements under Affordable Warmth and as noted above, it is our expectation that this additional cost will be reflected in the prices paid by obligated energy suppliers.

Finally, while we are not proposing specific routes through which errant installers could be removed from delivering under ECO, we believe that Ofgem's compliance requirements should reduce this risk. We will of course keep this under review during delivery and we will consider it further if evidence comes to light that the policy intent is not being achieved.

Question 46

What are your views on how we should reflect the more stand-alone nature of electric storage heaters within this proposal?

Consultation response

This question received 101 responses with a large number of respondents stating that the warranty should only apply to those electric storage heaters which are repaired or replaced under ECO. Many respondents also felt that the requirements of this warranty should be similar to those for boilers.

A minority of respondents felt that the opportunity should be taken to replace all electric storage heaters in the property and then to treat them as a 'whole house' heating system which the warranty should cover as a whole.

Government response

We will require at least a one year warranty for all replacement electric storage heaters. Again, for the avoidance of doubt, this means that a warranty would be required for all replacement electric storage heaters, not just those which are 'qualifying'. As noted in our response to question 23, a one or two year warranty will be required for a 'qualifying electric storage heater' which has been repaired.

These warranties for electric storage heaters will all mirror the current requirement for a 'qualifying boiler' repair warranty. This means that the warranty for a replacement electric storage heater will not be required to be an installation warranty, unlike for boiler replacements. As noted in our response to question 23 in reference to warranties for 'qualifying electric storage heater' repairs, in practice we assume that this is most likely to take the form of a manufacturer's warranty. The reason for this different approach is that the installation of an electric storage heater is very different to that of a boiler and all but a tiny percentage of issues with its installation can be recognised and rectified immediately.

Question 47

Do you believe that there are grounds for concern around the quality or nature of Affordable Warmth installations? If so, how should concerns be addressed?

Consultation response

There were 121 responses to this question. The majority of responses expressed concerns about the quality and nature of Affordable Warmth installations, in particular boiler replacements. Concerns centred on whether the right measures were being installed for the customer and the quality of the installations.

The main reason for this according to respondents is the low Affordable Warmth prices being traded on ECO brokerage since January of this year, which has encouraged the installation of cheaper, sometimes inappropriately sized boilers and components which are of lower quality. Other reasons put forward included the use of inexperienced and / or unqualified installers as well as a number of local authorities raising their concerns about companies using call centres to cold call vulnerable customers which could create distrust in the scheme.

Those respondents who did not believe that there were grounds for concern stated they either had no evidence to show otherwise or felt that there are processes already in place to ensure the quality of installations suffice.

In terms of how to address such concerns, many respondents supported the introduction of boiler warranties as per questions 45 and 46 and a more robust and more regular technical monitoring regime which was further expanded on in response to question 48.

Government response

Please see response to Question 48.

Question 48

Do you believe that additional safeguards are required to ensure the quality of installations under Affordable Warmth, and if so, in what form?

Consultation response

There were 130 responses to this question with many respondents restating their answers to question 47. The majority of respondents stated that additional safeguards were required, covering a wide range of issues with the most common suggestions including:

- support for the introduction of a parts and labour boiler warranty as per questions 44 and 45;

- calls for inspections of installations to be of a more technical nature and that there should be greater levels of inspections. Some respondents felt that one in 20 installations should be inspected and that those companies that perform well should be rewarded with a lower level of inspections while those who fail subjected to a greater level of inspections;
- an inspection regime that is independent of for example manufacturers, installers, Cavity Insulation Guarantee Agency and Ofgem; and
- greater alignment of Green Deal and ECO by ensuring that measures are delivered by Green Deal Installers who are Publically Available Specification 2030 compliant.

A minority of respondents stated that they believe the safeguards currently in place especially with the addition of warranties for boiler replacements are adequate to ensure the quality of installations. In addition, respondents of this view felt that any additional safeguards would potentially add significant cost while a number of energy suppliers felt that it would not be appropriate for them to police other industries.

Government response to Questions 47 and 48

As outlined in response to questions 44 and 45, we will require that a one-year installation warranty is included with the delivery of all boiler replacements. That answer explains exactly what cover would and would not be required by this warranty.

Ofgem already requires energy suppliers to undertake inspections of their ECO installed measures by independent agents. These results, which are reported directly to the energy suppliers, are submitted to Ofgem on a quarterly basis. Inspections take place before, during and after installations (depending on the measure) and monitoring rates already depend on performance with an initial five per cent of all installations inspected, spread evenly across all obligations. Good performance can reduce technical monitoring requirements while poor performance may increase the requirements.

See our response to question 55, with respect to the question of whether measures delivered under ECO should be installed by Green Deal Installers.

Question 49

Do you believe the current means of checking the requirements of eligibility for a ‘qualifying boiler’ are appropriate? Do you have any suggestions on how this could be improved?

Consultation response

There were 103 responses to this question and they were split between agreeing the current means were appropriate and disagreeing.

Those who agreed cited that the current means of checking the requirements for a 'qualifying boiler' (Ofgem's 'Boiler Assessment Checklist') is well established, understood by industry and is working well. Some respondents suggested that something similar would be required for electric storage heaters in future given our proposals for them. It was also felt to be important to make sure boiler repairs are carried out when appropriate rather than a boiler being replaced unnecessarily.

Of those who disagreed, three main suggestions were common. Firstly, for changes to reflect the need for a whole heating system (not just a boiler); secondly, for increased or more effective policing of the scheme; and thirdly, for a less complex system through a return to eligibility criteria based on the age and efficiency of the boiler as was the case under Warm Front.

Concerns were raised by a number of respondents that the current means of checking eligibility was resulting in "inappropriate behaviour" and "poor quality" work. Suggestions to improve policing included undertaking pre-installation checks on a certain percentage of boilers. Failures should be recorded centrally against the assessor or company who recommended the measure and frequent fails should result in the permanent removal from the scheme. An alternative suggestion was notifying local authorities prior to the installation so that they could check that an appropriate measure was being recommended and an appropriate level of customer contribution was being requested.

Finally, a number of respondents noted the benefits of the supply chain moving away from using a paper-based system to using an electronic means of data collection and transfer to increase the visibility and transparency of the process.

<u>Government response</u>

Please see response to Question 50.

Question 50

Do you think any changes to the definition or guidance on what constitutes a 'qualifying boiler', for both repair and replacement, are necessary? If so, what changes would be suitable?

<u>Consultation response</u>

There were 96 responses to this question and they were again split between the current definition being fit for purpose and it needing to be changed. Those who felt no changes were necessary frequently cited similar reasons to those who agreed with question 49: that the current definition is understood within the industry (although electric storage heaters should be included) and any changes would lead to ambiguity.

Respondents who answered that changes were needed again largely mirrored answers to question 49, citing improved policing, a ‘whole house’ heating system definition and a return to classifying ‘qualifying boilers’ according to age and/or efficiency ratings. Suggestions also included amending the definition to ensure that a ‘qualifying boiler’ should be fit for purpose and appropriate for the individual household along with an appropriate guarantee. Further guidance regarding the circumstances under which boiler repairs should be carried out was also requested by some respondents.

Government response to Questions 49 and 50

We will not be changing the definition of a ‘qualifying boiler’. The ECO Administrator, Ofgem determines the requirements for checking eligibility for a ‘qualifying boiler’ and we have passed on any feedback on the current means of checking eligibility. We will continue to work with them as they consider appropriate ways in which this may be improved within the current definition.

Question 51

What evidence can you provide on the reasons for limited levels of boiler repairs rather than replacements?

Consultation response

We received 91 responses to this question. Of those that responded the majority stated that repairs are not cost-effective in terms of the limited lifetime savings they produce compared to replacement boilers and that they are administratively burdensome to carry out. There can also be difficulties in trying to identify the exact cause of a fault in older boilers due to a lack of knowledge, as well as problems in trying to source replacement parts to fix old boilers.

It was also felt that the requirement for a warranty for ‘qualifying boiler’ repairs, which are not currently required for boiler replacements, also adds a disproportionate element of cost and risk for the installer given the limited savings achievable. Some respondents supported the removal of boiler repairs from ECO given all of these reasons.

Government response

As per our response to questions 44 and 45, we will require a one year installation warranty for boiler replacements in addition to the warranties currently required for ‘qualifying boiler’ repairs. This will help to ensure that repairs are no longer disadvantaged to such an extent compared to replacement boilers on this basis.

Our introduction of a boiler ‘deflator’ for replacement gas ‘qualifying boilers’ as set out in response to questions 24 and 25 will also make boiler repairs a more attractive proposition as it will increase the cost of delivering the former of these two measures.

Improving the Customer Experience across ECO

Question 52

Do you have a view on whether measures funded through ECO from April 2015 should be recommended on the basis of a GDAR? In which case, do you have a view on whether Chartered Surveyors Reports (CSRs) should only be used to recommend measures in exceptional circumstances only? And if so, what should constitute an 'exceptional circumstance'?

<u>Consultation response</u>

4 per cent of all respondents, including a number of local authorities and insulation companies, supported the proposal, however they expressed that in circumstances where a GDAR was not always appropriate, a CSR should be permitted to recommend a measure. Of the respondents who provided suggestions of 'exceptional circumstances', the examples below were suggested:

- Recommending a measure for a block of flats or a house of multiple occupancy (HMO);
- A non-standard property;
- Where there are many similar properties; and
- Where a district heating system connection would be recommended.

<u>Government response</u>

The Government believes Green Deal Reports (which includes GDAR's and GDIP's) are a helpful measure which provide the consumer with tailor-made advice specific to the household; increasing the consumers' awareness of potential improvements that could be made to their property. Their use also helps to develop a market for energy efficiency measures for householders who are able to pay. We encourage their use, but will not take legislative action at this stage to make them the default route for recommending ECO measures under the carbon-saving elements of the scheme.

Question 53

Do you have other views on improving accuracy of assessments, for example the use of lodged EPCs?

<u>Consultation response</u>

The majority of respondents were of the view that lodging assessments used for scoring purposes as EPCs on the register would increase the accuracy of assessments. Those in favour included suppliers and representatives of the property and housing sectors. It was felt that this would increase the accuracy of assessments because the assessor completing the EPC in this way would be subject to audit checks by their accreditation body. In addition, many respondents raised the point that the lodging of assessments as EPCs is an established common practice across the supply chain and would therefore not be a regulatory burden. Of those respondents who disagreed with the proposal, some respondents felt that this would increase the costs of the scheme and was unnecessary.

<u>Government response</u>

We believe that requiring the relevant scoring assessments to be lodged as EPCs could increase the accuracy of assessments for ECO. This is because the assessor completing the EPC will be subject to audit by their accreditation body. This would provide greater assurance that the data used to calculate the carbon score for an ECO measure is more accurate. The proposal to legislate to provide for this raises some complex issues, given that it is legitimate in some cases for other forms of assessment (which could not readily be lodged as EPCs) to be used for scoring purposes, and for the moment we do not plan to introduce any new regulatory requirement, but we will continue to look at the option of legislating, and in the meantime we strongly encourage the supply chain wherever possible to conduct and lodge EPCs for scoring purposes.

Question 54

Where GDARs are a paid for service when recommending Affordable Warmth measures, we welcome views on where any cost would likely - or indeed – should sit.

<u>Consultation response</u>

There were 140 responses to this question. The majority of respondents used this question to restate their response to question 52 that not all measures funded through ECO from April 2015 should be recommended on the basis of a GDAR. Respondents of this view stated that mandating the use of GDARs for recommending Affordable Warmth measures would add significant additional time and cost to the process for little to no gain for the customer and therefore would diminish the level of Affordable Warmth activity.

Respondents stated that if GDARs were to be required for Affordable Warmth measures then the cost should not sit with low income and vulnerable households. There were mixed responses in terms of where the cost should sit, with installers, energy suppliers and the Government all being suggested to meet the cost.

<u>Government response</u>

Government will not require Affordable Warmth measures to be recommended on the basis of a GDAR. Whilst we recognise the potential benefits of such an approach, we believe it would not be appropriate at this time for the reasons outlined by respondents (especially extra time and cost). We will continue to monitor the development of GDARs and how they could be further incorporated into the Affordable Warmth customer journey in future.

Question 55

Do you have a view on whether measures promoted under ECO from April 2015 should be delivered by an accredited Green Deal installer and/or an installer who is PAS2030 certified?

Consultation response

There were 166 responses to this question, of which 33 agreed, 4 disagreed and 129 expressed other views. Some respondents such as suppliers welcomed the proposal to mandate Green Deal Installers from April 2015. However this was heavily caveated with the argument that if this standard were required, Ofgem's technical monitoring regime should be made redundant. On the other hand, a number of installers argued that the proposal was unnecessary because installers already have to comply with PAS 2030 and this would lead to increased costs and restrict the installer market. A theme from a large number of respondents was that there was a desire to improve standards across ECO.

Government response

In the longer term Government will look to improve alignment between all strands of the Department's home efficiency policies, for example by ensuring that registration as "Green Deal Installer" acts as a passport to participation in ECO and other schemes as well. This would have particular benefits if it were to allow harmonisation of monitoring and auditing requirements, removing any risk of onerous double banking between the activity of Ofgem and of the various certification bodies respectively. However, for the moment, the Government does not wish to rely on Green Deal Installer authorisation to ensure that installers adhere to the Green Deal Code of Practice (and therefore PAS) when carrying out work other than under a Green Deal finance plan. Thus, although all Green Deal Installers are necessarily PAS accredited, the Government will for the moment retain the express requirement for ECO measures to be installed in accordance with PAS to avoid any relaxation in consumer protection.

The Energy Savings Advice Service

Question 56

Do have a view on whether there is value in a demand aggregation service for the carbon elements of the ECO obligation? If so, is ESAS the most appropriate provider of this service?

Consultation response

A large number of respondents (156) did not answer this question. Of those who did provide an answer, 17 agreed, 5 disagreed and 88 provided a varied response. Of those responses that agreed, it was highlighted that ESAS provides an important customer facing service and it would be cost-effective and efficient to expand this to CERO and CSCO. It was also suggested that this would ensure fair and open access through all available means to ECO support. Those that disagreed suggested that instead the focus should be upon increasing customer awareness of ECO overall and enabling the market to deliver measures without a demand aggregation service for the carbon elements of ECO. Furthermore, it was commented by another respondent that the demand for CERO measures was already sufficiently high.

Many respondents gave more varied views, commenting upon a need for greater engagement between ESAS and local schemes, a desire for ESAS to be available as a service for Green Deal Providers, installers and local organisations. One suggestion included ESAS charging a fee to approved partners and thus providing an extra level of accreditation. In addition it was suggested that this was a clear opportunity to grow the ESAS service and work alongside the Community Energy Strategy and the Green Deal Communities Fund.

Government response

Government will continue to work to improve the ESAS service for ECO Affordable Warmth referrals. At this time there is not sufficient demand from consultation respondents to widen the ESAS service to include CERO and CSCO referrals. However, we will continue to monitor this and will be open to potentially reconsider this position should the appetite change.

Question 57

Please provide views on the current administrative cost of checking Affordable Warmth Group eligibility and any other actions taken to meet Affordable Warmth Group audit requirements.

Consultation response

There were 111 responses to this question. Nearly all respondents stated that the current cost for proving Affordable Warmth Group eligibility is too high and that the processes involved are overly burdensome and risks vulnerable customers' privacy. Limited information was provided however on the administrative cost of proving eligibility.

A number of respondents noted that the administrative costs of the scheme could be significantly reduced if DWP was able to provide verification of Affordable Warmth Group eligibility of customers prior to the installation of measures in a timely manner (as DWP holds information on customers' receipt of benefits and tax credits). Respondents felt that such a process would not only reduce administrative costs but also reduce customer lead times, increase delivery rates and improve the customer journey.

In addition to this, respondents stated that standardised documentation and making it easier to evidence householder eligibility through, for example, accepting landlord and customer declarations should both be addressed.

Government response

We are committed to further aiding the delivery of ECO measures and improving the customer journey, especially for low income and vulnerable households.

Recognising that proving AWG eligibility is seen as both costly and complicated by the supply chain and intrusive for the customer, DECC, together with DWP, Ofgem and the Devolved Administrations are working together to address this. Specifically, we are seeking to establish a service through which DWP could provide electronic confirmation of an individual's receipt of an Affordable Warmth Group-eligible benefit/tax credit at the beginning of the customer journey. We refer to this process as 'data matching'. Importantly, this service will differ from the current Affordable Warmth referrals service provided by ESAS as it will not be customer-led; rather, the supply chain will identify potentially eligible customers and check their details with DWP via an intermediary organisation (with the customer's consent, as is the case with ESAS). This service will therefore complement, rather than compete, with the ESAS service. We have made significant progress on this work and expect to have this service in place by the start of the new obligation period in April 2015.

As noted by many respondents, confirming the eligibility of a customer with their consent prior to the installation of the measure via a DWP check would, in addition to reducing delivery costs, ensure that the supply chain no longer felt the need to keep copies of customers' benefit and tax credit letters.

Question 58

Do you agree that DECC should safeguard the continued existence of the ESAS referrals service for Affordable Warmth? If so, how?

Consultation response

There were 115 responses to this question and they were split in half in terms of supporting and not supporting the safeguarding of ESAS. ESAS was considered by many to be a useful, central service with a successful history of giving impartial energy efficiency advice to customers and referrals to energy suppliers for Affordable Warmth. It was recognised as an important customer interface. The majority of those who responded did not suggest how to safeguard the continued existence of ESAS for Affordable Warmth referrals, although of those who did, suggestions included legislating for a percentage of Affordable Warmth delivery to have to be through ESAS and making the use of ESAS a condition of access to the wider data matching service which is being explored (referred to in more detail in our response to question 57 above).

Respondents who did not support the safeguarding of the ESAS referrals service questioned how cost-effective the service is and often stated that local organisations were better placed to deliver referrals. A further reason given for not safeguarding the service was that it provides referrals to energy suppliers but not GDPs or local installers.

The quality of advice was questioned by a minority of organisations and a website was also suggested by a few respondents. Further comments included ensuring measures installed through this route are completed quicker and providing a ring-fenced budget to service all Affordable Warmth referrals created through the ESAS service. Finally, the idea to combine the ESAS referral service with the Home Heat Helpline was put forward. The Home Heat Helpline is run by Energy UK on behalf of Energy Suppliers as part of the Warm Home Discount Industry Initiatives and advises people worried about paying their energy bills and keeping warm during the winter.

Government response

Please see response to Question 59.

Question 59

Please provide views on whether there are wider developments and improvements to the ESAS Affordable Warmth referrals service which DECC should consider.

Consultation response

There were 89 responses to this question with suggestions for wider developments and improvements to ESAS largely following the suggestions put forward in response to question 58. Namely, improving links with local schemes and providing referrals to local-based Affordable Warmth help.

A centralised website for local authorities to upload information relating to local schemes was suggested as one way of improving local knowledge. Some respondents called for ESAS to be able to send referrals to Green Deal Providers and Green Deal Assessors.

A minority of respondents suggested a dedicated marketing campaign of ESAS by DECC and also making the conditions for energy suppliers opting out of the service more robust to prevent this occurrence whenever possible. Finally some respondents voiced concerns that ESAS agents insist on speaking directly to the customer and not via a third party.

Government response to Questions 58 and 59

We remain committed to the ESAS referral service as a customer led route to receive advice and support while providing energy suppliers with access to verified leads for Affordable Warmth measures.

In light of consultation responses, we do not intend to regulate the use of ESAS and instead have decided to build upon and strengthen the current voluntary agreement between ourselves and the participating energy suppliers. Agreed service levels form part of the Voluntary Agreement that governs ECO Affordable Warmth referrals through ESAS. These service levels are designed to ensure that measures are delivered within set timeframes. As such and in conjunction with the Energy Saving Trust who operates the service, we will continue to work to identify delivery improvements which could be made to the service in particular using the feedback received through the consultation.

With respect to the specific feedback received, ESAS agents can already speak to a third party representative on behalf of a customer such as a relative or landlord but the appropriate consent from the customer is required. In addition, ESAS agents already try to refer those customers who are not eligible for Affordable Warmth to local schemes and we are seeking to improve this further. We do not believe ring-fencing is appropriate: ECO is designed to deliver measures in a cost-effective manner and ring-fencing funds to ensure all ESAS referrals receive measures would go against the intentions of the scheme.

Finally, given ECO is a supplier obligation we believe it is appropriate that only suppliers receive referrals through ESAS and that the inclusion of Green Deal Providers and Green Deal Assessors may simply complicate the customer journey rather than add any value.

Managing costs and ensuring transparency

Regulating Participation in ECO Brokerage

Question 60

In light of the proposed changes to ECO, can you provide new evidence that may warrant a change it the current Government's position on mandating brokerage? Do you believe a case now exists for regulating participation on the brokerage platform, for example, by requiring energy companies to deliver a proportion of their ECO obligation through the platform? Are there other options available to Government to ensure our objectives for a competitive energy efficiency market can be met?

<u>Consultation response</u>

The majority of respondents had no views on this question but those who did express opinions offered a range of views. Energy suppliers were supportive of a robust system of brokerage, although uniformly opposed mandating. One respondent from the energy efficiency sector stated that energy suppliers needed to have flexibility in the way they chose to deliver their obligation and care should be taken to avoid driving down market rates for savings to a level which would have a negative impact on support for low-income households. One trade body felt that this question raised fundamental issues about market power that would need to be addressed over the longer term, after 2017. Respondents from the social housing sector expressed the view that social landlords should be included in brokerage as this would increase the number of schemes and might improve market competitiveness.

<u>Government response</u>

The Government remains strongly supportive of brokerage and would like to see its continued use as a channel for the delivery of a significant proportion of energy companies' obligations. However, we do not at this stage plan to require energy companies by law to deliver a proportion of their ECO obligation through the brokerage platform. We have seen over £400m ECO expenditure go through brokerage so far, suggesting that one of the key goals for brokerage, of providing liquidity for new Green Deal Providers entering the market, has been met on current voluntary arrangements. While activity has been at relatively low levels in recent months, Government is taking a number of steps at an operational level to increase the attractiveness of the platform (for example, expanding the types of commodities which can be traded, and proposing to extend access to other categories of participants such as Local Authorities and social landlords). As current market uncertainties around ECO clear (with the publication of this response which gives certainty on future timings and targets) the Government will continue to monitor the usage of brokerage carefully with a view to it remaining a key delivery channel for the obligation.

Question 61

Do you have views on the accounting treatment of the obligation?

Consultation response

This issue revolves around interpretation of the current obligation wording, and whether it obliges suppliers to cash account or accruals account for the costs of delivering the obligation; and further, whether this has a real world impact on how the obligation is delivered. There are different interpretations of the existing order between the obligated suppliers, with many believing the provisions of the existing order to be ambiguous (despite previous guidance).

Two out of the Big 6 energy suppliers supported change to provide greater clarity that accruals accounting would be acceptable; one believes that while the current wording allows flexibility between the two options, suppliers should be forced to make a one-off election either way; and three believe the current wording is adequate and advocate no change. Further, one of these suggests that introducing additional flexibility would reduce the level of consistency and transparency when comparing delivery costs between suppliers. Outside of the Big 6, two smaller suppliers highlighted that it can be an issue but did not provide detailed commentary. Non-supplier respondents typically provided nil response or stated that supplier accounting policies are for suppliers to comment on.

There was no evidence provided of occasions where the differing accounting treatments had resulted in perverse outcomes.

Government response

Given the wide range of views expressed, and the importance of not attempting to make changes in this highly complex area which could, how ever inadvertently, have implications for the legitimate accounting policies of some companies, Government sees no case for introducing draft provisions with the specific aim of influencing the accounting treatment.

Question 62

Government invites views on what elements of the ECO scheme rules would benefit from simplification, and if so, how this can most effectively be done while still ensuring that the scheme objectives are met and the schemes integrity maintained?

Consultation response

There was general agreement among those who answered Question 62 that ECO was complex and that any measures that could simplify the scheme for industry and improve the "customer journey" would be welcome. Most suggestions addressed procedural, reporting and assessment issues. In general terms, there was a call for standardisation of the reporting documentation and software used by installers for providing data to suppliers, with evidence requirements minimised (for example by reducing duplication), appropriate levels of assessment for measures and fewer inspection visits to households. A number of installers called for the deadline for suppliers to notify Ofgem to be extended from one month – as is currently stipulated in the ECO Order - to two or more as this impacted on their workloads.

One of the changes most frequently requested, and by a diverse range of respondents across sectors, was to move away from RdSAP and return to a system of “deemed scoring” for measures as was used under the previous CERT and CESP obligations. The requirement for Green Deal Assessment Reports was questioned by a number of respondents, particularly when a property already has a valid EPC in place which can be used to calculate carbon or energy savings.

Giving local authorities’ access to DWP data on those eligible for Affordable Warmth – along with the energy usage data held by energy companies - was a request made by many respondents, both from industry and local authorities. It was also suggested by some respondents that the current requirements for evidencing the householder under Affordable Warmth is administratively burdensome and that the documents required should be reduced and simplified.

Government response

We fully appreciate the need for the ECO reporting and administrative processes to be simplified and made as user-friendly as possible. DECC has been working in partnership with Ofgem, the energy suppliers and the insulation industry to simplify the reporting and data transfer procedures used by suppliers and installers. As a result of this successful collaboration, a standard set of reporting templates and a simplified matrix of information required for all ECO measures was published by Ofgem in May 2014. These documents are available from the Ofgem website:

https://www.ofgem.gov.uk/environmental-programmes/energy-companies-obligation-eco/eco-reporting-working-group-simplification-and-standardisation.

The new documentation will be kept under regular review to ensure that it remains fit for purpose. We will also continue to work with stakeholders to look at other options for improving the “ECO experience”, both for providers and consumers.

We have noted the wide-ranging body of opinion which favours “deemed scoring” as an alternative to RdSAP. We believe that there may be a case for such a change and will continue discussions with stakeholders on its merits, although not taking legislative action at this point in time.

We will liaise with DWP to determine whether, and to what extent, data can be shared with local authorities. We will also look, in the longer term, at the feasibility of revising the definition of “households” in the ECO Order to include void properties. This is explored in more detail in our response to question 63.

We have considered the views received with regard to the one-month reporting deadline. Whilst we acknowledge that this is felt to be too short by many respondents, we believe on balance that one month is a reasonable period of time for suppliers to report their ECO delivery to the Administrator. However, as stated above, we do accept that the reporting process itself can - and should - be streamlined and simplified in order to save time and reduce administrative burdens.

Finally, following feedback received, we are simplifying the rules on the types of property tenure which are eligible for Affordable Warmth, with the aim of making this easier to evidence and therefore reduce the administrative burden of the current requirements. From April 2015, therefore, we are proposing to provide in the ECO Order that energy suppliers will need to ensure that the property is in private tenure i.e. that it is not registered as (or let by) a specified type of social housing provider at below the market rate. We have discussed with Ofgem and believe that this will enable the Administrator to simplify the administrative requirements for suppliers considerably, making it easier and more cost-effective for energy suppliers and the supply chain to process and for Ofgem to audit. It does not change the policy intent: it will continue to be the case that only private tenure (rental and owner-occupier) households are eligible for Affordable Warmth and the supplier must promote the measure to a member of the Affordable Warmth Group residing in the property. These new requirements will not apply to surplus actions being carried forward towards the 2017 target.

Wider issues

Question 63

Government invites views on whether there are improvements that could be made to the ECO scheme on a longer term basis to ensure the scheme can best meet its objectives. We welcome evidence justifying the case for change.

<u>Consultation response</u>

Many of the responses to question 63 addressed issues covered by other questions, particularly Question 62, on simplification. The need to reduce bureaucracy and make ECO more user-friendly was a recurring theme and suggestions such as standardising reporting procedures and documentation were also mentioned in response to this question.

Some respondents suggested that ECO – or at least the Affordable Warmth strand – should be funded from general taxation rather than by the energy suppliers. It was also suggested that ECO funding should be allocated to local authorities, as they would be best placed to identify need at local level. One organisation which polled a number of stakeholders found that the most popular suggestion was that the eligibility criteria for ECO be removed, to enable delivery to any household in need of energy efficiency measures.

A suggestion raised by a small number of respondents was for a voluntary agreement among energy suppliers which would guarantee that a proportion - from 25-50 per cent - of all ECO activity will be delivered by small and medium sized enterprises (SMEs).

A number of respondents commented that there was a need for ECO to have a long-term focus in order to create more stability and certainty for suppliers and installers. The view was that the scheme had been very “stop-start” up to now and that recent developments such as the Autumn Statement announcement and subsequent review of ECO had caused uncertainty which had led to projects being curtailed, resulting in job losses for installers.

<u>Government response</u>

We believe that involving the main energy suppliers in ECO as funders, rather than simply meeting the costs of the scheme from general taxation, is an effective route for reducing carbon emissions and reducing fuel poverty by promoting domestic energy saving. Energy suppliers are well-placed to invest in effective market solutions for home energy efficiency and their networks of customers, including local authorities, social housing providers and domestic users, give them effective routes for delivery.

Other sources of funding, such as Green Deal financing and some forms of public investment, are vitally important and we will develop these further. However, as the energy supply industry is the largest generator of CO_2 in the UK, it does have a leading role to play in funding measures which will help to reduce carbon emissions.

SMEs play a key role in ECO delivery and we are keen for them to participate fully in ECO and to take advantage of the opportunities available to them, for example by registering for brokerage. However, energy suppliers would have to weigh setting up a voluntary "SME quota" against the need to meet their statutory targets under ECO in a way that limits the cost pass-through to consumer energy bills. An improved evidence base on cost factors and economies of scale would be of great benefit in determining whether such an agreement would be viable and there may be a role for DECC, working with the energy companies, to develop this.

As the Government has previously confirmed, the obligation is intended to be both ambitious and long-term, extending through until at least 2022. The changes we intend to make as a result of this consultation are aimed at ensuring that it fulfils its intended purpose of reducing carbon emissions while meeting the needs of households and helping those in fuel poverty. We appreciate that recent announcements have created uncertainty, particularly for the solid wall insulation industry. However, we believe that the changes we intend to introduce will provide the stability and degree of certainty which the industry has been seeking and will help to stimulate growth in the sector.

Annex A: Response to Consultation Document (Annex B): Heat Networks

Heat Network Lifetimes

Annex B Question 1:

Do you think a standard lifetime for heat networks is needed under ECO, regardless of fuel type or technology? Please provide any information you have on average times between the failure of key system components and suggestion for acceptable lifetimes and your reasoning

Current situation

For any measure, the formula for calculating lifetime carbon savings for CERO and CSCO and for calculating lifetime cost savings for Affordable Warmth uses the following formula as set out in Ofgem's guidance:

S x L x (100 per cent - IUF) = carbon saving (tCO_2)

Where: S is the annual carbon or cost saving calculated in accordance with SAP or RdSAP; L is the lifetime of the measure (in years) and IUF is the in-use factor of the measure (by per cent)

The lifetimes for district heating connections are defined by Ofgem and are currently as follows.

District heating connections	Lifetimes (Years)
Upgrades (Biomass boiler)	30
New Connections (Biomass boiler)	30
Upgrades (Gas/oil boiler)	25
New Connections (Gas/oil boiler)	25
Upgrades (CHP)	15
New Connections (CHP)	15
Upgrades (Ground Source Heat Pumps)	20
New Connections (Ground Source Heat Pumps)	40
Heat Meters	15

Consultation response

Of the 18 respondents to this question, 13 agreed that heat networks should have a standard lifetime irrespective of fuel or heat generation technology type in the range of 40 to 50 years, backed by examples of pipe lifetimes from long running UK and European heat networks.

Consultation respondents highlighted the unique nature of heat networks. Unlike other measures eligible for support under ECO, heat networks comprise of a number of components: heat generation technology, heat pipe distribution infrastructure and the interface with heat customers which can include a heat interface unit and heat meter. Of these components, the distribution infrastructure is likely to have the greatest longevity. Heat sources on a network can be replaced, changed or additional sources added. Where heat customers are currently unmetered, networks may retrofit heat meters. Networks may also secure new customers within the existing infrastructure or expand the pipe network to supply a group of new customers.

On this basis respondents felt that clarification or revision of the lifetime terminology 'new connection' or 'upgrades' would be welcome to better accommodate the full range of scenarios below.

Government response

Government will work with Ofgem as they seek views on heat network lifetimes later this year. Evidence may be sought on the ability of heat networks to deliver savings in the following ways:

- Scenario 1: New network built and connections retrofitted to existing homes that previously had individual heating and hot water solutions
- Scenario 2: A new customer is connected to an existing heat network
- Scenario 3: An established heat network replaces a heat source or adds thermal storage, thereby increasing the carbon savings delivered
- Scenario 4: An established heat network expands the heat distribution infrastructure and heat generation capacity to serve multiple additional customers.

Where a new heat network is built or expanded a standard lifetime based on the heat pipe longevity would be suitable. Consideration needs to be given to the application of lifetimes where a new customer joins an existing network or a heat source is upgraded or added to an existing network.

In-use factors

Annex B Question 2:

Given the uncertainty of the information surrounding the lifetime calculations the in-use factor is used as a risk management tool. What would be an appropriate level in-use factor be for heat networks? Please give your reasoning

Current situation

In-use factors (IUF) are defined in schedule 3 of the Electricity and gas (Energy Company Obligation) Order 2012 primary legislation (Statutory Instrument 3018). Heat networks are allocated a factor of 10 per cent, against a default factor of 15 per cent.

Consultation response

Of the eight respondents that answered this question, six shared the view that the current IUF was appropriate for heat networks as the inherent characteristics of heat networks, aggregating a variety of heat demand, allows for system optimisation thereby minimising the impact of individual user behaviour.

Government response

In light of feedback submitted as part of this consultation, Government is not proposing to review IUF of 10 per cent for heat networks.

Heat networks delivered through supplier obligations: Case studies

Annex B Question 3:

Please give examples of where ECO support has helped to deliver heat networks.

Current situation

The following figures provide an overview of heat network installations supported by ECO and the previous CERT and CESP regime[5].

Measure	Installations
Community Energy Saving Programme (CESP)	**At April 2013**
District heating (connection to)	6,459

[5] https://www.ofgem.gov.uk/ofgem-publications/58762/cesp-update-6final-300413.pdf
https://www.ofgem.gov.uk/ofgem-publications/86565/ecocomplianceupdate14march2014v1.pdf

District heating (upgrade)	11,247
District heating meter for individual house billing	6,026
Energy Company Obligation (ECO) – district heating connections	**At March 2014**
Carbon Emissions Reduction Obligation (CERO)	337
Carbon Saving Community Obligation (CSCO)	356
Affordable Warmth	0

Consultation response

Whilst consultation respondents did not provide detailed case studies, written feedback and views shared at stakeholder events provided a more detailed picture of the nature of schemes supported under this obligation scheme and the previous CERT and CESP regime.

Whilst district heating installation levels under CESP were not vast, (by comparison SWI saw 75,255 installations from a total of 293,922 measures), stakeholders indicated that CESP represented a significant funding stream for DH industry.

ECO has the potential to provide a similar funding route for heat networks, but deployment under ECO has been low to date due to a number of reasons. The initial ECO obligation period is two and a half years which is a challenging timeframe for heat networks as they generally require a number of development stages and can have large numbers of customer groups that need to be signed up before the project can be contracted.

The abundance of compliant Affordable Warmth projects has resulted in funding offers from energy companies too low to support heat networks. This is combined with the Affordable Warmth requirement that this cost saving obligation is only delivered to the private housing sector.

Anecdotal feedback (on all ECO activity to date, as opposed to just those projects that have progressed to Ofgem notification stage indicated in the table above) suggests that although eligible under CSCO, proposed heat network development to date has been under CERO as part of multi measure packages (as district heating wasn't originally a primary measure). Due to the timeframes to develop heat networks, Ofgem has only received, and accepted, notification of a small number of heat network connections to date. Further to this, following the announcement of proposed changes to ECO in December 2013 heat network developers have reported that ECO offers from obligated energy companies have now largely been revoked or reduced to a level that is not sufficient to support heat networks.

Stakeholders indicated that, in line with the type of heat networks funded under CESP, projects able to secure ECO funding are likely to be groups of properties with a single landlord or agency able to aggregate and guarantee heat demand.

Facilitating heat networks under ECO: Match making service

Annex B Question 4:

Do you think there is a wider need for a service that match makes potential heat network projects with ECO support to maximise the delivery under ECO? Yes/No Please give reasoning and your views on who might provide this.

Consultation response

Whilst 10 of the 18 responses to this question indicated, at a high level, that a match-making service would be useful, the details of these responses provide a more varied picture. Broadly heat network suppliers and energy companies have had success to date matching projects and finance without a third party broker. Local authorities and those looking at rural networks, however, indicated that a match-making service may be of use. Some of these respondents, however, suggested it may not be effective to deliver a service such as this through ECO. This is possibly because a broader service matching potential projects with heat network developers and funders would be more useful, not just a service covering projects eligible for ECO funding.

Some respondents believed that greater transparency in the historical value of funding offers from obligated energy suppliers would be beneficial as it would provide a guide to those with potential heat network projects.

Government response

Government does not intend to pursue development of a heat network ECO funding match-making service.

Delivering heat networks: Lead times

Annex B Question 5:

In light of the long lead times (typically 2-3 years for design and build) what issues could there be with meeting the supply side of the ECO 2017 targets for heat networks?

Consultation response

Eleven of the 13 respondents that provided views on the heat network supply chain did not indicate that there were anticipated challenges in capacity. Of greater significance, however, was the discrepancy between the lead times to develop heat networks and the duration of the ECO obligation period.

Some respondents suggested that heat network developers work at significant risk when a heat network is dependent on ECO funding from an obligated energy supplier. Heat networks require significant investment to cover development and build costs and lead times can be longer than for other ECO eligible measures. ECO funding can only be paid once the heat network is complete, the energy supplier has notified ECO scheme administrator (Ofgem) and Ofgem has approved the heat network. In addition, the risk that a heat network may not be approved by the ECO scheme administrator amplifies the perception of risk for potential investors.

Government response

No action with the heat network supply chain is proposed. The proposed extension of the CERO target period to 2017 may provide useful flexibility for heat network projects given the development timeframes. Obligated energy suppliers can notify Ofgem of completed measures in stages if they wish. This facility may need to be more widely publicised.

Participation in Independent Heat Customer Protection Scheme

Annex B Question 6:

Do you agree that operators of heat network schemes that receive ECO support should be obliged to sign up to the emerging heat customer protection scheme? Yes/No Please give reasoning

Consultation response

Most respondents recognised that improved heat network standards and common standard of customer protection are important, but whilst 12 of the 20 respondents expressing views on the Independent Heat Customer Protection Scheme (IHCPS) suggested that in principle participation of the IHCPS should be a requirement of ECO funding, the detailed responses identified some concerns.

The IHCPS has not yet been launched, although this is planned for late 2014, and the requirements and costs of membership cannot yet, therefore, be integrated into heat network design. Additionally, the initial IHCPS may only cover heat networks that supply heat to domestic customers under a heat supply agreement, as opposed to supplying heat as part of a tenancy agreement, although it is hoped that the scope of the IHCPS will expand over time.

Government response

Government is not proposing a requirement to participate in the IHCPS in this ECO period.

Barriers to securing ECO funding to deliver heat networks

Annex B Question 7:

What barriers do you think there are in delivering heat networks under ECO support? Are there any other points you would like to raise?

Consultation response

Feedback in this section covered heat networks more broadly as well as issues relating to deployment of heat networks with ECO funding.

Anecdotal feedback indicated that the value of ECO offers from energy companies has fallen dramatically from over £100 a tonne of carbon in in 2013 to around £40 a tonne in 2014. This lower rate is not generally sufficient to support heat networks. Further to this, the ability of energy companies to be able to rescind ECO offers at any time represents significant risk for heat network developers.

HHCRO is targeted at private households with residents that are part of the affordable warmth group. As heat networks need to secure significant numbers of customers before the project can be contracted, the lack of a single entity to aggregate customer demand in the private housing sector means that HHCRO is unlikely to be an effective source of funding for heat networks. Stakeholders indicated that heat networks can be economically viable in off-gas grid areas where the original heating source is expensive (such as delivered oil) and where there is abundant local fuel (biomass for example). The HHCRO off-gas grid uplift, however, will not be available to heat networks. Further to this, HHCRO offers from obligated energy suppliers have been too low to date to support heat networks.

Concerns were raised about the ability of the Standard Assessment Procedure (SAP) to model the full carbon savings from heat networks. Sufficient detail was not provided on specific problems in the ECO consultation responses but further investigation will be undertaken as part of wider work to develop SAP for the 2016 Building Regulations.

Some respondents noted that adequate funding is not always available for heat networks. Lack of certainty around Government policy was identified as a contributing factor that impacts financiers' perception of risk. The ability of potential heat networks to secure crucial, anchor load, heat customers was raised with a recommendation, from some respondents, that the ability to mandate connection through local authority planning powers would help to alleviate this challenge.

Government response

No changes to ECO are proposed but feedback will be utilised to develop wider heat networks policy.

Annex B: Revisions and clarifications to the document "The Future of the Energy Company Obligation: Small Area Geographies Eligible for ECO CSCO Support"

In the consultation document, we stated that the Index of Multiple Deprivation (IMD) used to calculate CSCO was the Income Domain IMD. To clarify, we have actually used and will continue to use the combined IMD to calculate CSCO eligibility, although the areas are termed "low income". In the document entitled "The Future of the Energy Company Obligation: Small Area Geographies Eligible for ECO CSCO Support" we have made several revisions to the spread sheet, and an update is published on the following website:

https://www.gov.uk/government/publications/the-future-of-the-energy-company-obligation-small-area-geographies-eligible-for-eco-csco-support

We want to ensure that the rules for the rural sub-obligation are clear and provide clarity to some particular areas within the document.

We are now including 5 additional data zones in Scotland; these data zones were not included due to a more up-to-date IMD used in the methodology. We are using the most up-to-date IMDs available to us and ensuring that areas that were previously eligible are added so they remain eligible. These data zones are listed below, and have now been included in the updated document entitled "The Future of the Energy Company Obligation: Small Area Geographies Eligible for ECO CSCO Support".

1. Data zone S01002306.
2. Data zone S01003548.
3. Data zone S01002296.
4. Data zone S01005071.
5. Data zone S01006389.

We have rearranged the layout of the tables listing all eligible areas for each nation to make clear the rules of the rural sub-target. Finally, we have also revised the tables listing areas in Scotland to reflect the full range of output areas for each data zone listed.

Annex C: List of Respondents to the March Consultation on 'The Future of the Energy Company Obligation'

The following table lists all non-confidential companies, organisations and individuals which have responded to the consultation.

Absolute Insulation Ltd
Acrobat Carbon Services
Action with Communities in Rural England (ACRE)
Advantage Energy Assessors
Affinity Sutton
Ailsa Building Contractors Ltd
Alsecco UK Ltd
Altair Green Deal Services Ltd, Scotland
Amber Construction Services
Anglian Building Products
Association for Public Service Excellence (APSE)
Association for the Conservation of Energy
Association of North East Councils
Atlantic Contracting Ltd
Bath & North East Somerset Council
BAXI
Benx Limited
BioRegional
Blackburn with Darwen Public Health
Blackpool Council

Blue Flame Energy Solutions Ltd
Bradford Council
British Electrotechnical and Allied Manufacturers' Association (BEAMA)
British Gas
British Property Federation
British Rigid Urethane Foam Manufacturers Association (BRUFMA)
British Urethane Foam Contractors Association (BUFCA)
BSCS Plumbing and Heating
Builders' Merchants Federation
C&P Energy Solutions
Calderdale Council
Calor Gas Ltd
Carbon Action Network
Carillion
Cavity Insulation Guarantee Agency (CIGA)
Cenergist Ltd
Centre for Sustainable Energy
Certsure
Chartered Institute of Building (CIOB)
Circle Housing
Citizens Advice
City Energy South Wales Ltd
City South Manchester Housing Trust
Climate Energy Ltd
Combined Heat & Power Association
Comhairle Nan Eilean Siar (Western Isles Council)
Community Housing Cymru
Convention of Scottish Local Authorities (COSLA)
Co-operative Energy
Cornwall Council
Council of Mortgage Lenders

Country Land and Business Association Limited
D2C Direct
Derby Council
Direct Savings Scotland
Domestic and General Insulation Ltd
Dover District Council
Downs Energy Ltd
DRYVIT UK LTD
Dundee City Council
Dunwood Polymers
E Jones
E.ON
East Riding of Yorkshire Council
Easton Energy Group
ECO Matters
ECO OMG
ECO Residential
Ecologic-Energy
Ecotex Contracts Ltd
EDF Energy
Effective Energy Solutions Ltd
Elmhurst Energy
Energy Action Scotland
Energy Saving Installers Association (ESIA)
Energy Saving Trust
Energy UK
Environmental Industries Commission
EUM Group
Everwarm Limited
First Utility Ltd
Friends of the Earth

Fuel Poverty Advisory Group
G Eckton
Gaffney & Gunian Contractors Ltd
Garhill Chartered Surveyors
Gateshead Council and The Gateshead Housing Company
Gentoo Group
Glasgow City Council
Glasgow Housing Association
Glass and Glazing Federation
Global Heatsave
Gosport Borough Council
Grafton PLC
Grant Aided Installer Network
Greater Manchester 10 Local Authorities and Greater Manchester Energy Advice Service
Green Deal Advice Midlands Ltd
Green Deal Advisor Association
Green Deal Consortia Ltd
Green Deal Solutions Ltd
Green Deal Together Community Interest Company
Green Group NW
Guildford Borough Council
GZ Energy Solutions Limited
Hampshire County Council
Happy Energy
Heat Pump Association
Heating and Hotwater Industry Council
Hebridean Housing Partnership Ltd
HECA East & CORE
Helena Partnerships
Herefordshire Council
Hips Direct

Home Group
HomeServe Alliance
Homeworks Energy Ltd
Independent Suppliers Group
InstaGroup
Insulated Render and Cladding Association (INCA)
Insuletics Ltd
InVest Energy & Environment AB
Isothane Limited with input from others
J Bird
J Kay
Joyner Group
JUB Systems UK Ltd
K G Insulation Ltd
Keep Sheffield Warm
Keepmoat
Kent and Medway Green Deal Partnership
Kent County Council
Key Cities Group
Kingfisher Future Homes
Kingspan Insulation Limited
KinnellECO aka Warranty Services Limited
Kirklees Council
Knauf Insulation
Knowsley Council
Lakehouse Group
Lancashire County Council
Lancashire Energy Officers Group
Lawtech
Leicestershire County Council
LESS

Lifestyle Heating ltd
Liverpool City Council
Llewellyn Smith
Local Government Association
Lochalsh & Skye Housing Association
LoftZone
London Borough of Newham
London Environmental Coordinator Network
London HECA Forum
M Edwards
Maidstone Borough Council
Mark Group Limited
Matilda's Planet
Mayor of London
Mears Group Plc
Michael Dyson Associates Ltd
Mitie Property Services (UK) Ltd
Modern Masonry Alliance
Muirfield Contracts Ltd
Muscular Dystrophy Campaign
My Home Survey Ltd
N Barnes
N Owen
NAPIT Certification
National Energy Action (NEA)
National Energy Foundation
National Energy Services
National Federation of Roofing Contractors
National Housing Federation
National Insulation Association
Natural Building Technologies

Newcastle City Council
North Kesteven District Council
North London Retrofit Group
North-West Carbon Action Network
Ofgem
Oldham Council
One Green Place
Opower
Osborne Energy
Ovo Energy
P Newbold
P Warren
Panagia Ltd
Plymouth Community Homes
Polypearl Ltd
Portsmouth City Council Energy Team
Premier Gas Care Ltd
Preston City Council
Property Energy Professionals Association
Regen SW
Residential Landlords Association
Right Surveyors Asset Management Ltd
Riverside Housing Association Group
Rockwool Ltd
Royal Institution of Chartered Surveyors
RWE Npower
S Charles
Saint-Gobain
Scotia Gas Networks
Scottish Federation of Housing Associations
Scottish Government

Scottish Power
SCS group of companies
Sefton Council
Sentinel Performance Solutions Ltd
SERS Energy Solutions Ltd
Severn Wye Energy Agency
Shetland Islands Council
SIG Energy Management
SIG Green Deal Provider Company
Southampton City Council
Southern Environmental Wall Installations UK Ltd
Specflue
SPS Envirowall
SSE
Stockport Homes
Stockton on Tees Borough Council
Stretton Climate Care
Structherm Ltd
Sustain
Sustainable Energy Association
Sustainable Homes Ltd
Sustainable Housing Action Partnership
SWI Support Group
Tadea-Uk Ltd
Taylor Armitt Consulting Ltd
The Caribou Green Warmth LLP
The DEMAND Centre
The Free Green Deal Company
The Green Deal Network
The Starfish Group
Therese Coffey MP

Tighean Innse Gall
Toriga Energy Ltd
UK District Energy Association
UK District Energy Vanguards Network
UK Green Building Council
UKLPG
Ullapool Community Trust
Urban Renewal Officers Group
Vaillant Group UK Ltd
Viridian Energy Solutions
VolkerLaser
Wakefield and District Housing
Wales & West Utilities
Warm Front Ltd
Warm Zones cic
Warmer Energy Services
Warmer Worcestershire Network
Wates Living Space
Welsh Government
West Sussex County Council
Westdale Services Limited
Wetherby Building Systems Ltd
Wetherby Stone Ltd
Which
White's Plumbing and Heating Ltd
WM Housing Group
Wolseley UK
Yorkshire Energy Services cic
Yorkshire Housing
Your Homes Newcastle

A small number of the responses listed above were received after the formal deadline and, as a result, are not included in the figures quoted in the main report. The list excludes all confidential responses received.

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