



Department
of Energy &
Climate Change

The Future of the Energy Company Obligation

Consultation Document

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URN 14D/052

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Introduction

This document sets out a suite of proposed changes to the current Energy Company Obligation (ECO) for consultation. A number of the proposals contained within this document have already been published or foreshadowed as part of the Government's announcement on 2 December 2013 of proposals designed to reduce pressures on consumer bills. The document also includes further proposals designed to improve the operation of ECO in the light of feedback and other monitoring information that has become available over the first year of the programme's life. In general, these additional proposals are intended to increase the flexibility of the scheme and lower overhead costs associated with its implementation, and, with very limited exceptions, are therefore deregulatory in nature.

Taken together, these proposals provide for a robust ECO extending, in the first instance, to March 2017, and provide an ambitious level of support both for the delivery of carbon-saving energy efficiency measures, such as insulation, and for other measures which alleviate the risk of fuel poverty.

Context

The Energy Company Obligation and Green Deal programmes are designed to reduce carbon emissions from the domestic and non-domestic building stock - which is essential if the UK is to meet its statutory domestic carbon budgets. Improving household energy efficiency also provides the cornerstone of Government efforts to reduce bills and increase comfort for low income and vulnerable households on a long term, sustainable basis; thus reducing the risk of those households being in fuel poverty or severe fuel poverty.

ECO was introduced in January 2013, with targets to be met by 31 March 2015. It is the latest in a sequence of energy supplier obligations used as a primary feature of successive Government's domestic energy efficiency policies. ECO was designed rather differently from past schemes, reflecting a move away from subsidising energy efficiency measures that can be expected to be paid for by householders. On this basis, the supporting role that ECO plays alongside the Green Deal is designed ensure the cost of the obligation for energy consumers is affordable and represents value for money. Prior to implementation, the ECO scheme was estimated to cost energy companies around £1.3bn per year on average to deliver. While there has been evidence suggesting actual delivery costs have been broadly in line with these projections energy suppliers have expressed some concern around cost increases in forward bilateral trades in the build-up to the 2015 target deadline. Cost increases of this type were also reported during the closing period of the predecessor schemes (CERT and CESP), and whilst prices will undoubtedly vary in response to changes in market dynamics, there is a risk of a price spike as we approach 2015.

It is a key intention of the Government to ensure that ECO represents value for money for energy consumers, and central to this objective is the requirement that consumers pay only for the optimal balance of carbon saving per unit of spend. Therefore, we propose a series of changes designed to reduce the cost of compliance for obligated suppliers, and in doing so, reduce costs passed onto consumer's energy bills. On the basis of these proposed changes and changes to policies other than ECO, obligated energy suppliers have confirmed that they expect to reduce consumer bills by around £50 per household next year with between £30-£35 per household of the reduction due to the ECO proposals.

Government remains committed to ensuring that the level of activity for aspects of ECO more closely related to our fuel poverty objectives is not compromised. Similarly, Government recognises that the nature of housing stock in the UK necessitates that innovative measures, such as Solid Wall Insulation, will continue to require extra funding until these product markets are able to mature through wider roll out. These principles will continue to underpin the obligation.

As the Government has previously confirmed, the obligation is intended to be both ambitious and long-term, extending through until at least 2022 but current targets are set only until March 2015, which means that there is a lack of long-term certainty for the supply chain and others

interested in delivery. The proposals in this document should provide longer term certainty by extending the scheme through to 2017.

Government recognises that current cost information relating to the achievement of the current ECO targets is imperfect. Activity in brokerage auctions and delivery cost information from obligated energy suppliers provides only an indication of the costs of meeting the ECO targets. Whilst the brokerage platform has introduced a degree of transparency and liquidity to the energy efficiency market, the market continues to prefer trading bilaterally with only a relatively small proportion of the CERO obligation having been traded on the platform since implementation and consequently, costs appear to vary widely between obligated energy companies.

However, it is clear from both the numeric information currently available and the expressed concerns of energy companies, that these cost pressures appear to be greater under CERO, and to some degree CSCO, than under Affordable Warmth. Government recognises the importance of appropriate access to accurate and timely cost information to ensure that consumers can better understand the impact of Government's social and environmental programmes on their energy bills and to ensure that the performance of the scheme can be monitored and evaluated effectively. We are therefore proposing to improve the availability and transparency of information held by obligated energy suppliers.

1. Summary of consultation proposals

Subject to the outcome of this consultation, the Government proposes to make the following changes to ECO:

- to set new targets for each of the ECO sub obligations based on an equivalent level of ambition as the 2015 targets, including the proposed 2015 CERO target, and to be met in the period from April 2015 to March 2017.

Changes proposed to apply in relation to the current obligation period (ending March 2015)

- To reduce the March 2015 Carbon Emissions Reduction Obligation (CERO) target by 33 per cent. 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.
- To enable obligated energy suppliers to carry forward a certain proportion of over delivery against their March 2015 targets to count towards their March 2017 targets.
- To enable obligated energy suppliers to deliver less than their share of the new 2015 CERO target. In which case, the energy supplier would see its CERO obligation for March 2017 increase by 1.1 times its shortfall in March 2015. This flexibility would not apply to the Affordable Warmth or CSCO targets, with both remaining enforceable compliance deadlines at 31 March 2015.
- To enable obligated companies to more fully realise the benefits of carry forward of over-performance (excess actions) to ECO from the predecessor schemes (Carbon Emissions Reduction Target (CERT)/Community Energy Saving Programme (CESP), by changing the legislation to facilitate the optimal distribution of excess actions across suppliers licences.
- To enable those energy suppliers that have delivered primary measures of more than 35 per cent of Phases 1 and 2 of their current CERO target, by the end of March 2014, to receive 1.75 times the carbon score for primary measures delivered to that date (or to adjust these suppliers' CERO targets to provide for the same effect). Activity carried forward from CERT/CESP would be excluded from this uplift. This uplift would only apply to primary measures under CERO and not to the other two ECO obligations.
- To extend the CSCO element of ECO from 15 per cent to the 25 per cent lowest areas on the Index of Multiple Deprivation. In addition, the qualifying criteria for the CSCO rural sub obligation would be simplified by allowing suppliers to deliver against this sub-target to any domestic property located in the poorest quarter of rural areas, as well as to people living in rural areas who are members of the Affordable Warmth Group. These changes are proposed to apply for measures installed from 1 April 2014.
- To allow District Heating connections made from 1 April 2014 to be included as an allowable primary measure under CERO.

- To allow insulation of easy to treat cavity walls installed from 1 April 2014 to be included as an allowable primary measure under CERO.
- To allow loft insulation installed from 1 April 2014 to be included as an allowable primary measure under CERO.
- To require the delivery of a minimum level of solid wall insulation to be delivered by the end of March 2017 across all companies and both carbon elements of ECO, namely CSCO and CERO. There will be no other measure specific sub-targets.

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

- To extend the ECO scheme to March 2017 with new targets imposed for CERO, CSCO and Affordable Warmth at a pro rata of the March 2015 levels. Further detail on the proposed methodology is provided within the accompanying Assessment of Impacts.
- To allow an uplifted Affordable Warmth score for measures delivered to households whose main fuel type is not natural gas.
- To provide that electric storage heaters, that are broken or not functioning efficiently, which are repaired or replaced under Affordable Warmth are scored in the same way as a “qualifying boiler” and in doing so, receive a higher notional bill saving.
- To require all boiler replacements delivered under Affordable Warmth to include a minimum warranty.
- To safeguard the Energy Saving Advice Service (ESAS) referrals service for households likely to be eligible for support under Affordable Warmth.
- To improve the transparency and availability of cost information relating to delivery of the ECO scheme.

As indicated above, we propose that certain changes should have effect by reference to 1 April 2014. However, if these changes are made, the amending legislation will not be in place until later in 2014. Ofgem will continue to administer ECO in accordance with the current ECO Order, until the amendments are made. However, we propose that, if these proposed changes are made, measures installed (for the purposes of this document installed in this context means installation completed) from 1 April 2014 onwards should be able to be reported to Ofgem within one month of the change in legislation coming into effect; we will include provisions within the amended legislation in order to facilitate this.

For the purposes of clarity, Annex A details the proposals which relate to 1 April 2014. The Government will decide whether to proceed with the proposals described in this consultation document, including the proposals listed in Annex A, after the consultation has closed and responses have been considered. The Government cannot take any responsibility for activity undertaken in reliance on these proposals in advance of final decisions being taken and the implementing legislation being made and brought into force.

For the avoidance of doubt, for the purposes of this document all references to measures “installed” after 1 April 2014 means where the relevant installation is completed after this date.

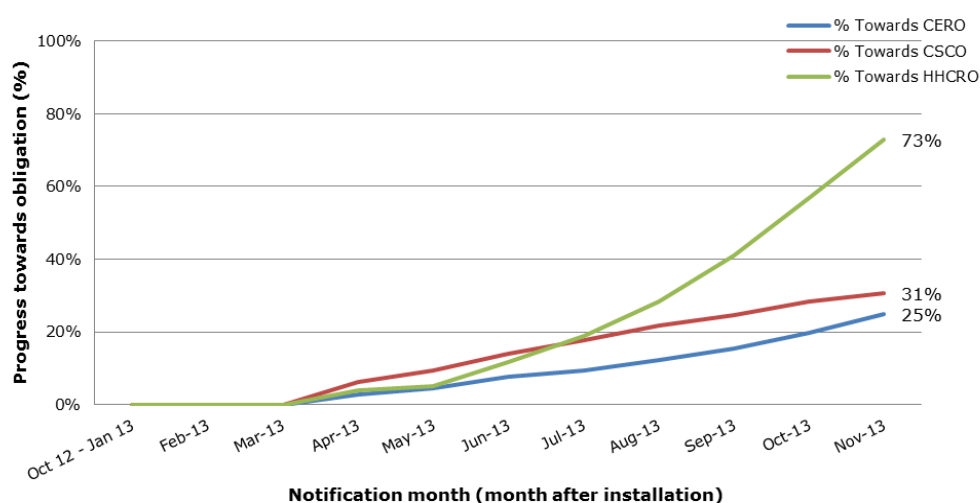
2. Level and Nature of Targets

Under the Energy Company Obligation, Government has set three targets to be achieved by March 2015:

- Carbon Emissions Reduction Obligation: installing packages of measures that include solid wall and hard-to-treat cavity wall insulation, which ordinarily cannot be financed solely through a Green Deal (CERO target of 20.9Mt CO₂).
- Carbon Saving Communities Obligation: providing insulation measures and district heating connections to households in specified areas of low income. 15 per cent of each supplier's Carbon Savings Community Obligation has been ring fenced for more hard to reach low-income households located in rural areas (CSCO target of 6.8Mt CO₂).
- Affordable Warmth (described in legislation as the Home Heating Cost Reduction Obligation (HHCRO) but referred to using the policy name of Affordable Warmth throughout this document): providing heating and insulation measures for those in receipt of certain means-tested benefits or tax credits who own or privately rent their home (HHCRO target of £4.2 billion notional bill savings).

Chart 1 below shows aggregated energy company progress towards phase 1 and 2 obligations using all measures notified to Ofgem up to November 2013. It represents the position at 67 per cent¹ of the way through phases 1 and 2. The chart shows that whilst obligated energy companies need to increase their run rate for CERO and CSCO to ensure obligations are met, positive progress has been made towards meeting Affordable Warmth (HHCRO) targets.

Chart 1: Monthly supplier progress towards Phase 1 and 2 obligations²



Source: Ofgem

¹ Ofgem Energy Companies (ECO) Compliance Update, January 2014 : <https://www.ofgem.gov.uk/ofgem-publications/85595/energycompaniesobligationecocomplianceupdateandquarterlyannex-january2014.pdf>

² Phases 1 & 2 cover the period 1 January 2013 to 31 March 2014. This graph does not include excess measures from CERT and CESP and is based on all measures notified to Ofgem up to November 2013.

Carbon Emissions Reduction Obligation

Monitoring information and other evidence gathered since January 2013 suggests that the low level of progress towards the CERO target is in large part due to distinct cost pressures under the current CERO obligation. In addition to this, energy suppliers have expressed concern around cost increases in forward bilateral trades as we move closer to the 2015 CERO deadline. Such a scenario was also reported during the closing period of the CERT and CESP schemes, and whilst some price movement should be expected in relation to changing supply and demand dynamics, the risk of such an apparent price spike is clearly not in the best interest of energy consumers. Taking both factors together, we therefore propose to:

- Reduce the March 2015 CERO target by 33 per cent from 20.9mtCO₂ to 14mtCO₂;
- Allow obligated energy suppliers to 'overachieve' against their new CERO 2015 target, and count the excess against their 2017 target; and
- Allow obligated energy suppliers to 'underachieve' against their 2015 target and carry the shortfall through to their 2017 target, subject to certain conditions discussed below.

The current CERO target has been apportioned on a phased basis in accordance with the individual market share of obligated energy suppliers. The proposal to reduce the CERO target therefore raises questions around how the proposed reduction should be implemented, and we welcome stakeholder's views on whether this should be calculated as a proportion of a supplier's overall CERO target (i.e. the sum of its obligation in Phase 1, 2 and 3³ of the obligation period); or whether the 33 per cent reduction in suppliers' overall CERO target should be applied to a supplier's target for Phase 3 only. Government recognises that each option could affect individual energy suppliers and the supply chain in different ways, and we invite views from stakeholders on the most appropriate means of implementing the reduced CERO target.

While we are potentially allowing for under achievement against the 2015 CERO targets to be carried forward to the 2017 targets, Government is very clear that we expect the 2017 target to be met and that failure to meet the 2017 CERO target will mean companies are likely to be in breach of their statutory obligations which may ultimately lead to enforcement action by the Administrator.

Question 1

Do you agree that the 2015 CERO target should be reduced by 33 per cent from 20.9mtCO₂ to 14mtCO₂?

Question 2

Should the new 2015 CERO target be applied to Phases 1, 2 and 3, or to Phase 3 only? Please provide justification for your answer.

³ Phase 1 - 1st January 2013 to 31st March 2013, Phase 2 - 1st April 2013 to 31st March 2014, and Phase 3 - 1st April 2014 to 31st March 2015.

In addition to the above, we propose to extend the overall Energy Companies Obligation to 2017. In respect of CERO, this would enable a more consistent delivery profile across the obligation period from 2013 to 2017, and therefore avoiding unnecessary price spikes and supply chain bottlenecks in the period leading up to the 31 March 2015 deadline. These benefits are likely to be greatest where the 2015 CERO target is not rigid but instead sufficiently 'fungible', with appropriate activity before that deadline counting towards the 2017 target.

The Government nonetheless wishes to ensure that companies have an appropriate incentive to deliver a sufficient percentage of the obligation reasonably early within the obligation period. It is therefore proposed that companies who underachieve against their 2015 CERO target should be penalised by having their underachievement carried forward to the 2017 target at a rate of 1.1 times the carbon shortfall⁴.

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. We are currently minded to provide that this mechanism should not affect the size of individual targets for other obligated energy companies, and if applied, 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 Administrator.

Question 3

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

Affordable Warmth and Carbon Saving Communities Obligation

Government is committed to maintaining support for fuel poverty objectives through ECO. In line with this, we propose that the 2015 targets for Affordable Warmth and CSCO are not changed and Affordable Warmth and CSCO targets (including the CSCO rural sub target) remain to be met by 31 March 2015, and where companies fail to meet these targets they may face enforcement action by the Administrator.

In the first year of the scheme, Affordable Warmth has delivered in line with our expectations for number of installations and households supported; this is expected to continue in line with the 2015 Affordable Warmth target. However, delivery evidence has highlighted areas where scheme design is limiting the ability to meet key objectives in the support of low income and vulnerable households. We therefore propose a series of changes to correct this.

The rate of progress under CSCO is not as high as it perhaps should be at this stage in the current obligation period, and consequently, Government has identified areas which could be improved to increase the pace of delivery in a cost effective manner for the consumer.

⁴ For example, for every 10 tonnes by which an obligated energy company undershoots their 2015 target, their individual 2017 target would be increased by 11 tonnes.

We discuss these proposals later in this consultation.

Question 4

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

Carry Forward of Excess Actions from 2015

To ensure a consistent delivery profile across the obligation period from 2013 to 2017, Government invites views from stakeholders on whether obligated energy suppliers should be permitted to carry forward a certain proportion of over delivery against their March 2015 targets to count towards their March 2017 targets.⁵

Given the proposed operational changes to CERO, CSCO and Affordable Warmth (discussed further into the consultation) a question arises around whether excess activity should be judged in relation to current rules in terms of qualifying measures, or the new rules proposed for the 2015-17 period. In order to ensure the scheme continues to meet the policy objectives set, we propose only to allow excess activity to the 2015 targets to be carried forward to the 2017 target if it meets the proposed rule changes for the 2015-17 period. Therefore, to be counted as excess activity measures will need to comply with the new rules on eligibility of measures for the 2015-17 period.

Whilst this may reduce the level of excess activity under each of the sub obligations prior to new legislation being implemented, we do not wish to compromise the benefit of future scheme changes as a result of excessive early delivery.

Government welcomes feedback (and evidence where appropriate) on how an appropriate proportion of carry forward should be determined and then implemented i.e. the amount that can be carried forward would be capped. Government also invites views on how such a cap mechanism could work alongside the proposed SWI minimum threshold, and potential implications for each of the sub obligations.

Question 5

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?

Question 6

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?

⁵ There will continue to be an enforceable target reporting deadline for obligated energy suppliers to meet their 2015 AW and CSCO targets.

Question 7

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?

Transfer of Obligation Activity

Companies are currently able to buy and sell compliance between themselves. For example, an obligated company which is confident of overachieving against its target can sell that excess activity to another obligated company at a mutually agreed price. There are currently certain constraints and protections in the rules relating to these transfers, for example, the requirement for Ofgem approval.

The Government believes that the ability to trade activity in this way is a useful one which can help ensure that the overall obligation is delivered as cost-effectively as possible across the community of obligated companies taken as a whole. The Government therefore welcome views on whether the rules relating to transfers can be simplified or improved.

Question 8

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

The Energy Company Obligation to 2017

Government recognises that certainty is an important driver of investment in the energy efficiency market. We therefore propose to set new targets for each of the ECO sub obligations based on an equivalent level of ambition to the 2015 targets, including the proposed 2015 CERO target, and to be met in the period from April 2015 to March 2017.

Question 9

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

There are a number of approaches that can be taken to calculating the individual sub targets for 2017, as discussed in the 'The Future of the Energy Company Obligation: Assessment of Impacts'. In high level detail, the approach we propose to take for modelling the individual CERO, CSCO and Affordable Warmth sub targets is as follows:

- CERO: the proposed CERO target (with the 33 per cent reduction) to March 2015 should 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 should 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: we propose that the notional bill savings target for Affordable Warmth between April 2015 and March 2017 should 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 would 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 £3.8 billion of lifetime notional bill savings.

Government is minded to set the CERO, CSCO and Affordable Warmth targets for 2017 on the proposed approach outlined above. We invite views on whether other approaches should be taken to set the 2017 targets, and the justification for doing so. Please refer to the accompanying Assessment of Impacts for further detail on how the cost of these targets, and the costs associated with proposed changes to the policy, have been estimated.

The proposed changes and modelling approach detailed in the accompanying Assessment of Impacts relate to the ECO period through to March 31 2017. Upon introducing the original phase of ECO from 1 January 2013, the Government made clear that it expected ECO and the Green Deal to be long-term, ambitious programmes. Government does not propose to set specific targets post 2017 as part of this consultation. Any future targets would be consulted on separately at an appropriate time in the future.

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.

Question 11

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

Question 12

Do you agree that the 2017 CSCO target should be set at 6MtCO₂?

Question 13

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

3. Incentive Schemes and Mitigating Proposed Reductions to Carbon Savings

The Government has announced a package of new incentives to support take up of energy efficiency measures for households and the public sector worth £540 million over three years. This includes:

- A package worth £450m for schemes to incentivise home buyers to install important energy measures and to support private landlords in improving the energy efficiency of their properties.
- £90 million over three years will be spent improving the energy efficiency of schools, hospitals and other public sector buildings.

It is Government's intention to ensure that the reduced carbon savings under the proposed changes to ECO will be mitigated by new schemes to boost energy efficiency savings, including schemes for home-buyers, landlords and the public sector⁶.

Government wishes to avoid instances where measures installed under these incentive schemes are also counted on a carbon basis towards meeting ECO targets. To ensure these incentive schemes mitigate any carbon reduction from the proposed changes to ECO, Government are minded to ensure that all measures installed under ECO are not also funded through the proposed incentive packages highlighted above. Government invites views from stakeholders around how this 'additionality' can be ensured.

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?

⁶ DECC press notice 2 December: <https://www.gov.uk/government/news/govt-action-to-help-hardworking-people-with-energy-bills>

4. Carbon Emissions Reduction Obligation

Monitoring information and other evidence gathered since January 2013 suggests that the low level of advancement towards the CERO target is in large part due to distinct cost pressures existing under the current CERO target. For example delivery of Solid Wall Insulation is influenced by weather variations to a greater degree than delivery of other energy efficiency measures and this, along with the long lead in times for delivery of SWI projects, creates a degree of risk for energy suppliers which is quite distinct when compared to other elements of ECO. Therefore, Government proposes to change the measures which are eligible under CERO in conjunction with the proposed changes to the 2015 CERO target.

Loft insulation and easy to treat cavities as primary measures

Evidence suggests that as a result of activity under previous supplier obligations, opportunities for the delivery of standard insulation measures – such as lofts and easy to treat cavities – have reduced considerably in recent years. This is particularly true for ‘virgin’ lofts (those which contain no insulation at all).

The current CERO has therefore focused on harder to treat and more expensive measures such as SWI, as this is where the greatest potential now lies for improving the energy efficiency of the GB housing stock. In designing the current CERO, integration of ECO and Green Deal funding schemes was considered most likely to take place when these more expensive measures were delivered as part of a package, and that a sub obligation which focused on these measures was most likely to support the emerging Green Deal finance market. In practice, the evidence on blending of finance is equivocal. Both obligated energy suppliers and the supply chain have not prioritised blending of Green Deal finance and ECO funding as a means of reducing the costs of delivering ECO, and have instead preferred to opt for the simpler approach of seeking full subsidisation for the cost of these measures.

There has been a handful of instances where blended finance has been used in the delivery of some SWI installations, but this is not yet commonplace. Where integration or ‘blending’ has happened, it appears to be on the basis of packages of measures which can include lower cost standard insulation, suggesting that a focus on SWI may not be the only route to blended finance (covered in Section 8). The Government has also heard suggestions from across the stakeholder community that considerable opportunities for standard insulation remain, and we welcome stakeholder feedback on this point.

Crucially it is clear that standard insulation opportunities can, at the moment, deliver carbon savings at lower cost per tonne in ECO subsidy than harder to treat measures. In the context of immediate concerns about the overall costs of ECO and its impact upon consumer bills, it is more difficult to justify a policy which excludes these measures. The Government therefore proposes that loft insulation (including both virgin and top-up loft insulation) and standard cavity wall insulation measures installed from April 2014 should be eligible as primary measures under CERO. Therefore, the current differentiation between hard-to-treat and standard cavities would be removed, with all forms of cavity wall potentially eligible for treatment under CERO

We would propose that the eligibility rules, as set out under the current legislation, on measures under CERO would continue to apply to the new primary measures. So to qualify under CERO loft and cavity wall insulation will have to:

- a. be a recommended measure;
- b. improve the insulation properties of the premises; and
- c. comply with PAS 2030.

For loft insulation as a new primary measure Government recognise that a de-minimis level for the depth and area of the insulation is appropriate to ensure optimal treatment prior to triggering secondary measures. We therefore propose that to support the 'secondary measure' status of another measure loft insulation must be:

- a. installed in lofts which currently have less than or equal to 150mm of insulation (to a level of at least 250mm of insulation); and
- b. installed to at least 50 per cent of the total area of the loft.

For cavity wall insulation as a new primary measure we propose that a de-minimis level for the area of the insulation is appropriate prior to triggering secondary measures. We therefore propose that to support the 'secondary measure' status of another measure cavity wall insulation must be installed to at least 50 per cent of the total exterior-facing walls of the premises.

Secondary measures will be required to be installed within six months of loft or cavity wall insulation treatment to be eligible.

Until any changes come into force, Ofgem will continue to administer ECO in accordance with the current ECO Order. We propose that, if this proposal is implemented, those easy to treat cavities, loft insulation and district heating measures installed during the period between 1 April 2014 to the point when proposed legislation is implemented, could be reported to Ofgem within one month of the change in legislation coming into force; we will include provisions within the amended legislation in order to facilitate this.

Question 15

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?

Question 16

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

We recognise the need to provide industry with clarity on the delivery requirements of meeting their 2015 targets, and we are therefore not proposing limitations on where easy to treat cavity or loft insulation measures can be delivered under the 2015 CERO target.

However, there remains a legitimate question around whether less costly measures should be delivered to 'able to pay' households, or if they should be directed towards vulnerable and low income households for whom the cost of the measure is a significant barrier. The Green Deal is designed to ensure Government energy efficiency policy moves away from full subsidisation, and towards a model whereby households who are 'able to pay' do so. It is therefore follows that Government should ensure that cheaper measures are provided only to those households that are unable to pay for them themselves. We are therefore considering ways to ensure low income households benefit from at least a proportion of measures delivered towards the 2017 CERO target. We invite stakeholder views on this point.

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.

Carbon savings associated with different depths of insulation may create scope for misunderstandings and, at the limit, incentive for unscrupulous operators to game the system. Some problems of this nature were encountered under CERT. The Government takes the risk of fraud very seriously, and is keen to ensure that procedures are in place to minimise these risks without imposing unnecessary cost burdens. As a minimum, it is therefore proposed that a high standard of checks for loft insulation will be maintained, with current loft insulation requirements maintained for measures installed after 1 April 2014.

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

The Government has considered whether other measures should also become newly eligible as primary CERO measures. Responses to a recently concluded consultation on ECO technical changes suggested that there was some appetite for an enhanced role for heat networks (district heating systems) under ECO. However, it was also recognised that in the context of a two year ECO from 2013 to 2015, such schemes were unlikely to make a material contribution to compliance given their long lead-in times. With targets now proposed to be set to 2017, there may be greater opportunities for heat network schemes which would align with DECC's Heat Strategy and potentially open up new avenues to support heat network development.

Currently under CERO, connections to a heat network (i.e. a District Heating System as defined under the ECO Order) only qualify as a secondary measure, meaning that, to be eligible, one of the primary ECO measures must be installed as well as a connection to a networked heating scheme. This can act as a barrier to increasing uptake of heat networks in some projects. The Government therefore proposes that allowing connections to heat networks installed from 1 April 2014 qualify as a primary measure under CERO. This amendment should encourage the delivery of heat networks under CERO. District heating projects would, however, still need to be delivered before the end of March 2015, in order to qualify for the 2015 target and before the end of March 2017 in order to qualify for the 2017 target.

In line with the current rules of CSCO, which are designed to ensure that the benefits of such schemes are maximised by ensuring that homes to which they are delivered have a certain minimum level of insulation, we propose to provide that a connection to a heat network, under the CERO obligation, can only be made to premises which have loft or wall insulation. Until any changes come into force, Ofgem will continue to administer ECO in accordance with the current ECO Order.

We do not propose to set a de minimis level for district heating connections to support secondary measures. Furthermore, secondary measures installed with a district heating connection can be installed at any point during the obligation period.

Where a heat network scheme is installed as a primary measures under CERO it does not need to be a recommended measure. This is consistent with current requirements for District Heating System measures in ECO.

Networked heating schemes take various forms, often bespoke to the particular situation where they are installed, making the scoring of such schemes more complex than for other measures, and therefore the opportunities for such schemes under ECO are also less easy to understand. The Government is therefore keen to seek views to better understand the issues around the roll-out of district heating networks in more depth.

Annex B sets out these wider issues and asks a series of more detailed questions.

Question 18

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

5. Carbon Saving Community Obligation

The Carbon Saving Community Obligation is intended to deliver energy efficiency improvements to households located in low income communities. Progress towards meeting the 2015 obligation has been relatively slow, with only 24 per cent⁷ of the obligation met based on measures notified by energy suppliers to Ofgem by November 2013 and approved by Ofgem by December 2013. Feedback received as part of on-going monitoring of the scheme suggests that the cost of identifying and targeting delivery at eligible households has proved challenging for obligated energy suppliers, particularly in rural areas. This appears to be due to the success of previous Government energy efficiency schemes that have targeted delivery of energy efficiency measures to households in low income areas – particularly CESP.

In recognition of the diminishing opportunities available for installation of energy efficiency measures in these particular areas, and to ensure we continue to cut the costs of delivering the ECO scheme, the Government proposes to increase the number of areas that qualify for CSCO (referred to as “areas of low income” in the ECO Order) from the lowest 15 per cent to the lowest 25 per cent of low income areas⁸. The Government proposes that this change should apply in respect of measures installed from 1 April 2014 to March 2017. This would ensure the scheme is easier and less costly to deliver, and enable a larger pool of households to benefit from energy efficiency improvements in economically deprived areas. Until any changes come into force, Ofgem will continue to administer ECO in accordance with the current ECO Order.

The approach⁹ to defining an eligible area would continue to be determined using the Index of Multiple Deprivation (IMD), and continue to be applied, to all households within an eligible area, regardless of tenure in England, Wales, and Scotland. Please refer to Annex C for a published list of eligible areas in England, Scotland, and Wales.

The CSCO Rural Sub Target

The current CSCO rural sub target currently requires obligated suppliers to deliver 15 per cent of their CSCO obligation to Affordable Warmth Group households in rural areas¹⁰. We do not propose to change the level of this target, but in line with the rationale provided above, we propose to extend and simplify eligibility requirements for the CSCO rural sub target by allowing suppliers to deliver against this sub-target to any domestic property located in the 25% lowest income of rural areas, as well as to households living in rural areas that are in the Affordable

⁷ Ofgem, Energy Companies Obligation (ECO) Compliance Update, January 2014: <https://www.ofgem.gov.uk/ofgem-publications/85595/energycompaniesobligationecocomplianceupdateandquarterlyannex-january2014.pdf>

⁸ Based on the Index of Multiple Deprivation.

⁹ Energy Company Obligation, Carbon Saving Community Obligation: Rural and Low Income Areas.

¹⁰ This is defined as a household in a rural settlement of 10,000 or less and in receipt of an Affordable Warmth group qualifying benefit/tax credit.

Warmth Group. These changes are proposed to apply in respect of measures installed from 1 April 2014.

Eligibility across CSCO

CSCO eligibility in England and Wales would continue to be defined on the basis of the 2001 Census Lower Super Output Areas (LSOAs) and applying the Index of Multiple Deprivation (IMD) as a tool to indicate fuel poverty levels within the LSOA. Similarly, eligible areas in Scotland would continue to be defined using the Scottish Index of Multiple Deprivation (SIMD) at Data Zone Level. Domestic properties located in an LSOA/Data Zone that falls within the bottom 25 per cent by Income Domain of the IMD would be classified as living in an eligible CSCO area. For the rural sub target, obligated suppliers would still be required to deliver 15 per cent of the sub obligation to domestic properties which are located in a rural area. Assessment of whether a particular area is a 'rural area' would be based on whether an area has 10,000 people or less. To identify CSCO rural areas, we propose to rank all rural LSOAs separately, by Income Domain, and classify the bottom 25 per cent of the rural LSOA's as eligible for the rural CSCO (as well as households with a member of the AWG in any rural area being eligible, as is currently the case).

Adjoining Areas

The principle behind adjoining areas is to ensure that households marginally outside the boundary of the eligible area are still able to benefit from CSCO funding, where, for example, a street of houses is located partly within an eligible CSCO area and partly outside it. The policy on adjoining areas will not change i.e. measures can continue to be installed in areas that adjoin specified areas of low income. This would also apply to the proposed extended areas of low income.

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?

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.

6. Affordable Warmth

Rising energy prices, and poor energy efficiency are key drivers of fuel poverty, both under a 10 per cent and a 'Low Income High Costs' (LIHC) indicator. Affordable Warmth's primary aim is to reduce bills and increase comfort for low income and vulnerable households on a long term, sustainable basis; thus reducing the risk of those households being in fuel poverty or severe fuel poverty. Government is committed to maintaining this support, and therefore propose that there should be no change to the 2015 target for Affordable Warmth. Furthermore, it is the intention that the target proposed for 2017 will not compromise the level of resources being directed to low income and vulnerable households.

We are using this consultation as an opportunity to examine specific operational issues in Affordable Warmth, and to improve both the reach of the scheme and the experience of households receiving support. The proposals presented below would only apply in relation to the 2015-2017 obligation period.

Incentivising delivery to non-gas fuelled homes

Affordable Warmth was designed to be of benefit to a wide range of households, including those who do not use natural gas as their main fuel (hereafter "non-gas fuelled households", which includes homes who use liquid petroleum gas (LPG) and those in tower blocks who use electricity as their main fuel type but do technically have access to the gas grid). However, delivery data shows that fewer than two per cent of measures had been delivered to such homes by the end of September 2013¹¹.

This is a concern as non-gas fuelled households often pay more for fuel, and have been shown to bear a greater proportion of policy costs that affect energy bills. In addition analysis using the LIHC indicator, now used as the measure of fuel poverty in England, clearly shows households using fuels other than natural gas are more likely to be in fuel poverty (under the LIHC definition) compared to gas fuelled households. As the latest fuel poverty statistics shows, these households are disproportionately represented in the LIHC fuel poor population (compared to their proportion in the overall housing stock), and face deeper levels of fuel poverty compared to other fuel poor households – they are therefore more likely to be living in the coldest homes and facing the largest bills. Providing more support for low income non-gas fuelled households is a key priority for Government.

It is clearly important to assess the reasons why few non-gas fuelled homes have received support to date. We have identified scoring rules used for the replacement of a "qualifying boiler", as one of the main reasons for the current skew of delivery. These assume that when a boiler (of any type) is broken or not functioning efficiently, and cannot be economically repaired, the household is using an electric room heater to heat their home throughout the lifetime of a

¹¹ Green Deal, ECO and Insulation Levels in Great Britain, Quarterly report: to September 2013:
<https://www.gov.uk/government/publications/green-deal-energy-company-obligation-eco-and-insulation-levels-in-great-britain-quarterly-report-to-september-2013>

new boiler – 12 years. Therefore the notional bill savings that result from replacing a “qualifying boiler” with a gas fuelled boiler are particularly large. This is because there are savings achieved not only from installing a more efficient heating system, but also from the assumption that households are switching from electricity (an expensive fuel type) to natural gas (the cheapest fuel type).

This scoring rule was adopted because we use the Standard Assessment Procedure (SAP) to measure the level of notional lifetime bill savings from installing measures. SAP does not have a means of calculating the heating bill of a household when a boiler is broken or not functioning efficiently and cannot be economically repaired. Therefore an assumption is required about what technology households use to heat their homes in this scenario. While it was recognised that this assumption would incentivise the delivery of heating measures, it was not intended to incentivise delivery more or less exclusively to gas fuelled households.

There is a range of different ways by which we could make changes to Affordable Warmth to increase its delivery to non-gas fuelled households; here we set out a proposed approach, but we also welcome views on other options.

Allowing a scoring uplift for non-gas fuelled households

We propose that an uplift should be applied to the Affordable Warmth score – to the notional lifetime bill savings – for measures delivered to non-gas fuelled households. We are proposing different levels of uplift, based on market data about delivery costs. The levels proposed seek to align these measures with the cost of ECO compliance; making them cost effective.

Specifically we propose an uplift of five per cent for insulation measures, five per cent for electric room heaters and 100 per cent for all other non-natural gas fuelled heating measures; this would apply irrespective of whether the property is in an area served by the natural gas grid, but without a connection, for example electrically heated homes in urban areas. These uplifts would work in conjunction with the other proposals set out in this document for Affordable Warmth including, as discussed below, allowing broken electric storage heaters to count as a “qualifying boiler”.

This uplift approach would have the advantage of increasing the range of measures that suppliers can deliver cost-effectively through ECO; it would affect the supply curve under Affordable Warmth, giving suppliers more flexibility on how they meet their obligation through cost effective means whilst incentivising delivery to households in the deepest fuel poverty, as measured under the LIHC indicator. Moreover, this is likely to benefit those in rural areas given a high proportion of rural households are non-gas fuelled and thus would be eligible from this uplift. The Assessment of Impacts sets out the expected impact of these uplifts; including the effect that wider availability of cost effective measures is expected to have in increasing notional bill savings from £350m per annum ECO investment. This would be reflected in a higher target for Affordable Warmth. Full details are in Section 6 of the Assessment of Impacts.

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.

Other ways to incentivise delivery to non-gas fuelled households

There are other ways we could change Affordable Warmth to incentivise increased delivery to non-gas fuelled households, and we are interested in views on these:

- a. To require suppliers to achieve a specified minimum proportion of their Affordable Warmth target by measures in non-gas fuelled households. This would give greater certainty of delivery to this target group. However it would also lead to an escalation in the cost of Affordable Warmth delivery under the current rules. For this reason, we are not currently minded to adopt this approach.
- b. To change the baseline heating technology used to score the replacement of qualifying boilers. This would address one of the main drivers of gas focused delivery caused by the current baseline heating technology rules described above. To reduce the skew towards gas we could adopt an alternative baseline heating technology, more closely related to the household in question:
 - i. A room heater which is the same fuel source as the household's current main fuel source. For example, if it is a gas household, then the baseline heating technology would be a gas room heater; or
 - ii. To use a specified inefficient boiler of the same fuel type as the household's current main fuel source. This would act as a proxy for the intermittent performance of a broken boiler (for example, in comparison to a highly inefficient back boiler to radiator system).

Both b (i) and b (ii) above would lead to a high estimated notional energy bill for the household before any measure is introduced. Replacement of these "qualifying boilers" would still lead to notional bill savings, and as result delivery would be incentivised. However these savings would be limited to those realised from installation of a new, more efficient boiler, and not the savings realised from switching fuel types, which are falsely inflated. This would limit the incentive to deliver to gas fuelled households – where the highest notional bill savings are generated because of the extra savings derived from being seen to switch to gas from a less efficient fuel source.

Whilst recognising the benefits of b (i) and b (ii), these are not our preferred options for a number of reasons. First, they are more likely than the uplift approach to introduce different unintended incentives for the supply chain. Second, they do not necessarily describe the coping mechanisms used by households when their boiler is broken more robustly than the current assumption of an electric room heater. Finally, such a change would be likely to create significant frictional costs from suppliers needing to change their reporting systems.

In addition, we believe that the introduction of either of these options would have an impact on delivery costs that would need to be reflected appropriately in the Affordable Warmth target, to

ensure the savings target remained commensurate with estimate total policy costs of £350m per year in 2011 prices. We welcome views on our assessment of these options.

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”.

Defining electric storage heaters as a “qualifying boiler”

We propose to change the rules so that the repair or replacement of a broken or not functioning efficiently electric storage heater is subject to the same scoring mechanism as the repair or replacement of current “qualifying boilers”. This is because the baseline heating technology used for a new electric storage heater (running on economy 7 prices) would change from the current scenario, where the electric storage heaters are assumed to be still working, to one where electric room heaters are assumed to be used (running on standard electricity tariffs and thus leading to a higher notional energy bill). This change would cause the assumed heating bills of the household to be far higher when an electric storage heater is broken compared to what the current set of rules depict. Consequently the savings achieved from replacing a broken or not functioning efficiently electric storage heater is increased following this change.

However, electric storage heaters are designed to only heat one room therefore it is likely these measures will need to be defined separately to “qualifying boilers” which are relevant to broken boilers designed to heat the whole house. Nevertheless any proposed change is minded to create the same baseline heating technology as used for “qualifying boilers”, leading to an increase in the score achieved from the repair or replacement of broken electric storage heaters.

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?

Whole house approach to delivery

Affordable Warmth was intended to deliver packages of insulation and heating measures where the opportunities existed to do so in one household. It was our understanding that this would be a cost effective approach to delivery. However delivery to date suggests that such packages are not being delivered. For example, the provisional number of measures delivered through Affordable Warmth up to the end of December was 239,456, while 202,348 individual properties were assisted¹²; though we are aware that some insulation measures could be counted towards different ECO sub-obligations.

¹² DECC Green Deal and ECO monthly statistics, February 2014: <https://www.gov.uk/government/publications/green-deal-and-energy-company-obligation-eco-monthly-statistics-february-2014>

We continue to believe that packages of measures would be desirable to maximise the benefits across ECO by reducing energy bills and carbon emissions where possible. Therefore we are keen to understand patterns of delivery better, including why packages might not be favoured. At the same time we would like to consider whether policy changes to incentivise or, where applicable, require packages of measures would be justified. As part of this we invite views on the impact such a change may have on the costs of delivering both Affordable Warmth and ECO as a whole.

For the following questions please provide supporting evidence for your views based on delivery to date where possible.

Question 24

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

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?

7. Solid Wall Insulation Minimum Threshold

Taken together, the proposals are likely to see a greater focus on cheaper, easier measures and a correspondingly diminished role for Solid Wall Insulation in ECO delivery. However, the Government is clear that SWI represents a major challenge for the nation's housing stock, with nearly eight million households of solid wall construction, of which only 3% per cent have wall insulation¹³. While these properties are currently less cost-effective to treat than the remaining standard insulation opportunities, it is clear that they must be tackled at some point, and that the development and maintenance of a skilled and experienced supply chain is crucial to achieving this objective. In particular, the ECO scheme has enabled investment to take place in the supply chain, and we recognise that this investment needs to be protected as far as possible if SWI is to be delivered at scale. The Government is therefore keen to ensure that a certain minimum level of activity continues over the ECO period. This objective is aligned with the Government's commitment, outlined in the Carbon Plan, to increase the level of solid wall insulation by 2050

To ensure that the above objectives are met, the Government therefore proposes to set a specific sub target for the delivery of insulation to solid walled properties in the period 2013 to 2017¹⁴. It is proposed that this minimum target should be set as the treatment of the equivalent of 100,000 solid walled properties by March 2017. This would apply across both carbon elements of ECO from the start of the scheme, and for all obligated energy companies collectively. It is also important to note that the proposal would not permit measures that are carried forward from CERT and CESP to be counted towards the proposed minimum threshold.

We propose to set the minimum threshold as, either:

- a ring-fenced carbon target equivalent to 100,000 properties installed with SWI, Modelling undertaken suggests a carbon target of approximately 4 MtCO₂ lifetime savings; or
- as a requirement to treat the specified number of solid walled properties with SWI,

Of course, this figure would not be a limit. Where cost effective opportunities for SWI present themselves beyond this level, installations could continue to be counted towards the relevant ECO targets. This minimum floor should provide an appropriate degree of certainty and predictability to the supply chain for investment purposes. The level of 100,000 over four years is considerably in excess of the average rate of installation prior to the peak CESP year of 2012, and slightly consistent with observed delivery rates for 2013.

Government do not propose to make any changes to how SWI measures are scored under ECO, but believe there is a case for specifying in legislation the expected lifetime of SWI measures. This would provide certainty for the volume of work to be delivered, ensure that the

¹³ Green Deal, ECO and Insulation Levels in Great Britain, Quarterly report: to September 2013:

<https://www.gov.uk/government/publications/green-deal-energy-company-obligation-eco-and-insulation-levels-in-great-britain-quarterly-report-to-september-2013>

¹⁴ Measures installed from October 2012 and funded under ECO.

target is delivered as expected and that the SWI supply chain is able to invest with confidence. We propose to set the SWI lifetime as a maximum of 36 years where these measures are accompanied by an appropriate guarantee, as defined by the ECO Administrator.

We recognise there may also be a case for specifying expected lifetimes in legislation for other measures, and we invite views and evidence from stakeholders on whether this is appropriate, and for what measures this may be appropriate for.

We envisage that the proposed minimum threshold would be apportioned across obligated energy suppliers according to market share. We welcome stakeholder views on how best this can be achieved, and whether this should be a phased approach - to ensure that individual obligations recognise new entrants and changing market shares.

To ensure the minimum threshold delivers a certain level of insulation to solid walled properties, Government is minded not to permit secondary measures installed alongside SWI to be counted towards the proposed SWI minimum threshold. However, Government invites views from stakeholders on the practical implications of this proposal, including for instance, how this proposal can be implemented to ensure SWI and secondary measures are able to be traded on the brokerage platform.

Park Homes

Park homes are eligible for support under ECO and this will continue to be the case. Government will consider as part of this consultation whether the Minimum Threshold should include SWI installations to Park Homes. Previously, park homes were not able to access Green Deal finance because an Energy Performance Certificate (EPC) (which forms part of a Green Deal Advice Report (GDAR)) could not be generated for these properties using Reduced data Standard Assessment Procedure (RdSAP) software. Due to a recent update it is now possible to create an EPC for a park home, which removes one of the key barriers for park homes to access Green Deal finance. However, such homes will still require a direct connection to a licensed energy supplier to access Green Deal finance. Government recognises that some park home residents face particular difficulties in keeping their homes warm and making them more energy efficient, and we will keep the need for further policy interventions under review.

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?

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?

Question 28

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

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?

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?

8. Blended ECO and Green Deal Finance

It remains a key priority for the Government that ECO and the Green Deal work effectively together to help maximise the delivery of energy efficiency improvements at least cost to bill payers. The blending of finance from ECO, the Green Deal and other sources delivers a range of benefits in terms of allowing households to access measures they could not otherwise afford, so that subsidy is targeted at where it is needed most and in so doing and the cost that energy consumers are expected to bear through their energy bills is kept as low as possible.

To date, we have not seen the levels of blending we expected and which we would wish to see, therefore, we have been working with industry to understand why this has been the case and to identify what Government can do to encourage the uptake of blending. Based on these discussions we are undertaking a number of important initiatives to drive the provision of blended finance, these include:

- the setting of a solid wall minimum, as discussed in section 7 of this document;
- increasing the amount of Cash back for SWI;
- streamlining the Green Deal to make it a more attractive proposition to both suppliers and householders; and
- agreeing with suppliers a voluntary commitment to deliver 1000 Green Deal plans a week.

We also retain the option of taking legislative action to help make blending happen – specific statutory options include:

- a. **Legislating to require blending** - this would involve requiring suppliers to deliver a proportion of their obligation using measures including an element of Green Deal finance and/or of alternative finance sources. What proportion of suppliers obligation might be required to be delivered by blending is something that would need to be consulted on, however, if Government chose to do this, we would intend the requirement to be significant and to drive as an absolute minimum the equivalent of the 1000 plans a week we are seeking suppliers to voluntarily to commits to.
- b. As an alternative less onerous approach would be to **legislate to provide a bonus** (i.e. a scoring uplift) for those who blend - this would involve providing an enhanced score for measures delivered using blended finance – thereby incentivising but not requiring the delivery of measures supported by blended finance.

The Government believe that it is fundamental to the successful delivery of the Green Deal and ECO that there is widespread availability and take up of blended finance plans. We are hopeful that the package of measures already put in place will help lead to the creation of a blended finance market at scale without the need for further legislative action. However, we will be closely monitoring how the Green Deal and ECO are working together, and in particular how the

supplier are delivering on their voluntary commitment; and legislative action remains an open option if the market does develop as we expect.

Should we decide on the need to take legislative action to ensure that blending does take place at the scale needed, we are currently of the view that the most optimal and feasible option would be to provide scoring uplifts for using blended finance. This approach is attractive, as it continues to provide companies with flexibility to deliver their obligations as cost effectively as possible, whilst providing a clear incentive to deliver blended finance. In the event we decide there is a need to legislate we would though conduct further analysis and hold further discussions with stakeholders before proposing any changes to the scoring arrangements.

We welcome feedback from stakeholders on the proposals set out above and how else we might best encourage the uptake of blended finance, particularly including views on the scope for legislation to drive the market for blended finance, and what form any such legislation might take.

Question 31

Were we to take legislative action, 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?

Question 32

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

The role of customer contributions in Affordable Warmth

Affordable Warmth was developed to reflect a commitment to provide heating and insulation for low income and vulnerable households who could not otherwise afford the measures, even as other elements of ECO and the Green Deal seek to move the market towards a blend of subsidy and private finance for those households in a position to contribute to costs. However, there is no legal requirement to offer the measures at no cost to the household. Delivery evidence indicates that some customers are being asked to provide varying contributions towards the cost of measures. We are keen to better understand the drivers of this practice, and what impact it may be having on the market price for Affordable Warmth.

On the one hand, we would welcome an increase in the use of blended finance by members of the Affordable Warmth Group, as it suggests that the delivery of such finance is evolving in a way that allows some low income households to participate where they are able to do so, so that full subsidy goes to those who need it the most; this goes with the grain of Government policy. However there are grounds for caution. It is possible that an increased expectation of customer contributions may lead to a drop in the market price for Affordable Warmth such that all measures require a top up in the form of a customer contribution or other source of finance, in order make them competitive and economically viable. This could prevent the poorest

households – those unable to contribute or secure private finance – from being able to access support through Affordable Warmth.

Government is seeking views on the role of customer contributions in Affordable Warmth, with supporting evidence from delivery to date where possible. We would like to know:

- How are customer contributions handled – are they being sought towards the costs of measures, as a nominal administration fee, or both? Are customers made aware of any contribution required before the installation of measures?
- In what circumstances are contributions requested – are particular measures, and/or particular households, more likely to require a contribution?
- How is the level of contribution calculated – is ability to pay taken into consideration? If so, how?; and
- The impact on price setting – is any contribution calculated once the price has been set, or calculated at the start of the process?

We are also aware that a number of organisations are successfully leveraging in other forms of finance to sit alongside ECO funding. We are keen to know more about these approaches, to understand better what other types of finance are being leveraged to enable the installation of Affordable Warmth measures, and under what circumstances and on what scale.

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.

Question 34

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

9. Recognising Company Performance

The Levelisation Mechanism

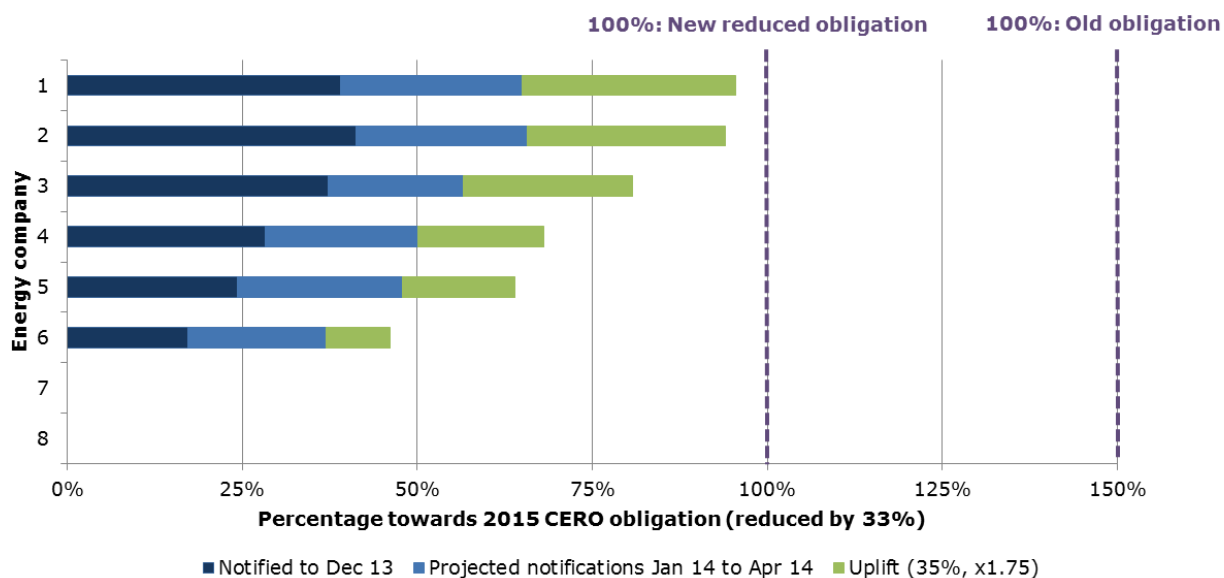
The proposals above are intended to ensure cost savings for obligated energy companies across the board. However, as has been noted, different energy companies have progressed towards the current 2015 targets at varying paces. It is an important principle of the proposed changes that they are fair and equitable, and do not cause detriment to the competitive position of any particular company.

The principal concern relates to those energy companies who have made the most significant progress towards their current CERO target. These companies will have done this by delivering more measures earlier, and of the sort which are currently eligible – primarily hard to treat cavities and SWI (though a particular issue arises around SWI delivery discussed further below). In future, easier, cheaper measures will be eligible, and companies who have been slow to deliver against their current legal obligation may be able to deliver a greater proportion of their new overall obligation by making use of these cheaper measures – effectively rewarding slow delivery, and penalising those who made the greatest early efforts.

The Government believes more is needed to ensure that the proposed changes do not have an unfair impact on costs and the competitiveness of the market. We therefore propose to reward those companies who have delivered early by allowing them an uplift to the carbon scores for primary measures delivered early, reflecting that those measures will generally have been more expensive. This does not include excess actions carried forward from predecessor schemes or the carbon from secondary measures associated with the primary measure. The Government announced in December that the levelisation uplift was likely to be between 1.75 and 2 times the original carbon score. The current pricing evidence suggests that hard to treat measures have an average cost of around £100 per tonne (based on brokerage and company reported information for CERO) and standard insulation measures (the principle measures delivered under CSCO) have been around £60 per tonne. On this basis, an uplift of around 1.75 times to the score of a hard to treat measure should bring it in line with the cost effectiveness of a standard measure.

It would not be appropriate to reward *all* of a company's early activity in this way - all companies will and should have made some progress. The Government's proposal is therefore to establish a cut-off for installations completed by 31 March 2014. This is intended to broadly reflect actual delivery plus firm contracts entered into by the time of announcements made in December 2013; and aligns with the proposal that easy to treat measures should be recognised from 1 April 2014. The December announcement suggested the threshold would be progress of between 25 per cent and 35 per cent towards a company's Phase 1 and 2 targets. In the light of the current delivery evidence, the Government's proposal for consultation is that companies who by the end of March 2014 have delivered primary measures which account to more than 35 per cent of Phase 1 and 2 of their current CERO obligation would have an uplift of 1.75 applied to the primary measures above that 35 per cent threshold which are installed by the end of March 2014.

Chart 2: Impact of proposed uplift on individual companies' progress to the 2015 CERO obligation¹⁵



Source: Ofgem

The rationale behind the levelisation mechanism predicates that the threshold should be set at the lowest end of the leading performers. As demonstrated by the significant proportions of uplift in the graph above, it may be appropriate for Government to consider a higher threshold than 35 per cent on which to apply the uplift of 1.75. Government invites views on this, and we will consider these in light of the latest delivery evidence that becomes available.

Government wishes to avoid creating incentives for parties to game the levelisation uplift, while still maintaining the flexibility to move measures across licences and obligations. It is therefore our intention that:

- The uplift would apply at a group company level rather than at an individual licence level. Where suppliers are part of a group, the uplift would only be applicable if the group as a whole exceeded the 35 per cent threshold. This would avoid the incentive to move all CERO measures onto the licence with the smallest number of customers as a means of maximising the levelisation uplift.

¹⁵ Please note:

- This graph does not include carryover from CERT and CESP.
- The uplift applies to primary measures only and was calculated taking into account primary measures only.
- Projected notifications are based on the average of November and December notifications when energy companies had reached their expected run rates. These projections may be overestimates if the energy companies were to reduce delivery volumes as a result of the proposed changes.
- Individual Phase 3 obligations (Apr 14-Mar 15) have not yet been set. For the purposes of this graph we have assumed that Phase 3 obligations will be the same as Phase 2 (Apr 13-Mar 14).
- Companies 7 and 8 have no measures notified in CERO to date, therefore projections are not possible.
- The uplifts are calculated using progress towards Phase 1 & 2 obligations (1 January 2013-31 March 2014) but the carbon savings are presented as percentage progress towards Phase 3 obligations (1 April 2014-31 March 2015).

- Suppliers would be unable to use the transfer and re-election mechanisms in order to use savings from a single measure towards different obligations and licences at different times. For example, a supplier would not be able to notify primary measures against CERO as a means of maximising the value of the uplift in 2014 and then re-elect the same measures to CSCO or HHCRO to count towards the 2015 target.
- At the same time, suppliers would still be provided the opportunity to use these mechanisms to balance their licences and reduce the likelihood of 'stranded' carbon.

The Government may also consider alternative ways of achieving the effect of the levelisation proposal. For example, it may be preferable to alter suppliers' CERO targets in a way which achieves the same or a similar effect.

In the context of levelisation, a particular issue arises around the treatment of SWI measures under CERO. We are proposing to introduce a SWI minimum threshold which will apply from the commencement of ECO, and companies will be permitted to count SWI measures delivered under CERO against this sub-target. This gives rise to an argument for excluding SWI measures under CERO from levelisation; however, we recognise there may be cost implications on delivery in terms of setting the SWI minimum threshold to run until 2017 where the previous CERO target ran until 2015. We wish to ensure that companies who may have delivered early on SWI are not disadvantaged, and on this basis, an option we may pursue is to calculate, for each energy supplier, the delivery profile required to meet the SWI minimum threshold by 2017, and consequently the 'expected delivery profile' required by 31 March 2014 to meet this sub-target. Only primary measures delivered by 31 March 2014 above this level would then be included in the levelisation mechanism. We welcome stakeholder views on this issue.

Question 35

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?

Question 36

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?

Question 37

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?

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?

Treatment of Excess Actions from predecessor schemes

For the purpose of protecting consumer interest, Government has always intended that excess activity from predecessor schemes should be permitted to count towards ECO targets. Consumers have already paid for this carbon; therefore allowing this to count towards ECO targets ensures that energy consumers do not pay twice. For this reason, there is the facility under the Energy Company Obligation (ECO) to carry forward qualifying excess actions from Carbon Emissions Reduction Target (CERT) and Community Energy Saving Programme (CESP). Excess Actions are overachievements against energy supplier targets under CERT and CESP that are eligible for carry forward to ECO subject to them being compliant with ECO scheme rules.

However, an issue has arisen over what are effectively stranded excess actions – a number of energy suppliers wish to carry forward substantial excess actions but are currently legally unable to do so. The manner in which measures delivered under CERT and CESP are distributed across some supply licences means that these energy suppliers cannot realise the full benefit of their overachievement. These energy suppliers would be able to do so if they were able to redistribute measures among their group licensees to achieve a more even distribution across each supply licence.

We favour changing the legislation to allow carry forward of excess CERT and CESP action to count towards ECO targets because:

- a. The clear policy intent has always been to allow carry forward, and this is permitted under legislation. At the time of making the ECO Order, the Government did not foresee this situation arising, and the intention was not to prevent this type of carry forward;
- b. We have already decided, in light of our earlier consultation, to amend 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; and
- d. Consumers have already paid for these measures through their bills. This proposal ensures energy consumers do not pay twice.

The Government therefore proposes to amend the ECO legislation so that the Administrator can allow the carry forward of excess action from CERT and CESP to count towards ECO targets where it is satisfied that the action could have been allocated for the purpose of CERT and CESP in a different way between two or more licence holders, without adversely affecting the achievement by any company in the group of its CERT and CESP obligation. The Government considers that this would allow the optimal carry-over of excess actions from CERT and CESP to ECO.

Energy suppliers have already submitted applications for excess action under the provisions of the existing Order. There is a question as to whether any amendment should allow suppliers to submit new applications (that could include new or different measures to those included in the original application). On 01 June 2013 (the statutory deadline laid out in the existing Order) suppliers were unaware of the proposed changes to ECO and therefore may not have notified a sufficient volume or appropriate mix of measures. If suppliers are permitted to submit new

applications it is likely that some suppliers will be able to increase the number of measures (and the amount of savings) for carry-over to ECO. These savings would be additional to the increase resulting from the proposal laid out above (i.e. allowing a redistribution of excess action across supplier licences). We are minded to allow a new application deadline for excess actions to ensure all energy suppliers are treated equitably. If we did not allow this, some companies may still not be able to realise the full benefit of their overachievement and neither would consumers realise the benefit of the carbon saving that they have previously paid for through their energy bill.

Question 39

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

Question 40

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

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

A number of responses to the consultation on technical changes to ECO, which closed on 16 September 2014, raised a range of issues that fell outside the scope of that consultation, including the treatment of Qualifying Actions and Adjoining Installations. These issues concerned ways in which the rules for transfer (moving actions between suppliers) and re-election (moving actions between obligations), could be enhanced to provide greater flexibility, and therefore enabling obligated companies to meet their obligations more efficiently.

We believe there is merit in a number of the proposals that were raised by stakeholders and we are therefore now consulting on some of the changes suggested.

The timetable for deeming Adjoining Installations as Qualifying Measures

Suppliers are able to deliver part of their CSCO obligation through installations in “adjoining areas” (Adjoining Installations). Once the Administrator has checked these measures comply with regulations; they can be counted as qualifying actions under the Carbon Saving Community Obligation.

As Adjoining Installations can only currently be recognised as a CSCO measure after 31 March 2015, which is also the current deadline for transfers, it is therefore not possible to move Adjoining Installations around in the same way as is possible with other Qualifying Actions. We therefore propose to remove the provisions in the ECO Order that require the Administrator to approve an Adjoining Installation before it can be treated as a Qualifying Action. The Administrator would then ensure that the carbon scored accords with the requirements of the scheme, and remove any carbon at the end of the scheme which is, for instance, above the threshold for Adjoining Installations.

Clarity on the rules on transfer and re-election and alignment with Excess Actions

It has been suggested that there may be certain limitations on the extent to which Qualifying Actions can be re-elected to another obligation under the current ECO Order - for instance - where a Qualifying Action has been re-elected from one obligation to another, it is not clear that it can be re-elected back to the original obligation at a later date. Government therefore propose to amend the legislation to allow Qualifying Actions to be moved between Suppliers and obligations with the maximum flexibility and to apply the same flexibility to Excess Actions.

Extending the final date for transfers between suppliers and re-elections to a different obligation

Currently the final date by which Qualifying Actions must be notified to Ofgem at the end of the obligation period is 30 April 2015. However, the cut-off date for applications for transfers of Qualifying Actions between suppliers, and re-election of Qualifying Actions and Excess Actions to a different obligation is 31 March 2015. This clearly limits suppliers' ability to make late changes to how they balance achievement under ECO across their licences. In particular suppliers may not know until mid-April how many measures they installed in March, at which point they may wish to purchase or sell carbon based on their performance in March.

We therefore propose aligning the date for applications for transfers and re-elections with the final notification date of 30 April 2015.

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.

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?

11. The Customer Experience

Consumer Protection

When designing the ECO and the Green Deal schemes, the Government adopted slightly differing approaches to the types of consumer protections and redress which were put in place. Under the Green Deal there is a range of additional protections in place, and consumers will be able to benefit from these where there is any element of Green Deal funding involved in financing a measure or package of measures, including where this is combined with ECO funding. It was felt that the additional protections under the Green Deal were required given the long term financial commitment consumers make when they take out a Green Deal plan, in addition to the liability under a Green Deal plan which passes from an existing bill payer to the new bill payer in the event that the property is sold or tenancy changes.

There is a range of protections available to the consumers who purchase a Green Deal with ECO subsidy, these include:

- Access to the Green Deal Ombudsman if the Green Deal Provider is unable or unwilling to resolve the complaint.
- Green Deal finance is predicated on the principle that the instalments payable under a Green Deal Plan should not exceed a typical household's expected energy bill savings resulting from the improvements.
- High standards of workmanship by installers qualified to independent industry standards PAS 2030: 2014 Edition 1.
- Green Deal participants (Assessors, Installers and Green Deal Providers), and Green Deal Certification Bodies are governed by the Green Deal Code of Practice. Compliance and sanctions procedures are in place to ensure compliance happens.
- Improvements made to properties through the Green Deal Plans are covered by guarantees as set out the Green Deal Framework Regulations (Disclosure, Acknowledgment, Redress etc.) 2012 and the Green Deal Code of Practice.
- Before a Green Deal can be entered into, the appropriate consents must be obtained from relevant people. This includes consents to the measure being installed and consents to the payment instalments against the Green Deal Plan.
- The existence of a Green Deal Plan must be disclosed to a person before they buy or rent a Green deal property. The incoming bill payer has to acknowledge that he or she has been told about the Green Deal and will be responsible for the repayments and bound by certain terms of the Plan.
- Green Deal participants and Green Deal Certification Bodies can and must display the Green Deal Quality Mark.
- Protections under the consumer credit regulatory regime for regulated Green Deal Plans.

Where measures are funded under ECO without any element of Green Deal funding, these consumer protection arrangements do not apply (or do not apply in quite the same way or to the same extent). However, the ECO Order requires boiler repairs to be accompanied by a guarantee. Also, in determining the standard lifetime for certain installations (including solid wall insulation and cavity wall insulation) Ofgem takes account of the provision of an appropriate guarantee, which consequently helps determine the carbon score awarded

ECO consumers are also protected by their consumer rights. Where consumers have concerns about how they have been treated by an energy supplier or an installer, Citizens Advice can provide help and advice regarding consumer rights. They can also refer a complaint to local Trading Standards officers who will then investigate on the consumers' behalf. All work completed under ECO needs to comply with legislation, and also be installed in accordance with PAS 2030 standards (this is further described in Ofgem's guidance). If customers have concerns about whether a measure has been installed in accordance with these requirements then they can complain to the energy company that funded the measure, and if they do not receive a satisfactory response, Ofgem will follow up on the issue with the relevant supplier. It is also ultimately possible for individuals to complain to the Energy Ombudsman if they are unhappy with how they have been treated by an energy supply company.

Protection of consumers is a key concern for Government and it is clearly important that consumers have confidence that measures will be installed professionally and function as expected, and that if there are problems, they will be appropriately addressed. Conversely we recognise that increasing the level of protection may have the potential to drive up the costs of delivery, which all customers ultimately bear. There is a balance to be struck, and in achieving this, Government believes there is, for instance, an argument for requiring that measures funded under ECO are installed only by an accredited Green Deal installer.

In practice, the majority of delivery does now appear to operate to the standards established under the Green Deal, and the costs of requiring the delivery of measures by an accredited Green Deal installer are relatively minimal. This proposal would help ensure that consumers have confidence in the quality of measures being installed in their homes without Government increasing current protections unnecessarily. However, we seek stakeholders views as to whether there is an issue with the quality of work being undertaken through ECO, and if there is consequently a case for strengthening consumer protections - in particular extending any elements of the Green Deal consumer protections to ECO (including requiring work to be undertaken by Green Deal accredited installer).

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?

Ensuring quality of Affordable Warmth installations

During the first year of delivery we have heard that Affordable Warmth installations, particularly boiler replacements, are not always carried out to standards of industry best practice and that

this can result in problems for the customer – for example an inappropriate size of boiler being installed, leaking pipework, the boiler breaking down shortly after installation, or the boiler simply not working properly. If this is correct, it is particularly concerning given the vulnerable nature of the Affordable Warmth Group and the potentially dangerous ramifications of a heating system being incorrectly installed.

To guard against this, we propose that a minimum warranty be required for replacement boilers as well as boiler repairs. If this was included, the legislation could, for example, specify the minimum length of the warranty; the key types of coverage which must be included, such as parts and labour; that commissioning/installation errors would not invalidate it; and that measures must be repaired/replaced rather than compensation paid out to the consumer. Therefore, this warranty would cover the boiler itself and any issues in installation or commissioning. We welcome views on how this proposal should sit alongside our proposal earlier in this consultation document that broken or not functioning efficiently electric storage heaters should be scored on the same basis as that used for “qualifying boilers”, as we recognise that it may not be suitable for the warranty to cover all electric storage heaters in a property if only one had been repaired or replaced under Affordable Warmth.

Our understanding is that within the industry, joint warranties between manufacturers and installers which provide such a level of cover already exist and therefore could be appropriate for this purpose. Having this type of a warranty in place would help increase the consumer protection of households receiving heating measures through Affordable Warmth and incentivise all delivery to be of a suitable standard for operation. Whilst this will lead to an increase in the delivery costs of boilers, this would be offset by reducing the target for Affordable Warmth, such that all else being equal the overall costs of the scheme is estimated to be £350 million per annum (in 2011 prices).

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?

Question 45

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

Question 46

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

We are using this consultation to seek specific evidence around issues that have been raised with us anecdotally as potential areas for concern. It also allows us to examine the remedies that could be used where concerns exist. For example:

- Should additional steps be taken to ensure that replacement boilers are appropriate for the property and the existing heating and domestic hot water systems? This could

include ensuring that existing heating systems are adequately inspected and that the refurbished system is properly sized, designed and commissioned. We are concerned that this may not be happening in all cases. Heat demand and system design calculations may be one way of ensuring that an appropriate boiler system is installed; are there other ways to ensure that this happens?

- Are there other additional safeguards which would be effective and appropriate to ensure the quality of installations under Affordable Warmth? For example, should the legislation refer to particular additional industry standards over and above PAS 2030, and if so, which standards?
- What is your view on the effectiveness of Ofgem’s Boiler Assessment Checklist and whether this is a sufficient compliance mechanism to determine whether a boiler can be classed as a “qualifying boiler”? We are of course alert to the need to ensure that boilers are only replaced or repaired in appropriate circumstances, as provided for through the definition of “qualifying boiler” in the ECO Order. However, we have heard anecdotal evidence that the Checklist is not always accurately completed or that the boiler may be intentionally damaged so that it meets the criteria for a “qualifying boiler”. As well as any evidence either supporting or contradicting this, we also invite any suggested improvements to increase the strength of the checklist as a compliance tool, or any other suggestions for how Ofgem could best ensure compliance in this area.
- Is the scheme incentivising boilers to be replaced when a repair of the boiler would be more appropriate? We are concerned that delivery to date has shown very low levels of boiler repairs compared to replacements – the former has constituted only 0.2 per cent of Affordable Warmth measures notified to the ECO Administrator by the end of December 2013¹⁶, compared to 69 per cent for the latter. We would therefore like to consider whether the scheme is incentivising the most appropriate and economic solution for ensuring a household has adequate heating. The current disparity between boiler repairs and replacements could be due to the definition of a “qualifying boiler” or the guidance surrounding this, or consultees may believe there is a case for increasing or removing the cap on boiler repairs. As the policy is designed to provide low income and vulnerable households with a means of having adequate levels of heating, any change would need to be mindful of not excluding eligible households from receiving support.

For all of the following questions, please provide supporting evidence for your views based on delivery to date where possible.

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?

¹⁶ DECC Green Deal and ECO monthly statistics, February 2014: <https://www.gov.uk/government/publications/green-deal-and-energy-company-obligation-eco-monthly-statistics-february-2014>

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?

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?

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?

Question 51

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

Improving the Customer Experience across ECO

The role of Green Deal Advice Reports in ECO

It is appropriate that recommendations for energy efficiency measures under ECO are undertaken by an appropriate professional. On this basis, and to ensure appropriate alignment with the Green Deal, we wish to understand whether all recommendations across ECO policy, including those under Affordable Warmth, should be undertaken by an accredited Green Deal assessor through a full GDAR – as is becoming increasingly common for all carbon saving measures under the current ECO – and that the scoring for the measure is calculated on the basis of the SAP/RdSAP methodology. These measures should in themselves provide greater assurances around potential compliance and consumer protection issues than existed under CERT, particularly for the installation of loft insulation as a primary measure, but the Government will also consider whether other protections would be helpful, such as a lodged installation EPC. Government note that in the instance of blocks of flats the use of Chartered Surveyor reports is more common, and we would not wish to cut across legitimate instances where a Chartered Surveyor report is more appropriate than a GDAR. We therefore invite views and evidence outlining whether Chartered Surveyor reports should be permitted in these and/or other circumstances.

Whilst GDARs are increasingly widely used to identify measures that can be supported under Government energy efficiency policies, particularly for the carbon saving elements of ECO, this is not the case for Affordable Warmth for which no recommendation report is required. This was a conscious decision when the policy was initially developed as our assumption was that Affordable Warmth would not generally leverage Green Deal finance. Requiring Affordable Warmth measures to be recommended in a GDAR would support GDARs in becoming a universal gateway for household energy efficiency policies and would enable Affordable Warmth

households to access other forms of support if they wished, and would help ensure access to Green Deal finance – particularly for households whose energy costs may be high relative to their income – when they may not easily be able to access finance elsewhere.

However Government invites views on whether there may be downsides associated with requiring all measures across ECO to be recommended on the basis of a GDAR. In particular, we would like to know how such a change might impact delivery costs (and quantified where possible). In the case of Affordable Warmth, we are aware that Green Deal assessments are often carried out for free as part of a wider incentives package, but where this is a paid for service, we welcome views on where any cost would likely, or indeed, should sit. In addition, as GDARs cannot recommend boiler repairs and these are an eligible measure under Affordable Warmth, an alternative would need to be in place.

Currently all work completed under ECO needs to be PAS 2030 compliant. However, under the Green Deal, work can only be undertaken by an accredited Green Deal Installer. To drive even higher standards in ECO delivery and to better align ECO and the Green Deal, we recognise that there could be case to require all ECO work to be undertaken by an accredited Green Deal installer, whilst also maintaining the PAS 2030 requirement. Government welcome views on whether there is likely to be any benefit in adopting this approach.

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 should only be used to recommend measures in exceptional circumstances only? And if so, what should constitute an 'exceptional circumstance'?

Question 53

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

Question 54

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

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?

The Energy Savings Advice Service

Since ECO went live in January 2013, two government endorsed customer referral services – the ESAS (England and Wales) for DECC and Home Energy Scotland for the Scottish

Government – have provided obligated suppliers with access to verified leads for Affordable Warmth measures in return for a minimum package of assistance for customers using the service. Around 39,000 referrals were made to obligated suppliers across England, Wales and Scotland during 2013. While the overall scale is small, the referral system has shown that carefully designed data-sharing can facilitate effective delivery of the obligation. On this basis, Government wishes to understand further whether there is value in a similar demand aggregation service for the carbon elements of the ECO obligation – namely CSCO and CERO.

Question 56

Do you 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?

To ensure that the finite support available under Affordable Warmth is targeted at those who need it most, our eligibility criteria is limited to those low-income individuals most likely to experience negative health impacts from living in a cold home – the elderly, disabled or homes with children; and those living in private tenure (either owner occupiers or private rental accommodation) where there have been lower levels of energy efficiency investment to date. The Affordable Warmth market is incentivised to target households where they can achieve the highest amount of notional lifetime bill savings from their expenditure. In this way, the policy not only targets those on low income but also those with the highest energy bills, such as those in large houses, who are thus at highest risk of being in fuel poverty.

We intend to maintain this approach in the next period of ECO. Analysis made possible by the adoption of the LIHC indicator confirms that the concentration of fuel poverty is highest and standards of energy efficiency are lower on average in private tenure households¹⁷. As we anticipated when developing the policy, it is also the case that individuals in social tenure are benefiting from the carbon elements of ECO, with delivery statistics showing that 14.7 per cent of CERO and 8.7 per cent of CSCO reported measures had been installed in social tenure properties by the end of September 2013¹⁸.

Similarly, whilst recognising that the use of a benefits proxy as a tool for identifying fuel poor households does have limitations, and can add administrative complexity, we remain of the opinion that this proxy is the most appropriate, deliverable and easily understood approach currently available. While we do not intend to change the eligibility criteria for Affordable Warmth, Government invites views on the experience so far of confirming Affordable Warmth Group eligibility, in particular the administrative costs associated with this part of the policy.

We are working closely with the Department for Work and Pensions (DWP) and the ECO Administrator to improve access to Affordable Warmth Group benefits/tax credits data, with customer consent. We recognise the potential to improve customer experience and reduced

¹⁷ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226985/fuel_poverty_report_2013.pdf

¹⁸ Green Deal, ECO and Insulation Levels in Great Britain, Quarterly report: to September 2013: <https://www.gov.uk/government/publications/green-deal-energy-company-obligation-eco-and-insulation-levels-in-great-britain-quarterly-report-to-september-2013>

administrative burden this would bring, by enabling suppliers to confirm that an individual meets the eligibility criteria for the Affordable Warmth Group prior to installing measures and simplifying compliance by providing a unique reference number for notifying these measures to the ECO Administrator. As a result, once up and running, we believe that such a service will have a significant downward impact on delivery costs. Once the quantified impacts of this service are understood, we may consider the implications this could have on ECO as a whole. Alongside this, we will continue to seek ways to improve fuel poverty targeting. In England, work has been undertaken to consider with stakeholders how the low income high cost indicator might, in time, be used to better target households in fuel poverty, by highlighting more clearly which dwelling types are most likely to have unreasonable heating costs, and therefore, where interventions can have the most impact.

The likely increased access to DWP data to verify eligibility, whilst welcome for many reasons, does raise a concern about the possible impact on the ESAS referrals service for Affordable Warmth customers. The referrals service was established following the 2012 ECO public consultation and offers a clear, government-endorsed route to Affordable Warmth support¹⁹. DECC provides participating obligated suppliers with referrals from customers interested in receiving measures, with benefit/tax credit status verified by the Department for Work and Pensions, in return for suppliers offering these households a minimum package of assistance within agreed timeframes²⁰. To participate in the referrals service obligated suppliers are required to sign up to a voluntary agreement with DECC. The service is currently working well, albeit on a small scale. However if suppliers ceased to use it – for example, in light of increased data sharing elsewhere – the only customer-led access route into Affordable Warmth would be lost. We believe that this would be to the detriment of low income and vulnerable households.

We have considered two ways in which we could safeguard the continued existence of a clear, simple access route for Affordable Warmth through the ESAS referrals service on which we welcome views. Firstly, we could require obligated suppliers to use the ESAS referrals service to deliver a specified proportion of their Affordable Warmth obligation. To ensure this requirement was achievable and proportionate, the level required could initially be set below or in line with the current level of Affordable Warmth measures which are reported to Ofgem using an ESAS 'unique reference number' (i.e. ESAS referrals which convert into notified Affordable Warmth measures). Although this figure would be low, as ESAS referrals currently account for only a very small proportion of reported Affordable Warmth measures, the primary objective here is not to force a particular delivery approach but to ensure that there is a demand-led option which is always available. In addition, if and when referrals to ESAS increased, the proportion of their obligation which suppliers were required to deliver through ESAS could be raised by way of amendments to the legislation. It might be necessary to exempt suppliers on a specific basis, for example if they had met their Affordable Warmth obligation, or for the smaller obligated suppliers. If an obligated supplier failed to deliver the required proportion of their Affordable Warmth obligation through this channel, it would be the role of the ECO Administrator to consider enforcement action for non-compliance.

Alternatively, we could build upon and strengthen the current voluntary arrangements between DECC and the obligated suppliers participating in the ESAS referrals service, using this to gain

¹⁹ For more detail please see the Green Deal and ECO 2012 consultation and Government Response documents: <https://www.gov.uk/government/consultations/the-green-deal-and-energy-company-obligation>

²⁰ The support available can include a survey of the property, tariff advice, checking eligibility for the Warm Home Discount Broader Group and if appropriate a heating and insulation measure.

commitment to continued use of the service. In both approaches we envisage that it would remain DECC, rather than the ECO Administrator, who managed the suppliers' use of the service on a day-to-day basis. In addition, it would not be possible to guarantee that all referred customers would receive measures; as is the case at present, suppliers would make a decision on this in light of the cost-effectiveness for a particular household.

Alongside views on how best we could safeguard the continued existence of the ESAS referrals service we would also welcome feedback on wider developments and improvements to the service which should be considered. For example, given that customers who come through this route are not necessarily guaranteed a heating or insulation measure – as is the case for all Affordable Warmth eligible households – is there any evidence that some individuals who are particularly in need of support are missing out through this route? If this is the case we would welcome further information and any recommendations on whether and how Government should address this.

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.

Question 58

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

Question 59

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

12. Managing costs and ensuring transparency

The Government is committed to ensuring the Energy Company Obligation represents value for money for energy consumers. We recognise that all domestic energy consumers pay for the scheme through their energy bills, and it is therefore appropriate that a sufficient degree of transparency exists so that Government can understand and monitor the performance of the ECO scheme; and consumers can understand the benefits and the impact it is having on their bills.

Whilst DECC and the scheme administrator publish regular statistics on the performance of the scheme in terms of delivery of energy efficiency installations, and DECC has recently begun publishing certain information about the costs of the scheme²¹, Government does not believe that there is full public transparency of costs, and how these costs are passed through to consumer bills. It is apparent that there are divergences between estimates between different energy companies and others in the market, and that some public cost estimates are, on the face of it, not in line with the data currently available from sources such as brokerage prices. Lack of cost transparency makes it more difficult for interested parties to form firm, evidence based views on options for the future. Naturally, obtaining cost information is a sensitive matter in a competitive market. However, we are clear that lack of transparent information remains a risk to enabling the highest standards of decision-making.

The Government is therefore considering further action it can take, both on a voluntary basis and on a legal basis, to ensure that robust information from suppliers on the costs of meeting their obligations under ECO is obtained and, where appropriate, made publicly available

Threshold for the Small Supplier Exemption

The Government's objective is for a diverse, fair and competitive energy market where all suppliers, from large established suppliers to small new entrants and larger companies seeking to enter the market at scale, compete on a level playing field to make better offers to consumers. We therefore wish to take a holistic look at small supplier exemptions including alternatives to the customer number thresholds for mandatory participation in DECC's environmental and social programmes. Therefore, there will be a separate piece of work intended to inform future phases of schemes such as ECO, and we intend to publish a call for evidence later in the year. We therefore do not intend to consult on changing the small supplier exemption threshold as part of this proposed package.

²¹ Green Deal, ECO and Insulation Levels in Great Britain, Quarterly report: to September 2013:
<https://www.gov.uk/government/publications/green-deal-energy-company-obligation-eco-and-insulation-levels-in-great-britain-quarterly-report-to-september-2013>

Regulating Participation in ECO Brokerage

The ECO Brokerage platform was implemented in January 2013 as a means of ensuring competition in the energy efficiency market, a clear route to market for new entrants, and the creation of a transparent price signal for the market.

Government has previously consulted on the case for regulating the use of brokerage, and in its consultation response of 3 February 2014, concluded that on balance the case had not been made for regulation. This decision was based on the reasonable levels of liquidity on the brokerage platform over the first year of operation, and also uncertainty around economic impacts arising from a move to regulate.

It is clear that the changes proposed in this consultation document could have implications for the operation of the brokerage platform (for example, the measures that should be traded on it) and Government is separately consulting with users of the platform over these possible changes (which would be operational and not regulatory). However, in light of the proposed changes to ECO, Government is also interested in seeking stakeholder views on whether the arguments as to possible regulation of brokerage have changed. We therefore wish to understand further whether there is evidence to change our position and whether there are other options available which could address any potential issues resulting from the ECO changes. We welcome stakeholder's views on this point.

Question 60

In light of the proposed changes to ECO, can you provide new evidence that may warrant a change in 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?

Accounting Treatment

Government has in recent times received a range of views over the correct accounting treatment of the ECO obligation, and has worked with a number of parties to bring clarity to the complex question of whether, and how, to recognise the "liability" which the obligation creates, and/or the activity which is undertaken to fulfil it, in company accounts.

It is fundamental that the ECO Order should be designed so as to give effect to the policy objectives of the scheme, and considerations of accounting treatment should clearly flow from that policy design, not vice versa. Nonetheless, Government recognises that the accounting treatment can be of importance to companies, and can have a bearing on business and investment decisions. Other things being equal, the Government is happy to look at options for the technical framing of the obligation which would maximise company flexibility to account for it in the most appropriate way for their business model. The Government will not, of course, consider any options which distort the policy design of the scheme, or which in supporting some companies' approach are seen as unhelpful to others.

Question 61

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

Scheme Simplification

As part of on-going monitoring of the ECO scheme, Government has received feedback from stakeholders indicating that particular areas of the ECO scheme present difficulties in terms of complexity and administrative burden. In line with our objective of ensuring the scheme delivers the best value for money and limiting costs that are passed onto energy bills - Government wishes to identify and better understand the areas of the scheme that may benefit from further improvement and simplification. We would expect to implement any simplification changes from March 2015.

On this basis, Government welcomes evidence on any issues around the complexity and onerous nature of any scheme requirements, and suggested improvements that can be made – taking account of the need to safeguard the integrity of the scheme and ensure that the scheme objectives are met. Some of the areas suggested by stakeholders where there may be scope for improvement are set out below. However, the consultation is not limited to these areas, and we welcome evidence and suggestions for simplification across the full spectrum of the ECO scheme. Examples of aspects of the ECO rules where there may be scope for simplification include:

- Notification and reporting procedures: the notification process requires measures to be notified to Ofgem within a month of installation. The intention behind this requirement is to ensure both Government and the market are able to track progress towards targets with an appropriate degree of accuracy. Government is keen to ensure that this objective is maintained, and believe that one month provides the required degree of accuracy. However, we recognise that refinements could be made to reduce the burden of this requirement, and we welcome stakeholder views on what refinements could be usefully made whilst also maintaining the ability to track performance accurately.
- Evidencing private tenure eligibility under Affordable Warmth: stakeholder feedback suggests that evidencing a recipient of a measure is a “householder” is administratively burdensome. Government notes that the evidence requirements for this are very similar to those which were required to evidence private tenure (owner-occupier or private rental) under Warm Front. However, we welcome stakeholder views on whether any improvements can be made to ensure an appropriate balance between cost effective and efficient delivery and ensuring the scheme objectives are met.

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?

13. Wider Issues

The new regulations that we propose to lay following this consultation process will apply through to 2017. Over this four year period and beyond, there are some issues where the case for change is currently uncertain, but which stakeholders may wish Government to consider further. These have been identified as 'wider' issues, whereby, even if concluded to be desirable, would be unlikely to be worked through and delivered to the timescales to which Government is working to for the bulk of the proposals in this document. Nonetheless this consultation provides an opportunity for at least initial consideration by stakeholders at a high level. It also provides Government with the opportunity to identify whether more detailed work and, if necessary, further future consultation, would be appropriate.

These areas include, but are not limited to, the following areas:

- Overall scheme design: Should Government consider a single target unit for the overall ECO scheme, with particular safeguards and targets built in? For example:
 - Proportion targeted at vulnerable and low income consumers
 - Proportion targeted at those living in deprived rural communities
 - Minima and maxima for particular installation types – such as SWI and Boilers
- Promoting an area based approach to delivery: Could Government better utilise Local Authorities and /or other trusted local organisations to promote delivery of ECO?
- Eligible measures: Should Government consider whether other products should be made eligible measures under ECO, for instance, innovative energy efficiency products that work to change the behaviour patterns of households?
- The overall policy objective of ECO in future years: Should Government consider whether the objective of ECO should change in response to, for instance, changing market dynamics, behaviour patterns, the nature of housing stock and/or diminishing opportunities for energy efficiency measures?

The areas listed above are by no means exhaustive, and Government invites views from stakeholders.

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.

14. Supplier obligations in the UK and new requirements under the EU Energy Efficiency Directive

The EU Energy Efficiency Directive was published in the Official Journal on 14 November 2012 and entered into force on 4 December of the same year. The aim of the Directive is to drive improvements in energy efficiency across the European Union. Article 7 of the Directive requires Member States to achieve cumulative final energy savings of 1.5% annually between January 2014 and December 2020. The savings are to be achieved through a supplier obligation, like ECO, or alternative measures. The UK will be complying with Article 7 through the use of alternative measures, and ECO will be one of those contributing measures.

Where Member States have a supplier obligation in place, Article 7 requires them to:

Paragraph 7(6):

Member States shall ensure that the savings stemming from paragraphs 1, 2 and 9 of this Article and Article 20(6) are calculated in accordance with points (1) and (2) of Annex V. They shall put in place measurement, control and verification systems under which at least a statistically significant proportion and representative sample of the energy efficiency improvement measures put in place by the obligated parties is verified. That measurement, control and verification shall be conducted independently of the obligated parties.

Paragraph 7(8):

Once a year, Member States shall publish the energy savings achieved by each obligated party, or each sub-category of obligated party, and in total under the scheme.

Member States shall ensure that obligated parties provide on request:

- a) aggregated statistical information on their final customers (identifying significant changes to previously submitted information); and
- b) current information on final customers' consumption, including, where applicable, load profiles, customer segmentation and geographical location of customers, while preserving the integrity and confidentiality of private or commercially sensitive information in compliance with applicable Union law.

Such a request shall be made not more than once a year.

Ofgem already perform a number of the information gathering requirements in articles 7(6) and 7(8) of the Directive, in their role as the independent ECO administrator. Government proposes to implement the requirements of article 7(6) and (8) when the ECO Order is amended following consultation to ensure that the UK is compliant with these elements of the Directive. So as not to introduce added burden on energy suppliers, Government proposes to use the data that it collects from suppliers via Ofgem to report on both the energy savings and carbon savings secured by each supplier through the measures installed. Government also proposes to include provision in the ECO Order for (i) monitoring by the Administrator of a statistically significant proportion and representative sample of measures installed under ECO, as required by article 7(6) of the Directive, and (ii) the provision by suppliers, on request, of information on their customers' load profiles, customer segmentation and geographical location.

15. Responding to the consultation

Issued: 5 March 2014

Responses by: 16 April 2014

Responding by post or email

The Future of the Energy Company Obligation Consultation
Department of Energy and Climate Change
Area 1D
3 Whitehall Place
London
SW1A 2AW

Email: deccecoteam@decc.gsi.gov.uk

Territorial extent:

This consultation applies to England, Scotland and Wales.

How to respond:

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how you assembled the views of members. When responses to this consultation have been analysed, the Government will issue a response. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/the-future-of-the-energy-company-obligation>. Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

Quality assurance:

This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here:

<http://www.bis.gov.uk/files/file47158.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator

3 Whitehall Place

London SW1A 2AW

Email: consultation.coordinator@decc.gsi.gov.uk

ANNEX A: Changes proposed to have effect by reference to 1 April 2014

LEVELISATION MECHANISM

To enable energy suppliers who by the end of March 2014 have delivered primary measures which account to more than 35 per cent of Phase 1 and 2 of their current CERO obligation to have an uplift of 1.75 applied to the primary measures above that 35 per cent threshold. In the case of SWI, we propose to calculate for each energy supplier, the delivery profile required to meet the SWI minimum threshold by 2017, and consequently the 'expected delivery profile' required to meet the threshold up to 31 March 2014. Then only delivery above this level would be permitted to count towards the 35 per cent levelisation threshold.

Activity carried forward from CERT / CESP would be excluded from this uplift. This uplift would only apply to primary measures under CERO, and not to CSCO or Affordable Warmth.

DISTRICT HEATING AS A PRIMARY MEASURE UNDER CERO

To allow district heating connections made from 1 April 2014 to be included as an allowable primary measure under CERO.

EASY TO TREAT CAVITY WALL INSULATION AS A PRIMARY MEASURE UNDER CERODISTRICT HEATING AS A PRIMARY MEASURE UNDER CERO

To allow insulation of easy to treat cavity walls installed from 1 April 2014 to be included as an allowable primary measure under CERO.

LOFT INSULATION AS A PRIMARY MEASURE UNDER CERO EASY TO TREAT CAVITY WALL INSULATION AS A PRIMARY MEASURE UNDER CERO

To allow loft insulation installed from 1 April 2014 to be included as an allowable primary measure under CERO, with the expectation that a high standard of checks for loft insulation will be maintained.

ELIGIBILITY FOR THE CARBON SAVING COMMUNITIES OBLIGATION

To extend the CSCO element of ECO from the bottom 15 per cent to the 25 per cent lowest areas on the Index of Multiple Deprivation. These changes are proposed to apply for measures installed from 1 April 2014.

ELIGIBILITY FOR THE RURAL SUBTARGET OF THE CARBON SAVING COMMUNITIES OBLIGATION

We propose to extend and simplify eligibility requirements for the CSCO rural sub target for measures installed from 1 April 2014. The qualifying criteria for the CSCO rural sub obligation would be simplified by allowing suppliers to deliver against this sub-target to any domestic property located in the poorest quarter of rural areas, as well as to people living in rural areas who are members of the Affordable Warmth Group.

ANNEX B: Heat Networks

Introduction

Heat networks (also known as “district heating” or “communal heating” schemes) supply heat to a number of buildings or dwellings from one or more central heat production facilities, which produce hot water which is then delivered to buildings through an insulated pipe system. This can be a small system of pipes connecting just a few closely placed buildings (e.g. on a hospital complex) or a much larger system connecting hundreds of buildings (there are such systems in the centre of Sheffield, Birmingham and Nottingham, for example, and on the main Shetland Island). The buildings themselves, which typically will include a mix of homes and non-domestic buildings like offices, have heat exchangers which then take heat from the piped hot water and feed it into a central heating system which does not need to differ in its operation from an ordinary gas boiler based system with standard controls and radiators. Thermostatic controls and metering give the consumer the same amount of control over their own comfort as in standard boiler based systems, although in older heat networks this was often lacking, leading to a poor reputation for heat networks in some situations such as high rise housing built in the 1960s.

Heat networks can be both lower carbon and cheaper for consumers than individual solutions at the dwelling-level, as well as meaning that no combustion of gas takes place inside the house and no individual maintenance contract is required (the network system operator is generally responsible for maintaining the system and providing back up heating in the event of any problems with the primary heat source). Currently heat networks supply only around two per cent of UK domestic, public sector and commercial heat demand in this country, though they supply considerably more in some other European countries and in major cities in the US and China, for example.

For more information on the Government’s strategy for heat visit:

<https://www.gov.uk/government/publications/the-future-of-heating-meeting-the-challenge>.

Heat Network Lifetimes

The lifetimes of heat networks (as well as for other measures) are critical for calculating carbon and fuel bill savings. In line with proposals for the SWI minimum (see Chapter X). Government does not propose to make any changes to how heat network schemes are scored under ECO, but believe there is a case for specifying in legislation the expected lifetime of connections to heat networks. The lifetimes under ECO are detailed in the Ofgem Measures List and set out in the table below.

Measure Lifetime

Heat network connections – Upgrades and new connections (biomass boiler)	30 years
Heat network connections – Upgrades and new connections (gas/oil boiler)	25 years
Heat network connections – Upgrades and new connections (CHP)	15 years

Annex A 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

It is widely known that measures often perform differently in-situ than in testing phases so there is a gap in the actual carbon and energy savings realised and this can be down to many reasons including how the measures are installed, the building type and consumer behaviour. To combat this, the in-use factor is used.²²

Annex A 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

Heat networks delivered through supplier obligations

ECO has supported heat networks as a secondary measure since its introduction in January 2013, but because of longer lead times for networked solutions we are currently unable to point to examples where this support has brought new heat networks forward as yet. As part of this consultation we are seeking practical examples from across the UK to help develop case studies.

Annex A Question 3

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

Facilitating heat networks under ECO

There are hundreds of heat network projects in development across the UK, led by both local authorities and the private sector, although the latest Green Deal and ECO statistics released, published on 21 January, indicates that 604 heat network related measures (mainly new connections and boiler upgrades) were installed under ECO up to the end of November 2013. The market and delivery methods for standard insulation measures are already well-understood by energy suppliers and the supply chain. But to facilitate the delivery of new heat networks under ECO Government proposes that there may be the need for a wider service to make energy suppliers aware of potential heat network projects and to be aware of the timing for

²² Outlined in the ECO Order 2012, which can be found here: <http://www.legislation.gov.uk/ukdsi/2012/9780111525456/contents>.

project investment decisions so that support opportunities under ECO can be maximised and planned ahead.

Annex A 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.

The timescales of delivery for heat networks are substantially longer than for other measures and with the ECO deadline of March 2017 to complete projects we are seeking to understand if heat networks are viewed as competitive in carbon cost terms as a measure (some major stakeholders have already told us that they are). There are also issues associated with the supply chain and evidence for the cost per tonne of carbon reduction using different kinds of heat networks.

Additionally, energy companies do not have to fund all the capital costs of the heat network project to get credit for all the emissions saved. However, the carbon savings from heat network projects have a much higher guarantee of savings due to the maintenance associated with them.

Annex A 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?

The heat networks industry has made good progress in developing an Independent Consumer Protection Scheme to ensure that protection for consumers connected to a heat network is at least as good as that offered by alternative heating solutions. A consultation on the scheme closed in December 2013 and the Government is expecting to endorse the scheme later this year. All heat network operators are encouraged to sign up to the scheme and this could be a potential condition of ECO support. For other elements of ECO, some measures must be installed in accordance with PAS 2030:2012 and Ofgem requires guarantees for insulation work. We therefore would like to seek views on assurance²³.

Annex A 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

²³ For more information on the scheme please visit <http://www.heatcustomerprotection.co.uk/>

Annex A 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?

ANNEX C: Eligible areas under CSCO and CSCO Rural

The methodology adopted to identify small geographical areas remains the same, with adjustments made to extend the most deprived areas from 15% to 25% of settlements (both urban and rural). Also taken into account, for the first time this year, are the most deprived 25% of rural only areas.

Two key elements feed into the classification of CSCO eligible areas:

- The Index of Multiple Deprivation; and
- The Rural-Urban Classification.

The **Index of Multiple Deprivation** is a devolved statistic with England, Scotland and Wales producing their own indices. Although the underlying methodology in deriving these indices remains broadly the same, there are relatively small differences in the data, geography and timing, which prevents direct comparability between them. Lower Super Output Areas (LSOAs) and their equivalent Data Zones in Scotland are the smallest level of geography at which the IMD statistics for all three devolved administrations are based on the 2001 Census boundaries. This is detailed in the table below.

Annex C: Table 1

	Latest available IMD
England	IMD 2010 English indices of deprivation 2010 - Publications - GOV.UK
Scotland	SIMD 2012 http://www.scotland.gov.uk/Topics/Statistics/SIMD/DataAnalysis/Background-Data-2012/Background2SIMD2012
Wales	WIMD 2011 http://wales.gov.uk/statistics-and-research/welsh-index-multiple-deprivation/?lang=en

The next set of IMD statistics for England, Scotland and Wales, is intended to be based on the latest 2011 census boundaries.

Since 2001, there have been a small number of boundaries which have been redefined (effecting less than 3% of LSOAs in England and Wales). As such, the latest effected

boundaries cannot be directly referenced to the CSCO eligible areas – however, a lookup is available to match between the two census boundaries.

The 2011 Scottish Data Zone boundaries are, at present, being consulted upon and it is anticipated that up to 10-15% of small areas may have boundaries that are subject to change between the two census'. Here, a similar lookup table between the 2001 Data Zone and the 2011 census *Output Area* boundaries are provided, within the list of CSCO eligible areas to help identify these by the latest available area code.

The England and Wales **Rural-Urban Classification** is a Government Statistical Service product developed by the Office for National Statistics; the Department for Environment, Food and Rural Affairs; the Department for Communities and Local Government; and the Welsh Assembly Government, in collaboration with Sheffield and Nottingham Universities²⁴. Scotland use an independent methodology for the Rural-Urban Classification, though this is broadly similar, there some differences in their classification system²⁵.

Here urban areas are defined as connected built-up areas that have resident populations above 10,000 people. Rural areas are those that are not urban, that is, consisting of areas below 10,000 people or are open countryside²⁶.

Methodology

The methodology used to identify CSCO eligible areas for each of the devolved nations, include:

- i. ranking each nation's IMD from least deprived to most deprived;
- ii. taking the most deprived 25% of small areas as being CSCO eligible.

Similarly, the methodology used to identify the CSCO eligible *rural* areas within each nation, include:

- i. extracting all small areas identified as rural as per above criteria;
- ii. ranking the rural areas from least deprived to most deprived;
- iii. taking the most deprived 25% of small areas as being CSCO eligible.

²⁴ Further details on the Rural-Urban Classification can be found at:

<https://www.gov.uk/government/collections/rural-urban-definition>

²⁵ Further details on the Scottish Rural-Urban Classification can be found at:

<http://www.scotland.gov.uk/Topics/Statistics/About/Methodology/UrbanRuralClassification>

²⁶ For the purposes of CSCO eligibility, the 6-fold Scottish Classification was used to identify small areas with population sizes of 10,000 or more as urban areas, with the remaining areas of 10,000 or fewer residents, taken as rural areas.

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14D/052