

Energy Company Obligation “In-use factors” Consultation: Government Response to the 30 August 2012 Consultation

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Purpose of this document

This document is the Government response to the Energy Company Obligation (ECO) in-use factors consultation, launched on 30 August 2012, which set out the Government’s proposed position on the inclusion of in-use factors within the ECO Order.

Published as an ‘open’ document on DECC’s website, the consultation sought views across England, Wales and Scotland on:

- Whether or not in-use factors should be applied to the scores attributed to measures delivered under the proposed ECO carbon emissions reduction target, and carbon saving community target;
- Whether these in-use factors should be fixed for the duration of the ECO period i.e. up to March 2015;
- Whether to allow energy companies to count ECO activities delivered from 1 October towards their eventual ECO targets.

The consultation closed on 14 September 2012. We received 64 written responses from a variety of organisations and individuals. We would like to thank all respondents who submitted a formal response.

We have now carefully considered all the views expressed. This document sets out the Government’s position on the three questions posed within the consultation.

Conducting the consultation process

DECC informed key Green Deal and ECO stakeholders – including Ofgem, Energy Companies, potential Green Deal Providers, Product Manufacturers, Local Authorities, and NGOs - of the consultation to confirm the technical position on the application of “in-use” factors to the scoring mechanism for the carbon saving targets under the Energy Company Obligation (ECO). Discussions on the issues were also had with many of these stakeholders in both individual and collective meetings.

Consultation responses

Of the 64 responses received, the breakdown by stakeholder sector is as follows:

Category	Total Number of Respondents in each category
Green Deal Provider	24
Energy Company	7
Local Authority	7
Non Governmental Organization	6
Product Manufacturer	11
Other	9
TOTAL:	64

To note: The proposed ECO Administrator, Ofgem, also responded to the consultation, and has been included in the category ‘Other’.

Responses by territory

We received 58 responses from England, 2 from Scotland, 2 from Wales and 2 from Northern Ireland, which is outside of the territorial extent of this consultation.

Key findings and future actions

The majority of respondents – 55 out of 64 - agreed to the application of ‘in-use factors’ to ECO carbon scores and 44 respondents agreed that ‘in-use factors’ should be fixed for the obligation period out to March 2015. The minority that disagreed did so on the basis that fixing in-use factors for a period of time could have a negative impact on product innovation. The overwhelming majority of respondents supported the government’s proposals to allow ECO activity delivered from 1 October 2012 to count towards energy companies eventual ECO targets.

Further to the consideration of all responses received to this consultation, Government has laid a revised draft ECO Order, to supersede the previous draft ECO Order, which will:

- (a) Specifically include in-use factors when scoring measures installed under the carbon emissions reduction obligation and the carbon saving community obligation;
- (b) Provide a Schedule of ‘fixed’ in-use factors on specific measures that have already been modelled and tested by experts;

- (c) Make provision for ECO eligible measures installed from 1 October 2012 to be counted towards a supplier’s eventual obligation

In addition, a number of small amendments have been made to the ECO Order to achieve the policy approaches set out in the previous Government response and impact assessment. These amendments, outlined below, should ensure greater clarity on the policy intention:

- (a) The period of obligation has now been set from the 1st January 2013 to accommodate the short technical consultation that has been conducted. The end date remains 31st March 2015.
- (b) The Order now makes explicit that any cost savings from ECO Affordable Warmth delivery reflect the reduction to both space and hot water heating costs, where applicable.
- (c) The Order now makes it explicit that ECO Affordable Warmth assistance can be delivered to private tenure households only, where a member of the household is in receipt of a qualifying benefit or tax credit.
- (d) The rules for the carry forward of overachievement from the Community Energy Savings Programme (CESP) and the Carbon Emissions Reduction Target (CERT) to ECO have been clarified within the Order.

Next steps

The Government has laid a revised ECO Order in Parliament on the basis set out in this document, with a view to obtaining Parliamentary approval at the earliest opportunity, so that the Obligation Period can commence by 1 January 2013.

Detailed overview of responses and the Government’s response

QUESTION 1: Do you agree with the Government’s strong preference that in-use factors should be applied to the scores attributed to measures delivered under the proposed carbon emissions reduction target, and the proposed carbon saving community target?

55 out of 64 respondents agreed with the Government’s proposal to attribute in-use factors to measures delivered under the proposed carbon emissions reductions target, and also the proposed carbon saving community target. Included in these supporting responses were several from energy companies and Green Deal Providers.

Only 2 of the respondents specifically disagreed. The main concerns raised by those who disagreed, or were not wholly in agreement, were in relation to the specific in use factors for particular measures

Others questioned whether the application of in-use factors would increase the number of measures energy companies would need to deliver to meet their ECO carbon targets.

One respondent asked about the impact of in-use factors on the fuel poor.

Government’s response:

As the majority of respondents indicated strong support for in-use factors to be applied when scoring measures delivered under both the carbon emissions reductions and the carbon saving community obligations we propose revising the Statutory Instrument, known as the ‘ECO Order’, to reflect this.

As set out in the consultation, the inclusion of in-use factors should not have any impact on estimates of the costs of meeting the obligation, as in-use factors were already used in drawing up the Impact Assessment. We also set out in the consultation that we do not intend to apply in-use factors to the Affordable Warmth obligation of ECO.

QUESTION2. Do you agree that the ECO in-use factors should be fixed for the duration of the ECO obligation period?

45 of the total 64 respondents agreed with the Government's proposals that the ECO in-use factors should remain fixed throughout the duration of the ECO obligation period.

12 respondents disagreed. Those who disagreed were concerned that fixing in-use factors could discourage product innovation and differentiation. They suggested that regularly reviewing in-use factors, or allowing the administrator of the scheme the authority to change the in-use factors over time, could help address this. It was also suggested that the in-use factors could be changed in each ECO period

Government's response:

The Government acknowledges that fixed in-use factors could, over time, have an impact on product differentiation and innovation, but notes that the current Order relates only to the initial ECO period to March 2015, and believes that fixing the in-use factors for this period will provide certainty to the market. The revised Order will, therefore, include a Schedule that lists in-use factors which have already been modelled and tested by a range of experts in their field. –

All other eligible ECO measures that are not listed on the Schedule will have an in-use factor of 15% attributed to them, to reflect current uncertainties.

We will keep under review the question of whether to update the in-use factors applied within ECO for the post-March 2015 ECO scheme.

QUESTION3. Do you agree that the revised ECO Order should make provision for eligible measures promoted and installed from 1st October onwards in accordance with the requirements of the Order to be capable of being counted against a supplier's eventual obligation?

The overwhelming majority of respondents (55 out of 64) agreed with the Government's proposal to enable measures installed from 1 October 2012 to be counted towards a supplier's ECO obligation.

4 respondents disagreed. Issues they raised included the suggestion that the ECO obligation period should be extended by three months so that ECO could be delivered until June 2015, and/or that or a proportional reduction in the ECO delivery targets should be made.

Government's response:

As the majority of respondents were clearly in favour of this proposal, the revised ECO Order will permit the inclusion of scores derived from ECO eligible measures installed from 1 October.

Other issues raised by respondents:

Some respondents used the consultation as an opportunity to reiterate previously raised concerns about the ECO, and the Green Deal more broadly, on a range of issues. These were mostly in relation to the cost to energy suppliers to meet the obligation, and whether the ECO targets that have been set are achievable.

2 respondents raised concerns about the threshold that has been set for energy supplier entry into the obligation 1 thought it was too high, whereas 1 thought it was too low.

2 respondents raised concerns about the need for energy suppliers to report to the administrator of the scheme on a monthly basis – they felt that this was too frequent, and wanted to be able to report later than one month after installing.

1 respondent was concerned that the about the timing of the brokerage platform, and stated a preference for there to be an ECO “buyout price”.

4 respondents expressed concern about the accounting treatment of the ECO obligation,

Government’s response:

We have noted the additional views expressed by respondents about issues other than the three specific questions consulted on, but will generally speaking not be addressing them in this document as they were largely the subject of consultation at an earlier stage, and were not in scope of the present consultation exercise. Nonetheless, the Government is grateful for the points raised. In some cases, the issues concerned are already the subject of discussions between officials and the relevant stakeholders, and we will continue to consider these issues as part of the close monitoring of ECO once it is in operation. In particular, the Government notes that:

- The revised formal start date for the ECO Order of 1 January 2013 should go a long way to mitigate concerns raised about accounting treatment, and the suggestion that ECO might need to be accounted for in parallel with CERT and CESP obligations (which end on 31 December 2012);
- The costs of ECO are very difficult to estimate at this stage, not least given the lack of clarity on the historic costs of meeting current obligations CERT and CESP. Going forward, we are committed to close monitoring of delivery of ECO, including the costs associated, as it operates in practice. This should enable Government and industry to develop a better, common understanding of challenges and costs arising, and review matters where necessary

The Government has, however, taken stock of a number of suggestions for technical clarification, and has as a result made small amendments to:

- The definition of cost saving for Affordable Warmth, to put beyond doubt that it can include both space heating and hot water cost savings;
- The definition of “householder”, to make explicit that social tenure properties are not eligible for support under ECO Affordable Warmth, and that a private tenure household is eligible for ECO Affordable Warmth support if any member of that household is in receipt of a qualifying benefit;

- The rules around carry over for CESP, to make clear that they are aligned with those for CERT and ensure that any excess activity under CESP can be scored to the appropriate elements of ECO.

These changes are all clarifications, to put beyond doubt that the Order gives effect to policy approaches which were already set out in the previous Government response and/or Impact Assessment.

The Government also heard suggestions that the provisions in relation to the ability of companies to request an extension to the period within which they are obliged to report qualifying actions to Ofgem were ambiguous. The Government is satisfied that the draft Order allows Ofgem to grant an extension, where appropriate beyond one month, where Ofgem deems this necessary in the light of the circumstances.

Annex A: List of Measures and In-Use Factors that Government proposes to attach as a Schedule to the ECO Order

The in-use factors proposed to be used for these measures within ECO are:

<i>Measure</i>	<i>In-use factor</i>
Cavity wall insulation (including insulation of hard to treat cavities)	35%
Connection to a district heating system	10%
Draught proofing	15%
External solid wall insulation for a mobile home	25%
Flat roof insulation	15%
High performance external doors and passageway walkthrough doors	15%
Loft or rafter insulation (including loft hatch insulation)	35%
Pipework insulation	15%
Room in roof insulation	25%
Secondary or replacement glazing	15%
Solid wall insulation for a solid brick wall built before— (a) 1967, if situated in England or Wales; (a) 1965, if situated in Scotland	33%
Solid wall insulation for— (a) a solid wall which is not built of brick; (b) a solid brick wall built in— (i) 1967 or later, if situated in England or Wales; (ii) 1965 or later, if situated in Scotland	25%
Under-floor insulation	15%

Annex B: List of Respondents

Association for Conservation of Energy

Aldridge property Services Ltd

Anglian Building Products

Benx Ltd

British Board of Agrément

British Gas

Carillion Plc

Cavity Insulation Guarantee Agency (CIGA)

Celotex Insulation Specialists

Christchurch and East Dorset Council

Climate Energy Ltd

Construction Products Association

Domestic & General Insulation Ltd

Dorset Energy Advice Centre

Dorset County Council

EDF Energy

Energy Action Scotland

Energy UK

E.On

ExNet Ltd

First Utility

Fusion 21

Glass and Glazing Federation

Green Deal Advisor Association

GreenDeal.Net

Herefordshire Council

RT Surveys Ltd

Insta Group

Joyner Group

Kingfisher

Kingspan Insulation Ltd

Knauf Insulation

Kore Insulation and Energy Saving Solutions

Leeds Council

LoftZone

Mansell Plc

Mark Group

Mineral Wool Insulation Manufacturers Association

National Energy Action

National Energy Services

National Housing Federation

National Insulation Association

National Physical Laboratory

Ofgem (The Office of Gas and Electricity Markets)

Polypearl

Renfrewshire County Council

Rockwool

RWE Npower

Saint-Gobain

Scottish Power

Screwfix Direct Ltd

Sentinel Performance Solutions Ltd

SERS Ltd

Solarwall Ltd

SPSenvirowall

SSE

Sustainable Action Housing Partnership

Tameside Insulation Ltd

The Kinnell Group

The Warmer Group

United Sustainable Energy Agency, The National Energy Centre

Warmfill Limited

Wealden District Council

Willmott Dixon

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