

Appendix 7.1: Social and environmental obligation thresholds

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Introduction

1. Some government policies to deliver social and environmental objectives are delivered through energy suppliers. These policies put certain obligations on suppliers, for instance, to require them to meet certain carbon reduction targets or deliver notional bill savings, with the assumption that they will recover the cost of doing so from customers through energy bills. The Six Large Energy Firms as well as five independent suppliers currently fully comply with these initiatives, with smaller suppliers below the participation threshold.
2. This appendix explores the effect of these participation thresholds on competition. We describe the design of the schemes and the participation thresholds available for smaller suppliers, the views that parties have expressed to us in the course of this investigation, and finally we set out a summary of our analysis.
3. This appendix focuses on the following three main participation thresholds:
 - (a) The Energy Company Obligation (ECO) scheme, a Department of Energy and Climate Change (DECC)-led initiative to improve Great Britain's (GB) energy efficiency, which forms part of the government's wider plan for reducing greenhouse gas emissions and tackling fuel poverty.¹
 - (b) The Feed-in Tariff (FIT) scheme, which is the government's main financial incentive to encourage the uptake of small-scale, low-carbon electricity

¹ [DECC final stage impact assessment](#).

generating technologies to support the transition to the low carbon economy.

- (c) The Warm Home Discount (WHD) scheme, which requires participating domestic energy suppliers to provide support, primarily direct energy bill reductions, to those who are in or at risk of fuel poverty.
- 4. This appendix focuses mainly on ECO – as it is the single largest obligation cost, initially in excess of £1 billion per annum across the suppliers to which this obligation applies (although the estimated cost to suppliers fell to around £0.8bn per annum from 2014 – see the cost of ECO section below) – and to a lesser extent on the FIT and WHD schemes. This appendix does not cover the impact of any other exemptions such as payment method exemptions for small suppliers or SMART metering exemptions.

Overview of the Energy Company Obligation and how it works

Scheme overview

- 5. ECO is a policy that sits alongside the Green Deal,² with the aim of providing eligible³ domestic customers with financial support to deliver energy efficiency measures, as part of a strategy for achieving the UK's carbon targets and reducing fuel poverty. The ECO scheme came into effect on 1 January 2013, replacing the Carbon Emissions Reduction Target (CERT) and Community Energy Savings Programme (CESP). It is delivered through certain energy suppliers, who are assumed to recover the costs across their entire domestic customer base.
- 6. One of the rationales for delivering ECO through the energy suppliers is that since suppliers bear the costs of complying with the ECO scheme and then pass them through to tariffs which face competitive constraints from other suppliers, they have an incentive to minimise these costs and therefore to efficiently deliver the ECO scheme. This, in turn, should minimise the impact on price.⁴ This competition element is one of the reasons why delivery through energy suppliers was considered preferable to other methods.
- 7. The original ECO scheme placed three obligations on energy suppliers: a 20.9 MtCO₂ savings under carbon emissions reduction obligation (CERO), 6.8 MtCO₂ savings under the carbon saving community obligation⁵ (CSCO)

² Please see Appendix 2.1: Legal and regulatory framework for further information.

³ Eligible customers include home owners and tenants on a range of means-tested benefits.

⁴ [DECC final stage impact assessment](#).

⁵ At least 15%, or 1 MtCO₂, must be delivered to rural households – the Rural Safeguard.

and a £4.2 billion home heating cost reduction obligation⁶ (HHCRO). In July 2014 DECC published a consultation response titled *The Future of the Energy Company Obligation* that set out the future of the scheme to 2017, and included a number of changes to the original design, following the December 2013 Autumn Statement.

8. DECC introduced ECO to work alongside the Green Deal. The Green Deal was intended to provide a financing option for energy efficiency measures. ECO was intended to provide additional support for hard-to-treat homes, and vulnerable and fuel poor households, who were unlikely to be able to partly or fully fund measures using private finance (including Green Deal finance). In the 2012 final stage impact assessment report DECC stated ‘the combination of these policies enables a more market-focused approach to delivering these measures, where competition amongst Green Deal providers is likely to drive take-up beyond the levels expected under CERT or the option of no policies.’
9. The targets are divided between obligated suppliers according to how much gas and electricity they supply to their customers. The original targets were to be achieved by 31 March 2015 with the current scheme now extended to March 2017. DECC made changes to the scheme at the same time, for example reducing the size of one of the obligations and allowing the installation of lower cost measures, thereby reducing the annual cost on the largest energy suppliers.

The obligation threshold

10. The obligation applies to all licensed gas and/or electricity suppliers that have 250,000 domestic customers or more, and supply more than 400 gigawatt hours of electricity or 2,000 gigawatt hours of gas to domestic customers, in any relevant year. Suppliers below this level of customer accounts are exempt from complying with the scheme. The rationale for a threshold was that both the Green Deal and the ECO scheme should facilitate entry of small firms as far as possible and not be a significant barrier to entry.
11. When a smaller supplier exceeds the threshold on 31 December of any given year, they are required to comply with the ECO scheme as of 1 April of the following year. To minimise the impact from entry into the scheme from disproportionate increased costs, a tapering effect is in place for suppliers passing through the threshold for the first time.

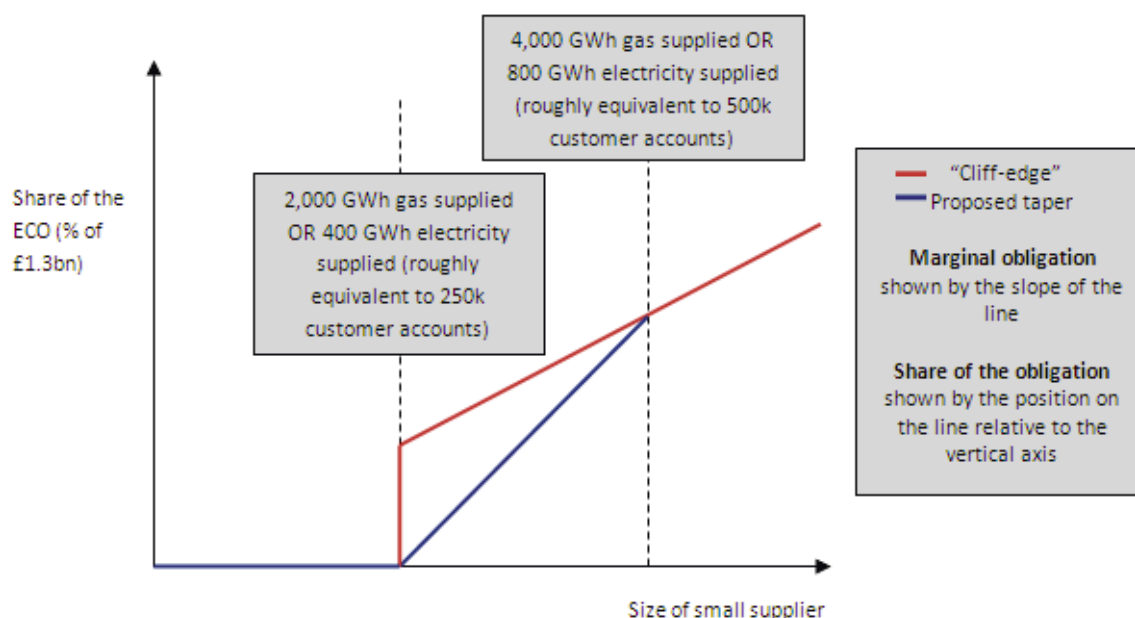
⁶ HHCRO aims to provide insulation and heating measures in order to improve the ability of low-income and vulnerable households to heat their home at an affordable cost.

12. To reduce the impact on costs of a supplier reaching a ‘cliff-edge’ of 250,001 customer accounts, the tapering approach is as follows. DECC’s impact assessment report explains that:

The tapering approach will involve a supplier receiving zero ‘points’ for their first 400 GWh of electricity supply or 2,000 GWh of gas supply, two ‘points’ for their second 400 GWh electricity or 2,000 GWh gas supply and one ‘point’ for all supply above 4,000 GWh of gas or 800 GWh electricity. The share of the obligation for each supplier will then be the proportion of ‘points’ they have.

Figure 45 in the DECC impact assessment illustrates the impact of this tapering approach against a simple proportional approach. This has been reproduced as Figure 1 below.

Figure 1: DECC 2012 impact assessment of the ECO scheme tapering approach



Source: [DECC final stage impact assessment](#).

The cost of the Energy Company Obligation

13. DECC’s 2012 impact assessment⁷ estimated that the annual cost to suppliers of delivering ECO scheme would be about £1.3 billion per year. The first year of the scheme was 2013 and from the financial information provided to us, the out-turn cost was approximately £1.3 billion across all of the Six Large Energy Firms. In 2014 DECC published a revised impact assessment⁸, estimating

⁷ DECC *Final Stage Impact Assessment*.

⁸ DECC (October 2014), *The Future of the Energy Company Obligation: Final Impact Assessment*.

that that the cost to obligated suppliers would fall to around £0.8 billion per annum between 2014 and 2017, due to the changes to the scheme announced within the 2013 Autumn Statement.

14. In 2013 the total cost of the ECO scheme of around £1.3 billion spread amongst approximately 48 million domestic customer accounts, equated to a cost of around £27 per single fuel customer account.⁹ These costs were fully avoided by suppliers with fewer than 250,000 customer accounts. First Utility and Ovo Energy have both passed the 500,000 threshold and as of April 2015:
 - (a) First Utility told us that it had no explicit plans to change its standard variable rate tariffs.
 - (b) OVO Energy told us that it had no explicit plans to increase the prices of its variable tariffs,¹⁰ and that it had been pricing in the extra WHD and ECO costs ahead of crossing the threshold.
15. DECC monitors the cost of these schemes. For instance, it published in November 2014 the report *Estimated impacts of energy and climate change policies on energy prices and bills: 2014*. DECC's central scenario estimated that the gross average impact of the costs of the ECO scheme on average household energy bills in 2014 was £36 for a dual fuel customer (£15 on electricity and £21 on gas).¹¹ (See [Annex A](#) for the 2014 DECC central scenario table.) This nets off to a smaller amount when efficiency savings on homes improved are taken into account.
16. DECC's estimated gross cost of £36 per household was based on an estimated bill, after the changes to the ECO announced in the December 2013 Autumn Statement. In explaining the difference between the £36 per household and the previous higher costs prior to the Autumn Statement, DECC stated:

The estimated annual average ECO cost before [the 2013 Autumn Statement] takes effect is around £1.4 billion for the original target period to 31 March 2015 (equivalent to around £59 per year on average on household bills). The relatively high estimated 2014 costs reflect the suppliers' trajectory towards compliance with the original targets where carbon target delivery

⁹ This cost is prior to the 2013 Autumn Statement changes to ECO, so the current cost being incurred by the suppliers will be lower.

¹⁰ Both suppliers stated that they had no immediate plans based on the prevailing market conditions in April 2015.

¹¹ DECC, [Estimated impacts of energy and climate change policies on energy prices and bills: 2014](#).

run rates would need to ramp up from historic rates if the targets were to be met. Suppliers had delivered 39% and 28% of their CERO and CSCO obligations respectively (approved and notified measures) to the end of March 2014 which represents 56% of the original 2.25 year target obligation period. The costs reported between December 2013 and March 2014 will not be wholly indicative of the costs of complying with energy companies' original target, given that many of the companies will have additional 'free' compliance awarded towards their CERO target compliance, due to December 2013's pre-announced changes to the original ECO scheme. Therefore, their reported CERO costs in this period will relate to more carbon compliance than has been delivered.¹²

17. DECC estimated that the ECO scheme added an average of £36 on to dual fuel customers' bills in 2014. However, this figure did not reflect the energy efficiency savings delivered by the ECO scheme.¹³ DECC estimated that a household receiving a measure could save between £26 and £287 off its heating bill per year from installing insulation under the ECO scheme, depending on the measure installed. DECC also told us that the ECO scheme's costs were borne upfront whereas the benefits were realised over the longer term. For example, in 2030, the ECO scheme was estimated to lead to an average household bill saving of £34 (as measures installed under the ECO scheme in the past continued to save households money off their bills).

Overview of Feed-in tariffs and the Warm Home Discount

FITs and WHD overview

18. The FIT scheme, started in April 2010, encourages the uptake of small-scale, low carbon electricity generating technologies by households, communities and businesses through licensed electricity suppliers. It requires suppliers to make tariff payments on both generation and export of low carbon electricity.¹⁴ The tariff rates increase or decrease in line with inflation/deflation, but are also subject to degeneration, based on deployment levels over fixed periods.
19. This means that those households, communities and businesses that generate green electricity, for example from solar panels, are paid a fixed rate for every unit of electricity they produce. Any electricity generated but not

¹² Ibid, p26, footnote 31.

¹³ A positive NPV means that the cost of implementation is less than the savings achieved from the initiatives.

¹⁴ Ofgem, [Feed-in Tariff \(FIT\) scheme](#).

used can be sold back to the grid, with the producer receiving an extra payment. The cost of this to the suppliers is recovered from their total customer base, in the same way as the ECO scheme. The FIT generator also benefits from the self-generated electricity consumed on site through savings on their electricity bill.

20. FIT licensees are required to take applicants through the registration process. They must be the main point of contact with accredited customers for the submission of meter readings and are responsible for making payments based on these readings. As part of issuing these payments, they are expected to check meter readings at least once every two years.
21. The WHD scheme was established in April 2011. The initiative requires domestic energy suppliers to provide direct and indirect support to fuel-poor customers.¹⁵ The scheme has recently been extended to March 2016.¹⁶
22. Over the period of the scheme's operation, and for those suppliers that must comply with the WHD, the scheme has been divided into four different elements.¹⁷ These elements are a 'core group' comprising less well-off pensioners, identified with the help of the Department for Work and Pensions; a 'broader group' of customers identified as being at risk of fuel poverty, eligibility criteria set by the suppliers themselves; and 'industry initiatives' which enable suppliers to provide assistance beyond direct financial support. In addition, for the first two years of the scheme, a 'legacy spend element' was in place, which allowed participating suppliers to transition from previous arrangements linked to a voluntary agreement which existed prior to the introduction of WHD.

FITs and WHD thresholds

23. Licensed electricity suppliers with more than 250,000 domestic electricity customer accounts are required to become mandatory FIT licensees and to comply with the WHD (though for WHD, a dual fuel customer counts as two accounts). Unlike the ECO scheme, other licensed electricity suppliers may elect to become voluntary FIT licensees (currently around 20) and suppliers can also voluntarily become WHD providers, as Co-operative Energy did.
24. Licensed Electricity Suppliers cannot offer FIT services unless they are confirmed to be a FIT licensee¹⁸. There is no tapering of FIT and WHD costs

¹⁵ Ofgem, [Warm Home Discount](#).

¹⁶ Ofgem, [Response to Warm Home Discount: extension to 2015/16](#).

¹⁷ Ofgem, [Warm Home Discount](#).

¹⁸ However, they are obligated to participate in the 'levelisation' process.

like the ECO obligations but FIT and WHD costs are significantly less than the cost of the ECO scheme.

The cost of FITs and WHD

25. The cost of FITs are increasing as more people install small-scale electricity generation in their homes. The cost of FITs to the Six Large Energy Firms was less than £100 million in 2011 which had increased to approximately £600 million by 2013¹⁹. As a proportion of total social and environmental costs, this equated to around 6% in 2013.²⁰
26. The *WHD annual report: Scheme Year-3*,²¹ published in March 2014, stated that suppliers more than exceeded their obligations, providing support totalling £291 million. First Utility and Utility Warehouse both joined the scheme for the first time in 2014 as they passed the customer account thresholds. The first iteration of the WHD scheme estimated that the total scheme costs over a four-year period would be over £1 billion.

Concerns raised in relation to policy and obligation costs

Concerns raised by the Six Large Energy Firms

27. The Six Large Energy Firms all expressed concerns around how the costs, associated with the ECO, FIT and WHD schemes affected their ability to compete/competitiveness against the smaller suppliers. There is a general consensus among the larger suppliers that these exemptions distort the markets. Some of the key messages provided by parties are set out below.
28. Centrica:

The structure of the GB regulatory regime imposes costs in an asymmetric way, such that larger (domestic) suppliers have obligations that smaller suppliers are spared and this affects costs. ECO, Feed-in Tariffs and the Warm Home Discount (WHD) all impose costs on our business that we are expected to pass on to our consumers. These costs are in the region of £70–80 on a dual fuel bill at standard consumption. Smaller suppliers are only required to comply with environmental and social regulations

¹⁹ Per the financial accounts provided to us as part of our investigation

²⁰ Six Large Energy Firms combined 2013 average.

²¹ Ofgem, [Warm Home Discount annual report: Scheme Year 3](#).

once they hold more than 250,000 accounts (and then on a tapered basis).

29. EDF Energy:

EDF Energy believed the total value of exemptions had reached up to around £60 per dual fuel account. This provided a significant cost advantage for smaller suppliers in the markets, but was also likely to provide a disincentive to grow beyond exemption thresholds, ie the marginal customer beyond 250,000 customer accounts represented a significant cost burden for suppliers who face meeting ECO obligation requirements for their whole customer base. While there has been strong growth in the retail supply markets, with some suppliers close to or exceeding the 500,000 account threshold it was likely the threshold would remain a disincentive for some. The four suppliers that have crossed the ECO and WHD thresholds would have incurred higher costs as a result of obligations, although they were also able to maintain or accelerate their growth. It was important that any regulatory intervention in the space of social and environmental obligations was cost reflective and did not afford any unintended competitive advantage.

30. RWE:

RWE estimated that the advantage from avoided costs for a small supplier was approximately £50–£60 per dual fuel account. The effect of this cost advantage could be clearly seen in the broker tables where the top (cheapest) positions were generally occupied by small suppliers. RWE's experience was that it simply could not compete at these price levels and this was impacting on RWE's ability to win back customers from small suppliers.

31. Scottish Power:

The main diseconomy of scale in the market at present results from the exemptions given to smaller suppliers in relation to government obligations such as ECO and the Warm Home Discount. We understand the original intention of these exemptions was to counter economies of scale issues for smaller suppliers in administering these programmes, but as Scottish Power explained in a non-confidential letter to DECC, the level of exemption is far greater than that part of the administration costs that does not scale with the size of the

obligation. The threshold of 250,000 customers for ECO and the Warm Home Discount is therefore a clear diseconomy of scale (in the sense that the incremental cost per customer increases significantly above the threshold) which is distorting the market.

32. SSE:

Given the scalability of costs, SSE considered that there are few diseconomies of scale just as there are relatively few economies of scale.

There would be a material increase in costs for suppliers once they exceed the 250,000 customer limit beyond which the small supplier exemptions from ECO and WHD are removed/tapered. SSE has estimated that these exemptions are worth in the region of £45 per customer for ECO and £12 per customer for WHD. A supply business operating below 250,000 customers would therefore benefit from costs per customer that are £57 (or c.5% of an average dual fuel bill) lower than would be the case absent the small supplier exemption. In the absence of material economies of scale, this provides a considerable cost advantage to smaller suppliers.

33. E.ON:

As the aggregate target carbon savings are fixed, and their incidence defined by the market share of obligated suppliers, the cost per customer (for obligated suppliers) would increase as more customers join smaller suppliers. [REDACTED].

The design of the ECO scheme was such that between 250,000 customers and roughly 500,000 customers (this upper boundary is actually defined by total power supplied, not customer numbers) a growing supplier incurs additional annualised costs of around [REDACTED]. This is based on E.ON's internal calculations that suggest that across all suppliers, annual ECO costs per customer are in the region [REDACTED] even after the recent revisions to the scheme.

Concerns raised by smaller suppliers

34. We conducted interviews with a number of smaller independent suppliers to discuss their market entry and expansion experience. This can be found in the CMA's working paper on Retail barriers to entry and expansion.²² Below we

²² See the CMA's working paper on [Retail barriers to entry and expansion](#).

set out the key messages in relation to thresholds and policy costs from those interviews.

35. Some suppliers said that they slowed their rate of customer acquisitions to delay surpassing the obligation thresholds. This is because once a firm passes the threshold, it is obligated to comply with the obligations the following year.²³ Therefore some suppliers said that passing a threshold at the very end of a year was not desirable, so delayed customer acquisitions. Ovo Energy, Extraenergy and Ecotricity all mentioned having delayed their expansion plans because of the threshold. The length of time that suppliers suggested they might delay was not a significant length of time and therefore would only have a modest impact on the markets.
36. First Utility considered delaying by slowing down customer acquisitions but after due consideration decided that they should continue to acquire and pass the threshold without delay; similarly Co-operative Energy said that it had not delayed its expansion plans because of the threshold.
37. Co-operative Energy, prior to passing the 250,000 threshold, voluntarily set up a WHD scheme so that its customers did not miss out. It said that this indicated to it that the threshold was not a barrier to expansion.
38. Conversely to this, Utilita believed that the thresholds were a significant barrier to growth. The ECO counted towards a big proportion of its gross margin. In its view, applying the same ECO costs per customer to the small supplier as to the Six Large Energy Firms meant that it would account for a much bigger proportion of their costs. The non-domestic supplier, Haven, also thought that the thresholds presented a barrier to growth.
39. From a different perspective, Utility Warehouse, an independent supplier over the threshold, said that because the smaller suppliers avoided some of the obligations, they were able to offer a lower price compared with other suppliers. In its view this was unfair and inefficient.

Why was the threshold set at 250,000?

40. DECC conducted a consultation on the customer number thresholds for CERT, CESP, WHD and FIT. The responses to the consultation was published in June 2011.²⁴ The paper concluded that the threshold for the final year of CERT and CESP should be 250,000 customer accounts and that future programmes should include a tapering mechanism to reduce the 'cliff-

²³ Compliance will commence in April of the following financial year of the firm.

²⁴ DECC (June 2011), [Government response to the consultation on raising the threshold at which energy suppliers are required to participate in DECC environmental and social programmes](#).

edge' impact of reaching 250,001 customers. It concluded that the customer number threshold for the WHD scheme should also be set at 250,000 customers.

41. The rationale for the threshold was that the cost to the smaller suppliers associated with complying with the programmes represented a higher proportion of their overall costs than for larger suppliers, particularly as they were due to close the following year. The majority of respondents agreed with this, and that these disproportionately high costs would reduce competition as they could be a factor in deterring new businesses from entering the markets and that they reduced incentives on smaller market participants to grow.
42. DECC's original proposal was a threshold of 100,000 customers, 'founded on projections based on the growth rates that we had previously seen for new market entrants. These projections showed that it was unlikely that any small suppliers currently operating in the market would increase their customer numbers to 100,000 by 2013.'²⁵ Through the consultation, DECC received evidence that it would be necessary to raise the threshold to 250,000 customer accounts to exempt small suppliers from the final year of CERT and CESP and the new WHD obligation. The customer number threshold for becoming a mandatory FIT licensee was left at 50,000 customers, but was subsequently raised to 250,000 domestic electricity customers in August 2012 following a further review of FITs.
43. DECC believed that the threshold would bring significant benefits to smaller suppliers without imposing material costs on suppliers as a whole. Some respondents to the consultation suggested a one million threshold, which DECC dismissed as it believed it would have noticeably increased the costs for obligated incumbent suppliers. DECC decided on balance that a threshold of 250,000 customer accounts would be proportionate.
44. Some respondents to the consultation suggested that the threshold amounted to a subsidy from those customers with an incumbent supplier to those customers with a new supplier. DECC argued that from its analysis this was not economically significant. DECC also stated that it was not the government's intention to continue to increase the thresholds but to consider the ways in which future obligations, such as the ECO scheme, could be designed to minimise any disproportionate burden found by small suppliers.
45. In the final stage impact assessment DECC estimated the administration costs of ECO for the Six Large Energy Firms. The total cost across the Six Large Energy Firms was estimated to be £16.3 million, see Table 1 below.

²⁵ *ibid*, p5.

The estimate was split between the two carbon obligations and the affordable warmth obligation.

Table 1: DECC final stage impact assessment – ECO administrative costs to energy suppliers

<i>ECO administrative costs to energy suppliers</i>	<i>Cost (£)</i>
<i>Carbon obligations:</i>	
Monitoring/reporting set up costs	27,000
Familiarisation costs	16,000
Recurring administration costs	890,000
<i>Affordable warmth obligation:</i>	
Fixed costs	7.9m
Variable costs	7.4m
Total ECO administrative costs	16.3m

Source: [DECC final stage impact assessment](#), Table 17.

46. Taking the estimated fixed cost²⁶ of the warmth obligation of £7.9 million, across the Six Largest Energy Firms from the table above gives a cost of £1.3 million per supplier. Using the customer account numbers in [Annex B](#), this would equate to approximately 9–26 pence per customer account for the Six Largest Energy Firms. For a smaller supplier with 250,000 customer accounts it would be £5.20 per account or £13.00 per account if the threshold were lowered to 100,000 customer accounts.
47. Looking at the carbon obligation costs, the DECC estimate of fixed costs – as seen in Table 1 above – is very low. The reason for this is that the Six Large Energy Firms delivered similar schemes prior to ECO so it was assumed that they would largely have the systems in place to deal with ECO without significant new investment in systems, infrastructure and people. This would not be the case for the smaller suppliers so it would not be unreasonable to assume that the total fixed cost per account noted above would be higher still for the smaller suppliers.
48. The figures in Table 1 are from the original DECC impact assessment. Subsequently, DECC’s 2014 ECO impact assessment reported that the administrative cost of ECO during its first year of operation (up to the end of December 2013) was around £80 million in total.²⁷ The figure was based on quarterly returns from energy suppliers and the cost includes set up costs to administer the scheme, the cost of reporting and compliance, marketing costs, procurement costs, additional IT infrastructure, and all staff costs including specialist support, such as lawyers. The impact assessment also reported that there was no evidence that administrative costs were decreasing over time. Therefore, DECC told us that this suggested that it was difficult to make

²⁶ Variable costs are incurred in relation to scale therefore are not considered to be an unfair burden on the smaller suppliers given DECC’s low estimate

²⁷ The Future of ECO impact assessment – see pp31 and 32.

conclusions about the extent of one-off costs compared to ongoing administrative costs.

Summary

49. The government monitors progress on delivery and the cost of implementation of these schemes. Ofgem is responsible for enforcing compliance and publishes monthly ECO Compliance Reports and DECC monitors policy impacts on prices and bills. The latest DECC report entitled *Estimated Impacts of Energy and Climate Change Policies on Energy Prices and Bills*, was published in November 2014.
50. The government has already taken steps to reduce the burden on the larger suppliers. On 2 December 2013, the government announced plans to reduce the impact of complying with the ECO in its Autumn Statement. The ECO scheme was extended to 2017 to allow suppliers more time to meet their targets and changes made to the qualifying measures needed to meet primary targets. This decision should reduce the burden on the larger suppliers over the remaining life of the scheme.
51. The larger suppliers estimate the benefit of the ECO exemption as being around £45–£60 per dual fuel account. DECC estimated that this is lower, £36 for a dual fuel customer, taking into account the 2013 Autumn Statement changes. From a customer perspective the energy saving measures, DECC estimate the impact on prices to be even less.
52. The WHD and FIT scheme costs are smaller than the cost of the ECO and some smaller suppliers have opted into delivering these schemes. We consider that these two schemes are not of significant concern in relation to cost exemptions.
53. We consider that the start-up costs and ongoing fixed costs associated with complying with the ECO, FITs, and WHD policy obligations would fall disproportionately on small and new market entrants if there were no thresholds. Therefore, it appears that some level of threshold is reasonable and unlikely to distort competition in the way that some firms argue. DECC introduced the threshold of 250,000 customer accounts, a threshold based on evidence it received in response to a public consultation. To minimise the impact of reaching the threshold, compliance is tapered up to 500,000 customers.
54. Without these exemptions, the cost of delivering any scheme would fall disproportionately on small suppliers and therefore make entry into the markets more difficult. Given the relative strength of firms above the exemptions thresholds compared with new entrants, due for instance to the

existence of an established customer base and experience in dealing with regulatory requirements, the impact of the current exemptions are not likely to be significantly market distorting.

55. We note that many of the smaller suppliers have recently passed the 250,000 threshold (see [Annex B](#)) which appears to indicate that these exemptions are not acting as a material barrier to expansion and these suppliers have indicated they have no immediate plans to change the price of their variable tariffs.

Annex A: DECC estimated average impact of energy and climate change policies

Table 1: Estimated average impact of energy and climate change policies on household energy bills

Real 2014	£		
	Gas	Electricity	Dual fuel
	2014		
1. Bill before policies (inc VAT)	832	627	1,459
2. Bill impact of energy efficiency savings (ex VAT)*	-76	-100	-176
Of which:			
Green Deal and ECO†	2	-8	-6
Smart meters	-0.4	-0.5	-1
Historic energy efficiency policies	-31	-36	-67
Products policy	14	-56	-41
Building regulations	-61	-	-61
Private rental sector regulations	-	-	-
3. Bill impact of price effects and rebates (ex VAT)§	30	59	89
Of which:			
ECO	21	15	36
Smart meters	2	1	3
Small-scale FITs	-	9	9
RO	-	36	36
CfDs	-	-	-
Capacity Market gross auction cost	-	-	-
EU ETS carbon cost	-	7	7
Carbon Price Floor carbon cost	-	16	16
Other wholesale price effects of policies	-	-5	-5
WHD support	7	6	13
4. WHD rebate	-	-13	-13
5. Government electricity rebate	-	-12	-12
6. VAT impact of policies (2 + 3 - 4 - 5) x 5%¶	-2	-1	-3
7. Estimated impact of policies, £ (2 + 3 + 6)	-49	-41	-90
Estimated impact of policies (7/1)	-6%	-7%	-6%
Bill after policies (1 + 7)	783	586	1,369
Of which:			
Wholesale energy costs	402 (51%)	235 (40%)	637 (46%)
Network costs	147 (19%)	139 (24%)	286 (21%)
Supplier costs and margins	167 (21%)	124 (21%)	291 (21%)
Energy and climate change policies	30 (4%)	59 (10%)	89 (7%)
VAT @ 5%	37 (5%)	29 (5%)	66 (5%)

Source: DECC, [Estimated impacts of energy and climate change policies on energy prices and bills: 2014](#). Supplementary tables.

Table 2: Estimated average impact of energy and climate change policies on household consumption

	MWh	
	Gas	Electricity
	2014	
1. Consumption before policies	16.6	4.5
2. Impact of energy efficiency policies	-1.6	-0.7
Estimated impact of policies	-10%	-17%
Of which:		
Green Deal and ECO	0.03	-0.1
Smart meters	0.0	0.0
Historic energy efficiency policies	-0.7	-0.3
Products policy	0.3	-0.4
Building regulations	-1.3	-
Private rented sector regulations	-	-
3. Consumption after policies (1 + 2)	15.0	3.7

Source: DECC, [Estimated impacts of energy and climate change policies on energy prices and bills: 2014](#). Supplementary tables.

Table 3: Estimated average impact of energy and climate change policies on household energy prices

<i>Real 2014</i>	<i>£/MWh</i>	
	<i>2014</i>	
	<i>Gas</i>	<i>Electricity</i>
1. Price before policies	50	140
2. Price impact of policies	2	23
Of which:		
ECO	1	4
Smart meters	0.1	0.3
Small-scale FITs	-	2
RO	-	10
CfD	-	-
Capacity Market gross auction cost	-	-
EU ETS carbon cost	-	2
Carbon Price Floor carbon cost	-	4
Other wholesale price effects of policies	-	-1
WHD support cost	0.5	2
3. VAT impact of policies (2 x 5%)	0.1	1
4. Estimated impact of policies, £ (2 + 3)	2	24
Estimated impact of policies (4/1)	4%	17%
Price after policies (1 + 4)	52	164
Of which:		
Wholesale energy costs	27 (51%)	63 (38%)
Network costs	10 (19%)	37 (23%)
Supplier costs and margins	11 (21%)	33 (20%)
Energy and climate change policies	2 (4%)	23 (14%)
VAT @ 5%	2 (5%)	8 (5%)

Source: DECC, [Estimated impacts of energy and climate change policies on energy prices and bills: 2014](#). Supplementary tables.

Annex B: The number of GB domestic customer accounts by the UK's largest energy suppliers

Domestic customer accounts – numbers at 31 January 2015

<i>Supplier</i>	<i>Total domestic customer accounts ('000)</i>
British Gas	[X]
EDF Energy	[X]
E.ON	[X]
First Utility	[X]
Ovo Energy	[X]
RWE	[X]
Scottish Power	[X]
SSE	[X]
Utility Warehouse	[X]
Other suppliers	[X]
Total	[X]

Source: Cornwall Energy