

## **Energy Company Obligation: Help to heat – transitioning to a fuel poverty focussed obligation**

### **Department of Energy and Climate Change**

**RPC rating: fit for purpose**

#### **Description of proposal**

The Energy Company Obligation (ECO) places obligations on larger energy suppliers to deliver energy efficiency measures to domestic premises in the UK. The Government is proposing to replace the existing ECO commitments with a new cheaper scheme, which will run for a period of five years up to March 2022. The new scheme is likely to have significantly different administrative rules and eligibility criteria to the existing scheme. To ensure a smooth transition to the new scheme, the Government proposes to extend the current ECO scheme by one year to April 2018. This IA and a subsequent final stage IA cover the transition period. The Department intends to submit further IAs covering the full five-year period.

The Department is consulting on whether, for the transition year, to revise, retain or remove the three main elements of ECO:

1. The Affordable Warmth (AW) obligation, whereby energy companies are required to install energy efficiency measures in low income households.
2. The Carbon Emissions Reduction Obligation (CERO) whereby energy companies must achieve a certain reduction in carbon emissions.
3. The Carbon Saving Communities Obligation (CSCO) targets households in specified areas to improve energy efficiency standards.

Under the preferred option, the AW obligation will be more focussed on households in or at risk of fuel poverty, the CERO will require a smaller reduction in emissions, and the CSCO will be removed.

#### **Impacts of proposal**

The IA explains that energy companies will incur the direct cost of the material and labour costs associated with the installation of energy efficiency measures along with the scheme's administration costs. The Department estimates that the current scheme costs energy companies £840 million each year. Under the transitional scheme this is expected to fall to £620 million in the transition year. Therefore, the

proposal will reduce the regulatory burden on business by £220 million in the transition year.

The IA sets out a number of other monetised benefits including energy savings and increased comfort for consumers, increased air quality, and reduced carbon emissions.

The Department has not calculated the EANCB and scoring under the business impact target at this stage. The change in regulatory burden and scoring will be assessed in the IA at final stage (paragraph 184). This position has been agreed between the Department, BRE and the RPC.

This proposal is a qualifying regulatory provision that will score under the business impact target.

## Quality of submission

The IA provides a detailed assessment of the proposed changes to the ECO scheme for the transition year. However, at final stage, the Department must provide further evidence to support its estimates for the reduction in administrative costs. The Department intends to consult on three options where the focus will be on possible changes to the three main elements of the obligations on suppliers. While, as an extension of the current scheme, there is no requirement to discuss any alternatives to regulation, the Department should note that the IA covering the five year period would benefit from such a discussion as part of the consideration of possible options.

The ECO scheme is an ongoing policy intervention, which is being delivered through a series of successive, time-bound phases. The nature and level of obligation is set periodically, in secondary legislation, along with a target date for achievement of the obligation. Therefore, each phase has to be assessed separately in advance of the relevant obligation coming into force. This measure should be scored in accordance with the new better regulation framework and in line with the legal position under the Small Business, Enterprise and Employment Act. The RPC is awaiting further guidance on time limited measures. The transition year should be scored against the BIT for one year, with the subsequent IA scoring the further four years.

The proposal is of domestic origin. A small and micro business assessment (SaMBA) is, therefore, required. The IA explains that businesses directly affected by the proposals are large energy suppliers with over 250,000 customers supplying over 400GWh of electricity or 2,000GWh of gas per year. While some small and micro businesses will exist within the supply chain, the IA explains that these should expect a positive impact on their profits when compared to the counterfactual (paragraphs 185 to 186). The IA states that while independent energy suppliers

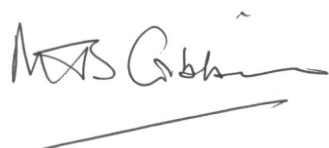
exist, many of these are too small to meet the requirements of ECO and are therefore exempt. However, the Department recognises that such suppliers' market share has grown over the period of ECO.

### Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	Not provided at this stage
Business net present value	-£620 million
Societal net present value	£174 million

### RPC assessment

Classification	Qualifying regulatory provision (IN)
Small and micro business assessment	Sufficient



**Michael Gibbons CBE**, Chairman