



Department
of Energy &
Climate Change

Amber Rudd MP

Parliamentary Under-Secretary of State

Department of Energy & Climate Change

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Dermot Nolan
Group Chief Executive
Office of Gas and Electricity Markets
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www.gov.uk

24th March 2014

Dear Dermot,

RE: Updated Direction to Ofgem on Article 7(6) of the Energy Efficiency Directive in relation to ECO 2 (April 2015 to March 2017)

I am writing with a direction to the Gas and Electricity Markets Authority (“the Authority”) in relation to the carrying out of its functions under the Electricity and Gas (Energy Company Obligation) Order 2012 (as amended) (the “ECO 1 Order”) and the Electricity and Gas (Energy Company Obligation) Order 2014 (the “ECO 2 Order”) which came into force on 5th December 2014. As you know, these schemes are commonly referred to by Government and industry as “ECO”, and both the ECO 1 Order and the ECO 2 Order provide that ECO is administered by the Authority.

This direction is issued under sections 41A(9B) and 41B(5) of the Electricity Act 1989 and sections 33BC(9B) and 33BD(5) of the Gas Act 1986 and concerns the Authority’s performance of its functions of: –

- (a) determining the savings that are to be attributed to ECO measures,
- (b) seeking information or evidence from suppliers to demonstrate that they are complying with their obligations under ECO, and
- (c) determining whether a supplier has met its obligations.

Article 7 of Directive 2012/27/EU of the European Parliament and the Council on energy efficiency (the “Energy Efficiency Directive”) requires the UK Government to achieve an energy savings target by the end of 2020, by means of an energy efficiency obligation scheme and/or other policy measures. The Government’s energy efficiency obligation scheme for the UK is the Energy Company Obligation for the period January 2013 to March 2015 (established under the “ECO 1 Order”), and the Energy Company Obligation for the period April 2015 to March 2017 (established under the “ECO 2 Order”).

Article 7(6) of the Energy Efficiency Directive requires Member States to put in place measurement, control and verification systems for energy efficiency obligation schemes 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.

Article 7(6) further requires that this measurement, control and verification shall be conducted independently of the obligated parties.

I recognise, of course, that the Authority has always subjected energy efficiency measures installed under ECO to technical monitoring and audit requirements.

As a consequence of article 7(6) of the Energy Efficiency Directive, however, I wrote to you on 9 February 2015 to formally direct the Authority, to continue with technical monitoring, audit and fraud prevention requirements in relation to the obligation period under the ECO 1 Order (which finishes at the end of March 2015).

I am now writing to formally direct the Authority, in the carrying out of its functions, to continue with technical monitoring, audit and fraud prevention requirements in relation to the obligation period under the ECO 2 Order (which starts in April 2015 and finishes at the end of March 2017). This is to be on the basis set out in Chapters 7, 7a, 7b and 9 of Ofgem's "Energy Company Obligation 2015-17 (ECO 2) Guidance: Delivery" published on 2 March 2015 and which is publicly available on Ofgem's website at: (<https://www.ofgem.gov.uk/ofgem-publications/94363/ecoguidance-delivery-pdf>) (the "Supplier Guidance"). In particular, I require that the measurement, control and verification of measures which is carried out under those requirements continue to provide for:-

(a) monitoring and audit which is carried out independently of obligated suppliers (either by or on behalf of Ofgem itself or by independent, suitably qualified monitoring agents commissioned by suppliers); and

(b) at least a statistically significant proportion and representative sample of ECO measures to be verified.

I am conscious that it may be appropriate to revise aspects of the detailed monitoring requirements for ECO from time to time. This may lead to our organisations agreeing that some changes from the processes currently described in Chapters 7, 7a, 7b and 9 of the Supplier Guidance are desirable. Any such proposed changes will of course need to provide for a monitoring system which continues to comply with article 7(6) of the Energy Efficiency Directive.

I would like to take this opportunity to thank you and your ECO team for your continued hard work and support in delivering the ECO scheme.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read 'Amber Rudd', is positioned above the printed name.

AMBER RUDD