



## Committee on Fuel Poverty

ECO Consultation

27<sup>th</sup> April 2018

Dear ECO team,

### **ENERGY COMPANY OBLIGATION : ECO 3, 2018 TO 2022**

On behalf of the Committee on Fuel Poverty (CFP), please find below our response to the consultation on the Energy Company Obligation - ECO 3: 2018-22.

The CFP is an advisory Non-Departmental Public Body whose role is to advise the Government on policies aimed at reducing fuel poverty in England. You can find more background on the CFP, including its remit and latest annual report, [here](#). Details of the members of the Committee are [here](#).

### **Introduction**

**We understand and broadly support the Government's aim to expand the reach of ECO to reach more low income households and help reduce their bills. However, the Committee's response is governed by our remit to advise the Government on meeting its fuel poverty milestones under the current Low Income-High Cost (LIHC) fuel poverty definition.**

**The fuel poverty strategy for England has two milestones (as many as reasonably practicable fuel poor homes at Band E or above by 2020 and by Band D and above by 2025). Furthermore, it has a legally binding 2030 target of as many as reasonably practicable fuel poor homes at Band C or above. In our 2017 Annual Report, we identified that to deliver the 2030 target would cost about £15.4 billion and that even if ECO 2018-2022 had an improved focus on assisting fuel poor households, there was a funding gap of circa £14.4 billion.**

**Continuing to improve the focus of ECO on fuel poor homes is critical to enable Government to meet its fuel poverty strategy for England. ECO is the only Government scheme in England that provides householders with assistance to improve the energy efficiency of their homes.**

**The need to further sharpen the focus of 2018/22 ECO on fuel poor homes should also be seen in the context that the ECO programme has been reduced from a starting budget of £1.4bn to £0.64bn per year for 2017/18. Although the headline budget for the 2018/22 ECO programme remains at £0.64 billion per year, Option 1 proposes that a percentage of funds will be used for innovation where guaranteed energy/bill savings are uncertain.**

## **Responses to consultation questions**

### ***1. Do you agree with the current supplier obligation threshold?***

No.

There are now 15 obligated suppliers and their share of the market has grown substantially, and continues to do so. However, most of these suppliers passed the obligation threshold when there was much less competition so that it was easier for them to maintain growth and manage their new obligation costs.

With over 60 active suppliers in the market today and with a cost differential between obligated and non-obligated suppliers of c£50, the threshold is now causing a competitive distortion. Several companies close to 250k customers have publicly stated that they have stopped growing to avoid crossing the threshold and therefore avoid incurring the cost of delivering ECO. Given the fierce competition that exists within the engaged segment of the energy market, i.e. that element occupied by independent suppliers, smaller unobligated new suppliers would be able to undercut their cheapest tariffs gaining customers from those recently obligated suppliers, meaning sustained growth is more expensive with the threshold set at 250k.

There is also a strong argument that all energy suppliers should share the costs of obligation provision equally. ECO, along with other policy costs, is already collected in a regressive manner, greater costs being paid by those less able to pay. Lowering the threshold or placing the obligation on all suppliers would socialise costs in a much fairer manner and help ensure that whichever energy supplier you pick, they are obligated to provide the same level of assistance.

### ***2. Do you agree that we should amend the taper mechanism to a supplier allowance?***

We agree.

### ***3. Do you agree with our proposed obligation phases for the future scheme?***

We agree. But also believe there should be some flexibility included to allow for back loading if elements such as innovation prove to be more cost effective than expected

### ***4. Do you agree that an unlimited amount of Affordable Warmth (from 1<sup>st</sup> April 2017) and up to 20% CERO delivery should be allowed to be carried over to the future scheme (with the exception of oil and coal heating systems)?***

We agree with the carry over proposal. But would ask that BEIS review this to ensure the stated intent of helping alleviate possible supply chain contraction and stop start work that can stop innovation and investment. We would also recommend that CERO be capped at 10% to help maximise delivery to the fuel poor.

### ***5. Is carry-under necessary and do you agree with our planned approach?***

While it is obviously preferable that suppliers complete their obligation on time, we agree with the carry under principle to protect overall costs passed through to consumers. We believe it would assist to allow flexibility in both the carry under and forward to allow

meaningful area based schemes to be delivered, and allow match funding to be found across different delivery periods.

**6. Do you agree with our planned approach to early delivery during a potential gap between schemes?**

While it is unfortunate that the delay to this consultation has meant that such an approach is necessary, we are happy that it presents a logical solution for obligated parties and should help alleviate any possible breaks in delivery that could harm the supply chain with the associated impact on jobs and investment.

Notwithstanding the above we must stress that measures are well targeted at EPC Band F & G households on the lowest incomes.

**7. Do you agree with the proposal to increase the Affordable Warmth obligation so that it represents 100% of the future scheme?**

**Yes. However, of the three Policy Options presented in the Impact Assessment, we recommend using the Affordable Warmth definition in Option 2 as it (a) provides a better focus on fuel poor households than Option 1 and (b) has the best economics for the 2018/22 programme.**

Moving to 100% Affordable Warmth enables the full ECO programme to be focused on those most in need. This is consistent with Government's stated intention to transition to a fuel poverty focused obligation (see section 4.1 of Impact Assessment). This transition began with the current 2017/18 ECO programme which improved the overall focus on fuel poor homes from circa 10% in the previous ECO to circa 30%.

**We do not support Option 1 as the changes made to the Affordable Warmth definition result in only 28% of energy efficiency measures being received by fuel poor homes.** The main changes made increase the eligibility for ECO from 4.7 million households to 6.5 million by including households who are vulnerable or in less well-off circumstances. While we accept and broadly support the Government's desire to help low income households save money on their energy bills, it is clearly of concern that there remains a significant funding gap to deliver the fuel poverty strategy.

This position is consistent with the guiding principles of the Government's fuel poverty strategy which stresses the need to prioritise assistance to the 2.5m households in England who are in fuel poverty. The strategy recognises that there are also 3.3m households who have incomes below the poverty line but who have energy needs which are below the national median level. However the latter 3.3m are not classified as being in fuel poverty under the LIHC measurement adopted by the Government for England.

The Impact Assessment Table 7 shows that the preferred Option 1 will only have a small impact on upgrading the energy efficiency of fuel poor homes. In particular, it does not focus sufficiently on upgrading the Band F and G fuel poor households which are in the deepest level of fuel poverty. At the end of 2021, there will still be 31% of fuel poor households in Band E/F/G properties. Compared with the baseline of when the fuel poverty strategy started (57%), this shows that the 2025 milestone is at a high risk of being missed. In addition, the table shows that the 2020 Band E milestone will be missed as there will still be 8% of fuel poor homes living in band E/G properties compared with a baseline when the strategy commenced of 12%.

**Of the three options presented, we feel Option 2 should have been selected as the preferred option. Its definition of Affordable Warmth appears to provide the best impact on assisting fuel poor homes and it also has a far greater economic value than option 1 (£383 million).**

The Committee on Fuel Poverty had expected that the Consultation would contain options that further improved ECO's focus on fuel poor homes beyond the current 30%. We are disappointed that none have been presented and we re-iterate the need to improve the focus of ECO3 on fuel poor homes. **We therefore recommend that further options are developed with changes to the Affordable Warmth definition that maximise the focus of ECO 3 on delivering the fuel poverty strategy.** We have set out in the Annex to this document our supporting arguments in favour of Option 2.

**8. Do you agree with our proposal to include a rural sub-obligation representing 15% of the total obligation.**

We agree that a rural sub-obligation should be included and note that the 15% is now applied to all of the budget via Affordable Warmth. However, we disagree that the definition of rural (areas that are outside of settlements of 10,000) as used both in the current ECO scheme and as proposed in the ECO3 scheme is appropriate. A more refined definition of rural needs to be applied to ensure the 263,000 fuel poor households in villages/hamlets receive assistance. This is critically important as 99,000 of these are Band F/G homes. Additionally rural areas off the gas grid should be included given the high number of households in fuel poverty who do not have access to network gas heating.

**9. Do you agree with the proposal to include the disability benefits noted in Table 2 above included within the ECO3 eligibility criteria for private tenure households?**

Given the increased costs faced by many disabled people (Scope estimate an additional £570 per annum), there is clearly sense in expanding ECO to this group, however, given that total funds have not been increased we feel that those households in fuel poverty should be clearly prioritised (please see Q7 for more detail). The average income of fuel poor households is just over £10,000 and a key principle the Government has applied to its strategy is to assist those in the worst circumstances first. Where a significant client contribution has been required for measures under ECO2 those who have been on very low fixed incomes for some years will not have been able to access ECO funding. It is important that those households are not left behind under ECO 3.

**10. Do you agree that Child Benefit subject to an equivalised income threshold should be within the ECO3 eligibility criteria for private tenure households?**

We agree, to ensure as many fuel poor households are reached as possible. But given that total funds have not been increased we feel that households in fuel poverty should be clearly prioritised (see previous answers). As inferred in the consultation document, getting the balance right will be critical to ensure that fuel poor households with children are prioritised. The risk will be that low income households NOT in fuel poverty could be easier to identify and therefore receive help at the expense of fuel poor households.

Furthermore, the proposed equivalised income level of £25,500 is inconsistent with guidance given by Government for the ECO Flex scheme which says that an income threshold of £17,400 is broadly consistent with the Low Income/High Cost indicator. If a threshold level is set, it should be consistent with the fuel poverty strategy.

**11. Do you agree with the proposal to remove the income thresholds under the future ECO scheme for households in receipt of Universal Credit and Tax Credits?**

We agree that efforts should be made to simplify the scheme but not at the cost of diluting the scheme's focus on fuel poor homes. As no data has been provided, we cannot comment further. Under Universal Credit (UC) this is likely to result in a cruder measure of eligibility as there only 2 income threshold measures. UC provides a maximum of £20,000 for couples or households with children and £13,400 for single person households. We will need to better understand the impact of this to comment further.

**12. Do you agree with the proposal that self-declaration is used for proving eligibility under the income threshold requirement attached to Child Benefit and for the benefits administered by Veterans UK?**

Pending sight of final guidance, and stressing that minimising opportunities for fraud must be central to any self-declaration scheme, we agree that this would seem to be a pragmatic solution outside of the availability of data matching.

**13. Do you agree with the proposal to retain eligibility for social tenure housing only for those properties with an EPC Band rating of E, F or G?**

We agree.

**14. Please provide evidence on how the mapping tool described above could reduce the search costs of identifying eligible households, quantifying the cost reduction where possible.**

We believe there could be great opportunities with this with more households benefiting as a result. Combined with ECO Flex working with local authorities who know more about their housing stock and utilising mapping that can identify housing groups could also meet the proportionality test required to enable data matching thereby allowing more efficient delivery of measures to those who need them most.

Further investigation is needed, but the overall ambition is welcomed by the committee.

**15. Do you agree that, subject to supportive evidence being available, up to 25% of ECO can be delivered through flexible eligibility?**

The stated aim of the ECO Flexibility Scheme is to introduce a new flexible approach through which local authorities can refer households to suppliers for support, in particular households in fuel poverty or with occupants on low incomes and vulnerable to the effects of cold homes. As noted in the Impact Assessment, very little data has been gathered on the effectiveness of this scheme and no analysis has been performed to identify what it is delivering. The benefits of Ecoflex are identified in the consultation as both reducing search costs and identifying fuel poor low income households and we would expect to see metrics for both in analysis of effectiveness.

Until greater levels of data matching are available to ECO, allowing up to 25% of the obligation to be met through flexibility would seem to be a sensible approach since Local Authorities are likely to be able to identify homes at risk of or being in fuel poverty. However, until a full analysis has been carried out, no increase in the 10% should be made. If such analysis shows that the Flexible Eligibility scheme is a highly productive way of getting

assistance to fuel poor homes, if it is economically viable our preference would be to see greater priority given to those households in fuel poverty over low income households in general.

**16. Do you agree with our proposal to exclude the installation or repair of oil and coal fuelled heating systems?**

No. We agree with Government’s stated ambition in the Clean Growth Strategy to phase out the installation of high carbon fossil fuel heating in new and existing off gas grid residential buildings (which are mostly in rural areas) during the 2020s, starting with new homes as these lend themselves more readily to other forms of low carbon heating. However, we think that this ambition should be premised by the same caveats used in the aspiration ‘that as many homes as possible are improved to EPC Band C by 2035’, **‘where practical, cost-effective and affordable’**. It needs to be recognised that on a pence-per-kilowatt-hour basis, oil heating is significantly lower cost than heating by electricity.

Forecast energy costs

Treasury Green Book central price for 2025	Retail	Long Run Variable Cost
Electricity p/kwh	19.88	11.03
Gas p/kwh	4.57	2.06
Oil p per litre	46.1	40.5
Oil p/kwh	4.50 (note: converted to p/kwh at 10.25kWh/ltr)	3.95 (note: converted to p/kwh at 10.25kWh/ltr)

(Source: [Green Book supplementary guidance: valuation of energy use and greenhouse gas emissions for appraisal - Supplementary guidance to Treasury’s Green Book providing government analysts with rules for valuing energy usage and greenhouse gas emissions.](#))

Therefore, for fuel poor homes who are off-gas grid, before removing assistance from homes who heat with oil/coal, we recommend that the Government introduces a programme that enables these households to move away from heating with oil/coal/LP and onto heating with renewable energy, **without suffering an economic penalty which would drive them deeper into fuel poverty.** It should be recognised that 204,000 fuel poor homes heat with means other than gas or electricity. These homes have an average fuel poverty gap of £798 per year. 143,000 heat with oil and have an average fuel poverty gap of £805 per year. This is 17% of all households in England who heat with oil. Given that fuel poor households only make up 11% of all households in England, it can be seen that extreme care needs to be taken to achieve the ambition to phase out the use of oil for heating. The Clean Growth Strategy states that the ambition to move away from oil should start in new build off-gas grid homes. We therefore think that it is highly detrimental to immediately stop assistance to fuel poor households in existing housing stock who use oil to heat today. Until such time as a Government programme is introduced to assist fuel poor homes to move away from using oil/coal, ECO should not discriminate between oil/coal users and gas/electricity users and a broad range of solutions should be available under ECO to help householders. Furthermore, the definition of ‘rural obligation’ should include a requirement to take ECO measures to fuel poor off-gas grid homes in villages and hamlets.

**17. Do you agree with the broadening of the criteria for the installation of FTCH?**

We agree that qualifying families should be able to benefit from ECO, but given that total funds have not been increased, we believe that those LIHC households should clearly be prioritised. This is particularly pertinent for properties located in truly rural areas (villages/hamlets) and off the gas grid.

**18. Do you agree with our proposed approach to limit the replacement of all broken heating systems to the equivalent of 35,000 per year, (excluding the installation of FTCH, renewable and district heating systems, inefficient heating upgrades delivered alongside insulation and heating controls) and our proposals for limiting certain heating repairs?**

We don't believe there should be a limit. Also where FTCH is installed it should be accompanied by insulation measures where needed. We would also ask that where new heating controls are installed the controls must be straightforward to use and thoroughly explained to the householder.

**19. Do you agree with our proposal to allow certain heating system upgrades where they are delivered alongside certain insulation measures?**

We also feel that draught proofing should be included as an allowable measure, which will stop heat escaping through any badly fitted windows and doors.

**20. Do you agree with our proposal to include a requirement to treat a minimum number of solid walled homes? What technologies or combinations of technologies could cost- effectively deliver the same bill saving outcomes as SWI?**

We agree that there should be a minimum target for treating solid wall homes but are disappointed at the level being set at only 17,000 homes per annum. This is a reduction from the current 21,000 per year for ECO2. Given the UK has c8.5m solid walled properties, this seems a very unambitious target. Furthermore, it does not recognise that there are 1.08 million fuel poor homes that have uninsulated solid walls.

In their report 'Energy Prices and Bills – impacts of meeting carbon budgets' the Committee on Climate Change recommended installing an average of 70,000 solid wall insulations per year in fuel poor homes. Whilst the Committee on Fuel Poverty recognise that solid wall insulation is very expensive and that innovation may enable more economic ways of providing the same benefits, we recommend setting a higher target for solid wall insulations per year in order to drive greater levels of innovation. We further recommend effort on fuel poor homes with a particular emphasis on Band E/F/G fuel poor homes who heat with oil/coal.

**21. Alternatively, do you believe that an SWI-only minimum should be continued?**

See above.

**22. Do you agree that the minimum is set at the right level (17,000 homes treated per annum)?**

No we disagree. 44% of fuel poor households have un-insulated solid walls. As the committee has previously stated with respect to the PRS sector, there should be an expectation for private landlords to help fund measures to improve the quality of life of their tenants.

**23. Do you think a 66% minimum requirement of eligible households should be introduced under Affordable Warmth for the Solid Wall Insulation and District Heating? Please suggest an alternative preferred percentage, and supporting evidence where applicable.**

No strong views or evidence to offer.

**24. Do you think the infill mechanism should be implemented using the same area based methodologies used for the current flexible eligibility in-fill mechanism? Please suggest an alternative preferred mechanism, and supporting evidence where applicable.**

We agree.

**25. Do you agree that all eligible and in-fill measures should be notified together and within six months after the first measure was completed?**

We agree.

**26. Do you agree that the proportion of homes in the same building, adjacent buildings or the same terrace that can receive solid wall insulation as 'in-fill' under ECO flexible eligibility should be limited to 50%?**

We agree.

**27. Do you agree that any measures which receive the RHI should not be eligible for ECO?**

Only if there is a ring-fenced amount of RHI for the social sector and would recommend this doesn't apply to the innovation element.

**28. Do you agree with our approach for scoring ECO3 measures?**

Need extra guidance on customer protection where district heating is installed.

Where the lifetime savings calculations have been increased for certain measures (including CWI) these need to be matched with extended product warranties.

**29. In the event that separate rules are made for ECO in Scotland, do you agree with the proposal to apportion an individual supplier's targets between Scotland and the rest of GB?**

**(a) apportion the cost envelope between England & Wales and Scotland using a methodology based on the total amount of gas and electricity supplied in each region, with an equal weighting for each fuel?**



***(b) that the calculation is based on an average taken from the last three years of domestic gas and electricity consumption data published annually in December by BEIS?***

We agree.

***30. In the event that separate rules are made for ECO in Scotland, do you agree with the proposal to apportion an individual supplier's targets between Scotland and the rest of GB?***

We agree.

***31. Do you agree that obligated suppliers should have the option of delivering a proportion of their obligation through innovative products, technologies and processes and, if so, where the maximum allowed should sit between 10% and 20%?***

***Please provide reasons, and if applicable, any alternative preferred proposals.***

Yes. We would propose the lower end of the scale in the first two years to ensure lessons are learned but this could be increased up to 20% for years 3 and 4 if the products/technologies/approaches proved to be beneficial to the recipients following both a technical performance evaluation and a more qualitative evaluation with the householder involvement.

It would be perverse to spend a high proportion of the budget on potentially more expensive measures where existing measures and approaches can demonstrate a high rate of lifetime energy bill savings.

However, for many households the current set of allowable measures will not be appropriate, or may be more expensive than alternative products and technologies. There are a number of products already market ready which could be appropriate for ECO 3 households who are in fuel poverty, on low incomes and may be in vulnerable circumstances. The Committee is therefore enthusiastic about the opportunities for innovation under ECO 3.

Whatever product or technology is ultimately allowed under ECO, it must be appropriate not just to the property but also to the residents if they are required to interact with, control or manage the appliances. ECO 3 should not be used purely as a way testing new products. It must retain its focus of providing energy bill savings for those who struggle to pay their energy bills and whose homes are often under-heated.

The Committee is also mindful that whilst ECO is becoming a more progressive policy, the costs are passed on to all consumers and those living in fuel poverty are already contributing disproportionately to policy costs on their energy bills.

It is also vitally important that the evaluation of any new innovation involves the views of the householder. It will be insufficient to assess the longer term contribution of innovative measures based purely on the technical performance by using NEED data and without considering household changes, degree days, and customer usability.

More expensive measures may not be appropriate under ECO 3 if the householder is required to make a significant financial contribution. In most instances, the poorest households will be unable to contribute anything towards the cost and if we are to meet the Government's Fuel Poverty Strategy principle of helping the worst first, we need to ensure that client contributions are either zero or very modest.

Ultimately though, given that the total funds for ECO3 have not been increased, any innovative measures must be able demonstrably reduce fuel poverty. Otherwise additional funds should be found to support this initiative.

**32. Do you agree with the proposed routes through which ECO can support innovation?**

There are three potential routes proposed to support innovation.

The Committee supports the proposed outcomes for innovation as set out in paragraph 143 and any innovation project under ECO should demonstrate who it will achieve a significant lifetime bill saving outcome for customers and result in an improved customer experience.

We also support the Technology Readiness Level 8 or 9 (depending on the product) as more vulnerable households need to be confident that the products being installed have already been fully tested and are market ready. Customer redress must be put in place where innovation fails to deliver the anticipated outcomes.

The selection of some of the products may need to be carried out by qualified building surveyors not just Domestic Energy Assessors to be certain that they will not compromise the existing fabric of the dwelling.

1. Demonstration Actions

This is perhaps the riskiest of all routes as products will not have been field tested in a live environment. This is the least favoured route. Any installations under this route would need to be removed if they fail to provide positive outcomes to the resident.

This route would be acceptable as long as there is ongoing monitoring and customer liaison – with contracts in place to remove any underperforming products and replace them with conventional products.

2. Innovation score uplifts

This route has fewer risks both for the resident and the ECO obligated parties and their delivery partners. There are new products that have been available to the able-to-pay market that are now both fully tested and have reduced in price to enable the ECO funding to stretch further and offer confidence in the performance of the products to more vulnerable and low income residents who may be less able to seek redress if the technology under performs. It would seem sensible to time limit any uplift scores until they have been assessed and the approach suggested in paragraph 150 seems sensible

3. In-situ performance actions

Combining measures to provide a holistic service could reduce overall delivery costs to meet Band C by 2030 for all fuel poor households. Low cost measures such as draught proofing combined with new insulation products and installation techniques could bring greater comfort as well as bill savings and some cheaper measures have failed to attract a carbon score under previous ECO schemes despite having helped to reduce heat loss.

The monitoring process proposed which relies solely on NEED data before and after installation is flawed and a more robust evaluation and monitoring of performance based on actual bills and customer feedback would be more beneficial.

The additional monitoring set out in the Longer term vision section (paragraphs 154-159 ) has considerable merit as more sophisticated means of measuring product performance are introduced to the market. However, where customer interface is required there must be very explicit advice and support. Some monitoring equipment fails where it relies on constant

power or internet connection (not guaranteed in low income households using PPM in particular); or where they require regular battery changes, can be moved to inappropriate locations, can be lost or damaged.

Lessons should be learned from innovation trials run by NEA, Energy Catapult, EST and others where products, approaches, mix of measures etc. have been tested to give greater reassurance to both suppliers and their customers

**33. Are there other ways in which suppliers can meet their targets more cost effectively, in order to maximise energy bill savings achieved through the scheme, while also ensuring that work is done to the right standards?**

The Committee would wish to see a focus on F and G rated properties for the innovation element of the scheme – to offer more effective, cheaper ways of reducing the highest levels of fuel poverty gap and meet the 2020 fuel poverty target. This will require a specific focus on very rural properties off the gas grid (since oil and solid fuel - boilers will now be taken out of the scheme) and in the private rented sector.

However, this conflicts with the need for extra support for residents and the need for ECO top up which would probably be more readily available from the social housing sector

**34. Do you think the one month reporting period should be extended? Please provide reasons, including any alternative preferred proposals, and supporting evidence where applicable.**

N/A

**35. If the one month reporting period was extended, do you think the 5% extensions provision could be removed?**

N/A

**36. Do you agree with the proposal to retain the mechanism for the trading of obligations?**

We agree. Relating to paragraph 181 we are concerned that simply monitoring contributions offers sufficient protection for the poorest of households and would therefore suggest a very low cap to ensure consumer protection for such households who are asked to contribute.

**37. Do you agree that once the quality mark is established and functional, and where we are satisfied with the guarantee principles enforced through the quality mark, all solid wall, cavity wall, park home and room in roof insulation delivered under the scheme should be accompanied by a quality mark approved guarantee in order to receive the standard applicable lifetime?**

We agree.

**38. Once the quality mark requirements are fully established, functional and enforced, do you agree that in order for installers to deliver ECO measures under the quality mark, they should be quality mark approved and compliant with quality mark requirements ?**

We agree.

**39. Do you agree that all ECO measures referenced in PAS 2030 and PAS 2035 should be installed in accordance with PAS2035 and the latest version of the PAS 2030?**

A high standard of workmanship must be assured. The committee is aware of some failed schemes under CERT/CESP where the installation standards were inadequate and have led to long term damage of properties. Under ECO improved customer redress has resulted in better customer protection when work is sub-standard. Every attempt must be made to ensure high quality specification, installation and advice is provided throughout the supply chain.

**40. Do you agree that installers delivering measures referenced in PAS 2030 and PAS 2035 should be certified against PAS 2035 and the latest version of PAS 2030?**

See above.

**41. Do you consider that heat networks installed under ECO, or connections to heat networks should require specific consumer protection standards?**

We do consider that there should be consumer protection applied.

**42. The Government invites views on the general requirements set out in this consultation and the illustrative draft of the ECO Order.**

The Government should review administration arrangements for ECO beyond 2022 and Ofgem should demonstrate value for money.

We support the longer-term vision of the Government for ECO, but would ask that when looking at technology gains and innovation that Government, obligated parties and the supply chain look at how to ensure those in most need are the first recipients of new initiatives and technology.

Yours sincerely,

**David R Blakemore**  
Chair, Committee on Fuel Poverty

## Policy Option 2: Supporting arguments

The Committee believes that Policy Option 2 (set out in the Impact Assessment) should have been selected as the preferred option as it maintains the status quo with the current ECO2 design, has a reasonable focus on fuel poverty and has an equity-weighted NPV of £383 million more than Option 1. The Impact assessment discounts this £383 million of value and therefore selects Option 1. We believe that the reasons given for discounting the superior equity-weighted value are not substantive. As was the case in the ECO2 Impact Assessment, the equity-weighted economics should hold as the stated objective is to improve the focus of ECO on fuel poor homes.

There were three main reasons given in the Impact assessment for not recognising the £383 million additional equity-weighted value for Option 2 over Option 1:

- a) The analysis assumes the same search costs per measure under all three options (and that the search costs remain constant over time). In reality, the highest search costs per measure are likely to occur under Option 2 (which has the smallest pool of eligible households) and lowest under the preferred option (which has the largest pool of eligible households). The impact of varying the search costs and the 'findability' of eligible households is discussed further in Section 10, and shows that increasing the assumed search costs, or reducing the findability of eligible households, can substantially increase the costs of meeting the ECO obligations. Over the 3.5 years of the scheme search costs under Option 2 are also most likely to increase, given the more limited size of the pool.
- b) The equity weighting is based on the income distribution of the current occupants of the household. BEIS analysis of the English Housing Survey suggests there is considerable churn in the housing market (i.e. people moving house) and movements in household income, meaning people may move in and out of fuel poverty over time. This suggests that in the long run, Option 1 may have the highest NPV, as it improves the energy efficiency of the most households (which protects people who are not currently fuel poor, but may become fuel poor in the future).
- c) Widening the eligible pool leads to broadly similar levels of fuel poor households in England being treated, meaning that, in the short term, similar progress against the fuel poverty milestones would be expected.

The Committee supports Option 2 as:

- a) The concern about higher search costs appears to be based on information that was not rigorously validated (the search costs in the Impact assessment were gathered from 'informal evidence from ECO supply chain about the range of search costs' – see note 91 from the IA).
- b) The findability sensitivities in Table 10 are extremely wide. When using very wide sensitivities, a probability of them occurring should be applied so as to discount the very wide economic variations that they could cause. Table 10 does show a very high downside for the low findability cases, but a probability should be applied to this before using the implied 100% probability to discount the use of Option 2.
- c) The Committee on Fuel poverty recognises that churn is an issue. It is due to a number of factors including change in household circumstances (*e.g. drop in income, additional household members and life changing events such as illness*

or redundancy) as well as the energy efficiency level of the home that they live in. The Government's 2017 Fuel Poverty Statistics show that there are four classes of households with only the first 'Low Income High Cost' being categorised as 'in fuel poverty':

Quadrant of the Low Income High Costs Matrix	Number of households (000's)	Proportion of households that are in this group (%)	Median after housing costs (AHC), equivalised income (£)
Low Income High Costs	2,502	11.0	10,118
Low Income Low Costs	3,264	14.4	10,062
High Income Low Costs	8,066	35.6	24,282
High Income High Costs	8,825	38.9	27,802
<b>All households</b>	<b>22,657</b>	<b>100.0</b>	<b>21,333</b>

Churn in the fuel poor occurs from events such as:

- a) A household with a Low Income who live in a Low Cost home, move to a High Cost home.
- b) A household with a Low Income who live in a High Cost home, has an increase in income which moves them to 'High Income'.
- c) A household with a High Income who live in a High Cost home, suffers a reduction in income that shifts them to having a Low Income.

The concern about churn in the Impact Assessment is not supported with facts or data to substantiate the concern and we therefore believe that it should not be used as a reason to discount £383 million of value. To effectively tackle concern about churn, it would require a focus on upgrading the energy efficiency levels of **all High Cost homes**. This would require a substantial increase in budgets as there are 8.825 million High Income High Cost households versus 2.502 million Low Income High Cost households. Without an associated increase in budgets, the fuel poverty strategy guiding principle of 'prioritising assistance to those in the deepest level of fuel poverty' should be followed. The Committee on Fuel Poverty recognise that a household living in a Low Income Low Cost home is exposed to further hardship if they suffer a drop in income, however this could be addressed through immediate assistance with income supplements rather than marginally improving the energy efficiency of their home.

Furthermore, the risk of households becoming fuel poor due to moving house is mainly an issue in the Private Rented Sector where a quarter of private sector tenants have lived in the private rented sector for less than two years and 50% of tenants do not stay in the same property for 5 years or more (PRS Consultation). This risk will however be significantly lowered. For privately rented homes, Government has legislated 'that from April 2018, landlords of the worst performing properties will need to improve those properties to a minimum of EPC Band E before they can be let (existing tenancies and April 2020 for any new tenancies) , lowering bills for some of the most vulnerable private tenants while ensuring costs of improvements are reasonable and affordable'. Government is currently consulting on steps to make these regulations more effective. In the Clean Growth Strategy, it

states that 'Government will look at a long-term trajectory for energy performance standards across the private rented sector, with the aim of as many private rented homes as possible being upgraded to EPC Band C by 2030, where practical, cost-effective and affordable'.

We note that Table 3 shows that in all options, broadly the same number of fuel poor homes receive energy efficiency measures. However, the data in Tables 3 and 6 suggests that Option 2 offers the highest level of fuel bill savings per fuel poor home treated (whether measured in terms of simple NPV or equity-weighted NPV) and we believe this is also a clear reason for selecting Option 2.