

# ECO4 Scoring Methodology: Part 1

## Energy UK Response

04 October 2021

### Introduction

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses. The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the consultation. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

### Executive Summary

Energy UK welcome the publication of part 1 of the ECO4 Scoring consultation. Overall, we believe Ofgem has done a good job distilling what is a new and complex set of ECO4 proposals from BEIS still under consultation into a potential scoring regime. We have provided detailed responses to the specific questions posed by the consultation, which are set out below.

In our response to BEIS's ECO4 consultation our overarching principle was that the scoring methodology needs to be as simple as possible. Energy UK would, therefore, encourage Ofgem to ensure the same, not only for suppliers, but also for the supply chain and Ofgem itself.

In particular, as detailed in our response to the BEIS consultation, we believe the proposed scoring methodology using partial and full project scores is unnecessarily complicated and will drive up the cost of delivery. We strongly believe that having two scoring systems is unnecessarily complex and will add administrative burden on the supply chain, energy suppliers and Ofgem. We see no reason why a single set of deemed scores (as per the proposed methodology for Partial Project Scores (PPS)) should not be used to determine both partial and final project scores.

Furthermore, it is also important that the policy and implementing regulations for ECO4 are fully aligned with the PAS:2019/TrustMark Framework. We believe that suggested requirements around the collection of evidence proposed within this consultation could be removed as these elements are managed by PAS (and the SAP assessment process), and recorded within the TrustMark Data Warehouse. Our preferred option is to avoid duplication wherever possible.

## Consultation questions

### **Q1: Do you agree that full project scores should be based on starting and finishing intermediate SAP bands?**

**A:** No. There should be one set of scores. We see no benefit in having two scoring systems and see no reason why deemed scores (as per the proposed methodology for PPS) should not also be used to determine final project scores.

### **Q2: Do you agree that scores should be segregated into four floor area segments?**

We understand how the proposal has been reached based on BEIS and Ofgem's analytical modeling, however, we are concerned that the largest floor area being more than double the size of the preceding group may in the real-world result in unintended consequences. Whilst there may be homes with such large floor areas in the housing stock, we don't believe that these are proportionately represented in the ECO eligible population.

### **Q3: Do you agree with the methodology used to determine the full project scores?**

**A:** As per Q1, Energy UK strongly believes that having two scoring systems is unnecessarily complex and will add administrative burden on the supply chain.

As per our response to the BEIS consultation, we also believe that there is a significant risk with two scoring systems that the supply chain will in practice price to the PPS (or the deflated PPS – see Q7 below). This in turn would drive up the overall cost of delivering the scheme and would risk blowing the ECO4 cost envelope. A single scoring system, built on a set of deemed scores, would minimise this risk.

Furthermore, we note that the oversight of SAP assessments rightly sits with PAS Accreditation Bodies and should not require interrogation by either Ofgem or Suppliers.

### **Q4: Are you aware of any further advantages or disadvantages in respect of the options presented to determine the finishing SAP band?**

**AND**

### **Q5: What are your views on the advantages and disadvantages identified?**

**A:** Energy UK would strongly support the use of deemed SAP points to determine the finishing SAP band. We believe that such an approach has the dual advantages of minimising the risks of the gaming of SAP inputs, and being simple and easy to administer. Therefore, it would allow the supply chain to understand the scoring and the price that they will be paid for a job.

The proposals to use a post-install SAP assessment seem to ignore the key learnings from previous ECO schemes, as well as the challenges and difficulties such an approach not only created for suppliers, but also the supply chain and Ofgem. In short, adopting an SAP-based approach will increase the risk of gaming and drive-up the cost and risk associated with every measure installed.

With this in mind, it is disappointing to note that this decision has been left to Ofgem. The final option chosen will have significant impact on the design, delivery and costs of the scheme. We, therefore, strongly believe that it should have been a policy decision for Government. It is also vital that the impacts of Ofgem's final decision are reflected and captured in BEIS's final stage Impact Assessment, noting that the SAP-based approach will introduce significant cost and complexity into the scheme.

We also note that an updated SAP assessment is required following the completion of all projects under the PAS:2019/TrustMark framework. This provides occupants with a finishing SAP assessment and allows BEIS to evaluate the scheme if required.

**Q6: Do you agree with the proposal to use pre-calculated deemed partial project scores based on the floor area, and starting intermediate SAP band?**

**A:** As above, we strongly believe that having two scoring systems is unnecessarily complex and will add administrative burden on the supply chain. However, we support the principle of using pre-calculated deemed scores based on the floor area and starting intermediate SAP band.

**Q7: Do you agree with the process used to develop the partial project scores?**

**A:** Energy UK agrees with the process as a means of developing a set of deemed scores.

However, Energy UK has significant concern about the use of deflated PPS. We believe the proposal adds unnecessary complexity into the delivery of ECO4 for both suppliers and the supply chain. This is especially the case as we note that BEIS is also proposing a cap on PPS delivery. It is unclear to Energy UK as to why both a score deflation and a cap are required. We believe that a cap on PPS delivery alone would be more than sufficient to effectively ensure BEIS' stated policy aims.

We also believe there is a significant risk with deflated PPS (especially if the deflation is set at the level proposed) that the supply chain will in practice price to the deflated score. This, in turn, would drive-up the overall cost of delivering the scheme and would risk blowing the ECO4 cost envelope. If Ofgem and BEIS do decide to proceed with deflated PPS, we would encourage Ofgem and BEIS to build into ECO4 a review date to ensure that the level of any deflation is appropriately set and is not undermining the cost-efficient delivery of ECO4.

**Q8: Do you agree with the use of a single fixed correction factor to account for interactions between measures?**

**A:** Yes. We believe this is a simple and straight forward approach.

**Q9: Do you agree with the use of the actual percentage of property treated (POPT) to determine the partial project score for a measure?**

**A:** No. The percentage of the property treated under ECO4 will be a matter for Trustmark and the PAS framework. We note that under PAS:2019 the retrofit coordinator will need to ensure that as much of the property that can be treated will be treated. With this in mind, given we also support final project scores being based on a calculated using deemed scores, we see no rationale for a correction factor. Introducing POTP will only serve to add unnecessary additional and expensive complexity to ECO4 for the supply chain and suppliers for no clear gain.

However, if Ofgem believes a correction factor is necessary to refine a deemed score, we believe it would be preferable for Ofgem to clearly define for which measures a correction may be needed and to explore how it can do so without applying POPT. We know from past ECO experience that the use of POPT by Ofgem has introduced significant complexity for suppliers and the supply chain and increased the scope for gaming. One option could be, for example, to bake any necessary correction, supported by evidence, into the deemed score at the front end, based on the data already available to Ofgem from previous ECO schemes.

**Q10: Do you agree with our proposal to calculate the innovation measure uplift by using the partial project score for the innovation measure?**

**A:** Yes. It is not clear to Energy UK that there is an alternative approach.

**Q11: Do you agree with our proposal to have two routes for new measures to enter the ECO4 scheme – a standard alternative methodology route and a new “data light” route?**

**A:** Yes.

**Q12: Do you agree with our proposed evidence requirements for the data light route? If not, please inform us of your preferred requirements.**

**A:** In principle, yes. However, we note that given delivery of such measures will be capped, limiting the extent of any potential risk, we believe that there is potentially greater scope for Ofgem to be more pragmatic in their evidence requirements. We note that currently evidencing requirements set a very high bar (large sample sizes, peer-reviewed academic research etc) and act as a barrier to innovative measures being brought forward.

Energy UK has previously suggested that it might be useful for Ofgem to host a workshop for BEIS and Suppliers to review the innovation process and look at how it might be streamlined to make it more attractive for both suppliers and manufacturers to invest. Consideration should also be given to the evidence requirements at the workshop.

**Q13: Do you think we should have additional mechanisms, such as a review stage or an open call for evidence, to account for the inherent risk associated with data light scores?**

**A:** No. Given delivery of such measures will be capped, we do not believe any additional mechanisms are needed. The cap will ensure that any inherent risk is minimised.

**If you have any questions, please feel free to contact Daniel Alchin at Energy UK on [daniel.alchin@energy-uk.org.uk](mailto:daniel.alchin@energy-uk.org.uk).**