

Consultation

Price cap: Consultation on reflecting the planned ECO+ scheme

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Contact: Marcus McPhillips, Head of Price Cap Policy

Team: Retail Price Regulation

Telephone: 020 7901 7000

Email: Retailpriceregulation@ofgem.gov.uk

This is a final consultation on our proposed approach to reflect the government's planned expansion of the Energy Company Obligation (ECO) scheme in the default tariff cap ('the cap') from cap period 10a (April 2023–June 2023) onwards. We welcome views from all stakeholders with an interest in the domestic retail energy supply market. We particularly welcome responses from suppliers, consumer groups and charities. We would also welcome responses from other stakeholders and the public.

This document outlines the scope and purpose of the consultation, as well as how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultation. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive Summary

The default tariff cap ('the cap') protects domestic customers on default tariffs. We set the cap by considering the different costs that suppliers face. The cap includes a policy cost allowance through which suppliers are able to recover the costs related to their obligations under different government environmental and social programmes. These policy costs are set out in "Annex 4 – Policy cost allowance methodology"¹ of Standard Licence Condition (SLC) 28AD of the cap methodology.²

One of the policy costs currently reflected in Annex 4 relates to the latest iteration of the Energy Company Obligation (ECO) scheme, 'ECO4'. This scheme places obligations on eligible energy suppliers to generate notional bill savings by delivering energy efficiency measures in homes.

On 28 November 2022, the Department for Business, Energy and Industrial Strategy (BEIS) published a consultation setting out proposals for an additional ECO scheme, ECO+, to run alongside ECO4.³ ECO+ would deliver rapid installation of predominantly lower-cost, single energy efficiency measures, such as cavity wall and loft insulation, to a wider pool of households as well as those on a low-income. Subject to the outcome of its November 2022 consultation, the government intends ECO+ to begin in Spring 2023, and the scheme is anticipated to cost £1bn over three years.⁴

As the cap currently reflects only the ECO4 costs, we have considered how and when to reflect the anticipated additional costs of the ECO+ scheme in the cap. In view of the additional obligation ECO+ places on eligible suppliers and the planned delivery timescales for the scheme, we propose to include an ECO+ allowance from cap period 10a (April 2023 - June 2023) onwards. We consider this is appropriate to ensure the cap

¹ Annex 4 – Policy cost allowance methodology v1.13 (August 2022)

https://www.ofgem.gov.uk/sites/default/files/2022-08/Annex_4_-_Policy_cost_allowance_methodology_v1.13.xlsx

² Licence Conditions - <https://www.ofgem.gov.uk/licences-and-licence-conditions>

³ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026.

<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

⁴ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 10-12

<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

Consultation – Reflecting the planned ECO+ scheme in the price cap

reflects the notional supplier's underlying efficient costs of supplying default tariff customers. It will also secondarily support quick delivery of the scheme.

Given the structural similarities between ECO4 and ECO+, we propose to adopt the same overarching methodology for calculating the ECO+ allowance as is currently used to reflect ECO4 costs in the cap. This method takes the estimated annualised cost of the scheme and divides it by latest obligated supplier volumes, to provide a cost per MWh supplied. We propose to use the latest published scheme cost estimates from BEIS as our input and to adjust to account for inflation.

Using our proposed methodology, we provisionally estimate the ECO+ allowance for cap period 10a will be around £5 per typical dual fuel customer. For the cap periods corresponding with years two and three of the ECO+ scheme, we estimate this allowance would increase to around £16 per typical dual fuel customer.⁵ The ECO+ allowance would be additional to the ECO4 allowance, and we consider these anticipated costs to be material and systematic.

BEIS' November 2022 consultation notes that from April 2023, the cost of delivering ECO+ will be included in the Energy Price Guarantee (EPG).⁶ It sets out that through the EPG, the government will pay energy suppliers the difference between what can be charged to consumers through their bills, with the unit price of electricity and gas capped by the EPG, and what would otherwise be payable.⁷

In effect this means the costs of year one of the ECO+ scheme will be covered by government if the cap level remains higher than the EPG. However, it has not been confirmed if government would continue to cover the costs of year one of ECO+ in a scenario where the cap level was lower than the EPG. The government has said that the payment arrangements for ECO+ costs in year two (2024/25) and year three (2025/26)

⁵ All values are provisional and measured for the typical baseline consumption values used to set the cap (3,100 kWh for electricity and 12,000 kWh for gas). Consistent with our methodology in Annex 4 and approach to ECO4, the ECO+ allowance would not be allocated to the standing charge.

⁶ Further background on the EPG is available here: BEIS (2022) <https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022>

⁷ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 47. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

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to meet ECO+ targets will be confirmed at a later stage, alongside those for other social and environmental obligations placed on energy suppliers.⁸

While the government has set out its intention to implement ECO+, the corresponding legislation is not expected to be in place by the time we need to set the cap period 10a level. Therefore, in a scenario where the government does not proceed with the ECO+ scheme after an allowance has been included in the cap, we would not include an ECO+ allowance in subsequent cap periods.

Furthermore, if the anticipated costs for year one of the ECO+ scheme change, either because the scheme does not proceed or for another reason, there would be a difference between the allowances provided and suppliers' efficient costs. In this scenario, we propose to consult on correcting for this difference to ensure that the cap continues to reflect the efficient costs that suppliers incur.

We do not ask specific questions in this consultation but rather, we welcome views on any of this document's proposals on reflecting the ECO+ scheme in the cap.

⁸ BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment, page 13, para 21 <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026> and BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 48 <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

1. Consultation process

What are we consulting on?

- 1.1 This final consultation seeks views on our proposals on how we intend to reflect the government’s planned Energy Company Obligation (‘ECO’) + scheme in the price cap (‘the cap’) from cap period 10a (April 2023 - June 2023) onwards. We also seek views on our proposed approach if the anticipated costs for year one of the ECO+ scheme change, either because the scheme does not proceed or another reason.
- 1.2 This document is split into four chapters:
- Chapter 1: Consultation process;
 - Chapter 2: Introduction;
 - Chapter 3: Methodology;
 - Chapter 4: Allowance correction

Related publications

- 1.3 The Department for Business, Energy and Industrial Strategy (‘BEIS’) published its consultation on the design of the ECO+ scheme on 28 November 2022. They subsequently published the consultation stage impact assessment (IA) on 5 December 2022. Both documents are available on gov.uk.⁹

Consultation stages

- 1.4 This is a statutory consultation which is open from 6 January 2023 until 3 February 2023. We will then consider consultation responses to inform our decision, which we intend to publish by the end of February 2023.

How to respond

- 1.5 We want to hear from anyone interested in this consultation. We do not ask specific questions in this consultation but rather, we welcome views on any of the proposals on how to reflect ECO+ in the cap which are discussed in this document.

⁹ BEIS (2022), ‘Design of the Energy Company Obligation (ECO): 2023-2026’ and ‘Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment’
<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

- 1.6 Please send your response to Retailpriceregulation@ofgem.gov.uk **on or before 3 February 2023**.
- 1.7 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.8 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.9 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.10 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 3.
- 1.11 If you wish to respond confidentially, we'll keep the response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.12 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

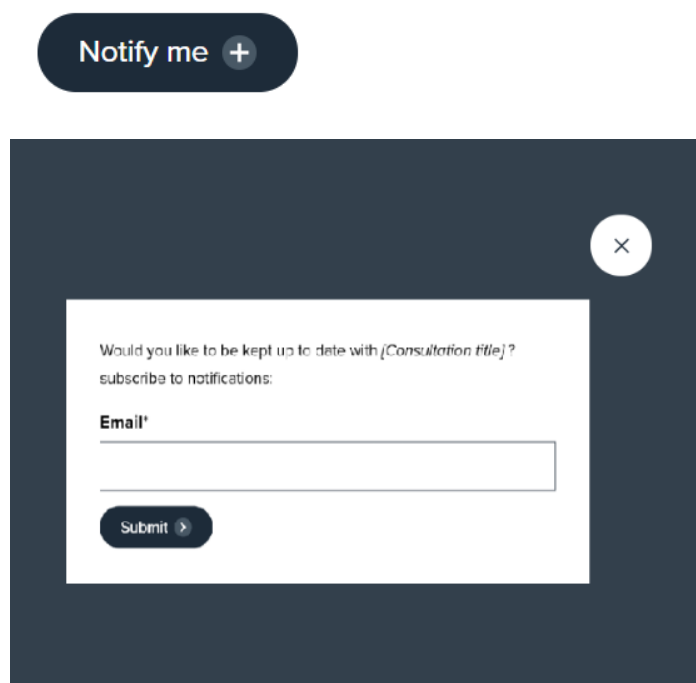
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Introduction

Section summary

This section introduces our proposed approach to reflecting the ECO+ scheme in the cap. It provides context on the cap, the statutory framework and the existing ECO4 scheme.

The cap

- 2.1 The cap protects domestic customers on standard variable and default tariffs (which we refer to collectively as 'default tariffs'), ensuring that they pay a fair price for their energy, reflecting its underlying costs.
- 2.2 The Energy Prices Act 2022¹⁰ removed the 2023 cap end date to create more flexible arrangements for ending the cap and to ensure that regulation can keep pace with changing conditions in the energy market. Instead, the BEIS Secretary of State may give notice at any time that the cap ceases to have effect.
- 2.3 We set the cap by considering the different costs that suppliers face. The cap is made up of a number of allowances which reflect these different costs. One of these allowances covers policy costs relating to obligations on suppliers to deliver government schemes or initiatives. These are included in 'Annex 4 – Policy cost allowance methodology'¹¹ of Standard Licence Condition (SLC) 28AD of the gas and electricity licences.¹²

The issue

- 2.4 One of the current policy costs reflected in Annex 4 of the cap methodology relates to delivering the government's ECO4 scheme. The ECO4 scheme places obligations on eligible suppliers to deliver notional bill savings by delivering energy efficiency measures in homes. On 28 November 2022, BEIS published a consultation with proposals for an additional three-year scheme, ECO+, to run alongside ECO4 until 2026.¹³ The government intends for the ECO+ scheme to

¹⁰ Energy Prices Act (2022) <https://www.legislation.gov.uk/ukpga/2022/44/enacted>

¹¹ Annex 4 – Policy cost allowance methodology v1.13 – August 2022

https://www.ofgem.gov.uk/sites/default/files/2022-08/Annex_4_-_Policy_cost_allowance_methodology_v1.13.xlsx

¹² Licence Conditions - <https://www.ofgem.gov.uk/licences-and-licence-conditions>

¹³ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

commence in 'Spring 2023'.¹⁴ We therefore need to consider how to reflect the planned ECO+ scheme in the cap, with this consultation setting out our proposals.

Additional context

Statutory framework

2.5 We set the cap with reference to the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act').¹⁵ The Act requires us to put in place and maintain the licence conditions which give effect to the cap. The objective of the Act is to protect existing and future default tariff customers. We consider protecting customers to mean that prices reflect underlying efficient costs of a notional supplier. We must have regard to five matters when setting the cap:

- the need to create incentives for holders of supply licences to improve their efficiency;
- the need to set the cap at a level that enables holders of supply licences to compete effectively for domestic supply contracts;
- the need to maintain incentives for domestic customers to switch to different domestic supply contracts;
- the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence;
- the need to set the cap at a level that takes account of the impact of the cap on public spending.¹⁶

2.6 The requirement to have regard to the five matters identified in section 1(6) of the Act does not mean that we must achieve all of these. In setting the cap, our primary consideration is the protection of existing and future consumers who pay standard variable and default rates. In reaching decisions on particular aspects of

¹⁴ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 13. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

¹⁵ Domestic Gas and Electricity (Tariff Cap) Act 2018 <https://www.legislation.gov.uk/ukpga/2018/21/contents>

¹⁶ Domestic Gas and Electricity (Tariff Cap) Act 2018, section 1(6)(e) as inserted by Schedule 3 to the Energy Prices Act 2022. In performing the duty under section 1(6)(e) we must have regard to any information provided by the Secretary of State, or any guidance given by the Secretary of State on this matter (section 1(6A)).

the cap, the weight to be given to each of these considerations is a matter of judgment. Often, a balance must be struck between competing considerations.

- 2.7 Following the passing of the Energy Prices Act 2022, those specified considerations to be taken into account include ‘the need to set the cap at a level that takes account of the impact of the cap on public spending’.¹⁷ This consideration reflects the fact that while the government’s Energy Price Guarantee (EPG) is in force, the cap level directly affects the levels of payments by government to energy suppliers.
- 2.8 Before we make a final decision on the issues set out in this consultation document, we shall review the issues to be decided with a view to the full set of statutory considerations, to ensure that our approach and conclusions are appropriate. In the meantime, we would invite any views from stakeholders on whether there are any additional factors or information which we should consider in making our decision.
- 2.9 In setting the cap, we may not make different provisions for different holders of supply licences. This means that we must set one cap level for all suppliers.

The Energy Company Obligation (ECO)

- 2.10 The ECO scheme began in 2013 and is a government programme to deliver energy efficiency measures in homes across Great Britain (GB).¹⁸ The current iteration of the scheme, ECO4, runs from 2022-2026 and places obligations on eligible suppliers to deliver notional bill savings through the delivery of energy efficiency measures.^{19,20}
- 2.11 ECO4 is focused on the delivery of multiple measures that improve the energy efficiency of homes, via a whole house retrofit approach in line with industry best practice. It is also focused solely on those on low incomes, least able to pay for

¹⁷ Domestic Gas and Electricity (Tariff Cap) Act 2018, section 1(6)(d) as inserted by Schedule 3 to the Energy Prices Act (2022). <https://www.legislation.gov.uk/ukpga/2022/44/enacted>

¹⁸ Further information on the Energy Company Obligation (ECO) scheme is available here: <https://www.ofgem.gov.uk/environmental-and-social-schemes/energy-company-obligation-eco>

¹⁹ BEIS (2022), Design of the Energy Company Obligation ECO4: 2022-2026 <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco4-2022-2026>

²⁰ The Electricity and Gas (Energy Company Obligation) Order 2022 <https://www.legislation.gov.uk/uksi/2022/875/introduction/made>

energy and in fuel poverty. The ECO4 scheme is projected to cost £1 billion per year, rising with inflation, until March 2026.²¹ The associated bill savings targets are cumulative and thus spread across the whole scheme, rather than being broken down annually.

- 2.12 BEIS' November 2022 consultation sets out that the ECO+ proposals are in response "to the unprecedented increase in energy prices" and that ECO+ is designed to "run alongside and complement ECO4 delivery".²² The consultation document states ECO+ is intended to "deliver rapid installation of energy efficiency measures to a wider pool of households, including those on the lowest income and those in the least energy efficient homes in the lower council tax bands".²³ It would place an additional obligation on eligible energy suppliers to deliver notional annual bill savings through the delivery of predominantly lower-cost single energy efficiency measures, for example cavity wall and loft insulation.
- 2.13 The BEIS consultation outlines that ECO+ is intended to run from Spring 2023 until March 2026 at a value of £1 billion (in 2022 prices) over the three years. It proposes the overall obligation will be divided across three mandatory annual targets, which will be aligned with the three-year spending profiles.^{24,25}
- 2.14 Under the government's proposals, Ofgem would set individual supplier targets each year based on market share, using the same approach and data points as

²¹ BEIS (2022), ECO4 Final stage Impact Assessment, page 22.

<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco4-2022-2026>

²² BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 8.

<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

²³ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 6.

<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

²⁴ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 13.

<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

²⁵ The notional bill savings targets are: £9,598,000 in 2023/24, £25,722,000 in 2024/25 and £21,800,000 in 2025/26. The BEIS consultation stage IA sets out the intended spend profile of the scheme is intended to be £130 million in 2023/24, £435 million in 2024/25 and £435 million in 2025/26. It is anticipated there would be an additional 10% customer contribution for energy efficiency measures on top of the supplier spend profile on top of this.

for ECO4. Ofgem would then administer the scheme and ensure compliance with the annual targets.²⁶

- 2.15 ECO+ is intended to be GB wide. While the BEIS consultation recognises the possibility of different rules applying across GB in future, as some aspects of ECO are devolved, the consultation states the scheme is intended to be GB wide and therefore the proposals in that consultation apply to England, Wales and Scotland.²⁷
- 2.16 Following the publication of the consultation document on 28 November 2022, BEIS published a consultation stage impact assessment (IA) on 5 December 2022.²⁸
- 2.17 The BEIS consultation document notes that from April 2023, the cost of delivering ECO+ will be included in the EPG. It sets out that through the EPG, the government will pay energy suppliers the difference between what can be charged to consumers through their bills, with the unit price of electricity and gas capped by the EPG, and what would otherwise be payable.²⁹
- 2.18 In effect this means the costs of year one of the ECO+ scheme will be covered by government if the cap level remains higher than the EPG. However, it has not been confirmed if government would continue to cover the costs of year one of ECO+ in a scenario where the cap level was lower than the EPG.
- 2.19 The government has said that the payment arrangements for ECO+ costs in year two (2024/25) and year three (2025/26) to meet ECO+ targets will be confirmed

²⁶ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 14. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

²⁷ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 58-59. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

²⁸ BEIS (2022), BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

²⁹ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 47. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

at a later stage, alongside those for other social and environmental obligations placed on energy suppliers.³⁰

- 2.20 BEIS’s ECO+ consultation closed on 23 December 2022. BEIS intends to issue a government response in Spring 2023 and for the ECO+ regulations to come into force around the end of Spring 2023. The BEIS consultation notes they aim to facilitate voluntary early delivery ahead of the scheme start by Spring 2023, and BEIS are exploring this further with stakeholders.³¹

³⁰ BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment, page 13, para 21 <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026> and BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 48 <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

³¹ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 15. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

3. Methodology

Section summary

In this section we set out our proposals and considerations for including an ECO+ allowance in the cap from cap period 10a onwards. This includes why we propose to adopt the same overarching methodology for calculating the ECO+ allowance as we use for ECO4. This section also outlines the input we propose to use to calculate the ECO+ allowance and our proposal for adjusting it to account for inflation.

Proposals

- 3.1 We propose to include an allowance for ECO+ in the cap from cap period 10a (April 2023– June 2023) onwards.
- 3.2 To calculate that allowance, we propose to take the anticipated annualised cost of the ECO+ scheme and divide it by the latest obligated supplier volumes to provide a cost per MWh supplied. This is consistent with the methodology currently used to calculate the ECO4 allowance in the cap.
- 3.3 We propose to use the latest publicly available annualised cost estimate of the scheme from BEIS as our input for the calculation, and to adjust in line with inflation using a GDP deflator.

Considerations

Inclusion of an allowance

- 3.4 In our 2018 decision on the design and implementation of the cap, we said: "if in the future we consider there are material systematic issues that require correction, we might modify the licence. The Act includes specific provision for us to make supplemental modifications to the licence conditions. This would allow us to make any changes required to correct how the cap was updated, if it systematically and materially departed from an efficient level of costs". We also said: "The type of specific systematic errors for which we would adjust the cap would need to be unforeseen, clear, material, and necessitate changes".³²

³² Ofgem (2018), Default Tariff Cap decision – Overview, paragraphs 3.14 and 3.16.
<https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview>

- 3.5 We have applied this test when considering changes to the cap. As set out in our November 2021 wholesale consultation: "We broadly consider the case for amending the cap methodology against the test of whether a change in the costs facing suppliers is material and systematic, considering the market as a whole".³³
- 3.6 Applying that test, we consider the anticipated ECO+ costs to be material and systematic, and therefore consider that the costs should be reflected in the cap.

Timing of allowance

- 3.7 We propose to include an ECO+ allowance in the cap from cap period 10a onwards. The BEIS consultation document states ECO+ is intended to run from Spring 2023 until March 2026 and specifies annual obligation targets – with year one running from 1 April 2023 – 31 March 2024.³⁴
- 3.8 Including an ECO+ allowance in the cap from the outset of the scheme will, we consider, support delivery of the scheme and help ensure consumers start benefiting from the scheme at the earliest possible stage. We consider this approach provides clarity and simplicity for suppliers and consumers, is in alignment with BEIS' proposed scheme cost profile and is consistent with our approach to the existing ECO4 scheme.
- 3.9 Furthermore, we consider that inclusion of an allowance from cap period 10a will ensure the cap reflects the costs we would expect a fully obligated supplier to incur from the outset of the scheme. In line with our decision on changes to the wholesale methodology, the next opportunity to add an allowance to the policy costs methodology in Annex 4 would be cap period 11a (October 2023 - December 2023).³⁵ We consider this could also secondarily have an impact on suppliers' willingness to deliver the scheme from spring 2023.

³³ Ofgem (2021), Price Cap – Consultation on the potential impact of increased wholesale volatility on the default tariff cap, page 34, paragraph 4.16. <https://www.ofgem.gov.uk/publications/price-cap-consultation-potential-impact-increased-wholesale-volatility-default-tariff-cap>

³⁴ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 14. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

³⁵ Ofgem (2022), Price Cap – Decision on changes to the wholesale methodology, page 27, table 3.2. <https://www.ofgem.gov.uk/publications/price-cap-decision-changes-wholesale-methodology>

Overarching methodology

- 3.10 The proposed overarching funding structure of ECO+ is similar to ECO4. While it is proposed in the BEIS November 2022 consultation that ECO+ would differ in that it would have annual targets, both schemes obligate suppliers to achieve notional bill savings through the delivery of energy efficiency interventions.
- 3.11 Furthermore, ECO+ would be based on the same infrastructure as ECO4 and would use the same scoring framework and obligation threshold for suppliers. Supplier obligations would be based on market share per supplier (the same as for ECO4),³⁶ and Ofgem would oversee administration and compliance for ECO+, as we do for ECO4.
- 3.12 In view of these structural similarities, we consider the ECO4 methodology will achieve a similar level of accuracy when applied to ECO+. We therefore consider it is appropriate to use the same methodology to calculate the ECO+ allowance. We have not identified any viable alternative methodologies.

Inflation adjustment

- 3.13 The BEIS consultation notes the annualised projected cost for ECO+ “will be increased in line with inflation so that total scheme spend over the three years will equate to £1 billion in today’s prices”.³⁷ We consider it is appropriate to adjust the annualised cost for inflation using a GDP deflator. This is consistent with our approach to ECO4.

Input

- 3.14 We consider it appropriate to adopt the same approach as ECO4 for determining the input figure for the annualised cost of the ECO+ scheme in the ECO+ allowance calculation. As such, we intend to use the latest publicly available figure from BEIS at the time of determining each cap update. For cap period 10a, this is currently (as of 6 January 2023) the figure used in the BEIS consultation stage IA published on 5 December 2022.³⁸

³⁶ Supply volumes of obligated energy suppliers are based on information collected from suppliers by Ofgem

³⁷ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 47, footnote 24. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

³⁸ BEIS (2022), BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

- 3.15 For cap periods after 10a, assuming the ECO+ legislation is in place and the scheme is being implemented, we propose to use the most up-to-date publicly available BEIS estimate of costs for determining the ECO allowance. In calculating each cap period allowance, we also propose to take into account any changes to costs for periods where we had already set an allowance. This will reflect, for example, any changes by government in the estimated cumulative cost of the scheme during the scheme’s implementation.
- 3.16 This approach will help ensure the cap reflects the notional supplier’s efficient costs of supplying default tariff customers for the duration of the scheme. We do not anticipate that reflecting intertemporal cost changes in this way would amount to a change to the cap methodology.
- 3.17 For the avoidance of doubt, we do not propose to make any changes to our approach for setting the ECO4 costs as we consider the current methodology is appropriate and sufficient.

Anticipated allowance

- 3.18 BEIS’ consultation stage IA estimates the ECO+ scheme cost will be £1 billion between 2023 and 2026.³⁹ The proposed cost profile for the scheme to achieve the notional bill savings targets is £130 million in 2023/24, £435 million in 2024/25 and £435 million in 2025/26.⁴⁰
- 3.19 Based on this proposed cost profile and using our proposed methodology, we estimate the cap allowance will be approximately £5 per typical dual fuel customer for cap periods 10a to 11b (April 2023 - March 2024). For the subsequent cap periods which align with year two (April 2024 - March 2025) and year three (April 2025 - March 2026) of the scheme, we estimate this allowance

³⁹ BEIS (2022), Design of the Energy Company Obligation (ECO): 2023-2026, page 47: “These annual figures will be increased in line with inflation so that total scheme spend over the three years will equate to £1 billion in today’s prices”.

<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

⁴⁰ BEIS (2022) BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment, page 12, para 19. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

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would increase to approximately £16 per typical dual fuel customer, subject to the appropriate GDP deflator figure being applied.⁴¹

- 3.20 A breakdown of the estimated ECO cost allowance for electricity (single-rate and multi-register rate) and gas customers in cap period 10a is shown in Table A1 in Appendix 1. These figures are indicative only.
- 3.21 Our proposed approach to reflecting ECO+ in Annex 4 of the cap is set out in Appendix 2, which provides a full updated Annex 4 model including ECO+.

Impact on other statutory duties

- 3.22 Under the Equality Act 2010, we are required to observe our equality duty and consider how our policies or decisions affect people who are protected under that Act.
- 3.23 The government has said that from April 2023, the costs of meeting the year one ECO+ target will be included in the EPG.⁴² This means, in effect, that while the cap level is higher than the EPG level, the ECO+ allowance in the cap during that period will not directly determine what customers pay through their bills. In these circumstances, we do not expect the allowance reflecting the costs of year one of the ECO+ scheme to have a substantial impact on customers, including those with protected characteristics.
- 3.24 Arrangements for covering year one costs of ECO+ in a scenario where the cap level is lower than the EPG level are yet to be confirmed by government. Arrangements for covering the costs for years two and three of ECO+ are also yet to be confirmed. The BEIS consultation stage IA assesses impacts if the government was to cover energy suppliers' costs in years two and three, rather than the costs being passed onto energy suppliers' domestic customers.⁴³ The

⁴¹ The annualised cost estimate in cap period 10a (under ECO+) will be approximately £0.23 per MWh supplied for gas, and approximately £0.69 per MWh supplied for electricity. Consistent with our methodology in Annex 4 and approach to ECO4, the ECO+ allowance would not be allocated to the standing charge. All values are measured for the benchmark typical consumption values used to set the cap (3,100 kWh for electricity and 12,000 kWh for gas).

⁴² BEIS (2022), BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment, page 13, para 21. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

⁴³ BEIS (2022), BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment, page 13, para 21. <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

BEIS consultation stage IA sets out the government’s considerations on the equality and distributional impacts of the scheme on that basis, including in relation to protected characteristics.⁴⁴

- 3.25 Based on our initial consideration of the distributional impact, in the event that any of the estimated annual costs fall to energy consumers, we anticipate this would result in a modest expected cost per customer. However, this should be balanced against the expected benefit of energy efficiency measures for households, including those on lower incomes. We would welcome views and evidence in response to this consultation on how, if the scheme costs were to be paid through energy consumers’ bills, that may impact people with protected characteristics under the Equality Act 2010.

⁴⁴ BEIS (2022), BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment, page 25-28, Chapter 7.
<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

4. Allowance correction

Section summary

We propose to reflect the anticipated costs of ECO+ from cap period 10a onwards for the reasons set out in chapter 3. However, this is before the legislation for the scheme is expected to be in place. This section sets out our proposed approach if there are significant changes in relation to the scheme following incorporation into the price cap eg the scheme does not proceed.

Proposals

- 4.1 If the ECO+ draft legislation is not passed by Parliament and/or the government decides not to proceed with the ECO+ scheme after an allowance is included in the cap, we would not include an ECO+ allowance in subsequent cap periods.
- 4.2 Additionally, if the anticipated costs for year one of the ECO+ scheme change, either because the scheme does not proceed or because there are material non-budget changes to the structure of the scheme, there would be a difference between the allowances provided in the cap and efficient costs. In this scenario, we would consult on how to correct for this difference. Our consultation would set out the precise nature of how we would seek to correct the allowance and the proposed level of correction, with a view to including the correction allowance as soon as is feasible.

Considerations

- 4.3 We need to determine the cap level by the end of February 2023 for the ECO+ costs to be included in the cap from cap period 10a onwards. This is before the relevant ECO+ legislation will be in place and before the anticipated formal start of the scheme.
- 4.4 For the reasons set out earlier in this consultation document, we consider this is appropriate as it will ensure the cap accurately reflects our best expectation of the efficient costs faced by suppliers. It could also secondarily support quick delivery of the scheme for the benefit of customers.
- 4.5 However, we also need to ensure the cap does not materially depart from a notionally efficient level of costs. While the government has set out its intention in its November 2022 consultation to implement ECO+, we consider it is prudent

to have provision to correct any under or over allowance in the event the ECO+ scheme does not proceed or there is a non-budget material change in the structure of the scheme. In such scenarios, it is likely that the initial cap allowance would not reflect the actual ECO+ costs that suppliers have incurred.

- 4.6 We consider we cannot pre-emptively state the amount of the correction allowance required for a scenario where the scheme does not proceed. Instead, we would work with stakeholders to gather and analyse the relevant data on the ECO+ costs suppliers had incurred to inform the proposed scale of correction. This would allow us to take account of, for example, any reasonably incurred costs by a notionally efficient supplier given the government's statements on early delivery of the ECO+ scheme.
- 4.7 Similarly, we do not consider we can pre-emptively define all of what would be considered a material non-budget change to the structure of the scheme, or the proposed amount of the correction in such a scenario. Instead, we would consider these on a case-by-case basis.
- 4.8 There are, however, key principles which would inform our consideration around any correction:
- Given we cannot set differential cap levels for each supplier, any correction would seek to reflect the average position of a typical, notionally efficient supplier. As we must set a single cap level across suppliers, any correction will not necessarily match individual suppliers' costs.
 - We would seek to make the correction in the earliest possible cap period subject to the required information being available and having sufficient time to enable us to make the amendment. We consider a prompt correction would provide certainty for suppliers and customers, without significant drawbacks.

4.9 Having provision for correcting any under or over allowance is in line with our February 2022 decision on including an ECO4 allowance in the cap.⁴⁵ In that decision, we said we would use an allowance correction in cap period nine (October 2022 – April 2023) if the scheme did not proceed or there were material changes in the scheme costs.⁴⁶ This was not ultimately required given the ECO4 scheme legislation was passed by Parliament in July 2022 and the scheme is now fully operational.

⁴⁵ Ofgem (2022), Decision on the Energy Company Obligation scheme and Warm Home Discount scheme allowance methodologies in the default tariff cap.

<https://www.ofgem.gov.uk/publications/price-cap-decision-energy-company-obligation-scheme-and-warm-home-discount-scheme-allowance-methodologies-default-tariff-cap>

⁴⁶ Ofgem (2022), Decision on the Energy Company Obligation scheme and Warm Home Discount scheme allowance methodologies in the default tariff cap, page 4.

<https://www.ofgem.gov.uk/publications/price-cap-decision-energy-company-obligation-scheme-and-warm-home-discount-scheme-allowance-methodologies-default-tariff-cap>

Appendices

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Appendix 1 – ECO+ cost estimate cap period 10a

Table A1 sets out our estimate of the ECO+ allowance in cap period 10a.

Table A1: Estimates of the annualised ECO+ scheme costs (GB average)

	Electricity (single rate) (£)		Electricity (multi-register rate) (£)		Gas (£)	
	Nil	TDCV	Nil	TDCV	Nil	TDCV
Cap period 10a	N/A	2.13	N/A	2.88	N/A	2.73

Source: Ofgem calculations based on data from BEIS' consultation stage impact assessment.⁴⁷

Notes: Benchmark Typical Domestic Consumption Values (TDCV) are 3,100 KWh per year for electricity (single register), 4,200 KWh per year for electricity (multi-register) and 12,000 KWh per year for gas.

⁴⁷ BEIS (2022), BEIS (2022), Design of the Energy Company Obligation ECO+ Consultation Stage Impact Assessment, page 12, para 19.
<https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco-2023-2026>

Appendix 2 – Annex 4 policy cost allowance methodology v1.131

Attached separately

Appendix 3 - Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. ie a consultation.

4. With whom we will be sharing your personal data

We may share your consultation responses with BEIS.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 6 months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data

- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".