

Energy suppliers and other
interested parties

Email: eco@ofgem.gov.uk

Date: 12 November 2012

Dear Sir/Madam,

SUPERSEDED - Energy Companies Obligation (ECO): notice of new scheme; notice to obligated suppliers of duty to notify customer numbers and amount of supply

ECO is a new statutory scheme to be established by the Electricity and Gas (Energy Companies Obligation) Order 2012 ('the Order')¹. Under ECO, certain energy suppliers will be required to deliver energy efficiency measures to domestic households. Further information about ECO is available on the Ofgem and DECC websites.

The Order names the Gas and Electricity Markets Authority as the Administrator of ECO. Ofgem ('we', 'our', or 'us' in this letter) will administer ECO on behalf of the Authority. This is the first of a series of Open Letters, which will provide information on different aspects of ECO. As set out in our letters dated 17 August 2012 and 14 September 2012², policies or processes set out in the Open Letters will be included in the draft guidance published for consultation and may change as a result of consultation. However, the finalised guidance will not operate retrospectively to override a policy or process set out in an Open Letter.

This letter explains when an entity holding an electricity supply licence or a gas supply licence ('licence-holder') will be obligated to meet requirements under ECO. It also explains the notification of customer numbers and amount of supply that obligated suppliers must provide to us.

The approach outlined in this letter is based on the Order as laid in parliament. The Order is not yet made. Although we anticipate that the Order will be made, suppliers and other interested parties relying on this letter should recognise the possibility that it may not be.

Once the Order is made it will be the responsibility of each supplier to understand the provisions of the Order and how those provisions apply to them. This letter is not intended to be a definitive guide to those provisions.

¹ The Order was laid in parliament on 30 October 2012. It has not yet been made.

² Published on our website 20 August and 14 September respectively.

When is a licence-holder obligated under ECO?

The Order will set a threshold beyond which a licence-holder will be obligated under ECO. The threshold will have two elements: number of domestic customers, and amount of supply to domestic customers, by reference to a given year³. Where a licence-holder is a member of a group of companies, the licence-holder will be a 'group company' and it will be the customer numbers and amount of supply of the group of companies that is used to determine whether the licence-holder is obligated.

A licence-holder that does not exceed the threshold for a given year may become obligated in a later year. Once obligated, a licence-holder retains that obligation until the end of the obligation period (31 March 2015).

When the Order comes into force, licence-holders should determine whether they are obligated under ECO. The following is a list of the different types of licence-holders and the conditions under which each becomes obligated under ECO, by reference to domestic customer numbers at 31 December 2011 and the amount of supply to domestic customers during the period beginning 1 January 2011 and ending 31 December 2011. Whether a licence-holder is a member of a group with another licence-holder should be determined by reference to the membership of the group on 31 December 2011:

- A licence-holder that is not a group company, and holds an electricity supply licence only, is obligated if it had more than 250,000 domestic electricity customers at 31 December 2011 and supplied more than 400 gigawatt hours of electricity to domestic customers during 2011;
- A licence-holder that is not a group company, and holds a gas supply licence only, is obligated if it had more than 250,000 domestic gas customers at 31 December 2011 and supplied more than 2,000 gigawatt hours of gas to domestic customers during 2011;
- A licence-holder that is not a group company, and holds both a gas supply licence and an electricity supply licence, is obligated if it had more than 250,000 domestic gas customers and domestic electricity customers⁴ at 31 December 2011, and it either supplied more than 400 gigawatt hours of electricity or supplied more than 2,000 gigawatt hours of gas to domestic customers during 2011;
- A group company that holds an electricity supply licence only is obligated if the group of companies had more than 250,000 domestic electricity customers at 31 December 2011 and supplied more than 400 gigawatt hours of electricity to domestic customers during 2011;
- A group company that holds a gas supply licence only is obligated if the group of companies had more than 250,000 domestic gas customers at 31 December 2011 and supplied more than 2,000 gigawatt hours of gas to domestic customers during 2011;
- A group company that holds both a gas supply licence and an electricity supply licence is obligated if the group of companies had more than 250,000 domestic gas

³ See article 4 of the Order.

⁴ A customer supplied with electricity and gas is to be counted as two customers.

customers and domestic electricity customers⁵ and the group of companies either supplied more than 400 gigawatt hours of electricity or supplied more than 2,000 gigawatt hours of gas to domestic customers during 2011.

A licence-holder should determine domestic customers with reference to the definition included at Appendix A, and should determine amount of supply to domestic customers in the way described at Appendix B.

A licence-holder that exceeds the threshold set under the Order is defined, under the Order, as a 'supplier'. Where a licence-holder holds both a gas supply licence and an electricity supply licence, the licence-holder is a separate supplier in respect of each supply.

It is important to note that obligations under ECO fall on suppliers rather than groups of companies. In the remainder of this letter we use the word 'supplier' to refer to a licence-holder that is obligated under ECO.

Duty on obligated suppliers to notify us of amount of supply

We have a duty to determine the obligations for each supplier for each phase of ECO. Phase 1 of ECO commences on 1 January 2013 and ends on 31 March 2013⁶. We must notify each supplier of its obligations for phase 1 no later than the twelfth working day after the day on which the supplier notifies us of its customer numbers and amount of supply⁷. We will calculate these obligations by reference to formulae specified in the Order⁸ and using the information notified by suppliers. In the following paragraphs we describe the requirement on each supplier to notify customer numbers and amount of supply. Note that this requirement falls on each supplier (i.e. obligated licence-holder), rather than the parent of a group of companies.

A supplier must notify customer numbers and amount of supply to us by the end of the third working day after the day on which the Order is made ('the notification deadline'). The Order is made at the point in time that the Order is signed. Each supplier must notify us of:

- a) the number of its domestic customers on 31 December 2011. A supplier may use the same domestic customer numbers it reported to us under CERT and CESP for 31 December 2011. However this information should be re-submitted (see 'form of notification' section below); and
- b) the amount of electricity or gas, as the case may be, that it supplied to domestic customers during the period beginning 1 January 2011 and ending 31 December 2011. This amount is to be determined in the way described in Appendix B.

In addition, in the case where a supplier was a group company on 31 December 2011, the supplier ('Supplier A') must notify the following information relating to each of the other

⁵ A customer supplied with electricity and gas is to be counted as two customers.

⁶ Phase 2 commences on 1 April 2013 and ends on 31 March 2014, phase 3 commences on 1 April 2014 and ends on 31 March 2015.

⁷ We will notify suppliers of their obligations for phases 2 and 3 by the last day of February prior to the commencement of the phase. The obligations are cumulative and a supplier must achieve its total obligation (i.e. its obligations for phases 1, 2 and 3 collectively) by 31 March 2015.

⁸ See articles 8 to 11 of the Order for the formulae for setting obligations.

suppliers in the group of companies, on 31 December 2011, that made the same type of supply (i.e. electricity or gas) as Supplier A during 2011:

- a) the name of each of the other suppliers;
- b) the company registration number for each of the other suppliers; and
- c) the amount of electricity or gas (as the case may be)⁹ supplied by the group from 1 January 2011 to 31 December 2011. This amount is to be determined in the way described in Appendix B.

Where a supplier fails to provide the notification required under the Order, or where we are satisfied that a notification is inaccurate, we may determine the matters to which the notification related¹⁰.

Form of notification

Attached to this letter is a notification template. Suppliers should use this template to notify the information listed above. We require two copies of this template to be returned to us. These must be submitted as:

- A signed and scanned electronic version, by the notification deadline, to eco@ofgem.gov.uk

AND

- A signed hard copy by post by 5pm on the second working day after the notification deadline, addressed to "ECO Team, First Floor" with an original signature from an authorised signatory of your company

If you have any queries in relation to this letter or the Order, please contact Jessica Ladbury at eco@ofgem.gov.uk.

Yours sincerely,

Matthew Harnack
Associate Director, Commercial

⁹ A supplier who is an electricity licence-holder notifies the amount of electricity supplied by the group. A supplier who is a gas licence-holder notifies the amount of gas supplied by the group.

¹⁰ Article 7 (2) and (6) of the Order.

Appendix A: Definition of a domestic customer

As defined in the Order, a domestic customer means a person living in domestic premises in Great Britain who is supplied with electricity or gas at those premises wholly or mainly for domestic purposes.

Appendix B: Methodology for calculating the amount of electricity supply or gas supply to domestic customers from 1 January 2011 to 31 December 2011

This Appendix explains the methodology for calculating the electricity or gas supply data to be reported in order to allow us to set the obligations for each supplier under ECO.

Where a licence-holder or supplier ('A') is a member of a group with another licence-holder or supplier ('B') at 31 December 2011, 'A' must calculate the amount of electricity or, as applicable, gas supplied to domestic customers by the group in the year ending on 31 December 2011. In calculating this amount, 'A' takes into account the amount of electricity or, as applicable, gas supplied by 'B' between 1 January 2011 and 31 December 2011, whether or not 'B' entered the group during the year.

Part 1: Amount of electricity supply

In order to maintain a consistent basis of measurement amongst suppliers, ELEXON settlement data should be used, as it is considered the standard for settlements data across the industry. All notifications should be based on ELEXON data as detailed in this Appendix.

Suppliers should provide the total kilowatt hours (kWh) delivered to customers on Profile Classes 1 and 2. Suppliers should remove any unmetered supply from this data. This total kWh should be based on the latest settlement data available as of 31 July 2012, split by licence and provided to suppliers by ELEXON.

The D0030 'Non Half hourly Distribution Use of System Charges (DUoS) report' data provided to both suppliers and Licensed Distribution System Operators (LDSO) would contain the profile data for each Profile Class in an aggregated form per Settlement Day for DUoS billing. These flows contain the volumes which have been delivered to customers and therefore no adjustments to line losses need to be made in respect to reporting supply amounts for the ECO.

Part 2: Amount of gas supply

In order to maintain a consistent basis of measurement amongst suppliers, aggregated Annual Quantities (AQ) should be used as an approximation of gas delivered to domestic customers between 1 January 2011 and 31 December 2011.

UNC gas settlement and reconciliation processes operated by Xoserve as GT Agent will not generate settled supply data for all domestic sector suppliers for the period in question ahead of the notification deadline for suppliers.

AQs are set annually in consultation with gas shippers ahead of the start of each Gas Year and are adjusted to be expressed in seasonal normal terms.

A supplier should report the aggregated AQ of its domestic customers at three points in time:

- 1 January 2011;
- 1 July 2011; and
- 31 December 2011.

These three figures should be aggregated and then divided by three in order to calculate the mean of the AQ at these three dates.

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