

Energy Company Obligation (ECO) 2015-2017: Consultation on specific HHCRO requirements

Consultation

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Response deadline: 1 December 2014

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Overview:

The government is extending ECO through a new obligation period from April 2015 to March 2017 (termed 'ECO2'). The new ECO Order 2014 will set out the requirements for ECO2.

Some of these requirements relate to certain measures which are to be credited towards a supplier's ECO2 Home Heating Cost Reduction Obligation (HHCRO). This focused consultation is being carried out to allow us to provide early guidance on these changes ahead of the start of the ECO2 obligation period. This consultation focuses specifically on three areas where the change in law will affect delivery of HHCRO measures and where we will exercise discretion in administering those changes.

This consultation document provides information on how we propose to administer these distinct areas of policy relevant to HHCRO for the upcoming ECO 2015-17 obligation period ('ECO2'). These proposals are based on a draft of the Electricity and Gas (Energy Company Obligation) Order 2014¹ ('ECO2 Order') which was published on DECC's website on 2 October 2014.

The draft legislation has not yet been laid before parliament. If the ECO2 Order is not laid in parliament we will not continue this consultation. If any modifications are made to the contents of the draft ECO2 Order before it is laid in parliament we may need to modify this consultation or launch a new consultation.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360187/ECO_2_Order_as_at_1_10_14_for_publication.pdf

Executive Summary

The ECO2 Order is due to be laid in parliament in late October 2014, with a date of effect of 1 April 2015. The draft Order has been published on the Government's website and it sets out the requirements for ECO for the obligation period 2015-2017.

The HHCRO requirements will have an impact on measures delivered from 1 January 2015. Some of these requirements relate to whether certain measures can be credited towards a supplier's ECO2 HHCRO. These are:

- demonstrating whether a premises is non-gas fuelled;
- introducing qualifying warranties for boiler replacements; and
- introducing warranties for electric storage heater replacements.

Our proposals for the administration of the above requirements are included in Part 1 of this document. We welcome your views on our proposals and whether or not you agree with them, particularly on the specific questions outlined in this consultation document at the end of each section. Appendix 1 provides information on responding to this consultation. Appendix 2 explains how respondents may comment on our process of consultation.

These requirements also affect the carry-over of certain ECO1 (ECO Order 2012²) surplus actions to be credited against a supplier's ECO2 HHCRO. As such we have provided additional information on HHCRO surplus actions in Part 2 of this document. Part 2 is for information only and therefore is not subject to consultation.

Our consultation

We have divided our consultation process for ECO2 into two stages: The first consultation (this document) aims to provide early certainty for HHCRO measures delivered from 1 January 2015. This will be followed by a second consultation on the other ECO2 changes, which will be published in late November 2014.

In January 2015 we will publish a guidance note on areas covered in this document which will take into account responses to this consultation. Following this, the policy developed for the areas included in the guidance note will be incorporated into the final ECO2 guidance; we do not intend to consult again on these areas.

This consultation will close at 9am on 1 December 2014, see Appendix 1 for more details.

² ECO1 (ECO Order 2012) is the obligation period from 1 January 2013 to 31 March 2015.

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Part 1 – Specific HHCRO requirements


1. Non-gas fuelled premises

- 1.1. The ECO2 Order sets out requirements for measures installed in non-gas fuelled premises that remain non-gas fuelled after the installation of the measure. An uplift³ may be applied to the cost saving of a heating qualifying action if that measure is installed in a non-gas fuelled premises under ECO2. Our next consultation on ECO2 will include more details on these uplifts.
- 1.2. It will be possible for a supplier to credit certain ECO1 measures towards their ECO2 HHCRO as surplus actions if installed between 1 January 2014 and 31 March 2015. If these HHCRO measures are delivered to non-gas fuelled premises, they will be subject to a conversion factor⁴.
- 1.3. The ECO2 Order states that a non-gas fuelled premises is one which does not have a main space heating system fuelled by mains gas, and is not connected to a district heating system. The fuel type of the district heating system is not relevant.
- 1.4. The definition of non-gas fuelled premises depends on the fuel type of the main space heating system within the premises. We propose that the following definition of main space heating system is used to identify non-gas fuelled premises.
- 1.5. Where any of the main space heating systems are fuelled by mains gas or district heating then the premises will not be considered to be non-gas fuelled. We propose that the main space heating systems is identified using the following test:
 - a. The main space heating system of a premises includes any heating systems present that are not fixed room heaters.
 - b. Where the premises is only heated by fixed room heaters then these will be the assumed main heating system.
 - c. In some cases the main space heating system may also provide hot water for the premises.

There may be more than one main space heating system in a premises. This test could be used in all cases to identify the main space heating system of a premises, however

³ An uplift is an increase to the cost saving for the installation of a specific measure.

⁴ Conversion factors are discussed in section 5.



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where further clarity is required then we will be guided by the conventions used in Appendix A of SAP⁵.

- 1.6. Below are some of the ways in which suppliers can demonstrate, at audit, the fuel type for the main space heating system of a premises including whether it is heated by a district heating system. Different ways have been detailed based on the measure being installed:
- a. For measures which improve the insulating properties of a premises – the pre-installation SAP or RdSAP⁶ assessment can be used to demonstrate the fuel type of the main space heating system provided the assessment has been conducted by an accredited SAP or RdSAP assessor. A SAP or RdSAP assessor is either an On Construction Domestic Energy Assessor or a Domestic Energy Assessor (OCDEA/DEA).
 - b. For qualifying boiler repairs and replacements for the premises – the boiler assessment checklist can be used where the operative has recorded the fuel type, before and after the measure has been completed, of the main heating system of the premises.
 - c. For non-qualifying boiler replacements:
 - i. the boiler assessment checklist can be used where the operative has recorded the fuel type of the main space heating system of the premises
 - ii. a pre and post installation SAP or RdSAP assessment can be used to demonstrate the fuel type of the main space heating system provided the assessment has been conducted by an accredited SAP or RdSAP assessor (OCEDA/DEA).

⁵ The Government's Standard Assessment Procedure for Energy Rating of Dwellings (SAP 2012 Version 9.92); http://www.bre.co.uk/filelibrary/SAP/2012/SAP-2012_9-92.pdf and SAP 2009; http://www.bre.co.uk/filelibrary/SAP/2009/SAP-2009_9-90.pdf

⁶ The Reduced Data Standard Assessment Procedure (RdSAP)

Question 1:

- 1.a. Do you agree with our proposed test to identify the main space heating system of a premises? If not, can you suggest any alternative ways of identifying the main space heating system?
- 1.b. Can you suggest any alternative ways that suppliers can demonstrate the fuel type of the main space heating system of a premises?
- 1.c. Do you agree that an accredited OCDEA/DEA should conduct the assessment of the fuel type of the main space heating system of the premises where a SAP or RdSAP calculation is used to demonstrate this?
- 1.d. Are there any other aspects relating to non-gas fuelled premises in ECO2 that you think we should consider?

2. Qualifying warranties for replacement boilers

- 2.1. Under ECO2, all replacement boilers installed must be accompanied by a qualifying warranty. This requirement will apply to all replacement boilers, irrespective of fuel type and whether they are qualifying or non-qualifying boiler replacements.
- 2.2. To be eligible to be credited towards a supplier's ECO2 HHCRO, replacement boilers installed from 1 January 2015 under ECO1 must be accompanied by a qualifying warranty.
- 2.3. A replacement boiler is a boiler that has been installed which replaces a previous heating source, such as a qualifying boiler, a non-qualifying boiler or an electric storage heater. Where there is no heating system present before installation we consider that the replacement boiler replaces direct acting electric heaters, as this is the assumed main space heating.

Legislative requirements of a qualifying warranty for replacement boilers

- 2.4. In this section we provide details on the legislative requirements for 'qualifying warranties'.
- 2.5. A qualifying warranty is one that meets the following requirements:
 - a. It provides for the rectification of problems⁷ notified to the person providing the warranty within one year of the replacement boiler being installed. We will be satisfied that the warranty has been provided when the boiler was installed if a one year warranty is in place at the date of handover⁸.
 - b. It provides for the rectification of problems which affect the functioning of the boiler or heating system relating to the replacement boiler's installation and/or design (the suitability to the heating system it is intended to serve).
 - c. It provides for the rectification of all problems with the boiler and associated heating system related to the replacement boiler's installation and design work

⁷ Any problems which arise after the replacement boiler has been installed and are not covered by a qualifying warranty are noted in section 2.7.

⁸ Please refer to para 9.5-9.12 of the ECO Guidance for Suppliers for more information on 'date of handover'; <https://www.ofgem.gov.uk/ofgem-publications/88469/energycompaniesobligationecoguidanceforsuppliersversion1.1a.pdf>

carried out by the operative. The operative is the installer who carried out the works.

- d. It is provided free of charge to the occupier; this will be evidenced by a signed declaration by the occupier.

2.6. The warranty is not required to provide for the rectification of a problem which is covered by the manufacturer's warranty for the boiler.

2.7. The warranty is not required to provide rectification of a problem which arises after the replacement boiler is installed where that problem arises from one or more of the following:

- a. negligence
- b. accident
- c. misuse of the replacement boiler
- d. repair of the replacement boiler

by a person other than the operative, warranty provider or person acting on behalf of the operative or warranty provider.

What is covered by 'boiler' and 'heating system'?


2.8. The qualifying warranty is required to provide for rectification of all problems with the boiler and its associated heating system of the premises relating to the replacement boiler's installation or design work carried out. In this section we provide proposed definitions of 'boiler' and 'heating system'.

Boiler

2.9. Appendix 2 of the ECO Guidance for Suppliers⁹ defines a boiler as:

A gas, liquid or solid fuelled appliance designed to provide hot water for space heating. It may (but need not) be designed to provide domestic hot water as well. The definition also includes electric boilers. The boiler must be connected to a working domestic central heating (and, if applicable, hot water) system. The components that will normally comprise a boiler are:

⁹ ECO Guidance for suppliers (Version 1.1a); <https://www.ofgem.gov.uk/ofgem-publications/88469/energycompaniesobligationecoguidanceforsuppliersversion1.1a.pdf>



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- a. heat exchanger
- b. the fuel supply system
- c. boiler and burner control system
- d. air supply and exhaust fans
- e. flue connections within the boiler case
- f. expansion vessel and/or fill and expansion header tanks
- g. programmer/timer
- h. circulation pump
- i. condensate drain system


AND

- j. ancillary equipment and any connections within the case necessary to supply central heating and / or instantaneous hot water.

Heating system

2.10. The boiler must be connected to a working domestic central heating system, which will normally comprise all or some of the following components:

- a. Radiator circuit
- b. Heating circuit
- c. Heat emitters (radiators as well as underfloor)
- d. Flue
- e. Room thermostats and thermostatic radiator valves (TRVs)
- f. Mains water supply to the system and/or boiler
- g. Cold water tank
- h. Expansion tank



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- i. Hot water storage tank
- j. Control valves
- k. Heating system pump

2.11. Problems with the boiler or heating system components, as listed above, relating to the replacement boiler's installation and design work carried out by the operative, must be covered by the qualifying warranty provided, except in cases where the problems are due to the reasons outlined in paragraph 2.7.

Additional information relating to qualifying warranties

2.12. The operative should conduct a pre-installation assessment in accordance with PAS (2030:2014 Edition 1) before any works are carried out. This should ensure that the cause of any subsequent problems can be identified.

2.13. Where a qualifying warranty has been issued for the replacement boiler, any repair of the boiler under that warranty will not be eligible for savings within the warranty period.

2.14. To demonstrate that a qualifying warranty has been provided to the occupier we will accept the following document:

- A copy of the qualifying warranty; marked with a signed declaration by the occupier which states:

"To my knowledge no one has been charged for this warranty. The person providing this warranty has explained what it does and does not cover.

Signed.....

Date....."

Question 2:

- 2.a. Do you agree with our proposal to use the boiler definition from Appendix 2 of the ECO Guidance? If not, can you suggest an alternative definition?
- 2.b. Do you agree with our definition of a heating system and the components a heating system comprises? If not, can you suggest an alternative definition?
- 2.c. Do you think that there are alternative ways to demonstrate that a qualifying warranty has been provided to the occupier?
- 2.d. Are there any other aspects relating to qualifying warranties for replacement boilers in ECO2 that you think we should consider?

3. Warranties for replacement electric storage heaters

- 3.1. All replacement electric storage heaters installed under ECO2 must be accompanied by a one year warranty.
- 3.2. To be eligible to be credited towards a supplier's ECO2 HHCRO, replacement electric storage heaters installed from 1 January 2015 under ECO1 must be accompanied by a warranty.
- 3.3. A replacement electric storage heater is an electric storage heater that has been installed and replaces a previous heating source such as a qualifying boiler, a non-qualifying boiler or an electric storage heater. Where there is no heating system present before installation we consider that the replacement electric storage heater replaces direct acting electric heaters, as this is the assumed main space heating.
- 3.4. The warranty that accompanies a replacement electric storage heater must be for the proper functioning of the entire electric storage heater that has been installed. Warranties should not include any unusual or otherwise unreasonable exemptions. We are satisfied that this requirement can be met by a manufacturer's warranty.
- 3.5. Operatives will need to obtain the occupier's written confirmation that he/she has been provided with, a one year warranty for the electric storage heater from the date of replacement and that the nature of the warranty has been explained to them. A copy of the electric storage heater warranty provided to the occupier must be made available to us on request.
- 3.6. Where a warranty is issued for the replacement electric storage heater, any repair of the electric storage heater under that warranty will not be eligible for savings within the warranty period.
- 3.7. If more than one electric storage heater is installed in a premises we will accept one warranty covering all replacement electric storage heaters, as long as the details of the individual heaters are included in the warranty.
- 3.8. To demonstrate that a warranty has been provided to the occupier we will accept the following document:

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- A copy of the relevant electric storage heater replacement warranty; marked with a signed declaration by the occupier which states:

“The person providing this warranty has explained what it does and does not cover.

Signed.....

Date.....”

Question 3:

- 3.a. Do you agree that the warranty should be for the functioning of the entire electric storage heater installed and that this can be demonstrated by a manufacturer’s warranty?
- 3.b. If more than one electric storage heater is installed in the premises, do you agree that one warranty covering all of the replacement electric storage heaters is sufficient?
- 3.c. Are there any other aspects relating to warranties for replacement electric storage heaters in ECO2 that you think we should consider?


Part 2 - HHCRO surplus actions

4. Surplus actions to be credited towards HHCRO

- 4.1. Surplus actions are qualifying actions delivered under ECO1, which were achieved by the applicant supplier¹⁰ but are not required by that supplier to meet its ECO1 obligations.
- 4.2. This consultation document does not cover any requirements relating to surplus actions intended to be credited toward a supplier's ECO2 CERO or CSCO¹¹ obligation. Nor does it cover the surplus action process as a whole. These will be addressed in the ECO2 draft guidance.
- 4.3. The information provided in this document is limited to requirements for surplus actions intended to be credited towards a supplier's ECO2 HHCRO.
- 4.4. For an ECO1 measure to be considered a surplus action intended to be credited towards a supplier's ECO2 HHCRO, it must meet all of the requirements specified below:
 - a. It is a qualifying action installed by the applicant supplier between 1 January 2014 and 31 March 2015
 - b. It is either an approved HHCRO qualifying action under ECO1 or it meets all of the relevant requirements to become an approved HHCRO qualifying action under ECO1AND
 - c. It is not required by the supplier to satisfy its ECO1 obligation against which that measure was originally credited.
- 4.5. If the measure is a replacement boiler or replacement electric storage heater and was installed between 1 January 2015 and 31 March 2015, the requirements below must also be met if a supplier wishes to credit the measure as a surplus action towards its HHCRO under ECO2:

¹⁰ The supplier that made the surplus action application for that measure.

¹¹ Carbon Emissions Reduction Obligation (CERO) and Carbon Saving Community Obligation (CSCO)



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- a. if it is a replacement boiler, the installation must be accompanied by a qualifying warranty¹²
- b. if it is a replacement electric storage heater, the installation must be accompanied by a one year warranty¹³.

Process for making an application for surplus actions

- 4.6. A supplier must submit a written application for a surplus action to us no later than 30 November 2015.
- 4.7. We will be providing guidance on the process for making an application for a surplus action in the ECO2 draft guidance which is expected to be published in late November 2014.

¹² See section 2 for more information on qualifying warranties for replacement boilers.

¹³ See section 3 for more information on warranties for replacement electric storage heaters.

5. Conversion factors for HHCRO surplus actions

- 5.1. Suppliers must apply a conversion factor to the cost saving of any surplus action to be credited towards a supplier's ECO2 HHCRO. The conversion factors are detailed in Table 1, 2 and 3 below. Where a measure is not included in the tables below a conversion factor of 1 is to be applied.
- 5.2. Conversion factors, other than 1, apply to:
- a. Measures installed in non-gas fuelled premises¹⁴ that remain non-gas fuelled once the installation is complete.
 - b. Replacement boilers – qualifying and non-qualifying boilers that are installed with or without a qualifying warranty.

Table 1: Conversion factors for surplus actions under HHCRO: Non-gas fuelled premises

| Measure | Conversion Factor |
|--|-------------------|
| A measure to improve the insulating properties of non-gas fuelled premises | 1.35 |
| Repair of a qualifying boiler at non-gas fuelled premises | 1.45 |
| Replacement of a qualifying boiler a) at non-gas fuelled premises; and b) by a boiler which was not accompanied at the time installation was completed by a qualifying warranty. | 1.4 |
| Replacement of a qualifying boiler a) at non-gas fuelled premises; and b) by- 1) a boiler which was accompanied at the time installation was completed by a qualifying warranty; or 2) a measure other than a boiler or an electric storage heater | 1.45 |

¹⁴ See section 3 for more information on non-gas fuelled premises.

Table 2: Conversion factors for surplus actions under HHRCO: Replacement of a qualifying boiler in premises fuelled by mains gas

| Measure | Conversion Factor |
|---|--------------------------|
| Replacement of a qualifying boiler by another boiler: a) where both the boiler being replaced and the replacement boiler were fuelled by mains gas; and b) the replacement boiler was not accompanied at the time installation was completed by a qualifying warranty | 0.75 |
| Replacement of a qualifying boiler by another boiler: a) where both the boiler being replaced and the replacement boiler were fuelled by mains gas; and b) the replacement boiler was accompanied at the time installation was completed by a qualifying warranty | 0.8 |

Table 3: Conversion factors for surplus actions under HHRCO: Replacement of a non-qualifying boiler

| Measure | Conversion Factor |
|---|--------------------------|
| Replacement of a boiler: a) which was not a qualifying boiler; and b) by a boiler which was not accompanied at the time installation was completed by a qualifying warranty | 0.95 |

6. Determining the cost score for surplus actions to be credited towards HHCRO

- 6.1. The cost score for a surplus action is the cost saving that was attributed to the measure in ECO1 multiplied by the relevant conversion factor using the formula below:

$$\text{Surplus action cost score} = A \times B$$

A= annual cost saving x lifetime

B= conversion factor

- 6.2. If no cost saving was attributed, (ie if it was an ECO1 CERO or CSCO measure), then the cost saving must be calculated in accordance with article 16(7) of the 2012 Order, which is also explained in paragraph 8.13 of the ECO Guidance¹⁵.
- 6.3. An ECO1 CERO or CSCO measure can be claimed as a surplus action if it meets all the requirements to become an approved HHCRO qualifying action. The cost score for the measure must be calculated as described in 6.1 above.
- 6.4. In order to ensure the correct conversion factor has been applied, we may audit the measure to confirm that the evidence supports the applied conversion factor.

It is important to note that the conversion factors are not applied to measures as part of ECO1. Conversion factors should only be applied when submitting an application for surplus actions to be credited towards HHCRO under ECO2.

¹⁵ ECO Guidance for suppliers (Version 1.1a); <https://www.ofgem.gov.uk/ofgem-publications/88469/energycompaniesobligationecoguidanceforsuppliersversion1.1a.pdf>

Appendices

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Appendix 1 - Consultation Response and Questions

We would like to hear the views of anyone interested in the issues in this document. We would especially welcome responses to the specific questions at the end of each section. These are repeated below.

Please respond by 9am on 1 December 2014. Responses can be submitted to:

ECO Consultation
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9 Millbank,
London,
SW1P 3GE

eco.consultation@ofgem.gov.uk

Unless marked confidential, all responses will be put in our library and published on our website www.ofgem.gov.uk. You can ask us to keep your response confidential, and we'll respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

If you want your response to remain confidential, please clearly mark the document and include the reasons for confidentiality. Put any confidential material in the appendices.

Having considered the responses to this consultation, we will summarise them in a final guidance in January 2015.

Question 1:

- 1.a. Do you agree with our proposed test to identify the main space heating system of a premises? If not, can you suggest any alternative ways of identifying the main space heating system?
- 1.b. Can you suggest any alternative ways that suppliers can demonstrate the fuel type of the main space heating system of a premises?
- 1.c. Do you agree that an accredited OCDEA/DEA should conduct the assessment of the fuel type of the main space heating system of the premises where a SAP or RdSAP calculation is used to demonstrate this?
- 1.d. Are there any other aspects relating to non-gas fuelled premises in ECO2 that you think we should consider?

Question 2:

- 2.a. Do you agree with our proposal to use the boiler definition from Appendix 2 of the ECO Guidance? If not, can you suggest an alternative definition?
- 2.b. Do you agree with our definition of a heating system and the components a heating system comprises? If not, can you suggest an alternative definition?
- 2.c. Do you think that there are alternative ways to demonstrate that a qualifying warranty has been provided to the occupier?
- 2.d. Are there any other aspects relating to qualifying warranties for replacement boilers in ECO2 that you think we should consider, in particular the occupier declaration?

Question 3:

- 3.a. Do you agree that the warranty should be for the functioning of the entire electric storage heater installed and that this can be demonstrated by a manufacturer's warranty?
- 3.b. If more than one electric storage heater is installed in the premises, do you agree that one warranty covering all of the replacement electric storage heaters is sufficient?
- 3.c. Are there any other aspects relating to warranties for replacement electric storage heaters in ECO2 that you think we should consider?

Appendix 2 - Feedback Questionnaire

We believe consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the way this consultation has been conducted. We are also keen to receive your answers to the following questions:

Do you have any comments about the overall process, which was adopted for this consultation?

Do you have any comments about the overall tone and content of the consultation?

Was the consultation easy to read and understand? Could it have been better written?

Please add any further comments and send your feedback to:

Andrew MacFaul

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