

# Energy Company Obligation (ECO)

Guidance

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## Administration

Energy Efficiency and Social Programmes

## About this Guidance

Energy efficiency is a key part of government policies for reducing the UK's greenhouse gas emissions. These policies contribute to the government's wider commitment to cut greenhouse gases by at least 34% by 2020 and at least 80% by 2050.<sup>1</sup>

The Energy Company Obligation (ECO), first introduced in 2013, is an energy efficiency scheme for Great Britain. ECO places legal obligations on larger energy suppliers to deliver energy efficiency measures to domestic premises. It focuses on insulation and heating measures and supports vulnerable consumer groups. ECO is intended to assist in reducing carbon emissions, maintaining security of energy supply and reducing fuel poverty.<sup>2</sup>

Ofgem (on behalf of the Gas and Electricity Markets Authority) is the ECO administrator. This document provides guidance on how Ofgem ('we', 'our' and 'us' in this document) will administer the ECO scheme in line with the requirements of the Electricity and Gas (Energy Company Obligation) Order 2014 (referred to as 'the ECO2 Order'), for the new obligation period that runs from 1 April 2015 to 31 March 2017 (referred to as 'ECO2').

Energy suppliers must achieve carbon and cost savings for three distinct obligations – 12.4MtCO<sub>2</sub> under the Carbon Emissions Reduction Obligation (CERO), 6MtCO<sub>2</sub> under the Carbon Saving Community Obligation (CSCO) (15% of which must be delivered in rural areas) and £3.7billion under the Home Heating Cost Reduction Obligation (HHCRO).

The targets are divided between suppliers according to each supplier's relative share of the domestic gas and electricity market. **These targets must be achieved by 31 March 2017.**

To help users of our guidance, we have split it into two parts:

1. **ECO2 Guidance: Administration** - is aimed mainly at suppliers, describing the processes that suppliers and Ofgem follow to meet the requirements of the ECO2 Order.
2. **ECO2 Guidance: Delivery** - is aimed at suppliers and the broader supply chain, describing how to deliver measures that are eligible to contribute towards the ECO targets.

This guidance (ECO2 Guidance: Administration) addresses the following:

- when a supplier is obligated under ECO2 and how its obligations are set
- details of the provisional solid wall minimum requirement and solid wall minimum requirement
- how suppliers notify completed ECO measures
- how suppliers can apply to credit surplus actions towards their ECO2 obligations
- the application process for transfers and re-elections, and
- our role as the ECO administrator.

We have no role in administering the Green Deal or the ECO brokerage mechanism and this document does not address the requirements of either of these.

<sup>1</sup> The Carbon Plan: Delivering our low carbon future' December 2011: <https://www.gov.uk/government/publications/the-carbon-plan-reducing-greenhouse-gas-emissions--2>.

<sup>2</sup> The Green Deal and Energy Company Obligation Consultation' Reference number 11D/886: [http://www.decc.gov.uk/en/content/cms/consultations/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx).



**It is the responsibility of each supplier to understand the provisions of the ECO2 Order and how those provisions apply to it. This guidance may be used by suppliers and members of the supply chain but it is not intended to be a definitive guide to those legislative provisions. Suppliers are responsible for ensuring that they, and any member of the supply chain acting on their behalf, comply with the applicable requirements of the law.**

## USEFUL LINKS

### ECO2 Order

The Electricity and Gas (Energy Company Obligation) Order 2014:

<http://www.legislation.gov.uk/uksi/2014/3219/contents/made>.

### ECO2 Guidance: Delivery

<https://www.ofgem.gov.uk/publications-and-updates/energy-companies-obligation-eco-2-2015-17-eco2-guidance-delivery>.

### ECO1 Guidance

For reference purposes, the most recent version of our Energy Companies Obligation (ECO): Guidance for Suppliers (version 1.2) can be found here:

<https://www.ofgem.gov.uk/publications-and-updates/energy-companies-obligation-eco-guidance-suppliers>.

The ECO1 guidance does not apply to any measures installed during the ECO2 obligation period.



Key information is highlighted throughout the document. This is there as a reminder and should be read in context with the rest of the document.

Side comments throughout the document guide the reader to where they can find specific information. They are there as a reminder and should be read in context with the rest of the document



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# 1. Introduction

## What is ECO?

There are two phases in ECO2

ECO has three distinct obligations

The Energy Company Obligation (ECO), first introduced in 2013, is an energy efficiency scheme for Great Britain that places legal obligations on larger energy suppliers to deliver energy efficiency measures to domestic premises. The ECO1 scheme ran between 1 January 2013 and 31 March 2015. A new obligation period has been established under the Electricity and Gas (Energy Company Obligation) Order 2014 (the 'ECO2 Order'), and the scheme that runs during that period is called 'ECO2'.

The overall obligation period for ECO2 runs from 1 April 2015 to 31 March 2017 and is split into two phases. We are required to determine a supplier's obligations for each of these phases:

- a. **phase 1:** 1 April 2015 to 31 March 2016, and
- b. **phase 2:** 1 April 2016 to 31 March 2017.

ECO has three distinct obligations:

- a. **Carbon Emissions Reduction Obligation (CERO):** the installation of carbon qualifying actions, which are wall and roof insulation measures, connections to district heating systems (DHS), and 'secondary' insulation measures
- b. **Carbon Savings Community Obligation (CSCO):** the installation of carbon saving community qualifying actions, which are insulation measures and connections to DHS in areas of low income, deprived rural areas and (if promoted to people receiving certain benefits) rural areas, and
- c. **Home Heating Cost Reduction Obligation (HHCRO):** the installation of heating qualifying actions, including insulation and the repair and replacement of boilers and electric storage heaters, to people receiving certain benefits and living in private domestic premises. This is also known as the 'Affordable Warmth'.

The ECO2 Order sets overall targets for each of the above obligations. These are 12.4MtCO<sub>2</sub> for CERO, 6MtCO<sub>2</sub> for CSCO (15% or 0.9MtCO<sub>2</sub> of which must be delivered in rural areas or deprived rural areas) and £3.7 billion for HHCRO.



For each phase of ECO2, suppliers will be allocated a proportion of the overall targets, depending on each supplier's relative share of the domestic gas and electricity market. Suppliers must achieve their individual obligations by **31 March 2017**.

A supplier achieves its obligations by promoting qualifying actions ('measures') at domestic premises.



An overview of our role as the ECO administrator and suppliers' roles and responsibilities for ECO2 is provided in Table 1.

**Table 1** Overview of Ofgem and suppliers' roles and responsibilities for ECO2

Time	Supplier role and responsibilities	Ofgem role and responsibilities
Before obligation period begins	<ul style="list-style-type: none"> <li>Notify customer numbers and amount of supply</li> </ul>	<ul style="list-style-type: none"> <li>Determine and notify suppliers of their obligations for each phase of ECO2</li> </ul>
During obligation period	<ul style="list-style-type: none"> <li>Promote the installation of measures to achieve obligations</li> <li>Calculate the carbon saving/cost score<sup>3</sup> of each measure using SAP/RdSAP or appropriate methodologies</li> <li>Notify completed measures</li> <li>Apply to transfer a notified measure or surplus action to another supplier</li> <li>Apply to re-elect an obligation for a notified measure or surplus action</li> <li>Apply to credit ECO1 qualifying actions to ECO2 as surplus actions</li> <li>Apply for an extension request</li> <li>Produce evidence relating to activity undertaken to achieve ECO2 obligations</li> <li>Perform technical and score monitoring of measures and report the results to us</li> </ul>	<ul style="list-style-type: none"> <li>Notify suppliers of whether or not a measure has been approved, or if the savings have been revoked</li> <li>Review appropriate methodologies for calculating carbon saving/cost score</li> <li>Notify the Secretary of State of suppliers' progress towards achieving their obligations (monthly)</li> <li>Review transfer applications for qualifying actions and surplus actions</li> <li>Review re-election applications for qualifying actions and surplus actions</li> <li>Review surplus actions applications</li> <li>Review extension requests</li> <li>Carry out audits</li> <li>Review the results of technical monitoring, score monitoring and audits and take action where necessary</li> </ul>
End of the obligation period	<ul style="list-style-type: none"> <li>Achieve obligations by 31 March 2017</li> </ul>	<ul style="list-style-type: none"> <li>Attribute savings to approved measures</li> <li>Determine whether suppliers have achieved their obligations</li> <li>Notify the Secretary of State of our final determination</li> <li>Consider whether to take enforcement action where a supplier has not achieved its obligations</li> </ul>

What are the roles and responsibilities of suppliers and Ofgem for ECO2?



<sup>3</sup> A cost score is the contribution that a heating qualifying action or surplus action makes towards a supplier's total HHCRO. See Chapter 7.b of the ECO2 Guidance: Delivery for further information on calculating cost scores.

We have specific information gathering powers as set out in the ECO2 Order






## THE ECO GUIDANCE

This guidance details our administrative processes for ECO2 and sets out the requirements for all obligated suppliers in accordance with the ECO2 Order. Where a supplier fails to meet the requirements of the Order, we may take enforcement action.

This guidance does not address the requirements of the Green Deal or the ECO brokerage mechanism.

## INFORMATION GATHERING POWERS

We use our information gathering powers under the ECO2 Order<sup>4</sup> to require suppliers to provide us with information (for example, the submission of technical monitoring reports). We can require a supplier to:

-  provide specific information about its proposals for complying with any requirement under the ECO2 Order
-  produce specific evidence to demonstrate that it is complying with, or that it has complied with, any requirement under the ECO2 Order, and
-  provide information relating to the cost to the supplier of achieving its obligations.<sup>5</sup>



The information that suppliers must be able to provide at audit, based on the requirements set out in this guidance, is detailed in Appendix 1 of our ECO2 Guidance: Delivery. This appendix provides full details of the specific data and documents that must be made available.

## ECO BROKERAGE

The ECO Brokerage is an auction-based mechanism to enable suppliers to buy forward contracts delivering ECO measures by participating authorised sellers.

We have no role in administering the ECO Brokerage and this guidance does not address the Brokerage or its administrative requirements. However, we recognise that suppliers may seek credit for measures obtained through it. Any measures obtained through the ECO Brokerage must still meet the requirements of the ECO2 Order and this guidance to be considered eligible under ECO.

<sup>4</sup> Article 32(1) of the ECO2 Order.

<sup>5</sup> Article 32(2) of the ECO2 Order.



## QUERIES AND FURTHER INFORMATION

- Q For further information on our administration of ECO please visit our website: [www.ofgem.gov.uk/eco](http://www.ofgem.gov.uk/eco). Any queries about our guidance or the administration of the ECO scheme should be directed to [eco@ofgem.gov.uk](mailto:eco@ofgem.gov.uk).
- Q For further advice and referrals regarding energy efficiency, including ECO and the Green Deal, homes and businesses may also contact the Energy Saving Advice Service (ESAS) at 0300 123 1234 or refer to: [www.energysavingtrust.org.uk](http://www.energysavingtrust.org.uk). ESAS provides this service in England and Wales.<sup>6</sup>
- Q For further information on the ECO Brokerage, please refer to: <https://www.gov.uk/energy-companies-obligation-brokerage>.

Please direct any queries about the ECO2 Order, future changes to the ECO scheme, the Green Deal and wider policy to Department of Energy and Climate Change (DECC) at: [deccecoteam@decc.gsi.gov.uk](mailto:deccecoteam@decc.gsi.gov.uk).

Who should I contact for more information?



<sup>6</sup> The Home Energy Scotland (HES) will no longer operate a referrals service for Scotland after 31 March 2015. Should another referrals service be made available for customers living in Scotland, Ofgem will provide further guidance on the relevant requirements.

## 2. Who is obligated under ECO2?

This chapter explains when a gas or electricity licence-holder will meet the definition of a 'supplier'. It also introduces the concepts of a dual licence-holder and a group company, and explains when these types of licence-holders will meet the definition of a 'supplier'.

### THE OBLIGATION PERIOD

The obligation period for each licence-holder will vary depending on when that licence-holder becomes obligated under ECO2:

- Q where a licence-holder met the definition of a supplier on 31 December 2014 (see below), or had an ECO1 CERO target under the 2012 Order<sup>7</sup>, its overall obligation period starts on **1 April 2015** and ends on **31 March 2017**, or
- Q where a licence-holder does not meet the definition of a supplier until 31 December 2015 (a 'new supplier'), its overall obligation period starts on 1 April 2016.

### When is a licence-holder a 'supplier'?

- Q The ECO2 Order establishes a threshold beyond which a licence-holder will be considered a 'supplier' for the purposes of ECO2.
- Q A licence-holder that had an ECO1 CERO target under the 2012 Order will be considered a supplier for ECO2 regardless of whether or not it meets the threshold. It is, however, possible that it may have zero obligations.

The threshold has two elements that must be met:

- Q the number of domestic customers is greater than 250,000 at the end of **31 December** of the relevant year (ie 2014 or 2015), and
- Q the amount of supply to domestic customers in that relevant year is greater than 2,000GWh of gas or 400GWh of electricity.



If a licence-holder is a member of a group of companies that includes at least one other licence-holder, the licence-holder is a 'group company'. The number of domestic customers and amount of supply of the group of companies will be used to determine whether the threshold is met.

We will notify suppliers of their obligations, even if the obligation is zero. See Chapter 4 for more details on zero obligations

Both elements of the threshold must be met for a licence-holder to be considered a supplier




<sup>7</sup> Article 4(1) (b) of the ECO2 Order.

If a company holds both an electricity supply licence and a gas supply licence ('dual licence-holder'), the number of domestic customers for each licence will be used separately to determine whether the threshold is met.<sup>8</sup> Where a dual licence-holder meets the threshold:

- Q for both its gas **AND** electricity licences, it will be considered a separate supplier in respect of each supply, or
- Q either its electricity **OR** gas licence, it will be considered a supplier only in respect of the supply that exceeds the threshold.

Each licence-holder is responsible for determining whether it exceeds the threshold and is therefore a supplier. Licence-holders will need to consider this ahead of each phase of ECO2. A licence-holder that does not exceed the threshold for a given year may do so in a subsequent year.



Once a licence-holder has met the definition of a supplier for a given year, it will remain a supplier (ie subject to the requirements of ECO) for the remainder of the obligation period.

Table 2 summarises the different types of licence-holder and the conditions under which each becomes an obligated ECO2 supplier.

A licence-holder can use Table 2 to determine whether it is an obligated ECO2 supplier. A licence-holder should identify which type of licence-holder it is and whether it meets the criteria in each column. A tick indicates where a licence-holder meets the criteria and a cross indicates that a licence holder does not meet the criteria. The final column indicates whether or not, based on the criteria in the table, a licence-holder is an obligated ECO2 supplier.

What is a dual licence-holder?

The methodologies for determining domestic customer numbers and amount of supply are outlined in Chapter 3

Licence-holders should use Table 2 to determine whether they are an obligated ECO2 supplier



<sup>8</sup> A customer supplied with electricity and gas by the same licence-holder is counted twice, once in respect of each supply.

## What are group companies?

### GROUP OF COMPANIES

Whether a licence-holder is a member of a group company should be determined by reference to the membership of the group of companies on 31 December of the relevant year.

A group of companies comprises the holding company and the wholly-owned subsidiaries of that holding company. 'Holding company' and 'wholly-owned subsidiary' have the same meaning as in section 1159 of the Companies Act 2006.<sup>9</sup>

If a licence-holder is a group company on 31 December of a relevant year, the sum of the electricity or gas supplied by that licence-holder between **1 January and 31 December** of that year must be taken into account when determining the group's supply. This is irrespective of whether that licence-holder was a member of the group for the whole of that year.



If a licence-holder is a member of a group of companies and individually exceeds the threshold, then all the other licence-holders in that group that hold a licence of the same type will also meet the definition of supplier.

When using Table 2, where a licence-holder is a member of a group company, the sum of the customer numbers and supply of all licence-holders in that group company should be used to determine whether a licence-holder is an obligated ECO2 supplier.



<sup>9</sup> <http://www.legislation.gov.uk/ukpga/2006/46/section/1159>

**Table 2** Summary of when a licence-holder meets the threshold and is considered a supplier, applicable to both group and non-group companies.

Type of licence-holder	Electricity supply licence?	Gas supply licence?	>250,000 customers <sup>1</sup>	>400GWh electricity supplied <sup>2</sup>	>2,000GWh gas supplied <sup>2</sup>	ECO2 Supplier?
Electricity licence-holder	✓	✗	✓	✓	✗	✓
Gas licence-holder	✗	✓	✓	✗	✓	✓
Dual licence-holder	Electricity	—	✓	✓	—	✓
	Gas	—	✓	—	✗	✗
Dual licence-holder	Electricity	—	✓	✗	—	✗
	Gas	—	✓	—	✓	✓
Dual licence-holder	Electricity	—	✓	✓	—	✓
	Gas	—	✓	—	✓	✓

<sup>1</sup> This is the number of domestic customers at the end of 31 December of the relevant year.

<sup>2</sup> This is the amount of gas or electricity supplied in the relevant year.



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

### 3. Notifying customer numbers and supply

What information do suppliers need to notify?



A 'group company' is a licence-holder that is a member of a group of companies that includes at least one other licence-holder



Once a licence-holder or group company has met the definition of a supplier for ECO2, ie is an obligated ECO2 supplier, it must notify us of its domestic customer numbers and supply. The information that must be notified to us, and how to calculate this information, is described below. We will use the information notified by a supplier to determine its obligations, ie the proportion of the overall ECO targets that it must achieve.

#### WHAT SUPPLIERS MUST NOTIFY



Before each phase of ECO2 a supplier must notify us of the following:

-  the number of its domestic customers on 31 December of the relevant notification period (see Table 3), and
-  the amount of gas or electricity (as applicable) supplied to its domestic customers during the relevant notification period.

Where a supplier is a group company, it must notify us of the groups' customer numbers and the amount of electricity or gas, as applicable, supplied by the group during the relevant notification period for all suppliers with the same type of supply.

In calculating group customer numbers and supply, suppliers should take into account the amount of electricity or gas supplied by the entire group during the notification period, including the supply of any licence-holders who entered the group during that notification period.

In addition, for all suppliers in the group with the same type of supply (ie gas or electricity) the supplier must also notify us of the following:

-  the names of all the suppliers in the group, and
-  the company registration number for each supplier within the group.



Where a supplier fails to provide the information specified above, or we consider that a notification is inaccurate; we may determine these figures ourselves.<sup>10</sup> We may also take enforcement action if appropriate.



Where a supplier which is a group company fails to provide the information specified above for group companies, or we consider any of the information to be inaccurate, we may determine the information ourselves.<sup>10</sup> We may also take enforcement action if appropriate.

<sup>10</sup> Articles 6(2) and (6) of the ECO2 Order.

## WHEN SUPPLIERS MUST NOTIFY

Each supplier must notify us of their customer numbers and gas and/or electricity supply by a set notification date. This information must be sent to us using the template provided. We will email the template to suppliers before the notification date (see Table 3).

**Table 3** Key dates for notifying domestic customer numbers and supply

Actions	Phase 1 (1 April 2015 to 31 March 2016)	Phase 2 (1 April 2016 to 31 March 2017)
Notification date	1 February 2015	1 February 2016
Relevant notification period	1 January to 31 December 2014	1 January to 31 December 2015

### Calculating domestic customer numbers

The ECO2 Order defines a domestic customer<sup>11</sup> as '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'.

We recognise that suppliers cannot all use the same methodology to calculate their domestic customer numbers without significant system changes. However, suppliers must use a reasonable methodology to accurately calculate domestic customer numbers. We will audit suppliers to ensure the methodology used is reasonable after notification but before the start of each phase, as applicable.

What is a domestic customer?



<sup>11</sup> Article 2 of the ECO2 Order.

## How to calculate the amount of electricity supply

### Calculating electricity supply

To calculate the amount of electricity supply, suppliers should use the methodology below.

#### Methodology for calculating the amount of electricity supply

ELEXON settlement data should be used for all notifications, given its acceptance for settlements data across the industry.

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 settlement data available from 22 January of the year after the relevant year, split by licence, flow and provided to suppliers by ELEXON.

To identify the total kWh for each profile class, suppliers must use the D0030 'Non Half hourly Distribution Use of System Charges (DUoS) report' data provided to both suppliers and Licensed Distribution System Operators (LDSO). This D0030 flow contains both consumption and losses data, but only consumption data is required, as ECO only requires the volumes which have been delivered to customers. Therefore no adjustments to line losses need to be made for reporting supply amounts for ECO.

## How to calculate the amount of gas supply

### Calculating gas supply

To calculate the amount of electricity supply, suppliers should use the methodology below.

#### Methodology for calculating the amount of gas supply

Aggregated Annual Quantity (AQ) is the estimated annual gas consumption of a customer over a year under seasonal normal conditions. AQs are set annually by Xoserve in consultation with Gas Shippers and should be used as an approximation of gas delivered to domestic customers during the notification period.

A supplier should complete the template, sent by us, to report the aggregated AQ of its domestic customers at the following five points in time, for the relevant year (ie 2014 or 2015):

- 1 January
- 1 April
- 1 July
- 1 October
- 31 December

Suppliers should then calculate the mean of the five aggregated AQ values for a relevant year and include this in the template provided. The mean of the five AQ values is the amount of gas supply for that supplier.





## 4. Setting supplier obligations

This chapter explains how we use the information provided by suppliers, as described in Chapter 3, to determine each supplier's obligations.

### OBLIGATIONS FOR EACH PHASE

The sum of a supplier's Carbon Emissions Reduction Obligation (CERO), Carbon Saving Community Obligation (CSCO) or Home Heating Cost Reduction Obligation (HHCRO) as applicable, over phases 1 and 2, are referred to as its:

- Q total carbon emissions reduction obligation
- Q total carbon saving community obligation, and
- Q total home heating cost reduction obligation.



A supplier must achieve its total obligations by the end of the overall obligation period (ie by 31 March 2017). The obligations set for each phase of ECO2 are cumulative and do not need to be met individually. This means, for example, that a supplier is not required to meet its phase 1 CSCO by the end of phase 1. Instead, the supplier's phase 1 CSCO will be added to its phase 2 CSCO, and its total carbon saving community obligation must be met by 31 March 2017.

In some cases we may determine that a supplier's obligation for a phase is zero. If we notify a supplier that it has a zero obligation for a phase, the supplier will still need to meet its obligations for the other phase.

Suppliers' obligations will be determined using the formulae described below, based on the customer numbers and amount of supply notified to us for each phase (as described in Chapter 3). In addition, a supplier's CERO obligation could be subject to an increase if that supplier did not achieve its ECO1 CERO target (see page 19).

Suppliers are also required to deliver a total of 4MtCO<sub>2</sub> savings through the delivery of solid wall insulation measures. This is known as the provisional solid wall minimum requirement (PSWMR). PSWMR is not in addition to the overall obligations for CERO, CSCO and HHCRO, but forms part of them. We determine a supplier's PSWMR for each phase in the same way as the other obligations.

A supplier's total obligations are the sum of its obligations for each phase

See page 21 for more information on zero obligations

See Chapter 5 for more information on the provisional solid wall minimum requirement (PSWMR)



What are the overall targets for each obligation?

How to calculate a supplier's obligations (non-group companies)



The overall targets for each phase of ECO2 are shown in Table 4.

**Table 4** Summary of overall ECO2 targets for each obligation

Phase	CERO	CSCO	HHCRO	PSWMR
1	6.2MtCO <sub>2</sub>	3MtCO <sub>2</sub>	£1.85billion	2MtCO <sub>2</sub>
2	6.2MtCO <sub>2</sub>	3MtCO <sub>2</sub>	£1.85billion	2MtCO <sub>2</sub>

### Determining obligations for supplier that is not a group company

For each obligation shown in Table 4, a supplier's obligation for a phase is calculated using the following formula<sup>12</sup>:

$$\frac{(A \times T_x)}{T}$$

Where:

- 'A' is half of the value of the specific obligation given in Table 4.
- 'T<sub>x</sub>' is the amount of electricity or gas supplied in the relevant notification period by the supplier, and calculated using the formula on page 19.
- 'T' is the total amount of electricity or gas (as applicable) supplied in the relevant notification period by all suppliers and calculated using the 2nd formula on page 19, excluding those suppliers whose obligation for the phase will be zero.

### Determining obligations for supplier that is a group company

For each ECO obligation shown in Table 4, the supplier's obligation for a phase is calculated using the following formula<sup>13</sup>:

<sup>12</sup> Article 8 of the ECO2 Order.

<sup>13</sup> Article 9 of the ECO2 Order.

$$J \times \left( \frac{H}{K} \right)$$

Where:

'J' is calculated by applying the formula described above. However, in this instance:

'Tx' is the amount of electricity or gas supplied in the relevant notification period by the group to which that supplier belongs (where the amount of electricity or gas supplied is calculated using the formula described below).

'H' is the amount of electricity or gas notified by the supplier for the notification period.

'K' is the amount of electricity or gas supplied in the notification period by the group to which the supplier belongs.

How to calculate a supplier's obligation (group companies)

### Formula for determining a supply

For the purposes of determining a supplier's or group's obligations, the amount of the electricity or gas supplied in the relevant notification period is required.

Where the amount of electricity supplied is more than 400 but less than 800GWh, or the amount of gas supplied is more than 2,000 but less than 4,000GWh, the amount of supply is calculated using the following formula<sup>14</sup>:

$$(A-B) \times 2$$

Where:

'A' is the amount of electricity or gas notified by the supplier or group for the notification period.

'B' is in the case of an electricity supplier, 400GWh of electricity; or in the case of a gas supplier, 2,000GWh of gas.

Where the amount of electricity supplied is equal to or more than 800GWh, or the amount of gas supplied is equal to or more than 4,000GWh, the amount of supply is as notified.

### CERO INCREASE (applicable only to suppliers obligated in ECO1)

Where a supplier did not achieve its ECO1 CERO, the supplier's ECO2 phase 1 CERO will be subject to an increase, 'the CERO increase'. The CERO increase is the sum of the shortfall of that supplier's ECO1 CERO (ie the

The CERO increase is the amount by which a supplier missed its ECO1 CERO plus an additional 10% of that shortfall



<sup>14</sup> Article 10 of the ECO2 Order.

amount by which it missed its CERO obligation), and an additional 10% of that shortfall. The CERO increase, as part of a supplier's CERO phase 1 obligation, must be met by the end of the obligation period (31 March 2017).

Where a supplier has a zero obligation under ECO2 (see page 21) it will only need to achieve its CERO increase.

The CERO increase is calculated using the following formula<sup>15</sup>:

$$(A-B) \times 1.1$$

Where:

'A' is the amount, in MtCO<sub>2</sub>, of the supplier's ECO1 CERO target, and

'B' is the sum total, in MtCO<sub>2</sub>, of -

i. the ECO1 carbon savings attributed to the ECO1 qualifying actions and ECO1 excess actions and/or group excess actions credited against the supplier's ECO1 CERO target, and

ii. any uplifts attributed to ECO1 qualifying actions through the ECO1 levelisation process.<sup>16</sup>

Any reference to a supplier's ECO2 CERO includes the CERO increase, where applicable.

## WHEN WE WILL NOTIFY SUPPLIERS OF THEIR OBLIGATIONS FOR EACH PHASE

Suppliers will be notified of their phase 1 ECO2 obligations no later than **28 February 2015**. Where a supplier did not achieve its ECO1 CERO, the supplier will be notified of its revised phase 1 CERO, including its CERO increase, no later than **30 September 2015**.

Suppliers will be notified of their phase 2 ECO2 obligations no later than **29 February 2016**.



<sup>15</sup> Article 11 of the ECO2 Order.

<sup>16</sup> See Chapter 13 of the Energy Companies Obligation (ECO): Guidance for Suppliers (version 1.2) for more information on levelisation.

## ZERO OBLIGATIONS

A supplier's obligations for a phase will be zero if, during the notification period for a phase, a supplier that is not a group company supplies equal to or less than:

- a. 400GWh of electricity, or
- b. 2,000GWh of gas.

A supplier's obligations for a phase will be zero if, during the notification period for that phase, a supplier is a group company and the group supplies equal to or less than:

- a. 400GWh of electricity (where the supplier is an electricity supplier), or
- b. 2,000GWh of gas (where the supplier is a gas supplier).



For a supplier that is obligated under ECO2 as a result of having an ECO1 CERO, but that does not meet the threshold described in Chapter 2, that supplier's obligations for ECO2 will be set to zero.

How can a supplier have 'zero' obligations?



## 5. Provisional solid wall minimum requirement

This chapter details how a supplier can meet its provisional solid wall minimum requirement (PSWMR), its solid wall minimum requirement (SWMR) under CERO and the relationship between the PSWMR and SWMR.

### PROVISIONAL SOLID WALL MINIMUM REQUIREMENT (PSWMR)

For ECO2, at least 4MtCO<sub>2</sub> savings must be achieved through the delivery of solid wall insulation (SWI) measures – known as the provisional solid wall minimum requirement (PSWMR).<sup>17</sup> The PSWMR target is not in addition to the carbon savings to be achieved under CERO, CSCO and HHCRO, but rather is a requirement on how some of ECO is delivered – ie at least 4MtCO<sub>2</sub> savings must be achieved through the installation of SWI measures under any or all of the three obligations (CERO, CSCO and HHCRO).

The PSWMR target is split evenly between phases 1 and 2. We determine a supplier's PSWMR for each phase in the same way as the other obligations.

The PSWMR is a minimum carbon savings target; therefore suppliers can deliver above their requirement. A supplier must meet its PSWMR through the delivery of SWI measures by the end of the obligation period (31 March 2017).



Although the PSWMR is an ECO2 requirement, carbon savings achieved by SWI measures delivered in both ECO1 and ECO2 can contribute towards a supplier's PSWMR.

### SOLID WALL MINIMUM REQUIREMENT (SWMR)

A supplier's PSWMR is used to determine that supplier's solid wall minimum requirement (SWMR). The SWMR is the proportion of the PSWMR that relates specifically to CERO and represents the amount of carbon savings which a supplier must achieve through the delivery of CERO SWI surplus actions and ECO2 CERO SWI measures. For a supplier to achieve its CERO, it must meet its SWMR.

The PSWMR is a requirement on how some of ECO is delivered – it is not in addition to the three obligations (CERO, CSCO and HHCRO)

See Chapter 3 of the ECO2 Guidance: Delivery for more information on SWI measures

How are the PSWMR and SWMR related?



<sup>17</sup> Article 7(2) of the ECO2 Order.

## How is the SWMR calculated?

The SWMR is calculated using the following formula<sup>18</sup>:

$$A - B = \text{SWMR}$$

Where:

'A' is a supplier's PSWMR target in MtCO<sub>2</sub>

'B' is the sum of the carbon savings from:

- a. ECO1 SWI measures that contributed to a supplier meeting any of its ECO1 obligations (CERO, CSCO or HHCRO). This does not include measures carried forward to ECO2 as surplus actions,
- b. ECO1 SWI measures carried forward to ECO2 as CSCO and HHCRO surplus actions, and
- c. ECO2 CSCO and HHCRO SWI measures.

'SWMR' is the carbon saving to be achieved through ECO2 CERO SWI measures and CERO SWI surplus actions, ie the proportion of the PSWMR target not achieved by 'B'.

The carbon saving a supplier must achieve through SWI measures delivered under CERO to meet its PSWMR, ie its SWMR, is reduced by the amount of carbon savings a supplier achieves through ECO1 CSCO and HHCRO SWI measures. Therefore, as the carbon savings delivered through 'B' increase, the SWMR decreases by the same amount. Hence, a supplier's SWMR could potentially be zero if it has achieved all of its PSWMR through B, ie B is equal to or more than A.

Table 5 below shows which measure categories contribute to either the SWMR or to one of the sub-categories of 'B' in the formula above.



ECO1 excess actions (eg from the CERT or CESP schemes) cannot be credited towards a supplier's PSWMR or SWMR.



<sup>18</sup> Article 13 of the ECO2 Order.

See Chapter 13 of the ECO Guidance for Suppliers (version 1.2) for more information on levelisation

The SWMR can only be calculated at the end of the obligation period

If a supplier fails to achieve its SWMR, it will also fail to achieve its CERO



**Table 5** Summary of which categories of ECO1 and ECO2 measures contribute towards a supplier's SWMR or the sub-categories of B in the formula above (PSWMR)

Measure category	Obligation a measure is credited against		
	CERO	CSCO	HHCRO
ECO1 SWI measures	B(a)	B(a)	B(a)
ECO1 SWI surplus actions	SWMR	B(b)	B(b)
ECO2 SWI measures	SWMR	B(c)	B(c)

The carbon savings achieved by ECO1 SWI measures, which contribute to a supplier's PSWMR, are exclusive of any uplifts attributed to the measures as a result of the ECO1 levelisation process.

**EXAMPLE**

A supplier has a PSWMR of 1MtCO<sub>2</sub>: **A = 1**

The supplier has delivered a total of 0.7MtCO<sub>2</sub> savings through ECO1 SWI measures (not including surplus actions), HHCRO and CSCO SWI surplus actions and ECO2 HHCRO and CSCO SWI measures: **B = 0.7**


Therefore, this supplier's SWMR is 0.3MtCO<sub>2</sub>, calculated as follows:

$$1 - 0.7 = 0.3 \text{MtCO}_2$$

**When will the SWMR be calculated?**

A supplier's SWMR is determined once all measure transfers, re-elections and approvals have been finalised at the end of the obligation period. We will then determine whether it has met its requirement.

**WHAT HAPPENS IF A SUPPLIER DOESN'T MEET ITS SWMR?**



To achieve its CERO a supplier must also achieve its SWMR by 31 March 2017. Failure to meet this requirement will result in that supplier not achieving its CERO and enforcement action may be taken against that supplier.



## 6. Notification of completed measures

For a supplier to achieve its obligations, once a measure is installed it must be notified to us by that supplier. We use the information provided at notification to determine whether or not we will approve a measure. This chapter explains the following:

- 🔍 when measures must be notified to us
- 🔍 how measures should be notified
- 🔍 what information must be notified for each measure
- 🔍 what happens when a successful notification contains errors
- 🔍 our approach to extension requests, and
- 🔍 information processing.

### WHEN A SUPPLIER MUST NOTIFY US OF COMPLETED MEASURES

Suppliers must notify us of completed measures by the end of the month following the month in which installation of the measure was completed (the 'notification deadline'). For example, if a measure is completed in August 2015, its notification deadline will be 30 September 2015.

#### When is installation of a measure complete?



The installation of a measure is deemed to be complete on the date it can deliver savings at a level expected for that measure. This will normally be the date on which the installer finishes work on the measure.

However, for the purpose of monthly notification we will generally consider the measure to be complete on the date on which it is effectively handed over to the occupant of the premises or, if unoccupied at the time of handover, to the landlord.

For measures installed in accordance with PAS 2030:2014 Edition 1, the meaning of handover is defined within that specification.<sup>19</sup> The date of handover must be specified in the Declaration of Conformity.<sup>20</sup>

The notification deadline is the end of the month following the month in which the installation of the measure was completed

What is the 'handover' date?



<sup>19</sup> Paragraph 4.12, PAS 2030:2014.

<sup>20</sup> Chapter 7, PAS 2030:2014.

When should a declaration of completed installation be obtained?

Secondary measures will not be approved until the related primary measure is approved

See Chapter 4 of the ECO2 Guidance: Delivery for more information on primary and secondary measures



For measures that do not need to be installed in accordance with PAS 2030:2014 Edition 1, or if no Declaration of Conformity is produced, the date of handover will be the date on which:

- a. work on the installation of the measure is finished, and
- b. any relevant information or documents relating to operating and maintaining the measure have been provided to the consumer.

In this case, a declaration of completed installation should be obtained instead.<sup>21</sup> We expect handover to take place within four calendar weeks of the installer finishing work on each measure. The only exception to this requirement is where a particular type of measure is installed in multiple premises where those premises are owned by the same landlord. For example, a block of flats, a row of houses, or where flats and/or houses are on the same estate.

In these circumstances the installer may handover to the landlord or its agent (rather than to the tenants of the premises) and may do a single handover for all measures installed of that type. Therefore, all the measures of that type can be notified in the same monthly notification because all the measures will have the same handover date. We expect handover to take place within four weeks of the installer finishing work on the last measure.

Under CERO, secondary measures are only qualifying actions if, among other requirements, a supplier installs a primary measure at the same premises. If a supplier installs a secondary measure before the installation of a primary measure, the secondary measure is not complete until the primary measure is installed and the requirement to notify the secondary measure does not arise until then. Secondary measures notified before the primary measure will not be approved until the primary measure is approved.



Suppliers must be able to evidence the date on which a measure was completed. The documentation a supplier must be able to make available on request to do this is explained in Appendix 1 of the ECO2 Guidance: Delivery.

## HOW TO NOTIFY A MEASURE

A notification of a completed measure must be made using the notification template and in accordance with the formatting prescribed within the data dictionary. The data dictionary is a reference tool for completing the notification template.<sup>22</sup>

The notification template describes the information that suppliers must include as part of the monthly notification for each type of completed measure. Suppliers will need to provide this information to us securely through the ECO Register, which suppliers use to notify measures.

<sup>21</sup> The declaration must be signed by the occupant or if unoccupied, the landlord, to confirm the date on which the installer finished work on the installation of the measure as well as the date the measure was handed over.

<sup>22</sup> The notification template and data dictionary can be found on our website: <https://www.ofgem.gov.uk/environmental-programmes/energy-companies-obligation-eco/eco-guidance>

We will review each measure that is successfully notified to us and will inform suppliers of our decision to approve or refuse that measure. We may require a supplier to clarify the information notified or provide further information for a notification before we can make a decision regarding the notified measure.

We intend to process notified measures in a reasonable timeframe (usually one month). Suppliers can use the ECO Register to check the status of a measure, including which measures are being processed, which are on hold and which have been approved or refused. Our ability to process measures will depend on the quality and completeness of the information provided at notification.







Once we are satisfied that the information notified is correct, all relevant fields of the notification template are complete and the eligibility criteria are met, we will approve the measure in the ECO Register.

Where a measure does not meet the relevant eligibility criteria we will refuse to approve or revoke approval of that measure.

## INFORMATION SUPPLIERS MUST INCLUDE AS PART OF NOTIFICATION



For the notification of a completed measure to be successful, the supplier must give the following information<sup>23</sup>:

-  the name or ECO reference of the obligated supplier (ie licence-holder) that promoted the installation of the completed measure
-  the address where the measure was installed
-  the type of measure installed
-  the date on which the installation of the measure was completed
-  the obligation the measure is intended to be credited towards, and
-  the carbon saving or cost score as appropriate.<sup>24</sup>

If a supplier does not provide this information by the notification deadline, notification of the measure will be unsuccessful and the carbon savings or cost score associated with the measure will be lost.<sup>25</sup>

<sup>23</sup> Article 17 of the ECO2 Order.

<sup>24</sup> Where a supplier anticipates that it may transfer a measure between obligations or to another supplier, the supplier should include both the carbon saving and cost score as appropriate in the notification template. See Chapter 7 of the ECO2 Guidance: Delivery for further information.

<sup>25</sup> In certain circumstances, we may grant suppliers an extension to the notification deadline for this information. This is discussed under the heading **Applications for an extension to the notification deadline** below.

Suppliers can check the status of a measure in the ECO Register

Certain information must be provided for notifications to be successful



Suppliers can edit the information provided in a notification up to and including the notification deadline

Suppliers are responsible for the accuracy and correctness of the information contained in notifications

An extension request should be supported by evidence



We will look at each measure identified in a notification separately when determining whether notification of that measure has been successful.

In addition to the information listed on page 27, suppliers must also provide other information when submitting their monthly notification of a completed measure, as detailed in the notification template and data dictionary. This additional information must be submitted by the notification deadline.



Failure to provide this information will not render notification of that measure unsuccessful. However, without this information we are unable to process that measure.

## ERRORS IN SUCCESSFUL NOTIFICATIONS

Before the notification deadline, a supplier may make corrections to a notification that it has submitted to us. For example, for a measure installed on 15 August 2015 and notified on 10 September 2015, an error in the notification template can be corrected at any time up to and including 30 September 2015.

After the notification deadline, the notification may only be corrected with our consent and, in some cases, may require an extension request. We will notify the supplier if we identify any errors in notified measures.

It is the responsibility of each supplier to ensure that the information contained in all notifications is true and to manage any third parties involved in the delivery of ECO measures. Errors in the notification of a completed measure may lead us to refuse or revoke approval of a measure and may lead to enforcement action.

Where we revoke or refuse approval of a measure, we will inform the supplier in writing. Our decision notice will provide details, including the measure reference numbers and reason, for our decision.<sup>26</sup>

## APPLICATIONS FOR AN EXTENSION TO THE NOTIFICATION DEADLINE

Suppliers can apply to us for an extension to the notification deadline for a completed measure. The application must be in writing and must explain why the extension is being requested. The reason should be supported by evidence. A supplier should make an extension request promptly when it first becomes aware that it has failed, or will fail, to notify a measure by the notification deadline.

Once a supplier becomes aware that it has, or will, fail to notify a measure by the notification deadline it should take all reasonable steps to ensure that the measure is notified as soon as possible. It is not guaranteed that an extension request will be approved.

<sup>26</sup> <https://www.ofgem.gov.uk/publications-and-updates/eco2-notifying-supplier-decision-refuse-or-revoke-approval-measure>.

Suppliers seeking an extension should submit an extension request using the 'Application for Extension' template.<sup>27</sup>



Any relevant supporting evidence, such as emails, screenshots or other correspondence should be sent to us at the same time as the extension request.

We will process extension requests within a reasonable timeframe, where sufficient evidence is provided.

We are not obliged to grant an extension to suppliers and we will consider each application on an individual basis. We will grant an extension to the notification deadline if a supplier satisfies us that there is a reasonable excuse for failing to notify the measure by the notification deadline. Further information about 'reasonable excuse' is provided below.

### Reasonable excuse for failing to notify a measure by the notification deadline

A reasonable excuse is an unexpected or unusual event that:

- is either unforeseeable or beyond the supplier's control, and
- prevents the supplier from notifying a measure by the notification deadline.

We will judge the actions of a supplier from the perspective of a prudent supplier exercising reasonable foresight and due diligence, and having proper regard for its responsibility under the ECO2 Order.



If a supplier relies on a third party to provide the necessary information to notify a completed measure, the supplier is responsible for ensuring that party carries out its task correctly. We expect the supplier to take reasonable care to explain to the third party what it requires them to do and to set deadlines for the task. We expect the supplier to have processes in place for eliminating or mitigating any risk of the third party failing to carry out its task correctly or within the agreed deadlines. If a supplier does this, but fails to submit a notification by the notification deadline because of what the third party did or did not do, the supplier may have a reasonable excuse.

It is not possible to give a comprehensive list of what might be a reasonable excuse and each case will be considered on an individual basis.



Each extension request will be considered on an individual basis

<sup>27</sup> Suppliers can obtain this template upon request. Please contact the ECO Team: [eco@ofgem.gov.uk](mailto:eco@ofgem.gov.uk).

Administrative oversight on the part of the supplier is not a sufficient reason for us to grant an extension to the notification deadline






For more information on our final report to the Secretary of State see Chapter 9



## Administrative oversight on the part of the supplier

We are unable to grant an extension to the notification deadline where the reason relates to administrative oversight on the part of the supplier.

Administrative oversight includes instances when the supplier fails to carry out an administrative task for reasons within its control and if the cause of that failure was reasonably foreseeable. Examples of administrative oversight on the part of the supplier include:

-  sending the notification to the wrong email address
-  forgetfulness
-  if the person(s) with the relevant knowledge or login details is sick or absent (it is reasonable to expect the supplier to have a secondary person with the necessary authority and knowledge to submit the notification)
-  routine maintenance of IT systems, or
-  misplacing of password and/or login details.

The above list is not exhaustive and all extension requests will be assessed on a case by case basis. We will take into account the degree of control exercised by the supplier over the administrative oversight when deciding whether it is the responsibility of the supplier. For example, we will generally consider the administrative oversight to be the responsibility of the supplier if one of its employees is responsible for the administrative oversight.

## Determining the period of extension

If we are satisfied that an event occurred that gives a supplier reasonable excuse for failing to notify a measure by the notification deadline, we will expect the supplier to take all reasonable steps to submit the notification at the earliest possible time. We will grant an extension to this point in time.

## MONTHLY REPORT TO THE SECRETARY OF STATE

One of our duties as the ECO administrator is to submit a report to the Secretary of State each month, beginning in July 2015.<sup>28</sup> These reports will show the progress that suppliers have made towards meeting their obligations.

The reports contain data from the information notified to us by suppliers each month and include information on supplier progress towards achieving their obligations.<sup>29</sup>

<sup>28</sup> Article 31(5) of the ECO2 Order

<sup>29</sup> <https://www.ofgem.gov.uk/environmental-programmes/energy-companies-obligation-eco/public-reports>.

## FAIR PROCESSING

When fulfilling their ECO2 obligations, suppliers may obtain information about the occupant or landlord of the premises. Some of this information will need to be provided to us either as part of the monthly notification or in the course of our audits. In addition, in the course of the transfer of a qualifying action, one supplier will disclose this information to another supplier.

Suppliers should ensure that their processing of this information complies with all applicable data protection laws. A supplier should also ensure that any member of the supply chain acting on its behalf complies with the data protection laws.

In particular, it is the responsibility of suppliers to ensure the person who lives at the premises (or if it is vacant, the landlord) where the ECO measure is delivered knows how and why their information will be processed, including who the information will be disclosed to. This includes telling them that their data will be shared with us.

In general, the Data Protection Act 1998 requires anyone collecting personal data to give the data subject (ie in the case of ECO the occupant or, if the premises is vacant, the landlord) a Notice of Fair Processing, also known as a Privacy Notice.



So that we are able to process the data suppliers provide, we require the following wording to be included in every Privacy Notice that suppliers provide to the occupant or landlord under ECO2 :

'Some of the information you have provided to **[name of supplier/energy company who funded the measure]** (your personal information) may be disclosed to Ofgem as Administrator of ECO2. Ofgem is the Office of Gas and Electricity Markets. Further information about Ofgem can be found at: <http://www.ofgem.gov.uk>.

Ofgem may use your personal information to determine whether a supplier is achieving its obligations under the scheme and to comply with its own statutory duties. Ofgem is required to disclose your personal information to the Secretary of State. Ofgem may seek to verify your personal information by contacting you directly or by checking it against existing Government records.

If you would like to know more about what information Ofgem holds about you, or the way it uses your information, full details of Ofgem's ECO Privacy Policy can be found at: [www.ofgem.gov.uk/publications-and-updates/eco2-privacy-and-information-use](http://www.ofgem.gov.uk/publications-and-updates/eco2-privacy-and-information-use).

You can also contact Ofgem directly at: [eco@ofgem.gov.uk](mailto:eco@ofgem.gov.uk) or 9 Millbank, London, SW1P 3GE.

This wording is intended to discharge some of our obligations under the Data Protection Act 1998. It is not intended, and should not be relied upon, to discharge suppliers' obligations for the same or other data protection laws. Further guidance on what information Fair Processing Notices should contain can be found on the Information Commissioner's Office website at: <http://ico.org.uk/>.

Suppliers are responsible for ensuring that processing of information complies with all applicable data protection laws

Supplier are required to give data subjects (ie the occupant or, if the premises is vacant, the landlord) a 'Notice of Fair Processing






## 7. Surplus Actions

This chapter explains what a surplus action is, how a supplier can apply to credit surplus actions towards its ECO2 obligations and how to calculate the carbon saving or cost score for a surplus action.



### WHAT IS A SURPLUS ACTION?

Where a supplier has achieved savings that exceed its ECO1 obligations, it can apply to credit these excess measures or 'surplus actions' towards its ECO2 obligations, providing certain criteria are met.



A surplus action is a measure that:

-  is an ECO1 qualifying action (ie is a notified ECO1 measure) and was achieved by the supplier applying for the surplus action
-  is not required by that supplier to meet its obligations under the 2012 Order, and
-  is an ECO1 qualifying action in respect of the ECO2 obligation it is intended to be credited towards.

A measure is not required by a supplier to meet its ECO1 obligations where:

-  the supplier has achieved the obligation against which the measure is credited, and
-  the measure was not counted towards achievement of the obligation.

In the case of CSCO we will also judge that a measure is not required by a supplier to meet that ECO1 obligation if the supplier did not meet its rural sub-obligation, but delivered sufficient measures to meet the remainder of its CSCO, and that measure:

-  was not counted towards achievement of the rural sub-obligation, and
-  is surplus to achieving the remainder of the obligation.

A supplier may apply to credit a surplus action towards an ECO2 obligation even if it has not achieved all of its ECO1 obligations. For example, where a supplier has achieved and exceeded its ECO1 HHCR0, but has not achieved its ECO1 CERO and CSCO, that supplier can apply to carry forward ECO1 HHCR0 measures that are not required to achieve its HHCR0.



Suppliers will only be able to apply for surplus actions once we have made our final determination (no later than 30 September 2015) for ECO1.

Excess actions or group excess actions credited against a supplier's ECO1 obligations cannot count as surplus actions.

Surplus actions must meet specific criteria

See Chapters 10 and 11 of the ECO Guidance for Suppliers (Version 1.2) for more information on excess actions and group excess actions





## APPLYING FOR SURPLUS ACTIONS

Suppliers must apply to credit a surplus action towards an ECO2 obligation no later than **30 November 2015**.

The application for each surplus action to be credited towards an ECO2 obligation must include the following information:

- ☒ details of the measure the supplier considers to be an eligible surplus action
- ☒ the obligation the supplier intends to credit the surplus action towards, and
- ☒ the carbon saving or cost score of the surplus action.

We will review applications for surplus actions submitted up to and including 30 November 2015.

## CREDITING SURPLUS ACTIONS TO ECO2 OBLIGATIONS

Suppliers can apply to credit surplus actions towards any of their ECO2 obligations, provided the relevant eligibility criteria are met. The obligation that the surplus action is credited towards does not need to be the same as the obligation that the ECO1 measure was credited against.

For example, if a supplier wishes to apply to credit an ECO1 CSCO surplus action towards its ECO2 CERO, the supplier must ensure that the surplus action is a carbon qualifying action.<sup>30</sup>

Where a surplus action is being credited towards a different ECO2 obligation, additional information may be required. For example, if a supplier applies to credit an ECO1 CERO surplus action towards its ECO2 HHCRO the cost score for the measure, which may not have been included in the original notification under ECO1, will be required. Further information on the specific obligations is provided below.

### Crediting surplus actions towards CERO

A surplus action that is intended to be credited towards a supplier's ECO2 CERO must be an ECO1 carbon qualifying action, as set out in the 2012 Order.<sup>30</sup>

ECO1 carbon qualifying actions are divided into 'primary measures' and 'secondary measures'. A supplier can apply for a primary or secondary ECO1 CERO measure to be credited as a surplus action independently of its corresponding secondary or primary measure (if applicable). For example, an ECO1 CERO secondary measure could be credited towards ECO2 as a surplus action while the associated primary measure is not carried forward as a surplus action.

Where a surplus action is an ECO1 CERO measure, the carbon saving does not include any uplifts that may have been attributed to that measure as a result of the ECO1 levelisation process.

Suppliers must include specific information in the application for surplus actions

Surplus actions can be credited towards any of a supplier's ECO2 obligations as long as the relevant eligibility criteria are met

Additional information may be required when a surplus action is being credited towards a different ECO2 obligation

See Chapter 13 of the Guidance for Suppliers (Version 1.2) for more information on levelisation





<sup>30</sup> Article 12(3) of the 2012 Order.

See Chapter 5 of the ECO2 Guidance: Delivery for more information on the 25% determination



## Crediting surplus actions towards CSCO

A surplus action that is intended to be credited towards a supplier's ECO2 CSCO must be an ECO1 carbon saving community qualifying action, as set out in the 2012 Order<sup>31</sup>, and either:

-  be promoted in an ECO1 area of low income (an area of low income is as listed in the 2012 low income and rural document<sup>32</sup> or for measures installed from 1 April 2014, the 2014 low income and rural document<sup>33</sup>, both are published on the government's website), or
-  could have been credited towards a supplier's ECO1 rural sub-obligation.





An ECO1 carbon saving community qualifying action that was delivered in an adjoining area and was notified as an adjoining installation cannot be a surplus action as it does not meet the criteria described above.

Where an ECO1 CSCO measure (promoted in an area of low income) that was used to support an adjoining installation is carried forward as a surplus action this will not affect our 25% determination on adjoining installations made under ECO1.

Where an ECO1 CSCO measure (promoted in a rural area) was credited against a supplier's rural sub-obligation, and removal of the savings for that measure would cause that supplier to fail to meet its rural sub-obligation, and therefore its overall CSCO, then the measure cannot be carried forward as a surplus action.

A surplus action can be credited towards a supplier's ECO2 CSCO rural sub-obligation provided that:

-  it is approved as a CSCO surplus action, and
-  it meets the following criteria of the rural sub-obligation:
  - it was promoted to a member of the AWG living in a rural area, or
  - if it was installed from 1 April 2014, it was installed in a deprived rural area (a deprived rural area is as listed in the 2014 low income and rural document published on the government's website).<sup>33</sup>

<sup>31</sup> Article 13(5) of the 2012 Order.

<sup>32</sup> <https://www.gov.uk/government/publications/carbon-saving-community-obligation-rural-and-low-income-areas>.

<sup>33</sup> <https://www.gov.uk/government/publications/The-Future-of-the-Energy-Company-Obligation-Small-Area-Geographies-Eligible-for-ECO-CSCO-Support>.

## Determining carbon savings for surplus actions to be credited towards CERO and CSCO

The carbon saving for a surplus action is the carbon saving attributed to that ECO1 CERO and CSCO measure.

If no carbon saving was attributed to a measure (ie the measure was an ECO1 HHCRO measure), the carbon saving must be calculated, in accordance with the 2012 Order, using the following formulae<sup>34</sup>:

**If using SAP or RdSAP 2009 (version 9.90 or 9.91 respectively):**

$$(A - (AXB)) = \text{carbon saving (tCO}_2\text{)}$$

Where:

'A' is the lifetime carbon saving (ie the annual carbon saving calculated in accordance with SAP/RdSAP 2009 multiplied by the lifetime (in years)<sup>35</sup> of the measure),

AND

'B' is the in-use factor (IUF) of the measure (by percentage).

**If using SAP or RdSAP 2012 (version 9.92):**

$$(A - (A \times B)) \times 0.925 = \text{carbon saving (tCO}_2\text{)}$$

Where:

'A' is the lifetime carbon saving (ie the annual carbon saving calculated in accordance with SAP/RdSAP 2012 multiplied by the lifetime (in years) of the measure)

'B' is the in-use factor (IUF) of the measure (by percentage), and

'0.925' is the weighted average factor for converting CO<sub>2e</sub> to CO<sub>2</sub>.

If the carbon savings cannot be calculated using the above formulae, suppliers must use an appropriate methodology that has been approved by us.<sup>36</sup>

The calculation should take into account the premises as it was when the measure was installed (that is, discounting any later installations). The calculation should also use the version of carbon coefficients that were relevant at the time of the initial assessment or installation.

<sup>34</sup> Article 16(6) of the 2012 Order.

<sup>35</sup> Standard lifetimes are available in the ECO Measures Table:

<https://www.ofgem.gov.uk/publications-and-updates/energy-company-obligation-eco2-measures-table>.

<sup>36</sup> Article 18 of the 2012 Order.

How to calculate the carbon savings for surplus actions to be credited towards a supplier's ECO2 CERO or CSCO



See Appendix 3 of the ECO2 Guidance: Delivery, for more information on qualifying warranties for replacement boilers

See Appendix 4 of the ECO2 Guidance: Delivery, for more information on warranties for replacement electric storage heaters

See pages 38 and 39 for information on the conversion factors to use

How to calculate the cost score for surplus actions to be credited towards HHCRO



## Crediting surplus actions towards HHCRO

A surplus action that is intended to be credited towards a supplier's ECO2 HHCRO must be an ECO1 heating qualifying action, as set out in the 2012 Order<sup>37</sup> and:

- ☞ be promoted to a householder who is a member of the AWG or resides with a member of the AWG
- ☞ have been installed in the period from 1 January 2014 to 31 March 2015, and
- ☞ where the measure was installed in the period from 1 January 2015 to 31 March 2015:
  - be accompanied at the time of installation by a qualifying warranty in the case of a replacement boiler, or
  - be accompanied by a one year warranty in the case of a replacement electric storage heater.

## Determining cost scores for surplus actions to be credited towards HHCRO

The cost score for a surplus action is the cost saving attributed to that ECO1 HHCRO measure multiplied by the relevant conversion factor.

### The cost saving

The cost saving for a surplus action is the lifetime cost saving attributed to that ECO1 HHCRO measure.

If no cost saving was attributed to a measure (ie the measure was an ECO1 CERO or CSCO measure) the cost saving must be calculated, in accordance with the 2012 Order, using the following formula:

$SXL = \text{cost saving } (£)$

Where:

'S' is the annual cost saving calculated in accordance with SAP/RdSAP 2009 or 2012, and

'L' is the lifetime of the measure

If the cost savings cannot be calculated using the above formula, suppliers must use an appropriate methodology that has been approved by us.<sup>38</sup>

<sup>37</sup> Article 15(3) of the 2012 Order.

<sup>38</sup> Article 18 of the 2012 Order.



The calculation should take into account the premises as it was when the measure was installed (that is, discounting any later installations). The calculation should also use the fuel prices that were relevant at the time of initial assessment or installation.

## Relevant conversion factors and the cost score

Suppliers must apply a conversion factor to the cost saving of any surplus action to be credited towards a supplier's ECO2 HHCRO to calculate the cost score. The conversion factors are detailed in Table 6, Table 7 and Table 8 below. Where a measure is not included in the tables below a conversion factor of 1 is applied.

The cost score for a measure is calculated using the following formula<sup>39</sup>:

$$A \times B = \text{cost score (£)}$$

Where:



'A' is the cost saving as calculated on page 36

AND

'B' is the relevant conversion factor

The cost score should be expressed in pounds sterling to zero decimal places.

Conversion factors, other than 1, apply to:

-  measures installed in non-gas fuelled premises that remain non-gas fuelled once the installation is complete, and
-  replacement boilers – qualifying and non-qualifying boilers that are installed with or without a qualifying warranty.

To calculate the cost score for a surplus action to be credited towards a supplier's ECO2 HHCRO, a conversion factor must be applied to the cost saving

See Chapter 6 of the ECO2 Guidance: Delivery, for more information on non-gas fuelled premises



<sup>39</sup> Article 29 of the 2012 Order.

**Table 6** Conversion factors for non-gas fuelled premises

Measure	Conversion Factor
A measure which improves the insulating properties of a premises	1.35
Repair of a qualifying boiler at a non-gas fuelled premises	1.45
Replacement of a qualifying boiler at a non-gas fuelled premises - by a boiler which <b>was not</b> accompanied at the time of installation by a qualifying warranty	1.40
Replacement of a qualifying boiler at a non-gas fuelled premises - by a boiler which <b>was</b> accompanied at the time of installation by a qualifying warranty; <u>or</u> - a measure other than a boiler or an electric storage heater	1.45

**Table 7** Conversion factors for replacement of a qualifying boiler in premises fuelled by mains gas


Measure	Conversion Factor
Replacement of a qualifying boiler by another boiler where: - both the boiler being replaced and the replacement boiler were fuelled by mains gas; <u>and</u> - the replacement boiler <b>was not</b> accompanied at the time of installation by a qualifying warranty	0.75
Replacement of a qualifying boiler by another boiler where: - both the boiler being replaced and the replacement boiler were fuelled by mains gas; <u>and</u> - the replacement boiler <b>was</b> accompanied at the time of installation by a qualifying warranty	0.80



**Table 8** Conversion factors for replacement of a non-qualifying boiler

Measure	Conversion Factor
Replacement of a boiler: <ul style="list-style-type: none"> <li>- which was not a qualifying boiler; and</li> <li>- by a boiler which <b>was not</b> accompanied at the time of installation by a qualifying warranty</li> </ul>	0.95




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 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.

### Additional information required for validating HHCRO cost scores

So that we can validate the cost score provided for a surplus action to be credited towards a supplier's ECO2 HHCRO, the appropriate measure name must be used and the following additional fields of information must be provided in the surplus action application:

-  pre and post fuel type of the main space heating system(s) of the premises
-  whether a warranty has been provided, and
-  the conversion factor applied.

### APPROVAL OF SURPLUS ACTIONS APPLICATIONS

We will approve applications to credit a surplus action against an ECO2 obligation if we are satisfied that the measure is a surplus action as defined on page 32.

Details of all surplus actions credited against suppliers' ECO2 obligations will be included in our public reports.

To validate HHCRO cost scores, additional information must be provided in the surplus action application



## 8. Re-elections and transfers

How to re-elect a measure

All measures in a re-election application must be approved by us before we can approve that application

Primary and secondary CERO measures can be re-elected independently of one another



This chapter describes the process by which suppliers can re-elect the obligation that qualifying actions and surplus actions are credited against. It also explains how suppliers can transfer qualifying actions and surplus actions to other suppliers.

### RE-ELECTION OF OBLIGATIONS

As outlined in Chapter 6, when a supplier notifies a qualifying action, it must identify which obligation that qualifying action is intended to be credited towards (ie CERO, CSCO, or HHCRO). Similarly, and as outlined in Chapter 7, when a supplier applies for a surplus action, it must identify which obligation that surplus action is intended to be credited towards.

At any time **up to and including 30 April 2017**, a supplier may apply for a qualifying action or surplus action to be credited towards a different obligation; this is called a re-election application.<sup>40</sup> For example, if a measure is credited against CERO, a supplier can apply to have that measure credited towards HHCRO.

Adjoining installations and secondary measures are also qualifying actions and suppliers may apply to re-elect these.

### APPLYING FOR APPROVAL TO RE-ELECT

A supplier may apply to re-elect the obligation a qualifying action is credited against after it has been notified. We will only review a re-election application for a measure once we have approved that measure. Where a re-election application contains multiple measures, the application will not be approved until all measures contained within that application are approved.

Suppliers can apply to re-elect the obligation a primary measure is credited against even if it has an associated secondary measure. This will not affect the status of the secondary measure, provided it is an approved qualifying action, and the obligation the secondary measure is credited against will not change. Where a supplier also wishes to re-elect the obligation the secondary measure is credited against, this must be listed separately in the re-election application.

Where a supplier applies to re-elect the obligation a CSCO measure is credited against, and that measure supports an adjoining installation, a supplier's final 25% determination will be affected. This could potentially lead to a supplier exceeding the limit for adjoining installations.

A supplier may apply to re-elect the obligation a surplus action is credited against after we have approved the surplus action application.



There is no limit on the number of measures a supplier can seek to re-elect in any one application. Nor is there any limit on the number of re-election applications a supplier can make before **30 April 2017**.

<sup>40</sup> Article 31(2) of the 2012 Order.



## Submitting a re-election application

To apply to re-elect a measure, a supplier should email us using the 'ECO Re-election Request Template', containing details of the measure(s) it wishes to re-elect. Please contact us for help in preparing this email.

Unapproved measures can be included in a re-election application but we will not be able to process the application until all measures are approved. If the re-election application contains **any** measures that have not yet been approved, suppliers should contact us for additional guidance.

## RE-ELECTION TO AN OBLIGATION WITH A DIFFERENT SAVING

A supplier may choose to re-elect a measure to an obligation that has a different saving, eg from CERO (carbon saving) to HHCRO (cost score). In such cases, the supplier must provide the carbon saving or cost score for the obligation the qualifying action or surplus action is intended to be credited towards.

For qualifying actions and surplus actions, where the carbon saving or cost score was not included in the original notification, the supplier must calculate the carbon saving or cost score (as appropriate) for the obligation the measure is intended to be credited towards.

The carbon saving or cost score must be calculated in accordance with relevant provisions of the ECO2 Order<sup>41</sup>, but taking into account the premises as it was when the measure was installed (that is, discounting any later installations). The calculation should also use the version of carbon coefficients or fuel prices that were in force at the time of initial assessment or installation.



We recommend that a supplier provides both the carbon saving and cost score when notifying a measure, or applying for a surplus action, in anticipation of re-elections.

## APPROVING A RE-ELECTION

Once we have received a re-election application, we will assess whether each measure within the application meets the relevant eligibility criteria for the obligation the measure is intended to be credited towards. If we are satisfied that all measures in that application meet the relevant eligibility criteria, we will approve the re-election application.

We will process all re-election applications promptly, where sufficient evidence is provided, and keep the supplier informed of progress.



<sup>41</sup> Articles 18 or 19 (qualifying actions) and Articles 28 or 29 (surplus actions) of the ECO2 Order.

Where an action is re-elected suppliers will need to ensure that they can produce evidence at audit to demonstrate that the action meets the relevant eligibility criteria for the re-elected obligation

Measures can be transferred between different suppliers or between different licences held by the same supplier



## Following a re-election

If we approve a re-election of qualifying actions, we will notify the supplier in writing. Once the re-election is complete the ECO Register will show the measure as credited towards a different obligation.

We will change the status of these measures to 'with supplier' in the ECO Register to allow these measure to be re-elected to a different obligation. The supplier should then amend the obligation category and resubmit the measure with the purpose of notification as 'Re-elected'.<sup>42</sup>

If we do not approve a re-election application, we will notify the supplier of the reason(s) for our decision in writing.

A supplier will need to ensure it can produce the necessary evidence at audit to demonstrate that an action is a qualifying action or surplus action for the re-elected obligation. For example, demonstrating AWG status if a measure is re-elected to HHCRO.

## TRANSFERS OF QUALIFYING ACTIONS AND SURPLUS ACTIONS

At any time up to and including 30 April 2017, a supplier may apply to transfer qualifying actions and surplus actions to another supplier; this is called a transfer application.<sup>43</sup>



Adjoining installations and secondary measures are also qualifying actions and suppliers may apply to transfer these.

We have no part in any commercial agreement that is entered into as part of the transfer of measures.

<sup>42</sup> For guidance about using this function in the ECO Register contact us via email: [eco@ofgem.gov.uk](mailto:eco@ofgem.gov.uk)

<sup>43</sup> Articles 26(2) and 30(2) of the ECO2 Order

## APPLYING FOR APPROVAL TO TRANSFER

The application process set out in this section applies to all transfers regardless of whether or not the transfer is between two suppliers within the same group of companies.

A supplier may apply to transfer a qualifying action to another supplier after it has been notified. We will only review the transfer application once we have approved that measure. Where a transfer application contains multiple measures the application will not be approved until all measures contained within that application are approved.

Suppliers can apply to transfer a qualifying action that is a primary measure even if it has an associated secondary measure. This will not affect the status of the secondary measure, provided it is an approved qualifying action, and the secondary measure will not be transferred. Where a supplier also wishes to transfer the secondary measure, this must be listed separately in the transfer application.

Where a supplier applies to transfer a CSCO measure, and that measure supports an adjoining installation, a supplier's final 25% determination will be affected. This could potentially lead to a supplier exceeding the limit for adjoining installations.

A supplier may apply to transfer a surplus action after the surplus action application has been approved.



There is no limit on the number of measures a supplier can seek to transfer in any one application. Nor is there any limit on the number of applications a supplier can make before 30 April 2017.

### Submitting a transfer application

Where a supplier is transferring measures to another supplier between the same obligation it should apply for transfers using the function within the ECO Register for raising a request to transfer.<sup>44</sup>

Suppliers can also apply to transfer measures to another supplier between different obligations. For example, the seller may intend that a measure credited against its CERO will transfer to the buyer's CSCO. This application can be done as a two-step process through the ECO Register and suppliers should contact us for additional guidance.

Furthermore, if the transfer application contains **any** measures that have not yet been approved, suppliers should contact us for additional guidance.

A transfer application is complete when the seller has requested to transfer in the ECO Register and the buyer has accepted the request through the ECO Register. We cannot approve an application that is only partially complete by 30 April 2017.

The supplier applying to transfer a measure is known as the 'seller' and the supplier that will have the measure after the transfer is known as the 'buyer'

Applications to transfer measures will only be reviewed once we have approved all measures in that application



<sup>44</sup> For guidance about using this function in the ECO Register contact us via email: [eco@ofgem.gov.uk](mailto:eco@ofgem.gov.uk)

Once a transfer is complete, the measure will be shown in the ECO Register as achieved by the buyer

Once the transfer is complete, the buyer is responsible for remedying the measure if it later fails an audit



A supplier can withdraw a transfer application at any time before the application is approved by us. If a supplier wants to withdraw an application, it should contact us in writing as soon as possible.

### APPROVING A TRANSFER APPLICATION

Once we have received a transfer application, we will assess whether each measure within the application meets the relevant eligibility criteria for the obligation the measure is intended to be credited towards. If we are satisfied that all measures in that application meet the relevant eligibility criteria, we will approve the transfer application.

We will process all transfer applications promptly, where sufficient evidence is provided, and keep the supplier informed of progress.

In the course of approving a transfer application, we may ask the seller and/or the buyer to provide additional information in support of its application.

### FOLLOWING A TRANSFER

If we approve a transfer of qualifying actions, we will notify the seller in writing. Once the transfer is complete, the ECO Register will show the measure as having been achieved by the buyer.

If we do not approve a transfer application, we will notify the seller of the reason(s) for our decision in writing.

Once approved, the measures that have been transferred are treated as being achieved by the buyer and not by the seller.<sup>45</sup> The buyer accepts a transfer at its own risk. If, for example, a measure transferred to the buyer later fails an audit, the buyer will be responsible for remedying the measure (or it will lose the savings).

The buyer will need to ensure it can produce the necessary evidence at audit to demonstrate that a transferred measure meets the eligibility criteria for the obligation that the action was credited against.



Suppliers should note that any transfer of personal data from one supplier to another, in the course of a transfer of a measure, will amount to the processing of personal data for the purpose of the Data Protection Act 1998 (DPA). Suppliers should ensure that the transfer of personal data complies with the Data Protection Principles under the DPA.

<sup>45</sup> Articles 26(1) and 30(1) of the ECO2 Order.

## 9. End of the overall obligation period

This chapter provides information about the end of the overall obligation period and how we determine whether a supplier has met its obligations.

### THE END OF THE OVERALL OBLIGATION PERIOD

A supplier must achieve its total CERO, CSCO, and HHCR0 obligations by the end of the overall obligation period (31 March 2017).

Following the end of the overall obligation period, we will determine whether a supplier has met its ECO2 obligations and notify both the supplier and the Secretary of State of our determination, known as our 'final determination'.<sup>46</sup>

The installation of a measure cannot count towards a supplier's ECO2 obligations unless the installation is complete **before 31 March 2017** (ie the end of the overall obligation period). Suppliers must notify us of all measures completed in March 2017 by the end of April 2017.

### AHEAD OF OUR FINAL DETERMINATION

We will engage with suppliers on our administrative requirements before our final determination on whether or not a supplier has achieved its ECO2 obligations.

After the transfer, re-election and final notification deadlines, and before our final determination, we will carry out a number of compliance checks and processes. These include, but are not limited to, the following:


- Q The 25% determination:** As detailed in Chapter 5 of the ECO2 Guidance: Delivery, a supplier may claim savings for adjoining installations carried out in areas which adjoin areas of low income. The total carbon savings for adjoining installations (in all areas adjoining the low income area) cannot exceed 25% of the total carbon savings of qualifying actions in the related area of low income. Where the carbon savings for a supplier's adjoining installations exceed the 25% limit we will revoke our earlier approval of some of the adjoining installations equal to the amount by which the limit was exceeded.
- Q The rural sub-obligation:** Chapter 4 in the ECO2 Guidance: Delivery describes the requirement for at least 15% of measures promoted under CSCO to be delivered in rural areas or deprived rural areas. Where a supplier fails to meet this requirement, it will fail to achieve its CSCO.
- Q Solid wall minimum requirement:** As described in Chapter 5, for a supplier to achieve its CERO, it must deliver a certain proportion of the Provisional Solid Wall Minimum Requirement (PSWMR) through the installation of SWI measures under CERO. This proportion is referred to as its SWMR and is determined at the end of the overall obligation period. Where a supplier fails to meet this requirement, it will fail to achieve its CERO.

When does the ECO2 obligation period end?

We will carry out compliance checks before the final determination



<sup>46</sup> Articles 31 of the ECO2 Order.

 **Limits on repairs to boilers and electric storage heaters:** As described in Chapter 6 of the ECO2 Guidance: Delivery, there is a limit to the proportion of a supplier's HHCRO that can be achieved through the repair of qualifying boilers and qualifying electric storage heaters. These limits are:

- 5% for the repair of qualifying boilers, and
- 5% for the repair of qualifying electric storage heaters.

## FINAL DETERMINATION

Under the ECO2 Order, we must determine whether a supplier has achieved its ECO2 obligations, including its:

- total carbon emissions reduction obligation (including the SWMR)
- total carbon saving community obligation (including the rural sub-obligation), and
- total home heating cost reduction obligation.

Suppliers will be notified of our final determination by no later than **30 September 2017**.



Where a supplier has not met its CERO, CSCO or HHCRO by 31 March 2017, we have powers to impose a penalty on that supplier. Please refer to our enforcement policy for further information.<sup>47</sup>

## OUR FINAL REPORT TO THE SECRETARY OF STATE

We must submit a report to the Secretary of State, no later than **30 September 2017**, showing whether suppliers achieved:

- the overall carbon emissions reduction target (including the SWMR)
- the overall carbon saving community target (including the rural sub-obligation) and
- the overall home heating cost reduction target.

This report will contain our final determination of whether suppliers have achieved their obligations.

Ofgem is required to submit a report to the Secretary of State containing our final determination



<sup>47</sup> <https://www.ofgem.gov.uk/publications-and-updates/enforcement-guidelines>.

## Appendix 1 - Abbreviations

Abbreviation	Explanation
AQ	Annual Quantity
AWG	Affordable Warmth Group
CERO	Carbon Emissions Reduction Obligation
CSCO	Carbon Saving Community Obligation
DECC	Department of Energy and Climate Change
DPA	Data Protection Act 1998
DUoS	Distribution Use of System Charges
ECO	Energy Company Obligation
ESAS	Energy Saving Advice Service
HES	Home Energy Scotland
HHCRO	Home Heating Cost Reduction Obligation
IUF	In-use Factor
LDSO	Licensed Distribution System Operators
PAS	Publicly Available Specification
PSWMR	Provisional Solid Wall Minimum Requirement
RdSAP	Reduced data Standard Assessment Procedure
SAP	Standard Assessment Procedure
SWI	Solid Wall Insulation
SWMR	Solid Wall Minimum Requirement

## Appendix 2 – Glossary

### A

**Adjoining area/specified adjoining area** is an area that adjoins (ie shares a border with) an area of low income.

**Adjoining installation** refers to the installation of a carbon saving community qualifying action at domestic premises in a specified adjoining area.

**Affordable warmth group (AWG)** means a group of people receiving at least one of the benefits outlined in Schedule 1 to the Electricity and Gas (Energy Company Obligation) Order 2014.

**Annual quantity (AQ)** is the estimated annual gas consumption of a customer over a year under seasonal normal conditions. AQs are set annually by Xoserve in consultation with Gas Shippers.

**Area of low income** is an area in Great Britain which is described as an area of low income in the 2014 low income and rural document.

### C

The **Carbon Emissions Reduction Obligation (CERO)** is the installation of carbon qualifying actions, which are 'primary measures' (wall and roof insulation measures and connections to district heating systems (DHS)) and 'secondary' insulation measures.

A **carbon saving** refers to the tonnes of carbon dioxide (tCO<sub>2</sub>) saved at domestic premises over the expected lifetime of a measure.

The **Carbon Savings Community Obligation (CSCO)**, is the installation of carbon saving community qualifying actions, which are insulation measures and connections to DHS in areas of low income, deprived rural areas and (if promoted to people receiving certain benefits) rural areas.

**Cost saving**, in relation to a heating qualifying action, is the money saved over the expected lifetime of a measure in heating the premises and, where applicable, heating water at those premises.

A **cost score** is the contribution that a measure makes towards a supplier's total HHCRO in pounds sterling (£). The cost score is calculated using the cost saving and the relevant HHCRO multiplier, where applicable.

### D

The **date of handover** is, for measures installed in accordance with PAS 2030:2014 Edition 1, the meaning of handover is defined within PAS. For measures that do not need to be installed in accordance with PAS 2030:2014 Edition 1, or where no Declaration of Conformity is produced, the date of handover will be the date on which work on the installation of the measure is completed, and any relevant information or documents relating to the operation and maintenance of the measure have been provided to the consumer.

A **deprived rural area** is an area in Great Britain which is described as a deprived rural area in the 2014 low income and rural document.

**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.

**Domestic premises** are separate and self-contained premises used wholly or mainly for domestic purposes. A mobile home is considered domestic premises if it is a caravan and is used as a dwelling.

A **dual licence-holder** is a company that holds both an electricity supply licence and a gas supply licence.



## E

**ECO brokerage** is an auction-based mechanism designed to enable suppliers to buy forward contracts delivering ECO measures by participating authorised sellers.

The **ECO Register** is the IT system which suppliers can use to notify and manage completed ECO measures, and submit applications for approval of transfers.

**Elexon** administers the wholesale electricity balancing and settlement arrangements for Great Britain, as set out in the Electricity and Balancing Code. Further information can be found at [www.elexon.co.uk](http://www.elexon.co.uk).

An **Excess action** is a measure that was approved and installed under CERT or CESP, but was not required by the supplier to meet its CERT and CESP obligations.

## G

**Green Deal report** refers to either a Green Deal Advice Report (GDAR) or a Green Deal Improvement Package (GDIP).

A **Group company** is a licence-holder that is a member of a group of companies that includes at least one other licence-holder.

**Group of companies** means a holding company and the wholly-owned subsidiaries of that holding company. 'Holding company' and 'wholly owned' subsidiary have the same meaning as in section 1159 of the Companies Act 2006.

## H

The **Home Heating Cost Reduction Obligation (HHCRO)** is the installation of heating qualifying actions, including insulation and the repair and replacement of boilers and electric storage heaters, to people receiving certain benefits and living in private domestic premises. This is also known as the 'Affordable Warmth'.

## I

An **in-use factor (IUF)** is the percentage by which savings calculated under SAP or RdSAP should be reduced, to reflect the likely in-situ performance (as opposed to theoretical performance) of an energy efficiency measure. IUFs are only applied when calculating carbon savings.

## L

A **licence-holder** means an electricity licence-holder, a gas licence-holder or a dual licence-holder.

**Lifetime** is the estimated lifetime for measures. Standard lifetimes are available in the ECO2 Measures Table available on our website: <https://www.ofgem.gov.uk/publications-and-updates/energy-company-obligation-eco2-measures-table>.

**Lifetime carbon saving** is the amount in tonnes of carbon dioxide that is expected to be saved over the lifetime of a measure.

## M

A **measure** is a qualifying action, including adjoining installations.

## N

A **new supplier** is a licence-holder that does not meet the definition of a supplier until 31 December 2015 (ie a supplier who was not obligated for phase one of ECO2). Its overall obligation period commences on 1 April 2016 and ends on 31 March 2017.

The **notification deadline** is the end of the month following the month in which installation of the measure was completed.

**Notification period** means:

- 1 January 2014 to 31 December 2014 for phase one.
- 1 January 2015 to 31 December 2015 for phase two.

The **notification template** describes the information that suppliers must include as part of the monthly notification for a particular type of completed measure.

## O

An **obligated supplier** is a 'supplier' as defined in this guidance.

The **overall obligation period** is the period from 1 April 2015 to 31 March 2017.

## P

**Phase** means one of the two phases of the scheme as follows:

- Phase 1: 1 April 2015 to 31 March 2016, and
- Phase 2: 1 April 2016 to 31 March 2017.

A **primary measure** under CERO is flat roof insulation, loft insulation, rafter insulation, room-in-roof insulation, wall insulation, insulation applied to the ceiling floor or walls of a mobile home, or a relevant district heating connection.

The **provisional solid wall minimum requirement (PSWMR)** is a requirement that means at least 4MtCO<sub>2</sub> savings must be achieved through the delivery of solid wall insulation (SWI) measures. The PSWMR is not in addition to the carbon savings to be achieved under CERO, CSCO and HHCR0.

## Q

A **qualifying action** means a carbon qualifying action (CERO), a carbon saving community qualifying action (CSCO) or a heating qualifying action (HHCR0).

A **qualifying boiler** is a boiler that has broken down or is not functioning efficiently and meets the criteria explained in Chapter 6 and Appendix 3 of the ECO2 Guidance: Delivery. The qualifying boiler must be assessed, as described in Appendix 3, to determine whether it should be repaired or replaced.

A **qualifying electric storage heater (QESH)** is an electric storage heater that has broken down and meets the criteria explained in Chapter 6 and Appendix 4 of the ECO2 Guidance: Delivery. The qualifying electric storage heater must be assessed, as described in Appendix 4, to determine whether it should be repaired or replaced.

## R

The **Reduced data Standard Assessment Procedure (RdSAP)** is a simplified version of SAP that requires fewer data inputs. RdSAP 2012 should be used for all ECO2 measures, where RdSAP is used to calculate the score.

**Relevant year**, with respect to the notification period, means 2014 or 2015.

A **rural area** is an area in Great Britain which is described as a rural area in the 2014 low income and rural document. See Chapter 5 for more information.

The **rural sub-obligation** requires suppliers to achieve at least 15% of their total CSCO by promoting measures to members of the AWG living in a rural area or to any domestic premises in a deprived rural area. Where a supplier fails to meet this requirement, it will fail to achieve its CSCO.

## S

A **secondary measure** only applies under CERO and includes insulation measures other than primary measures. Secondary measures must be installed at the same premises as a primary measure. This includes measures such as glazing and draft proofing.

**Solid wall insulation (SWI)** means internal or external insulation of a solid wall (ie internal wall insulation (IWI) or external wall insulation (EWI)). It does not include insulation of a mobile home, which is a separate eligible ECO measure.

The **solid wall minimum requirement (SWMR)** is the proportion of a supplier's CERO that must be achieved through SWI measures. For a supplier to achieve its CERO, it must meet its SWMR.

The **Standard Assessment Procedure (SAP)** is a methodology developed by the Building Research Establishment (BRE) on behalf of the Government, to calculate the energy and environmental performance of dwellings. SAP 2012 should be used for ECO2 measures, except for in Scotland where SAP 2009 should be used as SAP 2012 is not available.

A **supplier** is a licence-holder where on 31 December any of the years 2014 or 2015:

- it was supplying more than 250,000 domestic customers, and
- had supplied more than 400GWh of electricity, or 2,000GWh of gas, to domestic customers during the year ending on that date.

A licence-holder that had an ECO1 CERO target under the 2012 Order will be considered a supplier for ECO2.

A **surplus action** is a measure that:

- is an ECO1 qualifying action (ie is a notified ECO1 measure) and was achieved by the supplier applying for the surplus action
- is not required by that supplier to meet its obligations under the 2012 Order, and
- is an ECO1 qualifying action in respect of the ECO2 obligation it is intended to be credited towards.

## T

The **total obligation** is the cumulative obligation for each supplier for each phase of ECO2.

## W

**Wall insulation** means insulation of a cavity wall and solid wall insulation.

## X

**Xoserve** is the Gas Transporters' Agent and delivers transportation transactional services on behalf of all the major gas network transportation companies. Further information can be found at [www.xoserve.co.uk](http://www.xoserve.co.uk).

## OTHER

The **25% determination** is the determination of whether or not the total carbon savings of adjoining installations exceed 25% of the total carbon savings of the qualifying actions in the area of low income the adjoining installations are related to.



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