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Dear Richard,

Energy Company Obligation (ECO): Help to Heat consultation

In our capacity as the scheme administrator, we welcome the opportunity to respond to your consultation on the proposed changes to the ECO scheme both for the 1 year transition and the longer term scheme until 2022.

Overall, we strongly support the proposal to gradually introduce changes to the ECO scheme to give stakeholders, including suppliers, the supply chain and ourselves, time to prepare. We also welcome the proposals to simplify the scheme and reduce costs associated with administration.

We will aim to provide as much clarity around our administration of the proposed changes as we can for the 1 April 2017; however we will be limited due to the legislative timetable, and the need to consult on our interpretation of the legislation. As such, we are considering options including staggering consultations on administration changes and guidance to provide as much certainty to stakeholders as early as possible.

If the current draft provisions are not brought into force for 1 April 2017 we will remain obliged to carry out a final determination of all the obligations which make up ECO. We will look to commence the planning for the closedown of ECO2 in October, and so to avoid nugatory work would request the Department for Business, Energy and Industrial Strategy to provide appropriate assurances once it has considered the responses to this consultation.

Our detailed response can be found in the attached annex and we welcome our teams' continued engagement on the development of the transition year requirements.

Yours sincerely,



Christopher Poulton
Managing Director, Ofgem E-Serve

Annex

Ofgem E-Serve's response to the ECO: Help to Heat consultation

1. Do you agree with our proposal to extend the current ECO by one year, whilst making improvements that transition to a longer-term fuel poverty focused obligation?

Yes.

We agree that an extension will enable the gradual introduction of changes to the ECO scheme. Our experience of the transition from CERT/CESP to ECO1 shows that it is important for obligated suppliers, the supply chain, and ourselves as scheme administrator, to have time to adapt and prepare for changes. This will help to smooth the transition towards a fuel poverty focused scheme in 2018 and reduce some of the risks associated with abrupt changes, such as a hiatus in delivery or a drop in quality of installations.

Additionally, we would encourage BEIS to consider whether other options would smooth the transition further, including:

- making the extension longer, to at least 18 months, allowing the payback period to be longer for any investment needed, or
- introducing a mechanism of 'carry under' into the future scheme should any suppliers fail to meet the extension year targets.

We recognise that there is a risk that some stakeholders may find the transition too short. This could lead to administrative issues later, for example if we find that changed requirements have not been implemented, or new entrants to the scheme are unable to gear up to start from 1 April 2017. To reduce this risk, we are considering options on staggering our approach to consulting on the changes to provide as much certainty to stakeholders as early as we can.

2. Do you agree with the proposal to re-balance the obligations for 2017-18; by increasing the Affordable Warmth obligation by £1.84bn notional lifetime bill savings (provisional figure), increasing the Carbon Emission Reduction Obligation by 3.0 MtCO₂ (provisional figure), and not increasing the Carbon Saving Community Obligation?

We do not have a strong view.

Implementation of this proposal would not affect our administration of CERO and HHCRO and could reduce administrative effort overall as there will only be two obligations rather than three.

Retaining CERO within the transition year will enable suppliers to gradually adapt their current delivery strategies towards fuel poor consumers and avoid risks associated with abrupt changes in delivery.

As CSCO has been shown to be more costly to deliver than CERO, and no more effective at targeting rural households, not increasing this obligation for the transition year could help reduce the overall cost of the scheme and the associated costs to bill payers. Not extending the CSCO target and the associated rural sub-obligation, for the transition year will also help to reduce unnecessary administrative complexity within the scheme.

3. Do you agree that the CSCO deadline should remain at 31 March 2017?

We do not have a strong view.

Implementation of this proposal will affect our administration of the scheme.

However, if the current draft provision is not brought into force in April 2017 we are obliged to carry out a final determination of all the obligations which make up ECO. We will seek to commence the planning for the closedown of ECO2 in October. We will look to BEIS to provide appropriate assurances so that we can limit this to an initial determination on CSCO only, once it has considered the responses to this consultation.

We agree with BEIS' proposal to extend the current close down deadline to 2018 and to allow CSCO measures to be transferred or re-elected out of CSCO if they are deemed excess to a supplier's CSCO. This will reduce administrative burden and avoid some of the costs associated with closing down ECO2 in two stages.

We welcome the provision in the draft legislation that allows for us to provide an initial determination of CSCO compliance in 2017, following completion of all compliance checks in relation to these measures. We expect this approach will give suppliers sufficient assurance around compliance with CSCO.

Although the proposed approach allows suppliers to continue to re-elect and transfer measures out of CSCO until 30 June 2018, it does not allow suppliers to transfer or re-elect measures into CSCO after the 1 July 2017. Should we reject any CSCO measures (eg where there are duplicate measures or instances of fraud), this could cause a supplier to become non-compliant. We would therefore encourage suppliers to retain excess CSCO to mitigate any such rejections. We also encourage BEIS to allow measures to be re-elected/transferred into CSCO during the transition year to avoid any non-compliance as a result of any rejections after 1 July 2017.

4. Do you agree that there should be no rural sub-obligation from April 2017?

We do not have a strong view.

This proposal will have minimal impact on our administration of the scheme.

Given that rural delivery under CERO was almost equal to that under CSCO, even in the absence of a rural requirement, we agree that maintaining a rural sub-obligation would add administrative burden with limited benefit for consumers.

5. Do you agree with our proposals to introduce income thresholds for 2017-18 which take account of household composition for Tax Credits and Universal Credit?

Yes.

Implementation of this proposal will affect our administration of the scheme.

To minimise the costs and potential challenges associated with identifying eligible households under the proposed new criteria, we suggest the income thresholds should be incorporated into the Department for Work and Pensions data matching service. Furthermore, where suppliers or the supply chain are not signed up to the data matching service, the household income should be easy to prove via alternative routes, such as benefit letters. We will work with stakeholders to establish any requirements for evidencing eligibility outside of the DWP data matching service.

We consider that it should be made clear what the household income consists of, for example, whether the household income figure includes earned income as well as income from benefits. As above, we suggest this should be able to be verified via the

DWP data matching service as well as other routes for those not signed up to the service.

6. Do you agree with our proposal to adopt ten household composition types with relative income thresholds based on whether the household consists of a single person or a couple and whether they have one, two, three or four or more dependent children?

Yes.

We agree that the suggested eligibility criteria are among the most appropriate indicators for identifying those in or at risk of fuel poverty, and from an administrative perspective we do not see this adding significant administrative burden to the supply chain in terms of evidencing. As mentioned in our response to Question 5, due to the additional number of variables in the proposed new benefits criteria, we strongly feel that these indicators must be able to be verified through the DWP data matching service. Where suppliers or the supply chain are not signed up to the data matching service, the indicators must be able to be evidenced through other routes, such as benefit letters, that are not overly burdensome or intrusive.

7. Do you agree with our proposals to allow recipients of other eligible benefits (Income Support, Income-based Jobseeker's Allowance and Income-related Employment and Support Allowance) to continue to be eligible and to remove the additional sub-criteria in 2017?

Yes.

Implementation of this proposal will help to reduce the administrative burden across stakeholders.

We agree that recipients of other eligible benefits should continue to be eligible for the Affordable Warmth (AW) obligation. These benefits provide a useful indicator for those in or at risk of fuel poverty and help to ensure a sufficiently large number of eligible customers. This is important given the proposal to maintain the current annual notional bill savings for the AW obligation during the transition year, while limiting the delivery of qualifying gas boiler replacements.

We also agree with the proposal to remove additional sub-criteria from these benefits where there is evidence they have not significantly improved the targeting of fuel poor customers. We found that the additional sub-criteria often caused confusion within the supply chain and in some cases led to the notification of non-compliant measures. This problem has, however, been mitigated somewhat since the introduction of the DWP data matching service.

8. Do you think we should amend the eligibility requirements so that those in receipt of Guarantee Credit in Pension Credit continue to be eligible under Affordable Warmth but those only in receipt of Savings Credit should only qualify through CERO or if they meet the 'flexible eligibility' proposal?

Yes.

Implementation of this proposal will affect our administration of the scheme.

This could help to align the ECO and Warm Home Discount eligibility requirements which can help to simplify the administration of the schemes for suppliers and the supply chain. Such alignment would allow suppliers to 'passport' customers between the two schemes and facilitate consumers benefiting from both the rebate and installation of energy efficiency measures. Given that the current ambition of the AW obligation is

set to continue for the transition year, while limiting the delivery of qualifying gas boiler replacements, we support an easing of the process to identify eligible customers.

9. Do you agree with the proposal to extend eligibility to social tenure households with an EPC rating of E, F or G for their home, and for no additional benefits criteria or income thresholds to be required?

Yes.

Implementation of this proposal could help to reduce administrative burden relating to identifying eligible AW customers.

We support increasing the pool of eligible customers to those residing in social tenure as it gives additional flexibility to suppliers to identify AW recipients. Given the current ambition of the AW obligation is set to continue for the transition year, while limiting the delivery of qualifying gas boiler replacements, we support means of easing the process of identifying eligible customers to avoid unnecessary administrative burden.

For measures to be eligible under this provision, suppliers will need to demonstrate that the tenure is social housing and that the EPC rating is below band D. Existing guidance on how to evidence that a property is owned by a social landlord can be found in our ECO2 Guidance: Delivery.¹ We propose the same evidence should be made available on request under this provision.

The draft legislation also requires that properties owned by social landlords must be let at below market rate to benefit from ECO measures. We acknowledge that some properties owned by social landlords are not let as 'affordable' or 'social' housing. To determine whether a property is let at market rate requires knowledge of the occupant's rent; the number of bedrooms in the property; and the private rental market statistics for that area. To reduce the administrative burden of collecting this data for each property under this provision we recommend the social landlord provides a declaration confirming that the rent is below market rate and that supporting information is available on request.

10. Do you agree an EPC would be an appropriate way of proving the efficiency banding of social housing? If applicable, please provide details of any additional assurance which should be required alongside EPCs, or details of alternative ways of evidencing which may be sufficient in certain cases.

Yes.

We discuss the potential implications for our administration below.

We agree that an EPC is an effective and simple way of proving the efficiency banding of a property. To prove the EPC rating is below band D suppliers will need to provide the EPC reference number as part of a measure notification. We know this information is readily available as it is currently collected under the scheme.

We have supported recommendations to improve the quality of EPCs in our recent response to DCLG's consultation 'Making Better Use of Energy Performance of Buildings Data to improve the quality of EPCs'.² The proposals to increase transparency and accountability relating to EPC data could provide us and suppliers with more confidence in the accuracy of EPCs, should they be used to evidence eligibility.

¹ See: https://www.ofgem.gov.uk/sites/default/files/docs/volume_1.1_guidance_update_delivery_-_final.pdf.

² See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/510273/EPB_data_privacy_impact_assessment.pdf.

Although social landlords must provide an EPC for each new tenant, this does not need to be a new EPC and so we recognise that EPCs will not always reflect the current characteristics of the property. A property may have had significant improvements since an EPC was lodged, which could be up to 10 years earlier. To address this, and to avoid mandating a new EPC for each measure installed via this route, we support the current wording in the draft legislation to amend the ECO2 Order. This amendment makes provision for a declaration from the social landlord stating that 'no changes were made to the premises, after the pre-installation EPC was issued and before the measure was installed, which would increase the energy performance rating of the premises to band D or above'. As part of our compliance checks we may request supporting information to demonstrate compliance with this requirement.

Both this declaration and the declaration regarding whether a property owned by a social landlord is let at below market rate could be combined into one document to reduce administrative burden. We foresee that such declarations could be developed by the [ECO reporting working group](#) to ensure consistency across suppliers and give certainty that the declaration would meet our requirements.

Should BEIS wish to recognise other ways of proving the efficiency banding of social housing these should be made explicit in the legislation.

11. Do you agree that measures delivered in new build homes should not be eligible under ECO from 1 April 2017?

Yes.

This would affect our administration of the scheme.

We welcome the definition of 'new build' in the draft legislation which provides some clarity. However, should the definition stay as it is in the draft legislation we would need to consider the meaning of 'erected' and whether this relates to construction of a premises starting or being completed. We will also need to consider carefully any evidencing requirements to ensure that any non-new build properties do not have to be evidenced as such, as this could prove overly burdensome.

12. Do you agree with the proposal to allow flexible eligibility? If so, what proportion of the 2017-18 Affordable Warmth obligation do you believe that suppliers should be able to deliver using this flexible eligibility route?

- a) 10%
- b) 20%
- c) Other

Yes.

Implementation of this proposal would affect our administration of the scheme.

We do not have a strong view on what percentage of AW could be met through flexible eligibility, however, we believe it should be limited to either 10 or 20% in the extension year so that the success of this approach can be reviewed and expanded in future if shown to be appropriate.

The proposal to limit the delivery of qualifying gas boiler replacements (Question 16) under the AW obligation will be particularly challenging as these measures currently make up a significant majority of ECO2 AW delivery. To mitigate this we support proposals to increase the number of eligible households and to reduce the costs associated with identifying eligible recipients as suppliers will need to deliver more measures to meet the same notional bill savings target.

To ensure that the appropriate people are targeted under flexible eligibility we expect BEIS will produce guidance on the types of households that should be included within this approach. This guidance could include information on the kinds of criteria that should be used to identify people in or at risk of fuel poverty or vulnerable to the effects of living in a cold home. We will use such guidance to check that suppliers are targeting correctly and that measures are being installed to those most in need.

Although there is an advantage to providing suppliers with more flexibility to deliver obligations, we acknowledge that this is a significant change in how people are targeted and how the obligation is administered. We expect BEIS to monitor the success of this provision in identifying fuel poor consumers. Should targeting through this route be effective, the amount delivered via these referrals could be reviewed and increased by BEIS if appropriate. To give BEIS enough time to accurately assess the success of this provision we would encourage them to extend the transition period by at least 6 months.

13. Do you consider that solid wall insulation for non-fuel poor private tenure homes should be included under flexible eligibility as described in Chapter 3?

Where appropriate, justify your response, including views on whether this should be allowed for measure types other than solid wall insulation.

Yes.

Implementation of this proposal would not significantly alter our administration of the scheme and could reduce administration for obligated parties.

We agree that a portion of 'in-filling' for solid wall insulation (SWI) measures (ie delivery to non-fuel poor homes surrounded by eligible fuel poor homes) would be an efficient and cost effective means of delivery. As SWI is an expensive measure to deliver, taking a whole street approach improves its cost effectiveness. In-filling would also reduce the likelihood of consumers most in need missing out on ECO funding due to a small number of non-fuel poor homes being located near to them.

To ensure that AW targeting is effective, we recommend a limit to the number of non-fuel poor private tenure homes that can be included in any flexible eligibility allowance. We suggest that a group of households identified by local authorities as meeting the eligibility criteria via local authority declarations would have to be 'wholly or mainly' in fuel poverty or vulnerable to the effects of living in a cold home.

We would also recommend that any non-fuel poor homes included in a local authority declaration are restricted to the street or area of fuel poor homes being referred in that same declaration. This would enable us to monitor the 'wholly or mainly' provision suggested above.

We suggest limiting the types of measures allowed under this proposal to those typically difficult or expensive to install to single, discrete premises. This will help to limit the delivery of measures to non-fuel poor households, while addressing the issue of 'pepper-potting'. We recommend BEIS consider including other measures which are also best undertaken on a communal level, such as flat roof insulation or district heating.

14. Do you agree with the proposal to allow local authorities to determine whether some households are eligible through 'local authority declarations' in the way proposed?

Yes.

Implementation of this proposal would affect our administration of the scheme.

We believe local authorities are appropriate bodies to responsibly target eligible households.

For suppliers to be confident that these measures would be accepted by us we will accept AW measures accompanied by an appropriately signed local authority declaration, subject to all other requirements being met (including measure eligibility, quality of installation, and the measure score). We anticipate that eligibility through this route would be evidenced at notification by a unique reference number that would follow a standard format, details of which would be provided in BEIS guidance. However, declarations should be available to us on request. BEIS would need to provide detailed guidance as to whom local authorities should be targeting. Any issues around the effectiveness of such methodologies or the accuracy of the targeting would fall under BEIS' remit. However, to prevent poor targeting of ECO funding and add a degree of accountability, we suggest that local authorities publish their methodologies for targeting on their website or in any suitable, publically available reports. We suggest that only once this action is completed can a local authority begin providing declarations to suppliers.

To minimise the risk of fraudulent or incorrect declarations being produced we recommend that these declarations can only be submitted to a supplier directly by the local authority. Furthermore, we suggest that the declarations are signed by a person or representative of the local authority with the appropriate authority to do so. We acknowledge there is a risk that local authorities may send these declarations to multiple suppliers, resulting in customers being contacted on multiple occasions. We would therefore encourage local authorities to engage with suppliers to establish whether or not the customer has been successfully contacted and if the declaration could be shared further.

We recognise the data protection implications where personal data is used to identify and refer customers to a supplier. As local authorities are likely to have different data protection policies in place, we anticipate this would lead to varying data sharing arrangements across the scheme. We encourage any appropriate bodies representing local authorities to facilitate discussions on how local authorities can provide a consistent approach to data sharing and promote best practice.

In terms of a supplier's data sharing agreement and how the use of this information is regulated, the General Data Protection Regulation (GDPR) may provide a potential solution for regulating how local authorities process any personal data. The sector could consider developing an 'umbrella' code of conduct, something which could be facilitated by the ECO reporting working group.

15. Do you consider that schemes involving other intermediaries should be allowed, as described in Chapter 3, in addition to local authority declarations?

Where appropriate, justify your response, including whether there are any viable alternatives that meet the policy intent.

No.

Implementation of this proposal would have a significant impact on our administration of the scheme.

There is a risk that the short lead in time for the transition year may mean that this eligibility route is either not taken up or would result in poor and varying quality of targeting. As such we recommend delaying this provision until 2018 to allow sufficient time for guidance development and consultation with stakeholders.

If and when BEIS introduce this provision we will develop and consult on requirements to maximise the benefit of this provision and to ensure those most in need benefit from the scheme. We propose that intermediaries would apply to us via a supplier to give us assurance that, prior to our assessment, there has already been a level of scrutiny from the supplier submitting the application. We propose not to accept any direct proposals from intermediaries to avoid diverting resources to schemes that will not be funded. The application may include the following information:

- details of relevant expertise and a track record of delivering similar schemes
- a detailed methodology for targeting and data collection
- the roles of the different partners involved
- proposals for data collection and monitoring, and
- plans for auditing and monitoring.

Following our approval of a scheme, we propose that an overview of the methodology should be published online. The purpose of publishing the methodology is to provide suppliers and other intermediary parties with an understanding of the range of accepted approaches, as well as allowing other suppliers to make use of an existing approach (by contacting the relevant intermediary).

To monitor delivery we propose to require an independent audit for each scheme to ensure suppliers and the intermediary are delivering measures in accordance with the application we approved. Furthermore, our proposal is to approve a scheme for a period of up to one year. Where the scheme has proven to be successful in targeting appropriate households, and subject to the design of the future ECO from 2018, we may approve schemes to run for longer periods. We would also propose to require a post scheme review, to assess the effectiveness of the targeting.

Should these proposals be introduced we will provide guidance on which documents and information should be made available in the initial application and on request at audit.

16. Do you agree with the proposal aimed at limiting the delivery of qualifying gas boiler replacements (and not limiting other types of heating measure)?

Where appropriate, justify your response, and describe any preferred alternative proposal, if applicable.

We do not have a strong view.

This proposal will not change our administration relating to qualifying gas boiler replacements and non-qualifying gas boiler measures. We also do not foresee any change to our technical monitoring processes as a result of the re-notification of qualifying boiler measures.

As discussed in the consultation document, energy suppliers could notify a qualifying gas boiler replacement as a non-qualifying boiler installation if rescored from the starting position of the in-situ heating system. Suppliers could also cancel this notification and re-score it using the false electric heating baseline, subject to the requirements for a qualifying boiler being met. This will help suppliers to manage compliance with their AW minimum.

The draft legislation contains a clause allowing for the process described above. Under our current administration of the scheme, measure notifications can already be amended through our measure change request process. Rather than developing a new process for this scenario, we would propose to use our existing process to enable suppliers to re-classify previously notified measures. Therefore, our preference is that the regulations do not stipulate an additional process.

In the same way that we administer the provisional solid wall minimum requirement, we propose to track the volume of measures delivered under the AW minimum and report on supplier progress. This will allow installers and suppliers to keep track of progress towards the AW minimum and whether or not there is further opportunity to deliver qualifying gas boiler replacements.

17. Do you agree that only measures installed after a specified date should count towards the Affordable Warmth minimum, and that date should be 1 July 2016?

Where appropriate, justify your response, and describe any preferred alternative proposal, if applicable.

Yes.

All measures notified after 1 July 2016 until 31 March 2017 must continue to meet current requirements and will not be subject to any of the requirements proposed in this consultation.

We agree with the proposal to allow measures installed after 1 July 2016 to count towards the AW minimum. Given the significant shift in delivery presented by the AW minimum, it is sensible to give obligated suppliers an opportunity to adjust their delivery away from the current level of qualifying gas boilers, ahead of the transition year.

18. Do you agree with the proposal to in effect limit the delivery of qualifying gas boiler replacements at a level equivalent to 25,000 boilers under the ECO extension?

Where appropriate, justify your response, and describe any preferred alternative proposal, if applicable.

We do not have a strong view.

We consider that implementation of this proposal will not significantly affect our administration of the scheme.

This proposal represents a substantial change to current delivery, which will lead to an increase in the volume of measures needed to achieve the AW obligation. As the measure types available within the AW minimum offer lower savings, when combined with the change in the measure mix to meet the AW minimum, this could present a challenge for delivery given the short lead in times.

19. Do you agree with our proposal not to impose new limits on the level of installation of the following measures?

- a) Heating controls**
- b) First time central heating**
- c) Non-gas qualifying boilers**
- d) Non-qualifying boilers**
- e) Electric storage heaters**
- f) Renewable heating**
- g) Heat networks**

Yes.

We agree that the measures listed should not be limited within the AW minimum. The profile of measures offers parity across the range of heating technologies that may be delivered to the AW group.

20. Do you have views on whether Government should take action to prevent shifting the balance of measures delivered and the potential for energy suppliers to receive disproportionate benefit under ECO from renewable heating supported by RHI payments?

Where appropriate, justify your response and set out what action should be taken (if any).

We do not have a strong view.

We agree that BEIS should consider the additionality offered by renewable heat and district heating systems (DHS) delivered within ECO given the availability of renewable heat incentive (RHI) funding. However, it will be administratively difficult to provide clarity on whether ECO funding was necessary for a measure to be installed.

A range of ECO measures are currently eligible for funding through the domestic and non-domestic RHI. These include air or ground source heat pumps; biomass boilers and the corresponding district heating upgrades or new connections.

To date, no renewable heating measures have been notified under the AW obligation due to the relatively high cost of installation, current restrictions on social housing and requirements of the AW group. This is unlikely to change following the introduction of

the AW minimum. However, delivery of renewable heating to band E, F and G EPC rated social housing may be attractive to energy suppliers, who could fund projects under ECO which will also benefit from the RHI. If there are concerns about disproportional benefit, there is an option to remove renewable heating from the list of measures that may be delivered to E, F and G EPC rated social housing.

We understand that proposed changes to domestic RHI may enable the assignment of rights, potentially allowing renewable heat installations for the AW group to be funded in advance of RHI payments. If assignment of rights is introduced, these measures are more likely to be notified to ECO, therefore increasing the need for a review of additionality.

21. Do you consider that heat network schemes funded or part funded by the supplier obligation should be required to include arrangements for consumer protection?

Where appropriate, justify your response, including suggestions for appropriate consumer protection arrangements.

Yes.

Implementation of this proposal would affect our administration of the scheme.

If existing consumer protection schemes are wholly compatible with DHS measures notified to ECO, we would support the introduction of this requirement to offer further protection to consumers.

However, it is our current understanding that available consumer protection schemes do not yet provide coverage for connections where there is no heat supply agreement in place or where the consumer is not the owner of the heating system. Subsequently, there may be numerous cases where DHS measures notified to ECO would not be covered by existing consumer protection schemes. We do not believe it would be appropriate for us to define such arrangements on a case by case basis, or approve consumer protection schemes. Administration of such a requirement would be difficult unless consumer protection arrangements that are applicable to all DHS measures notified under ECO were stipulated in the regulations.

We are aware that the majority of DHS schemes notified to ECO are delivered to social housing. BEIS may take some assurance from this and take the view that domestic consumers are better protected by social housing providers than may otherwise be the case. Social housing could be subsequently exempt from meeting these arrangements. We are likely to have less assurance for DHS measures notified to private domestic premises. These may be the subject of greater concern and could be a focus for any requirements in this area.

22. Do you agree with the proposal to allow insulation but not to allow boiler or other heating system replacements or repairs (of any fuel type) in social tenure properties, with the exception of first time central heating (including district heating) and renewable heat?

We do not have a strong view.

We understand that the implementation of this proposal would not significantly alter how we administer the scheme.

The draft legislation indicates that a measure only qualifies as first time central heating where the supplier is satisfied that no central heating system has ever been present in the property. At present this provision would be difficult to evidence and poses a potential fraud risk. If introduced we would look to control this risk through setting out potential evidence requirements.

Our initial proposal is to use the presence of a valid EPC stating that no heating system is present. This could be supported by a declaration signed by the social landlord stating that, to the best of their knowledge, no heating system has ever been present at the property. As a declaration may also be required from the social landlord to confirm that the EPC reflects the current characteristics of the property (see Question 10) we feel this would not be a significant additional burden for the supply chain. However we would look to address this, and other impacts, through the already established ECO reporting working group.

23. Do you agree that we should retain a solid wall minimum within the scheme?

We do not have a strong view.

24. Do you agree that the solid wall minimum is set at the right level?

Where appropriate, justify your response and, if applicable, describe any alternative preferred proposals. (Where you provide alternative proposals, please include the level you recommend and what else you would change as a consequence, noting the need to stay within the overall spending envelope.)

We do not have a strong view.

Our most recent ECO public report on supplier progress towards the provisional solid wall minimum requirement (PSWMR), published on 18 July 2016, reveals that three suppliers have already met their PSWMR for ECO2, with two of these suppliers continuing to deliver SWI measures beyond their required minimum target. The majority of the remaining suppliers are also well on their way to meeting their minimum targets before the current deadline of 31 March 2017. If there is appetite for this to change we would recommend that it remains measured in tonnes of CO₂, to allow for ease of monitoring and transfer.

25. Do you agree that an in-use factor of 15% should be applied to party wall insulation measures delivered under CERO after 31 March 2017?

We do not have a strong view.

The reduced in use factor (IUF) would support increased delivery of this measure type but it **will not affect our administration of the scheme.**

We have seen very low levels of delivery for party cavity wall insulation (PCWI) under ECO2. If the new IUF is introduced, it is our expectation that delivery will increase in the transition year. The delivery of PCWI will provide further savings for properties already benefitting from cavity wall insulation.

We will continue to apply the requirement that 100% of party cavity wall insulation means insulating all party cavity walls of the dwelling, for example, the two walls of a mid-terrace property. If a supplier wishes to claim savings for two adjoining properties then they must be notified as two separate measures and each must meet all relevant requirements.

The change in the IUF, pre and post 1 April 2017, will be distinguished internally

against the date of installation within the ECO Register. We do not envisage the need to create a new measure type for party wall insulation or introduce any additions or changes to the notification template in respect of this change.

26. Do you agree that party wall insulation measures installed after 31 March 2017 should support secondary measures?

We do not have a strong view.

27. Do you agree that the requirement for measures to be recommended on either a GDAR or a CSR should be removed from 1 April 2017?

Yes.

Implementation of this proposal would reduce the administrative requirements for the scheme.

We agree with BEIS's assertion that GDARs and CSRs have not achieved their original purpose to a sufficient degree to justify the associated costs and administration. As GDAR and CSR reports are not relied on to provide assurances as to the technical suitability of particular measures in particular properties, we do not feel that by removing these we will see an increased fraud risk or reduced standards of installations. Our audits have also highlighted issues surrounding the accuracy of CSR reports, specifically in relation to hard to treat cavities as few CSRs actually involved a site visit by the Chartered Surveyor.

Furthermore, though GDARs and CSRs should be created by an independent party, it is difficult to monitor and from discussions with stakeholders, we understand that assessors are often directly employed by the installers. This has led to concerns over the accuracy of these reports.

Under the current scheme the recommendation reports are relied on to identify the existing state of the property prior to install. However, during our Hard to Treat Cavity review,³ we identified that the recommendation reports gave us minimal assurance regarding the existing state of the property. The majority were solely based on information from the supply chain and were proved to have inaccuracies. The introduction of deemed scores reduces this risk as all scores are based on assumed property characteristics for certain property types, rather than the characteristics of the specific property receiving the ECO measure.

28. Do you have views on whether any alternative requirements should be introduced in order to provide consumer advice, or ensure technical suitability of a measure prior to its installation?

Where appropriate, justify your response and provide details of any alternative requirements you consider to be needed (if applicable).

Alternatives are needed.

Results from technical monitoring have raised concerns around the quality of installations and the suitability of insulation for particular properties. However, the proposal to remove the requirement for measures to be recommended is unlikely to increase the risk of this as recommendation reports do not contribute to standards of installation.

³ See: <https://www.ofgem.gov.uk/publications-and-updates/eco1-hard-treat-cavity-review>.

We encourage further discussion into other means of improving standards and technical suitability of measures for particular households. One solution would be to strengthen the guarantee requirements around pre-installation assessments. This has already been put in place by one insurer for cavity wall installations.

We will be monitoring the outputs of the Bonfield Review to understand where we expect risks to reduce and where they will remain, and look to reflect this in our administration accordingly.

29. Do you agree that from 1 April 2017 we should move to a system of deemed scoring, as described above, rather than the current bespoke RdSAP or SAP based property by property assessments?

Where appropriate, justify your response, including details of any alternative proposals you would support, if applicable.

Yes.

Implementation of this proposal would reduce the administrative requirements for the scheme.

We support the move to deemed scoring to reduce the cost and administrative complexity of the ECO scheme overall.

A move to deemed scores represents a simplification compared with the current scoring approach, removing the need to collect the data required for a SAP/RdSAP assessment. An approach using deemed scores will also provide more certainty to the ECO supply chain on the value of measures. It is likely to be easier for installation companies to engage with consumers as they will be able to provide a fixed offer for certain measure types. The other advantage is that there are fewer opportunities for errors and fraud, and the proposed inputs are simpler to verify.

As this proposal was one that was highlighted early we were able to commence anticipatory work to produce a suite of scores that would be available before the commencement of any new ECO Order. We identified that this was likely to be the most fundamental change to the scheme and our methodology and the scores would require extensive consultation before being introduced.

Following an open tender process in December 2015, we commissioned the BRE to work with us to develop the deemed score proposal and subsequently published a consultation on 27 May.⁴ This explains the method and assumptions used in developing the proposed set of deemed scores, how the deemed scores could be used in practice (including the impact of the changes on score monitoring and notification), and our proposed approach for producing new scores. This consultation closed on the 8 July 2016.

We expect to publish our consultation response and the final deemed scores (including amendments as necessary) by October this year. This should allow time for obligated suppliers and the supply chain to plan delivery and develop their IT systems and other processes ahead of 1 April 2017, should deemed scores be implemented.

With the exception of DHS measures, we envisage that it will no longer be necessary to carry out a pre and post SAP/RdSAP calculation for each measure, in each property. Instead, input values will determine a fixed annual carbon or cost score for each measure. We will require these values to be notified to us, alongside the relevant

⁴ See: <https://www.ofgem.gov.uk/publications-and-updates/eco2-consultation-deemed-scores>.

lifetime, in-use factor, AW obligation multiplier and lifetime carbon and cost scores. We will then check that the annual saving is correct based on the inputs provided and that the lifetime score is correctly calculated.

In addition to checking that the correct deemed score has been selected based on notified information, we envisage that we will also use technical monitoring (TM) to confirm that the deemed score inputs reflect the property and measure installed. TM will continue to ensure that measures are installed to the requisite standards.

Where a supplier wishes to notify an eligible measure which is not included in the published schedule of deemed scores, we have proposed a process through which new scores can be included.

30. Do you agree that savings for district heating system measures should be calculated based on bespoke SAP or RdSAP assessments, rather than deemed scores?

Yes.

We support the continued use of SAP/RdSAP for the calculation of DHS measures, as opposed to the development of deemed scores for these measure types.

DHS measures notified under ECO comprise a range of different generator types and combinations. Subsequently, DHS measures tend to be notified using full SAP software, as opposed to the majority of other ECO measures which use an RdSAP assessment. Full SAP reflects the generator types and combinations available, against a broader range of inputs which more accurately represent the complexity of these measures.

As stated in our public consultation we have not, and do not, propose to develop deemed scores for district heating connections. We consider the current approach of producing bespoke scores using SAP or RdSAP to be more appropriate. We expect any measures installed at the same premises as a DHS to be scored using the deemed scores, should they be introduced.

31. Do you agree that up to 5% of each supplier's measures should be granted automatic extensions for up to three months?

Yes.

Implementation of this proposal would affect our administration of the scheme.

We agree with the proposal to allow a percentage of measures to be granted automatic extensions. We recognise there are scenarios where suppliers find it difficult to carry out the pre-notification checks they use to minimise inaccuracy before the notification deadline. This can lead to instances where there is very little time to collect, collate and submit all relevant information to a supplier or to rectify minor administrative errors within the required timelines. This could lead to us carrying out significant numbers of measure amendments to address notification errors.

By granting a small proportion of measures a three month automatic extension, we believe that measures delayed for relatively minor issues would now be submitted to us rather than being rejected by suppliers prior to notification. We also expect this to reduce the number of extension requests required and the associated administrative burden. This could also reduce delays to the approval of measures and associated payment delays.

We understand that the 5% figure relates to the number of measures that were notified to Ofgem on time, or early, by a supplier in relation a particular notification month ie

measures installed in September 2016 and notified by the end of October 2016. Where a supplier notifies a late measure via an extension request for a particular month of notification, for example October 2016, the measures included in that extension request would not count towards the calculation of the automatic 5% for that notification month.

In administering this provision, we propose that the first 5% of late measures notified to us are automatically processed. Any further late measures notified above the 5% threshold would need a corresponding extension request for those measures to provide justification as to why they were unable to meet the reporting deadline.

We would continue to require any measure submitted late to be notified separately from those within the deadline.

EXAMPLE

Supplier A notifies 3,000 measures with a notification month of October 2016 on time (or early). This would allow supplier A to notify 150 measures after October 2016, and up to January 2017, without an extension request.

We expect suppliers to have a good understanding of the number of late measures they will notify each notification month. Suppliers will be strongly encouraged to submit any extension requests and wait for them to be approved by us prior to notifying the relevant measures, as is current practice.

The draft legislation suggests that the 5% threshold for late measures will be calculated at the licence level. Requiring suppliers to balance their late measures across licences would add unnecessary complexity and could result in an increased number of transfer requests and rejections. This could increase the cost of the scheme as suppliers will have to deliver further measures to replace any measures rejected due to administrative error. Furthermore, suppliers are also more likely to exceed the 5% threshold as fewer late measures may have an increased impact on a relatively small licence. We propose that administering this provision on a group company level will be the most practical way of meeting the policy intent whilst minimising the likelihood of non-compliance and encourage BEIS to review options that will allow us to do this.

To prevent any delays to our final determination we would encourage BEIS to include a provision for us to shorten the period of automatic extension from 3 months to 2 months for measures installed in March 2018.

32. Do you agree with removing the restriction on extensions where it is due to supplier administrative oversight?

Yes.

This will affect our administration of the scheme.

We agree that this clause has often penalised minor delays to the notification of a measure due to human error and small administrative issues. In instances where an extension request has been rejected on the basis of a supplier's administrative error, we understand that installers have often not received payment for their installations for something that was out of their control. We therefore agree with the decision to remove reference to supplier's administrative oversight from the legislation. However, we must have the ability to assess the reasons for late notifications on a case by case basis and retain the ability to reject extension requests where there is evidence that suppliers have not made reasonable endeavours to notify measures on time.

As per the current ECO2 Guidance: Delivery, we will outline what we will consider to be a reasonable excuse for failing to notify a measure by the notification deadline.

33. Do you agree that we should introduce a mechanism for the trading of obligations between licensed suppliers?

Yes.

Implementation of this proposal will affect our administration of the scheme.

Our proposed approach to administer trading obligations is outlined in Question 34, and we plan to consult on this ahead of implementation.

We agree that BEIS should introduce a mechanism for the trading of obligations between obligated suppliers and between a supplier's licences.

Trading would allow a supplier with multiple licences to trade all of their obligations onto fewer/one licence. This would make it easier for both suppliers and us as the administrator to monitor progress against obligations. It would also simplify administration and reduce the risk of suppliers with multiple licences being found non-compliant if they do not meet scheme requirements on each of their licences. For example, one obligated supplier was found to be non-compliant under CERT as it did not balance carbon across licenses successfully despite meeting overall targets at the group level.

In particular, trading could also benefit small or newly obligated suppliers. Trading may enable these suppliers to discharge all or part of their obligations to another supplier, allowing them to meet their obligations in a cost effective way, and create more flexibility for suppliers in designing their delivery programmes. We already meet with suppliers who consider that they might become obligated and will highlight this as an option for them to ensure they comply with their obligations.

34. Do you agree that Ofgem E-Serve should approve trades, to ensure that energy suppliers can bear the consequences of non-compliance?

Where appropriate, justify your response and explain any alternative suggestions, if applicable.

Yes.

We agree that we should have the ability to approve or reject trades to ensure a supplier is able to meet its obligations, including any additional obligations taken on through trading, as well as ensuring that any non-compliance can be suitably addressed should it occur.

As the scheme administrator, we are required to set obligations as well as measure supplier compliance towards obligations. It is therefore important that we oversee any trades to ensure that the overall ambition of the scheme is met and that we can continue to accurately report on supplier progress towards obligations. We will develop a process for trades to be notified to us and will consult on this approach to ensure it is administered effectively.

For example, without our oversight, trading could lead to a small supplier taking on an obligation that it would be unable to deliver, risking non-compliance. To mitigate this risk we could utilise the provision listed in article 11A (4)(a) of the Draft ECO Order 2017, to only approve trades where we are satisfied that our ability to enforce against an obligation would not be adversely affected by the transfer of an obligation.

To be satisfied that this criterion is met, we may look at the following information/evidence:

- the annual turnover from the previous 3 years, and

- the cost of delivering or value of the measures if they are not delivered.

In addition to the provision set out in article 11A (4)(a) of the Draft ECO Order 2017, we would encourage BEIS to add a second provision which would allow us to only approve trades where we are satisfied that the supplier taking on the obligation is capable of delivering the additional measures. If a supplier fails to provide us with enough evidence to satisfy us of their ability to deliver the additional measures, this provision would allow us to reject a trade in order to ensure that carbon savings are not lost through non-compliance and that the overall ambition of the scheme is met. Without this second provision stated in legislation we may be unable to reject trades where a supplier with a large annual turnover did not have sufficient resources or processes in place to deliver additional measures. To be satisfied that this criterion is met we may seek information about a supplier's delivery plan and governance structure, including:

- evidence that a supplier has robust governance and management processes in place to deliver an increased obligation, and
- details of a track record of delivering obligations.

We will consult on our proposed criteria and how they should be evidenced to ensure that the information or evidence requested from suppliers during the application process is both reasonable and readily available upon request.

We agree with BEIS' proposal to outline requirements related to the trading of sub-obligations in Article 11A(4)(b) of the Draft ECO Order 2017. We will ensure this is carefully explained through our guidance to suppliers and our involvement in the approval process which would then allow us to monitor any trading of sub-obligations and whether the legislative requirements are being adhered to by suppliers.

We support BEIS' proposal in article 11A(2)(a) of the Draft ECO Order 2017 to allow trading to take place within a 6 month window, from 1 April 2017 to 30 September 2017. We feel a 6 month trading window strikes the balance of having enough time for suppliers to agree trades while at the same time allowing provision for a supplier to deliver an obligation should we reject a trade. We could also set monthly application deadlines in order to manage supplier expectations for a response to their applications.

We would encourage suppliers to contact us as early as possible once obligations are set, should they be considering trading obligations with another obligated supplier or across their own licences.

35. Do you agree the version of PAS 2030 cited in the ECO regulations should be updated to refer to the most recent version, following the anticipated updates to PAS 2030?

Yes.

We support a specific and up to date reference to PAS in the amended ECO Order. However, given that PAS is currently being revised there is a risk that the update will not be complete, or that installation companies will not have updated their certification by 1 April 2017.

Subsequently, it is important that PAS 2030:2014 remains active in the regulations to allow sufficient time for any PAS update to be finalised and installation companies to undergo the process of updating certification. The current drafting in the amendments to the ECO Order allow for this and we do not foresee any issues with this approach as long as the window for allowing installers to be certified to the updated PAS is sufficiently long.

36. Do you agree that installation companies delivering measures which are referenced in PAS 2030 under the extension to ECO should be certified against the requirements set out in PAS 2030?

Yes.

This will have a minimal impact on our administration.

We agree with the proposal for installation companies to be certified under PAS 2030. It is our intention to require that PAS certification numbers are notified in the transition year to ensure that installation companies are certified to install the measure notified to us. We may carry out an audit on certification numbers to ensure compliance. As suppliers already collect this information we do not anticipate this adding any additional burden.

We are engaged with the PAS update and support all efforts to improve quality and standards. We are also keen to see the outcomes of the Bonfield Review and how any recommendations can be incorporated into any future version of the scheme.

We are particularly keen that PAS certification, and the certification bodies, should address the full range and depth of issues relating to quality and standards which present themselves following the installation of energy efficiency measures. In particular we are aware of reports of problems with solid wall insulation measures and the absence of clear requirements relating to room-in-roof insulation measures.

37. Do you think there is value in collecting and publishing more information on ECO costs in the future?

If you do, what information do you think should be collected and how should it be obtained?

Yes.

We believe there is value in collecting and publishing more information on ECO costs in the future to gain a more holistic view of the total cost of ECO, as well as to assess the costs of individual measure types. However, before requesting any additional data we believe that BEIS should consider what data is readily available to suppliers.

Should BEIS introduce a requirement for suppliers to provide additional cost data we would suggest that there is a clear methodology in place describing how to collect and submit the data. In the absence of this it is likely that suppliers would provide data in different formats and at different levels of detail, which could undermine the value of the data collection and any subsequent analysis. Our current information gathering and publishing powers in relation to cost data are limited and may need to be extended if this proposal is introduced.

It is also important to consider the administrative burden that collecting such data could add to the scheme. Furthermore, it is likely that we would need to audit such data to ensure its accuracy which would add further resource burden to this proposal. We encourage BEIS to consider alternative approaches to gather this information that would not impact on the administration of the scheme.

38. Do you agree that, with the exception of the Affordable Warmth minimum requirement, the new scheme rules being proposed should be introduced for measures installed from 1 April 2017?

Where appropriate, justify your response, including details of any particular rules that should be introduced earlier or later, if applicable.

Yes.

We agree that with the exception of the AW minimum, the new scheme rules should not be introduced before 1 April 2017. We agree with this proposal as it will give suppliers and the supply chain as much time as possible to understand and implement the changes. A clear date for when the current requirements end and the new transitional year requirements begin will help to avoid confusion associated with overlapping requirements and guidance.

However, we recognise that the lead in time for suppliers to implement the significant number of changes proposed in this consultation is short. We aim to provide as much clarity around our administration of the proposed changes as we can for the 1 April; however we will be limited due to the legislative timetable, and the need to consult on our interpretation of the legislation

39. Government invites views on whether we should introduce any additional rules to incentivise greater delivery to areas with higher delivery costs?

Where appropriate, justify your response, and set out how this should work (if applicable).

Additional rules are not needed.

One of the objectives of the transition year for ECO is to simplify the scheme and reduce the overall costs of delivery. Additional rules could therefore negate some of the cost savings and reduction in administrative complexity expected from proposals such as introducing deemed scores and not extending the CSCO target.

Given the short lead in time to the start of the transition year, as well as some existing proposals representing a significant change from current delivery, we feel the introduction of additional new requirements could further complicate the transition year.

Over the coming months Ofgem E-serve are looking to publish geo-mapping data on the take up of measures across the country, which will help identify areas for future policy attention. Additionally, we welcome engagement with stakeholders that are concerned ECO is not being delivered in certain areas and whether there are administrative barriers that could be reduced to help to address this.

40. Should a brokerage mechanism be continued?

Where appropriate, justify your response and, if responded 'yes', what value do you think a brokerage mechanism could add in the future?

We do not have a strong view.

We believe that brokerage offers a useful point of access to the ECO market for smaller, independent installers that may otherwise struggle to engage and arrange contracts for delivery with obligated suppliers. The standard contract for measures traded through

the brokerage mechanism also offers additional security for small installers, particularly in terms of payments.

Other aspects of the brokerage contract provide suppliers with additional assurance in terms of quality of installation. In particular, the limit on subcontracting to other installers, and the option to terminate a contract should a supplier have concerns about the quality of work that will be delivered by that installer, protect the brokerage platform from allowing poor quality work to be submitted through the ECO scheme. Most importantly this protects consumers, but also suppliers and the reputation of the scheme as a whole.

41. If a brokerage mechanism continued in the future, what eligibility criteria and due diligence checks should be carried out to enable access to a range of organisations?

To date only parties registered as green deal providers are able to trade on the brokerage platform. We believe that this approach gives suppliers a level of assurance about the quality of measures that will be delivered through the contract. Should brokerage be expanded to include other organisations, such as local authorities, we believe that they should be subject to a similar level of due diligence to ensure that any measures delivered meet the requisite standards for installation and quality.

42. In addition, should access for an individual organisation be reviewed for any reason (eg at certain intervals or for certain behaviours)?

Where appropriate, justify your response and, if responded 'yes', what should be considered as part of the review?

Yes.

We believe that sellers able to participate on the brokerage platform should be reviewed regularly by BEIS to ensure that they are performing well, including delivering the required quantity of measures in time, and meeting the requisite standards of installation. Should a seller fail to meet such requirements, we believe that its access to the platform should be reviewed.

43. Is brokerage a barrier to local delivery?

Where appropriate, justify your response and, if 'yes', explain how it is a barrier and your recommendations (if applicable) for how we could remove the barrier(s) to improve local delivery under brokerage?

We do not have a strong view.

44. Does the current performance rating system provide the assurance of quality and delivery needed?

Where appropriate, justify your response and, if 'no', what changes would you recommend?

We do not have a strong view.

Our technical monitoring results do not show any marked differences in the quality of measures delivered through brokerage.

Should brokerage include further requirements relating to an installer's track record or similar, this could increase uptake of the mechanism by suppliers as they have greater

assurance of the quality of the measures that will be delivered. This could be achieved through a variety of mechanisms, for example using the Ofgem E-Serve technical monitoring results to give an indication of the quality of work that an installer has been responsible for over recent months.

45. If brokerage continued, would you recommend any substantial changes to its design to better reflect the future fuel poverty focus?

Yes.

We believe that many of the changes made to the contract late last year have improved the platform. We do not believe that the scope of the consulted on changes for the ECO scheme warrants any specific changes, however, we would welcome further improvements to protect consumers and to ensure that the requisite standards of installation are met.

Additionally, we recognise that there is additional scope to redesign the Brokerage to be more useful in any subsequent scheme, with the potential to have closer links to the administrator, suppliers and the supply chains' systems.

46. Government invites views on the aspects of the future supplier obligation (eg measures, scoring, objectives) where a Scottish scheme could diverge from the GB-wide scheme without increasing the administration or policy costs unreasonably.

If a Scottish version of the ECO scheme was significantly different to an English and Welsh version, suppliers and the supply chain would have to develop, test and implement multiple processes to ensure that delivery under both schemes meets the requirements of the legislation, achieves the policy intent, and does not have a negative effect on consumers. Differences in the schemes could also create added complexity and burden in the administration. However, if the administrator was the same across both schemes this could be reduced.

Development of a significantly different Scottish scheme would need a significant lead in time to be ready to start in 2018. The absence of robust processes could increase the risk of fraudulent activity in the early stages of a scheme. Without sufficient time to adapt to new requirements, it is likely that suppliers will need considerable assistance in familiarising themselves with the scheme which could lead to a delay in delivery, or worse, delivery of poor quality installations to the wrong people.

If a future Scottish scheme were based on the existing framework of the GB ECO scheme, these risks would be reduced. An area that we consider it would be reasonable to implement changes would be to the scoring of measures to align with the Scottish fuel poverty strategy. For example, if the Scottish Government wanted to promote measures in remote rural areas, this may be more expensive and application of an uplift to increase the carbon or cost score may be needed to encourage delivery to these areas.

47. When would you consider that differences between an English and Welsh scheme and a Scottish scheme could be detrimental to the operation and competition of the United Kingdom-wide energy market?

The effects of competition from different schemes across the UK would depend on the details of the schemes and the associated costs. Generally, measures are more expensive to deliver in Scotland than in England and Wales. As a few energy companies dominate the Scottish domestic energy market, how a Scottish obligation is set across suppliers could affect suppliers' ability to deliver measures in Scotland, which could impact on customer's bills and therefore affect competition. We see two options for implementing a Scottish scheme:

- a) Obligate suppliers at GB level, where a portion of a supplier's obligation must be delivered in Scotland. This could affect a supplier's delivery and costs if the supplier does not have a customer base or a relationship with the supply chain in Scotland. The proposal to allow trading of obligations between suppliers could allow a supplier who does not have a presence in Scotland to achieve its obligation in a more cost effective way through trading its obligation for delivery in Scotland.
- b) Conduct separate obligation setting for Scotland and England and Wales, based on a suppliers' different market shares in these countries. If the obligation is set separately for Scotland, only suppliers with a presence in Scotland would be obligated. However, as measures are generally more expensive to deliver in Scotland we encourage BEIS and Scottish Government to take this into account through the obligation and target setting process. Trading of obligations between suppliers could allow a supplier who does not have a presence in Scotland to achieve its obligation there if it was more cost effective to do so.

48. Do you believe there is any justification for changing the customer number threshold in the future obligation (2018 onwards)?

Please provide specific reasons and evidence and, if you responded 'yes', describe any actions you recommend in relation to addressing the proportionally higher fixed costs that may be borne by smaller obligated suppliers.

We do not have a strong view.

We understand that for a smaller supplier, delivering ECO may have a disproportionate effect on its business, for example it could encounter cash flow problems and may have relatively high administration costs when compared with larger suppliers. The proposal to allow trading of obligations between suppliers could help smaller suppliers achieve their obligations in a more cost effective way through trading its obligation to a larger obligated party.

The CMA recognised this in its investigation into the energy market but considered that the current threshold of 250,000 customers is not market distorting.

We would ask BEIS to recognise, when determining the customer number threshold, any corresponding increase in obligated suppliers may lead to challenges and increased costs in our administration of the scheme.

49. Do you believe there is any justification for changing the taper for newly obligated suppliers in the future obligation (2018 onwards)?

Please provide specific reasons and evidence and, if you responded 'yes', describe how you recommend amending the taper.

We do not have a strong view.

Our experience of administering the ECO scheme has shown that newly obligated suppliers can find it more challenging to meet their obligations and that a taper is useful to smaller suppliers.

However, newly obligated suppliers are not always able to take advantage of this. Some suppliers, that have grown quickly or focus on either gas or electricity markets, have missed the taper threshold of supplying less than 800GWh of electricity or 4,000GWh of gas. This has resulted in their first obligation being the full proportion of ECO according

to their market share.

If the intention is that all newly obligated suppliers can take advantage of the taper, BEIS should review whether it is set at the right level or potentially needs to have flexibility to reflect any difference in suppliers growth models in both the domestic electricity and gas markets.

50. Under current and previous supplier obligations, are there barriers in scheme design inhibiting innovation in delivery models and technologies?

If you responded 'yes', how should we design the scheme in order to overcome these barriers and incentivise the delivery of innovative products, technologies and delivery models in a future supplier obligation?

Yes.

The current requirement that, where possible, measure savings are calculated through SAP/RdSAP alongside standard lifetimes and in use factors provides certainty and a consistency of approach. It does however narrow the opportunity to differentiate between products. New products must develop an appropriate methodology which can be a challenge given the need to generate a bespoke score for measure savings within a domestic premises.

We believe that the deemed scores methodology will provide more opportunity to differentiate between products and a clearer route to delivery for new technologies in ECO. The simplicity of the process and reduced costs will further remove barriers, particularly for measures delivering relatively smaller savings which are not cost effective to deliver under the current scheme.

The deemed score approach we are consulting on will not recognise innovation in delivery and installation. Additionally, it is unlikely to provide a significant differential for only incremental improvements (in U-values for example) and we do not believe that it will be appropriate to provide specific scores for products that have only marginal additional savings.

If BEIS is keen to incentivise innovation in delivery and products we believe it should be an integral part of the next scheme. For example, under the Carbon Emissions Reduction Target (CERT), suppliers were able to undertake 'demonstration actions' where spend on innovative/novel activities was encouraged by considering eligible spending and converting this into carbon savings, irrespective of actual savings achieved. This encouraged a number of successful actions, including insulation of park homes and insulating passageway doors. Both measures were subsequently available as ECO measures. Utilising alternative models to measuring carbon savings for novel/innovative activity is therefore something which could be considered to encourage this type of activity.

51. Government invites views on what specific improvements could be made to the design of the ECO scheme to facilitate administration and delivery.

We believe that many of the proposals in this consultation will help to reduce the administrative burden on obligated parties and members of the supply chain alike. Where possible, we are committed to ensuring this intent is matched through our own administration of the scheme and welcome these proposals.

The current proposals to allow local authorities more flexibility with eligibility requirements and the approval of third party schemes could help to stimulate partnerships to better target and identify eligible residents for the delivery of measures. Whilst we see the benefits of such a locally driven approach, we are also concerned that

it could lead to poor targeting if suitable controls are not implemented. We are keen to engage further with stakeholders and BEIS on this delivery route to ensure that such a proposal does not have a detrimental impact on the policy intent of the scheme, or place disproportionate burden on the supply chain.

Continuity in government policy and administration also plays a large part in improving delivery and administration and we support the certainty offered by a supplier obligation running to 2022. We encourage BEIS to begin the dialogue around the scheme from 2018 onwards as soon as possible. In particular it will be necessary to provide clarity on aspects such as the potential for carry over of measures and any change of scoring.