

Energy Company Obligation transition 2017-2018 (ECO2t): ECO2t consultation Part 1

Consultation

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Response deadline: 23 November 2016

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Overview:

This consultation outlines our proposed administration for the extension to the ECO2 obligation period from 1 April 2017 to 31 March 2018.

This is the first of two consultations that we are publishing to seek views on our approach to administer the changes proposed in the BEIS consultation on ECO, which closed on 17 August. Although the government response is yet to be published we have based our proposals on the draft amendments to the ECO2 Order, which were published alongside the BEIS consultation. We will run a second consultation after the government response is published.

This consultation will be open for six weeks from 12 October 2016 to 23 November 2016.

We welcome your views on our proposals. Please respond to eco.consultation@ofgem.gov.uk by 23 November 2016.

About this consultation

Background

The ECO2 Order 2014 sets out the requirements for the ECO2 obligation period, which is due to end on 31 March 2017. BEIS has proposed to extend the ECO2 scheme by one year while making changes to transition to a fuel poverty-focused scheme from 2018 onwards. Details of the proposed changes can be found in the BEIS Help to Heat consultation.¹

This consultation asks specific questions on areas of ECO2 where Ofgem E-Serve ('we', 'us' and 'our' in this document) will be exercising our discretion in administering the proposed changes to ECO2 for 1 April onwards.

In developing our guidance for the extension to ECO2, the 'ECO2 transition year' (ECO2t), we are running two separate consultations: ECO2t Part 1 and ECO2t Part 2. This consultation, ECO2t Part 1, is being published ahead of the government response to the Help to Heat consultation to give an indication of how we will administer the scheme should the proposals come into effect. This consultation focuses on changes that are detailed in the draft amendments to the ECO2 Order² that were published alongside the BEIS consultation.

We are not consulting on the following areas, which are not included in the draft amendments to the ECO2 Order:

- flexible eligibility – schemes involving other intermediaries
- flexible eligibility – delivery to non-fuel poor private tenure homes to facilitate multi-property projects for solid wall insulation
- consumer protection requirements for households connected to local heat networks, and
- collecting cost data for ECO.

We consulted separately on our proposed approach to implementing a system of deemed scores for ECO2t and our response is published on our website.³

The second consultation, ECO2t Part 2, will be published after the government response to the Help to Heat consultation is published. This consultation will focus on areas:

¹ <https://www.gov.uk/government/consultations/energy-company-obligation-eco-help-to-heat>

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536679/Illustrative_draft_of_the_Electricity_and_Gas_Energy_Company_Obligation....pdf

³ <https://www.ofgem.gov.uk/publications-and-updates/response-eco-deemed-scores-consultation>

- that have changed as a result of the consultation responses received by BEIS, and
- where further clarity about the proposed changes will enable us to develop more specific requirements or processes for our administration.

Table 1 shows the planned dates for the ECO2t consultation process.

	ECO2t Part 1	ECO2t Part 2
Consultation launch	12 October 2016	January 2017
Consultation close	23 November 2016	4 weeks later
Publications following our assessment of responses	Consultation response (ECO2t Part 1) Updated draft guidance	Consultation response (ECO2t Part 2) Final guidance (Administration and Delivery)
Publication date	January 2017	April 2017

Table 1 ECO2t consultation process

Format of this consultation

This consultation seeks views on our proposed administration of the policies outlined in the BEIS consultation for the ECO2 transition year and included in the draft legislation to amend the ECO2 Order. These proposals have been formed on the basis of the information available to us at this time. These proposals may change, or even become redundant, once the government response is published and the policy for the transition year is confirmed.

The remainder of this document covers each proposed change in turn. We outline the current situation ahead of the change, what the proposed change is, and how we propose to administer the change.

We have also provided draft guidance in a separate document to give as much detail on our proposals as possible. The draft guidance is for reference only, to illustrate how our proposals may appear in guidance. After the consultation has ended and we have analysed the responses, we will update the draft guidance.

Each section of guidance is marked to show whether it will be included in the Administration or Delivery guidance.

The draft guidance contains paragraph numbers for the purpose of cross referencing in consultation responses. However, please note the guidance is not a complete draft and so the paragraph numbers will change in the final version.

We have grouped the changes into the following sections:

- **Scheme extension** – covering the extension to the deadline for delivery of CERO and HHCRO measures and the final determination of CSCO
- **HHCRO targeting and eligibility** – including changes to eligibility criteria, inclusion of social housing with an EPC energy efficiency rating of E, F or G, the definition of first time central heating for delivery to social housing and declarations from local authorities
- **Energy efficiency measures** – covering the change to the in-use factor for party wall insulation, alterations to our requirements for evidencing pre-existing loft insulation and evidencing requirements for non-gas fuelled premises, and
- **Delivery and administration** – changes to eligibility of new build premises, removal of recommendations for CERO measures, allowance for 5% of measures to be notified late without an extension request, trading of obligations and changes to PAS.

ECO2t guidance

We are proposing to publish new versions of both the administration and delivery guidance documents for ECO2t. These documents will contain all relevant information for measures installed from 1 April 2017.

The existing ECO2 guidance documents will remain live until we make our final determination for ECO2 by September 2018. However, the information and requirements within them will only apply to ECO measures installed from 1 April 2015 to 31 March 2017.

Draft contents pages for the ECO2 transition Administration and Delivery guidance documents can be found in Chapter 1 of the draft guidance document published alongside this consultation.

We expect to publish final versions of our ECO2t administration and delivery guidance documents as soon as we can, although this is likely to be after 1 April 2017.

In this document, 'draft legislation' refers to the 2017 draft legislation to amend the ECO2 Order. 'Draft article' refers to an article within this draft legislation.

Next steps

The consultation is open from 12 October 2016 to 23 November 2016. We have provided a template for responses to help us collate and analyse the feedback we

receive. Where use of the template is not possible, other formats will still be accepted. Please send your responses to: eco.consultation@ofgem.gov.uk.

A list of the consultation questions can be found in Appendix 1.

We aim to publish our decision, including a summary of responses in January 2017. Unless marked confidential, all responses will be published on our website.

Useful links

BEIS Help to Heat consultation document

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531964/ECO_Help_to_Heat_Consultation_Document_for_publication.pdf

Draft amendments to the ECO2 Order

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536679/Illustrative_draft_of_the_Electricity_and_Gas_Energy_Company_Obligation....pdf

ECO2 Order

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

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

ECO2 Guidance: Administration (V1.1)

<https://www.ofgem.gov.uk/publications-and-updates/energy-company-obligation-2015-17-eco2-guidance-administration>

ECO2 Guidance: Delivery (V1.1)

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

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1. Structure of extension

Scheme extension and obligation setting

What are we consulting on? This section is for information only as we are not required to exercise any discretion for these changes.

Current situation

1.1. The ECO2 Order sets the obligation period from 1 April 2015 to 31 March 2017. It is split into two phases:

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

Proposed change

1.2. BEIS proposes to extend the ECO2 obligation period by one year, to 31 March 2018. The transition year will form the third phase of ECO2.

1.3. BEIS has proposed that the Carbon Emissions Reduction Obligation (CERO), Home Heating Cost Reduction Obligation (HHCRO) and Provisional Solid Wall Minimum Requirement (PSWMR) obligations are extended, but that there will be no extension to the Carbon Saving Community Obligation (CSCO) for the transition year. Table 2 shows the proposed obligations for the transition year.

	Phase 1 1 April 2015 to 31 March 2016	Phase 2 1 April 2016 to 31 March 2017	Phase 3 1 April 2017 to 31 March 2018	Total
CERO	6.2MtCO₂	6.2MtCO₂	3MtCO₂	15.4 MtCO₂
CSCO	3MtCO₂	3MtCO₂	N/A	6MtCO₂
HHCRO	£1.85 billion	£1.85 billion	£1.84 billion	£5.54 billion
PSWMR	2MtCO₂	2MtCO₂	0.74MtCO₂	4.74MtCO₂

Table 2 Overview of ECO2 obligations⁴

1.4. Table 3 below shows the dates by which suppliers must notify us of their domestic customer numbers and supply.

⁴ Draft Article 8(a)

Actions	Phase 1	Phase 2	Phase 3
Notification date	1 February 2015	1 February 2016	1 March 2017
Relevant notification period	1 January to 31 December 2014	1 January to 31 December 2015	1 January to 31 December 2016

Table 3 Key dates for notifying customer numbers and supply

- 1.5. The notification date for customer numbers and supply in ECO2t is later than it has been in the first two phases of ECO2, reflecting that the amended legislation may not be in place before the usual notification date of 1 February.
- 1.6. Suppliers will be required to achieve their total CERO and HHCRO obligations by 31 March 2018. A supplier’s CSCO must be achieved by 31 March 2017 – this is unchanged. We will make a determination of whether a supplier has met its CSCO by the end of September 2017.
- 1.7. For HHCRO and CERO, suppliers will be able to submit transfer and re-election applications up to 30 June 2018. Information on transfers and re-elections of CSCO measures in ECO2t is outlined in the draft guidance published alongside this consultation.
- 1.8. We will provide a final determination of supplier’s compliance with ECO2 by 30 September 2018.

Proposed administrative approach

- 1.9. We will request suppliers’ domestic customer numbers and supply in February 2017 as a joint submission for ECO and other schemes that we administer.
- 1.10. Our administrative processes for obligation setting will not change for the transition year.
- 1.11. Draft guidance for the scheme extension and obligation setting can be found in Chapter 2 of the draft guidance document published alongside this consultation.

Final determination of CSCO

What are we consulting on? Our proposed administrative approach for making our final determination of the Carbon Saving Community Obligation (CSCO).

Current situation

- 1.12. A supplier achieves its CSCO through the installation of carbon saving community qualifying actions, which are insulation measures and connections to district heating systems (DHS) in areas of low income, adjoining areas and rural areas. The current deadline for suppliers to achieve their CSCO target is 31 March 2017.

Proposed change

- 1.13. BEIS has proposed to extend the target and deadline for delivery for both CERO and HHCRO, however it has not proposed to extend CSCO. This means the existing deadline for delivery of 31 March 2017 for CSCO will remain. A supplier can only count CSCO measures installed before 1 April 2017 towards its obligation. The draft legislation to amend the ECO2 Order states that we must then make a final determination of whether a supplier has achieved its CSCO by 30 September 2017.

- 1.14. Although CSCO measures cannot be delivered after 31 March 2017, the draft legislation to amend the ECO2 Order allows these measures to be moved from CSCO to another ECO2 obligation up to and including 30 June 2018 if they are deemed excess to a supplier's CSCO.

- 1.15. The draft legislation does not allow suppliers to re-elect or transfer measures into CSCO after 30 June 2017.

Proposed administrative approach

- 1.16. Our proposed process for making our final determination of CSCO, including how transfers and re-elections of measures will be managed after April 2017 is outlined in the draft guidance.
- 1.17. Draft guidance for our final determination of CSCO can be found in Chapter 3 of the draft guidance document published alongside this consultation.

Questions

1. Do you agree with our proposed administrative approach and guidance relating to our final determination of CSCO?

If no, please provide reasons and any alternative suggestions.

2. HHCRO targeting and eligibility

Help to heat group

What are we consulting on? *Our proposed requirements for evidencing eligibility of the help to heat group.*

Current situation

2.1. Under the Home Heating Cost Reduction Obligation (HHCRO) suppliers must deliver measures to private domestic premises occupied by a member of the Affordable Warmth Group (AWG). A person is an eligible member of the AWG if they receive at least one of the benefits (and, where applicable, satisfies the qualifying components) in Schedule 1 to the ECO2 Order.

Proposed change

2.2. BEIS has proposed that from 1 April 2017, suppliers must deliver HHCRO measures to members of the 'Help to Heat' group as defined in Schedule 1A to the draft legislation to amend the ECO2 Order. The benefit eligibility criteria for this group are different from that applied to members of the AWG group. The changes are outlined below.

2.3. Those in receipt of the following benefits will only be eligible if their household income is below the relevant income threshold for their household composition:

- Tax Credits (Child Tax Credit or Working Tax Credit)
- Universal Credit

2.4. The household composition considers whether the person has a single or joint claim, and the number of qualifying children the person has responsibility for in their claim. For example, the household income threshold for a household with joint claimants (ie a couple) and children will be higher than that for a sole resident. A table outlining the different household compositions is in Chapter 4 of the draft guidance document published alongside this consultation.

2.5. Recipients of the following benefits will now be eligible without having to meet any further eligibility requirements, ie they will no longer be required to satisfy any further qualifying component, such as receiving a disability premium or responsibility for a qualifying child:

- Income-related Employment and Support Allowance,
- Income-based Jobseeker's Allowance, and
- Income Support.

2.6. Recipients of Pension Credit Guarantee Credit and those in receipt of both Pension Credit Guarantee Credit *and* Pension Credit Savings Credit will continue to be eligible. Recipients of Pension Credit Savings Credit alone will not be eligible.

2.7. A table outlining the help to heat group eligibility criteria can be found in Chapter 4 of the draft guidance document published alongside this consultation.

Proposed administrative approach

2.8. As per Appendix 2 of the ECO2 Guidance: Delivery (v1.1), we will accept the following methods of demonstrating the customer is a help to heat group member:

- a) a WHD core group notice
- b) a matched ESAS reference number⁵
- c) a matched DWP reference number⁶, or
- d) a help to heat benefit letter⁷.

2.9. Although measures installed from 1 April 2017 must meet the new help to heat benefits criteria, a supplier can verify eligibility through ESAS and DWP prior to this date where these services provide early verification.

2.10. For individuals in receipt of Income Support, Income-related Employment and Support Allowance or Income-based Job Seeker's Allowance, the existence of the benefit letter will be sufficient for a supplier to evidence help to heat group eligibility as no further information will now be required.

2.11. We will publish a guidance note to assist suppliers and the supply chain in how to evidence the relevant household components for Universal Credit and Tax Credits, such as relevant income and whether the claim is single or joint.

2.12. Documents must show that the person was receiving a qualifying benefit within the 18 months prior to completion of the measure. If the documents

⁵ BEIS are in discussions with DWP and the Energy Saving Trust to ensure that the new criteria for the help to heat group can be data-matched through the ESAS service.

⁶ BEIS are in discussions with DWP to ensure that the new criteria for the help to heat group can be data-matched through the DWP data-matching service.

⁷ The eligible benefits, the total income and relevant household components will be evident on the hard copy or electronic benefit letters. In the case of Universal Credit, a child benefit letters may be required to evidence you are responsible for more than two children.

are older, suppliers must be able to provide updated evidence. We will usually take 'dated' to be the date the letter was sent.

- 2.13. Draft guidance for the help to heat group can be found in Chapter 4 of the draft guidance document published alongside this consultation.

Questions

2. Do you agree with our proposed approach to evidencing help to heat eligibility?

If no, please provide reasons and any alternative suggestions.

Social housing with an EPC energy efficiency rating of E, F or G

What are we consulting on? Our proposed requirements and administrative processes for HHCRO measures installed in social housing with an EPC energy efficiency rating of E, F or G.

Current situation

- 2.14. Measures cannot be delivered to social housing under HHCRO unless the property has been let at or above market rate. What is considered to be social housing is listed in Schedule 4 to the ECO2 Order.
- 2.15. Suppliers can currently provide evidence showing whether a property is social housing by reviewing a number of registers which list social housing providers, charities and other social landlords. These registers are listed in Appendix 2 of our ECO2 Guidance: Delivery (V1.1).

Proposed change

- 2.16. Social housing will be eligible for support under HHCRO where the property has a pre- or post-installation EPC with an energy efficiency rating of E, F or G. To ensure the EPC reflects the current characteristics of the property the draft legislation to amend the ECO2 Order states that the social landlord must sign a declaration to confirm 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 a D rating or above.
- 2.17. Where measures are installed in social housing, the occupant will not be required to be in receipt of a help to heat group benefit. However, the

supplier must prove that the premises have not being let at market rate or above to demonstrate that the property is let as social housing.

2.18. All insulation measures are eligible for delivery to social housing. Heating measures cannot be delivered to social housing that is eligible under the EPC E, F or G provision, with the following exceptions:

- a) First Time Central Heating⁸ (including District Heating Systems (DHS)), and
- b) Renewable Heating.⁹

2.19. Evidencing first time central heating is being consulted on separately. For further information on this, see the following section.

Proposed administrative approach

Is the property social housing?

2.20. Appendix 2 of the ECO2 Guidance: Delivery (v1.1) currently provides information on how to evidence whether a property is owned by a social landlord. We propose to use the same methods to check this provision.

Is the EPC lodged and has an energy efficiency rating of E, F or G?

2.21. The supplier will be required to provide the reference number of the pre- or post-installation EPC in the notification template. We may use this to undertake a sample audit.

2.22. Where a pre-installation EPC is provided, the supplier must collect a declaration signed by the social landlord confirming the EPC reflects the current characteristics of the property. The declaration to evidence this requirement for E, F and G social housing should be worded as follows:

"To the best of my knowledge and belief, no changes were made to the premises, after the EPC was lodged and before the measure was installed, which would increase the energy performance rating of the premises to band D or above".

2.23. Where multiple measures are installed in a single property, the property's improved energy efficiency performance must be considered following each installation. For example, where the first measure improves the EPC energy efficiency rating to a D or above, any subsequent installations would not be eligible under this provision. Each measure will require a separate declaration confirming that the EPC energy efficiency rating of the property remains

⁸ The installation of a central heating system where, at no point prior was a central heating system present.

⁹ ie a measure for the generation of heat by means of a source of energy or technology listed in s.100 (4) of the Energy Act 2008.

below band D. We expect social landlords to have appropriate information available to them to make such a declaration.

Has the property been let at below market rate?

- 2.24. We propose that the supplier collect a declaration signed by the social landlord stating that the property has been let at below market rate. The declaration to evidence this requirement for E, F and G social housing should be worded as follows:

"I declare that these social housing premises have been let at below market rate".

- 2.25. Draft guidance for social housing with an EPC energy efficiency rating of E, F or G can be found in Chapter 4 of the draft guidance document published alongside this consultation.

Questions

3. Do you agree with our proposal to use a declaration signed by a social landlord to evidence that the EPC energy efficiency rating reflects the current characteristics of the property?

If no, please state your reasons and any alternative proposals.

4. Do you agree with our proposal to evidence that premises have been let below market rate using a declaration signed by a social landlord?

If no, please state your reasons and any alternative proposals.

5. Do you agree that where multiple measures are installed in a single property, a further declaration should be signed by the social landlord after each installation to confirm the energy efficiency rating remains below Band D?

If no, please state your reasons and any alternative proposals.

First time central heating

What are we consulting on? *Our proposed interpretation of the definition of first time central heating within social housing E, F and G and administration of associated requirements.*

Current situation

- 2.26. Under the current scheme, a central heating system may be delivered to domestic premises for the first time as a non-qualifying boiler measure.

2.27. In addition, HHCRO measures cannot be delivered to social housing let below market rate.

Proposed change

2.28. Under the current proposals, certain measures installed under HHCRO on or after 1 April 2017 may be delivered to social housing with an EPC energy efficiency rating of E, F or G where the premises have been let below market rate. To limit the delivery of measures to social housing under HHCRO, only specific measures will be eligible, including:

- a) insulation measures
- b) first time district heating systems (DHS)
- c) first time central heating systems (FTCH), and
- d) renewable heating.¹⁰

2.29. The installation of a central heating system or a relevant DHS connection at social housing with an EPC energy efficiency rating of E, F or G is only eligible where the premises have '*at no point prior*' to the installation or connection had a central heating system or an electric storage heater.

2.30. A central heating system is defined in the draft legislation to amend the ECO2 Order as:

'a system which provides warmth to two or more rooms through a series of connected heat emitters linked to a central boiler or some other heat source and controlled from one central point'.

Proposed administrative approach

2.31. The installation of a central heating system or a relevant DHS connection at social housing with an EPC energy efficiency rating of E, F or G is only eligible where they are installed in domestic premises which:

- a) have been let below market rate, and
- b) at no point prior to the installation or connection, had a central heating system/working central heating system or an electric storage heater.

2.32. The requirements and evidence for the EPC rating of the premises and the rental value are considered above.

2.33. We will consider that requirement (b) above, "at no point prior", can only be met where the premises never had a central heating system or an electric storage heater before installation of the ECO measure.

¹⁰ As stipulated in section 100 (4) of the Energy Act 2008

2.34. We propose that suppliers evidence eligibility for FTCH measures using an additional declaration to those suggested above to evidence other requirements for delivery to social housing with an EPC energy efficiency rating of E, F or G.

2.35. We propose that the declaration to evidence the eligibility of first time central heating and DHS measures for E, F and G social housing should be worded as follows:

"I declare that at no point prior to the delivery of the first time central heating/DHS ECO measure, did the social housing premises have a central heating system or an electric storage heater".

2.36. This should be signed by the social landlord. In addition, any pre-installation EPCs used to evidence the efficiency rating of the premises must not refer to the presence of a central heating system or an electric storage heater. This will render the premises ineligible for the delivery of first time central heating.

2.37. E, F and G rated social housing must meet the above requirements to be eligible for delivery of a central heating system or DHS.

2.38. If premises had, at any time in the past, a central heating system or electric storage heater, even if it is not present immediately prior to the delivery of an ECO measure, it cannot be eligible for the delivery of first time central heating. Further, where a central heating system or an electric storage heater is present but not working, the premises would also not be eligible.

2.39. The presence of a central heating system or an electric storage heater may be identified with reference to any available evidence within the premises, such as pipework, heating controls or radiators, or records relating to the premises, such as an EPC. We will not require that evidence is recorded or retained.

2.40. The central heating system or district heating connection installed must meet our requirements for the delivery of 100% of the measure, unless there are reasonable grounds for not doing so. Requirements for delivering 100% of a measure are addressed in our deemed scores consultation and response. However, as a minimum requirement, a central heating system would have to meet the definition in the draft legislation to amend the ECO2 Order, and relevant building regulations and PAS requirements, to be eligible.

2.41. The following primary heating sources will be eligible for the delivery of FTCH and first time DHS measures when found in social housing with an EPC rating of E, F or G:

- electric room heaters
- gas room heaters, or
- solid fossil room heaters.

2.42. DHS measures are scored using SAP/RdSAP and the above primary heating sources may be used for first time DHS measures. In addition to the above primary heating sources, SAP refers to oil room heaters, which may also be an eligible primary heating source for a first time heating DHS measure

2.43. Where no heating system and none of the above primary heating sources are present, electric room heaters should be used as the proxy for the primary heating source.

2.44. The heating measure types which may be notified as a first time central heating system are as follows:

- Gas Boiler
- Oil Boiler
- Biomass Boiler
- LPG Boiler
- Air Source Heat Pump
- Ground Source Heat Pump
- Electric Boiler
- District Heating Connection - New Connection (All measures types).

2.45. Draft guidance for first time central heating can be found in Chapter 4 of the draft guidance document published alongside this consultation.

Questions

6. Do you agree with our interpretation of “at no point prior”?

If no, please state your reasons and any alternative proposals.

7. Do you agree with our proposal to evidence that a central heating system or electric storage heater was not present prior to installation of a central heating system or DHS using a declaration signed by a social landlord?

If no, please state your reasons and any alternative proposals.

8. Do you agree with the primary heating sources we have listed as eligible for evidencing first time central heating measures?

If no, please identify which primary heating sources you think should be included/excluded.

9. Do you agree with the heating measure types we have listed as eligible first time central heating measures?

If no, please identify which heating measure types you think should be included/excluded.

Flexible eligibility

What are we consulting on? Our proposed administrative requirements for households listed as eligible in local authority declarations.

Current situation

- 2.46. Under HHCRO suppliers must deliver measures to private domestic premises occupied by a member of the Affordable Warmth Group (AWG). A person is a member of the AWG if they receive at least one of the benefits (and, where applicable, satisfies the qualifying components) set out in Schedule 1 to the ECO2 Order.

Proposed change

- 2.47. The proposal is to allow suppliers to promote HHCRO measures to households where they are listed in a declaration from a local authority (LA). These private tenure households can only be listed where they are determined by the local authority as being either in or at risk of fuel poverty, or on a low income and vulnerable to the effects of living in a cold home.¹¹ Social housing is excluded from the 'flexible eligibility' route.
- 2.48. Flexible eligibility will be limited to a proportion of a supplier's phase 3 HHCRO. BEIS is consulting on this figure, and has proposed either 10% or 20%.

Proposed administrative approach

- 2.49. Measures delivered to properties listed in a local authority declaration will need to be specified in the notification template. Each declaration letter will need to contain a unique reference number (URN) provided by the local authority which should also be included in the notification template. A
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standardised format for the URN will be adopted. Ofgem E-Serve and BEIS will provide guidance on this. The notification should also state whether the individual household is deemed to be in or at risk of fuel poverty, or low income and vulnerable to the effects of a cold home.

2.50. Guidance for local authorities under the flexible eligibility proposals will be provided by BEIS. Our recommendations for the administration of these proposals were included in our published response to BEIS' Help to Heat consultation.¹²

2.51. We may request copies of the LA declarations referenced in the notification template from suppliers to ensure that the addresses where the measures are installed are listed in the declaration, and that the declaration is dated prior to the date of installation.

2.52. Should we receive evidence that a local authority has intentionally been targeting households that do not meet the policy intent, we will provide this information to BEIS for further action as appropriate.

2.53. Draft guidance for local authority declarations can be found in Chapter 4 of the draft guidance document published alongside this consultation.

Questions

10. Do you agree with the proposed approach for administering local authority declarations for HHCRO eligibility?

If no, please state your reasons and any alternative proposals.

Regular score minimum requirement

What are we consulting on? *Our proposed approach to administering the regular score minimum requirement.*

Current situation

2.54. A supplier must achieve its total HHCRO by delivering heating qualifying actions. A heating qualifying action is the installation (or in the case of boilers, the repair or replacement) of a measure:

- at private domestic premises occupied by a member of the affordable warmth group

¹² Our response to BEIS' help to heat consultation can be found here: <https://www.ofgem.gov.uk/publications-and-updates/response-energy-company-obligation-eco-help-heat-consultation>

- which results in a reduction in the cost of heating those premises to 21 degrees Celsius in the main living areas and 18 degrees Celsius in all other areas, and
- meets certain other conditions set out in Article 16 of the ECO2 Order.

2.55. There are two different types of boiler installation under HHCRO (not including boiler repairs):

- Replacement of a "qualifying boiler"**¹³: the replacement of a boiler that we are satisfied is not functioning efficiently or has broken down and:
 - has a seasonal energy efficiency value of < 86%, or
 - has a seasonal energy efficiency value of ≥ 86% and cannot be economically repaired.¹⁴

2.56. The cost score for qualifying boiler replacements assumes that there is no working heating system and that the home is heated by portable electric heaters prior to the boiler replacement, reflecting the fact that the old boiler was not working.

- Replacement of a non-qualifying boiler**: any boiler installation that is not replacing a boiler that meets the 'qualifying boiler' definition.

2.57. The cost score for these boilers is based on the difference between the original heating system and the new heating system.

2.58. To date in ECO2, HHCRO has been dominated by the delivery of qualifying gas boiler replacements.

Proposed change

2.59. The BEIS consultation proposed that in the ECO transition year there will be a minimum requirement for measures other than qualifying gas boiler replacements.¹⁵

2.60. The draft legislation to amend the ECO2 Order introduces 'post June 2016 regular score measure', which is a heating qualifying action that:

- is installed on or after 1 July 2016, and

¹³ Article 2 of the ECO2 Order.

¹⁴ When assessing the efficiency of the boiler, the operative should use the annual efficiency from the PCDB. See: <http://www.ncm-pcdb.org.uk/sap/searchpod.jsp?id=17>. If the boiler is not included in the PCDB, then the assessor should use winter efficiency from table 4b of SAP 2012. See: http://www.bre.co.uk/filelibrary/SAP/2012/SAP-2012_9-92.pdf.

¹⁵ BEIS: Help to heat consultation, page 23.

- b) in the case of a replacement of a qualifying boiler fuelled by mains gas, is calculated in accordance with the following formula:

$$(C-B)*N$$

Where:

“C” is the cost of heating the premises (“P”) where the replaced boiler is situated and, where applicable the cost of heating water at P, where the calculation is based on the presence of a working heating system in P immediately before the replacement of the boiler took place.

“B” is the cost of heating P and, where applicable, heating water at P using, as applicable, the boiler that was repaired or the replacement for the boiler.

“N” is the lifetime, as given in the ECO2 measures table.¹⁶

- 2.61. Suppliers will be required to meet a minimum proportion of their HHCRO through the delivery of “regular score measures” (ie measures that are not qualifying gas boiler replacements): This will be known as the “*Regular Score Minimum Requirement*” (RSMR). The RSMR will be 77% of a supplier’s phase 3 HHCRO.
- 2.62. Although this requirement is introduced for the ECO transition year, under the current BEIS proposals, measures installed from 1 July 2016 will be eligible to count towards a supplier’s RSMR.
- 2.63. A supplier will still be able to install and count a boiler measure meeting the above definition of a qualifying boiler towards its RSMR, provided the cost score for that measure is based on the difference between the original heating system and the new heating system (as per the calculation above), rather than using an artificial baseline of electric heating.
- 2.64. To achieve its HHCRO a supplier must also achieve its RSMR. Failure to meet this requirement will result in that supplier not achieving its HHCRO.

EXAMPLE

- A supplier’s phase 3 HHCRO is calculated as £4million of lifetime cost savings.
- The supplier’s RSMR is therefore £3.08million of lifetime cost savings (77% of £4million).
- To meet this, the supplier must achieve total lifetime cost savings of £3.08million through the installation of regular score measures. These could be non-qualifying boiler replacements, boiler repairs, insulation measures etc.

¹⁶ ECO2 measures table: <https://www.ofgem.gov.uk/publications-and-updates/energy-company-obligation-eco2-measures-table>

- If the supplier's regular score measures do not achieve cost savings of at least £3.08million, the supplier will not have met its RSMR, and therefore it will also fail to meet its HHCRO.
- Measures installed from 1 July 2016 can count towards the minimum requirement. If from 1 July 2016 to 31 March 2017 the supplier delivered regular score measures with cost savings of £500,000, this will count towards its RSMR. The remainder RSMR to deliver from April 2017 to March 2018 is therefore £2.58million (£3.08million -£0.5million).
- The supplier may claim measures meeting the definition of a 'qualifying boiler' to the RSMR, provided that the measures are scored and notified as the appropriate non-qualifying boiler.

2.65. If a gas boiler (with controls) is installed in a one bedroom solid wall flat, replacing a broken gas boiler that meets the 'qualifying boiler' definition, the measure could be notified in two ways:¹⁷

1. as a 'qualifying boiler – mains gas'. This will not count towards the RSMR. The cost score is determined using the variant of electric room heaters, with an annual score of £687.39 and the associated lifetime score of:

$$\begin{aligned} &£687.39 \times \text{lifetime (12 years)} \times \text{qualifying boiler deflator (0.8)} = \\ &£6598.944 \end{aligned}$$

OR

2. as a 'non qualifying boiler installation'. This will count towards the RSMR. The cost score is determined using a non-qualifying boiler with an annual score of £51 and the associated lifetime score of:

$$£51 \times \text{lifetime (12 years)} = £612.$$

Proposed administrative approach

2.66. We will monitor supplier progress towards the RSMR and report on this monthly as part of our published compliance reports.

2.67. The measures listed in Table 4 below, as per the ECO2 Measures Table¹⁸, cannot be counted towards a supplier's RSMR.

¹⁷ These deemed scores are taken from the published deemed scores:

<https://www.ofgem.gov.uk/publications-and-updates/response-eco-deemed-scores-consultation>.

¹⁸ https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/eco2_measures_table_-_oct_2015- v2_3 - final.pdf.

Measure Type	Measure Name	Conditions
Qualifying boiler replacement – mains gas	QB_Replacement_Gas_Warranty	Will never count towards the RSMR
Qualifying boiler replacement	QB_Replacement_Warranty	
Qualifying boiler replacement – non-boiler	QB_Replacement_Non_Boiler	Will not count towards the RSMR where the boiler being replaced was fuelled by mains gas. In the notification template, this will be identified by:
Qualifying boiler replacement – electric storage heaters	QB_Replacement_ESH_Warranty	Pre_Main_Heating_Source_for_the_Property: Gas

Table 4 Measures that do not count towards a supplier’s RSMR

2.68. Currently in the notification template, there are options to select gas combined with another fuel type as the previous main heating source for the property. These options of combined fuels will be removed. Our response to the deemed scores consultation provides guidance on how to notify the previous main heating source for the property where this was a mixed fuel type, and when ‘gas’ should be selected.¹⁹

2.69. We intend that all other measures, as shown in Table 5 can be counted towards a supplier’s RSMR.

¹⁹ Ofgem E-Serve published deemed scores consultation response: <https://www.ofgem.gov.uk/publications-and-updates/response-eco-deemed-scores-consultation>

Measure type	Notes
Qualifying boiler replacement Qualifying boiler replacement – non-boiler Qualifying boiler replacement – electric storage heaters	Only where the boiler being replaced is not fuelled by mains gas
Qualifying boiler repair Non-qualifying boiler installation First time central heating Heating Controls District heating connections Electric storage heaters Warm Air Units Renewable heating Insulation	

Table 5 Measures that can count towards a supplier’s RSMR

2.70. Where a supplier wishes to count a boiler measure meeting the definition of a qualifying boiler replacement towards its RSMR, this must be notified as a ‘non-qualifying gas boiler installation’.

2.71. Draft guidance for the RSMR can be found in Chapter 4 of the draft guidance document published alongside this consultation.

Questions

11. Do you agree with the list of measures in Table 4 that we propose should not count towards the RSMR?

If no, please identify which measure(s) you think should be included/excluded.

3. Energy efficiency measures

Party Cavity Wall Insulation

What are we consulting on? Our proposed administrative processes for party cavity wall insulation (PCWI) measures.

Current situation

- 3.1. When calculating carbon savings for ECO measures, an In Use Factor is applied to account for its in-situ performance. Performance in-use is typically 10-35% lower than predicted by the Standard Assessment Procedure (SAP) methodology. Party cavity wall insulation (PCWI) is an eligible ECO measure and as detailed in our ECO2 Measure Table currently receives the same IUF as a cavity wall insulation (CWI) measure – 35%.
- 3.2. Despite being eligible as a primary measure in CERO, PCWI cannot currently support a secondary measure. Under the current ECO2 Order wall insulation must be applied to at least 50% of the exterior-facing walls to support a secondary measure. As a party wall is not an exterior facing wall, PCWI does not need meet this condition.

Proposed change

- 3.3. The draft legislation to amend the ECO2 Order proposes that from 1 April 2017 the IUF for PCWI will be reduced from 35% to 15%. This reflects research that was gathered from an independent review of this measure which demonstrated that this is a more accurate IUF.
- 3.4. In addition, PCWI will be recognised as its own measure type in the legislation and will be eligible to support a secondary measure. PCWI will not have to meet the requirement that 50% of the exterior-facing walls are insulated to support a secondary measure.

Proposed administrative approach

- 3.5. As stated above PCWI is already an eligible ECO2 measure and is included in our measures table. The measures table will be updated to reflect the new IUF. The relevant IUF for PCWI will be determined by the date of completed installation. If the date of completed installation of a PCWI measure is before 1 April 2017 then the 35% IUF should be applied. If the date of completed installation is 01 April 2017 or later, the 15% IUF should be applied. This change will not require any changes to the notification template.

- 3.6. Similarly the ability of PCWI to support a secondary measure will not result in any changes to the notification template.
- 3.7. As with all primary measures, a secondary measure can be installed six months before or after the primary measure (the installation condition); this will be the same for PCWI. For example if PCWI is installed in a premise on 1 April 2017, a secondary measure can be supported by this PCWI if it is installed between 1 October 2016 and 30 September 2017 and meets all other relevant ECO requirements.
- 3.8. As with all ECO measures, 100% of the measure must be installed unless there are reasonable grounds for not doing so. For PCWI installing 100% of a measure means insulating all party cavity walls of the dwelling, for example, two walls for 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 measure must meet all relevant requirements.
- 3.9. Draft guidance for party wall insulation can be found in Chapter 5 of the draft guidance document published alongside this consultation.

Questions

12. Do you agree with our proposal to distinguish between the different in-use factors for PCWI based on the date of installation?

If no, please state your reasons and any alternative proposals.

Evidencing pre-existing loft insulation

What are we consulting on? Our proposed evidence requirements where pre-existing loft insulation is not present or is less than or equal to 100mm deep.

Current situation

- 3.10. For virgin loft measures we currently require suppliers to collect evidence for audit demonstrating that the loft was accessed during the assessment of the premises. For CERO measures the evidence can be the recommendation report and for HHCRO measures this is a lodged EPC.
- 3.11. Further, a declaration must be signed by the occupant or landlord stating that no pre-existing loft insulation is present and that none has been recently removed. This declaration must be left in the loft for inspection during technical monitoring.
- 3.12. Loft measures are scored using the pre-existing insulation depth, which in the case of virgin loft measures is 0mm.

Proposed change

3.13. BEIS is proposing to:

- remove the requirement for CERO measures to be recommended, and
- introduce deemed scores.

3.14. These changes mean that there will be no mandatory assessment before the installation of the measure and, as such, evidence previously required to demonstrate that the loft was accessed and the depth of any pre-existing loft insulation will no longer be available in all cases.

3.15. Further, changes following the introduction of deemed scores means that there will only be two loft scores available:

- i. pre-existing insulation between 0 and 100mm, and
- ii. pre-existing insulation greater than 100mm.

Proposed administrative approach

3.16. We propose that the publicly available specification (PAS) pre-installation survey should be used to evidence pre-existing levels of loft insulation.

3.17. The requirements relating to the declaration will not be retained. The loft score for 0-100mm of pre-existing insulation would require the occupant to confirm the depth of pre-existing insulation, rather than the absence of any. We feel this would offer limited assurance as it may be difficult for the customer to confirm. Further, as a declaration can only be signed at the installation stage, the aspect of independence that was introduced when this was completed at the assessment stage is lost.

3.18. Instead we propose that 3% of technical monitoring inspections for loft measures would have to be conducted pre-installation. Further, post-installation monitoring will ask the technical monitoring agent to check for any evidence of pre-existing insulation and, if any is present, if it matches that recorded on the PAS pre-installation survey.

3.19. Draft guidance for evidencing pre-existing loft insulation can be found in Chapter 6 of the draft guidance document published alongside this consultation.

Questions

13. Do you agree that a PAS pre-installation survey can be used to record the depth of any pre-existing loft insulation?

If no, please state your reasons and any alternative proposals.

14. Do you agree that 3% of technical monitoring for loft insulation measures should take place pre-installation?

If no, please state your reasons and any alternative proposals.

15. Do you agree that the depth of any pre-existing loft insulation can be checked post-installation during a technical monitoring inspection?

If no, please state your reasons and any alternative proposals.

Evidencing non-gas fuelled premises

What are we consulting on? Our proposed evidence requirements to demonstrate that the premises are non-gas fuelled.

Current situation

- 3.20. HHCRO measures installed at non-gas fuelled premises that remain non-gas fuelled may be subject to an increase in their cost score, depending on the measure type. As a result, suppliers must evidence at audit the fuel type of the premises main heating system.
- 3.21. For insulation measures, suppliers can use the pre- or post-installation SAP or RdSAP assessment. This would typically be in the form of a lodged EPC.
- 3.22. For qualifying boiler repairs and replacements, suppliers can use the above method, or they can use the boiler assessment checklist, where the operative has recorded the fuel type(s) before and after the measure has been completed.

Proposed change

- 3.23. BEIS is proposing to:
- remove the requirement for CERO measures to be recommended, and
 - introduce deemed scores.
- 3.24. These changes mean that there will be no mandatory assessment before the installation of the measure and, as such, methods previously used to demonstrate the fuel type of the premise's main heating system, specifically pre- or post-SAP or RdSAP assessments, will no longer be available to suppliers in all cases.

Proposed administrative approach

- 3.25. We propose that the publicly available specification (PAS) pre-installation survey can be used to evidence premise's main heating system fuel type. Although this is not a requirement of the pre-installation survey we feel that this serves as a suitable opportunity to record such information.
- 3.26. Suppliers will also be able to continue to use the boiler checklist as a method of demonstrating the fuel type for qualifying boiler repairs and replacements.
- 3.27. Draft Guidance for evidencing non-gas fuelled premises can be found in Chapter 4 of the draft guidance document published alongside this consultation.

Question

16. Do you agree that the PAS pre-installation survey can be used to evidence the main heating system fuel type for the premises?

If no, please state your reasons and any alternative proposals.

4. Delivery and administration

New build definition

What are we consulting on? *Our proposed interpretation of the definition of new build and our proposed requirements for evidencing occupation.*

Current situation

- 4.1. The ECO2 Order does not define or refer to new build premises. The ECO2 Guidance: Delivery (v1.1) outlines requirements for new build premises in the context of calculating measure savings. Paragraphs 2.15 and 7.39 of the guidance states that *"we will only award savings for the part of the measure that exceeds the requirements of building regulations or any other legal requirements"*. New build in this context relates to measures delivered to domestic premises during construction.

Proposed change

- 4.2. The draft legislation to amend the ECO2 Order defines a new building as *'a building erected on or after 1st April 2017'*.
- 4.3. Moreover, it provides that for a measure delivered to a new building from 1 April 2017, the measure must be installed at an occupied, or previously occupied domestic premises.
- 4.4. In practice, the proposals will prevent the delivery of measures to a new building while being constructed even if the installation of a measure exceeds the requirements of building regulations and any other legal requirements.

Proposed administrative approach

- 4.5. To administer this requirement, we propose that suppliers evidence that a new building is occupied following construction and before installation of the measure. We will interpret the definition of a new building to also include new build extensions, ie those completed after 1 April 2017.

Defining and evidencing occupation

- 4.6. To avoid the requirement to evidence that premises receiving ECO measures are not new buildings (information that is not currently captured), we are instead proposing that suppliers evidence occupancy for all ECO measures. We anticipate that in the majority of cases suitable evidence will already be available – for example Home Heating Cost Reduction Obligation (HHCRO) measures.

- 4.7. The following documents may be used to meet the occupancy requirement:
- a) evidence of occupancy by a help to heat group member (eg a benefit letter or DWP verification match against the property)
 - b) a utility bill or phone bill
 - c) a Council Tax letter or letter from the council
 - d) a mortgage statement or bank statement
 - e) tenancy agreement, or
 - f) an extract from the electoral register.
- 4.8. Where these documents cannot be obtained, the supplier may provide one of the following documents:
- a) a declaration of completed installation signed by the occupant, or
 - b) other official documentation as agreed with Ofgem E-Serve.
- 4.9. Should a declaration of completed installation be used as evidence of occupation, it must be signed by the occupant. We will work with the ECO Reporting Working Group to update the document to capture that it has been signed by the occupant and not the landlord.
- 4.10. In the case of measures delivered exclusively to new build extensions it is not possible to evidence occupancy. We instead propose to require that suppliers are able to provide evidence that demonstrates the construction of the extension is complete, such as building control sign off, before the completion date of the measure. A measure may not be delivered to a new build extension during construction.
- 4.11. For unoccupied premises, evidence of previous occupation as domestic premises will need to be provided at audit. Suitable evidence may include a tenancy agreement, for example.
- 4.12. Where there is no available evidence of previous occupation, the measure may not be notified unless evidence can be collected to demonstrate that the premises are not a new building (ie completed before 1 April 2017). This can be evidenced by:
- i. completion date specified in the completion certificate issued by the relevant local authority; or
 - ii. in England and Wales, a Land Registry search, where a title has been registered before 1 April, 2017; or
 - iii. in Scotland, a Land Register search, where a title has been registered before 1 April, 2017.
- 4.13. Any documentation evidencing occupancy or completion must be dated before the completion date of the measure stated on the declaration of completed installation. These documents should be made available at audit.

4.14. Draft guidance for the definition of new build can be found in Chapter 7 of the draft guidance document published alongside this consultation.

Questions

17. Do you agree with our proposal to evidence occupancy for all ECO measures as an alternative to demonstrating that premises receiving ECO measures are not new build?

If no, please state your reasons and any alternative proposals.

18. Where premises are unoccupied, do you agree with our proposal to evidence previous occupancy?

If no, please state your reasons and any alternative proposals.

19. Where a measure is delivered exclusively to a new build extension, do you agree with our proposal to evidence that the extension was completed before installation using building control sign off?

If no, please state your reasons and any alternative proposals.

20. Where there is no evidence of occupancy prior to installation, do you agree with our proposals for evidencing that premises were erected before 1 April 2017?

If no, please state your reasons and any alternative proposals.

Removal of recommendation requirements

What are we consulting on? This section is for information only as we are not required to exercise any discretion for these changes.

Current situation

4.15. At present, measures installed under the Carbon Emissions Reduction Obligation (CERO) and the Carbon Saving Communities Obligation (CSCO) must be recommended in either a Green Deal Advice Report (GDAR) or a Chartered Surveyors Report (CSR) prior to the installation of a measure.

4.16. The means of recommending the measure is recorded in the notification template. Where it is recommended in a GDAR, the GDAR unique reference number (URN) is also notified to us and recorded in the notification template.

4.17. Our current guidance on recommending measures is outlined in paragraphs 2.17 – 2.26 of the ECO2 Guidance: Delivery (V1.1).

Proposed change

- 4.18. BEIS has proposed that CERO measures installed after 31 March 2017 will no longer need to be recommended in a GDAR or CSR.
- 4.19. The proposed administrative approach outlined below assumes that no alternatives are introduced. In its ECO: Help to Heat consultation, BEIS invited suggestions of alternatives that could be provided instead of a measure being recommended. If, following the responses received, BEIS introduce alternatives our guidance will be updated to reflect this, and if required, we will consult on our proposed administrative approach.

Proposed administrative approach

- 4.20. We will no longer require CERO measures to be recommended in a GDAR or CSR. HHCRO measures are not affected and if the CSCO target is not extended, CSCO will also be unaffected.
- 4.21. The following fields in the notification template will no longer need to be completed for CERO measures installed after 31 March 2017:
- Recommended_Measure
 - Green_Deal_Advice_Report_URN
- 4.22. We have not included any draft guidance for this proposed change as we currently do not foresee any text being added to the guidance. At present, the following will be removed:
- The 'Recommended measures' section from paragraphs 2.17 – 2.26 of the ECO2 Guidance: Delivery (V1.1)
 - The references to recommended measures in ECO2 Guidance: Delivery (V1.1) Appendix 1 Table 3, point 7.

Automatic extensions for 5% of measures

What are we consulting on? Our proposed administrative processes for measures that can be notified late without an extension request.

Current situation

- 4.23. Measures must be notified to us by the end of the month following the month of installation ('the notification deadline'). Where measures are not submitted by the notification deadline, suppliers must submit an extension request detailing why the measures are late. These requests cannot be

approved where the delay to notification was due to administrative oversight on the part of the supplier.

Proposed change

- 4.24. For measures completed on or after 1 April 2017, there will be an automatic three month extension to the notification deadline for up to 5% of the number of measures notified on time each month (the automatic 5%).
- 4.25. Below is the formula for calculating the number of measures eligible for an automatic 5% extension taken from the draft amendments to the ECO2 Order. The formula is based on measures installed in the same calendar month and is calculated per licence.

$$\frac{A - B}{C}$$

Where:

A is the total number of late measures notified

B is the number of measures included in an approved extension request that were notified after the original deadline but within the extended notification period

C is the number of measures which were notified by the supplier on time.

- 4.26. As per the above formula, to determine the number of late measures eligible for an automatic extension for a particular calendar month, the number of late measures without an approved extension request must be divided by the number of measures notified on time (early notifications are included as 'on time' for our purposes here). Where this results in a figure less than 5%, the measures can be processed as normal.
- 4.27. Following the three month automatic extension for a given notification period, the determination of a supplier's automatic 5% allowance will be final and unchanged, with the measures used for this calculation fixed. As a result, we will not make a further determination to allow additional measures within the 5% should any measures later be rejected, for example.
- 4.28. Suppliers will be able to apply for an extension for measures which exceed the automatic 5% allowance. Extension requests will be approved at our discretion (see Chapter 8 of the draft guidance document published alongside this consultation).
- 4.29. Where a supplier notifies a late measure that is included in an approved extension request, the measure would not be included in the automatic 5% allowance for that particular month.

- 4.30. An example of how this calculation would work in practice can be found in Chapter 8 of the draft guidance document published alongside this consultation.
- 4.31. Under current proposals, the automatic 5% will be calculated on a licence level, not as a proportion of a group company's total notifications. However BEIS may seek to apply this rule at group level in the final legislation. The administrative approach laid out below can apply to either scenario.
- 4.32. BEIS is also proposing to remove administrative oversight on the part of the supplier as grounds for Ofgem E-Serve to refuse an extension.

Proposed administrative approach

The automatic 5%

- 4.33. We propose that the first 5% of late measures notified to us for a particular calendar month without an extension request are given an automatic extension to the notification deadline of three months. Where a supplier notifies measures after the 5% threshold has already been exceeded the measures over the 5% threshold will be put on hold and the supplier must submit an accompanying extension request.
- 4.34. A supplier may exceed the automatic 5% quota within a single month's notifications (ie where there is no clear distinction between which measures fall before or after the 5% threshold). In this scenario we will put all of these late measures on hold and notify the supplier. The supplier can then determine which measures should be included in the automatic 5% and which will require an extension request.
- 4.35. Where a supplier does not tell us which measures to include in the automatic 5% within 10 days of us notifying them that the 5% has been exceeded, we will process measures up to the 5% allowance based on the submission date. Where that date is identical, we will use the installation date. If the installation date is the identical, we will select measures in numerical order based on their measure reference number.
- 4.36. We expect suppliers to have an understanding of the number of late measures they have for each calendar month. Where the supplier anticipates the number of late measures for a given month will be high, they should be proactive and submit extension requests for measures where they have a reasonable excuse for the delay to notification.
- 4.37. We also strongly encourage suppliers to submit extension requests before the notification deadline, and only notify the measures included in the extension request once it has been approved, as is current practice. This gives both parties more confidence that the measures included in the 5% are not included in pending extension requests.

4.38. The 'purpose of notification' column should also be utilised by the supplier to indicate how the measure should be processed by Ofgem. Where a measure is notified as an 'Extended notification' we will assume that these measures are to be included in an extension request. As a result, these measures will not take priority in determining which measures should fall within the automatic 5%. Those measures notified simply as 'late notifications' will be assumed to be those preferred to form part of the automatic 5%.

Removing 'administrative oversight on the part of the supplier'

4.39. Requests for an extension to a measure's notification deadline where the delay is due to administrative oversight on the part of the supplier will no longer be automatically refused. However, where these issues are raised by the supplier more than once as a reason for the delay, this may not satisfy our requirements for granting an extension. Suppliers are expected to make the necessary updates to their processes to ensure issues are not repeated.

4.40. Draft guidance for automatic extensions can be found in Chapter 8 of the draft guidance document published alongside this consultation.

Questions

21. Do you agree that the first 5% of late measures notified to us for a particular calendar month, without an extension request, should be processed automatically?

If no, please state your reasons and any alternative proposals.

22. Where the automatic 5% allowance is exceeded within a single month's notifications, do you agree that a supplier should be given an opportunity to determine which measures it wants to include in the automatic 5% and which it will submit an extension request for?

If no, please state your reasons and any alternative proposals.

23. Where a supplier does not indicate to us which measures it wants to include in the automatic 5% within 10 days, do you agree that we should select which measures will be automatically processed?

If no, please state your reasons and any alternative proposals.

Trading obligations

What are we consulting on? Our proposed requirements and administrative process for suppliers to trade obligations.

Current situation

4.41. We set supplier obligations, at licence level, at the start of each phase of ECO. Some suppliers have multiple obligated licences and must discharge the obligations placed on each one.²⁰ This can result in added complexity, cost and risk for suppliers if they do not meet scheme requirements, such as caps and minimum thresholds, across each of their obligated licences.

4.42. Suppliers cannot trade their obligations under the current scheme. Suppliers are however able to transfer completed measures after they have been notified to Ofgem E-Serve and subsequently approved. To date this transfer mechanism has been used in two ways:

The transfer of measures between a supplier's licences

4.43. A supplier can use transfers to move measures across its licences to meet the individual obligations. For example if it did not notify sufficient HHCRO measures on to a specific licence it can transfer measures from another of its licences where it has excess HHCRO. During our final determination for ECO1, suppliers carried out multiple transfers to balance delivery correctly across their licences. In some instances measures were rejected where delivery had not been correctly balanced across licences although the overall obligation was met, for example not meeting the CSCO adjoining area limit on each licence.

Transfer of measures between suppliers

4.44. The existing transfer mechanism can also be used to transfer measures from one supplier to another. As an example, one supplier (Supplier X) has a contractual arrangement with another (Supplier Y) whereby Supplier Y delivers measures under the scheme, notifies them to Ofgem E-Serve and once approved, transfers the measures to Supplier X. This approach carries risk as Supplier X is responsible for ensuring compliance even though it did not install the measure.

Proposed change

4.45. Article 11A of the draft legislation to amend the ECO2 order proposes that suppliers can trade their ECO obligations.²¹ Trading could take two forms:

- Trading within a supplier or supplier group (intra-supplier trading) - This would allow a supplier to consolidate its obligations onto a single licence, instead of being obligated on multiple licences, reducing administrative complexity.

²⁰ Where we refer to suppliers we may, depending on the context, also be referring to supplier groups ie groups of related companies which hold more than one licence.

²¹ Draft Article 11A 'transfer of obligations'

- Trading between one supplier and another (inter-supplier trading) - This would allow a supplier to trade its obligations to another obligated supplier that would take on legal responsibility for delivery of that obligation (including in the case of non-compliance, potential enforcement fines).

4.46. Trading can only take place between obligated suppliers. The draft legislation states that we must approve applications to trade obligations if we are satisfied that such a trade will not be likely to adversely affect our ability to enforce the requirements placed on the supplier taking on the traded obligation.

4.47. Trading is intended to enable obligated suppliers to make upfront commercial and administrative decisions at the beginning of the scheme about how they will manage and deliver their obligations. It is not intended as a means of achieving compliance towards the end of the obligation period – the existing mechanism for transferring measures can be used for that purpose. The draft legislation therefore provides that applications for trading will be restricted to a six-month window at the beginning of the transition year, from 1 April to 30 September 2017.

4.48. A supplier can trade all or part of its ECO2 obligations (phases 1 to 3 inclusive) in relation to CERO, HHCR0, the provisional solid wall minimum requirement (PSWMR) or the regular score minimum requirement (RSMR), subject to certain requirements outlined in the draft legislation. A supplier cannot trade its CSC0.

Proposed administrative approach

4.49. Below we outline the guidelines that we will apply when assessing trading applications, and the information we will require to enable us to decide whether or not to approve a proposed trade. We will consider these guidelines as general rules when exercising our discretion in assessing applications, but in making a decision we will always consider each case on its individual merits.

4.50. Trading within a supplier or supplier group (intra-supplier trading) and between one supplier and another (inter-supplier trading) are considered separately. In this document, Supplier A is trading away its obligation and Supplier B is taking on the additional obligation.

Intra-supplier trading

4.51. A supplier or supplier group will only be permitted to trade an obligation to a licence with a larger obligation. The size of the obligation on a licence will always be considered to be the obligation allocated to that licence as a result of the phase 3 obligation setting process (the 'original' obligation), and will not reflect any subsequent trading of obligations.

4.52. If a supplier or supplier group is consolidating all of its obligations onto one licence, this must be its licence with the largest original obligation.

Inter-supplier trading

4.53. For all trades, we will require the following from Suppliers A and B. We may request additional information to support trading applications but this will be assessed case by case.

1. When Supplier B takes on an obligation, this must be traded to its licence with the largest original obligation.
2. When applying to take on a trade Supplier B must provide us with the annual turnover of the licence-holder that is taking on the obligation, to allow us to assess our ability to enforce the requirements placed on Supplier B.

4.54. Where Supplier B applies to take on an amount greater than its original phase 3 ECO2 obligation it must provide additional evidence to support the application to demonstrate that it is able to deliver the additional measures. For example if a supplier's CERO was 0.8MtCO₂ in each phase 1 and 2, and 0.7MtCO₂ in phase 3 (total original CERO 2.3MtCO₂), we would require additional information to support a trading application that increased the supplier's CERO to over 3MtCO₂ (total original CERO for phases 1, 2 and 3 + a further obligation equivalent to the phase 3 CERO).

4.55. The additional information may include:

- a) evidence of progress towards its current obligation
- b) details of a track record of delivering obligations
- c) evidence of completed and contracted activity, and
- d) a delivery plan for the additional measures.

4.56. Following a transfer, Supplier A's obligation will be treated as reduced by the transfer amount, and Supplier B's obligation will be treated as increased by the transfer amount.²²

4.57. We propose to process trading applications as we receive them. Should we require any additional information in support of a trade we will go back to the suppliers concerned within 25 days of receiving the application.

4.58. If an application to trade does not meet our requirements then we will reject the application and notify the relevant suppliers of this decision in writing, explaining the reasons.

²² Draft Article 11A (5) (a).

- 4.59. Applications will be processed in the order in which they are received.
- 4.60. Where an application is received before the end of the 6-month trading window this will continue to be reviewed in line with the timescales described above until a decision is reached whether to approve or reject the application.
- 4.61. Draft guidance for trading obligations can be found in Chapter 9 of the draft guidance document published alongside this consultation.

Questions

24. Do you agree with our proposal that where a supplier trades between its own licences, it must trade to the licence with the biggest original obligation?

If no, please state your reasons and any alternative proposals.

25. Do you agree with our proposals for trading between different suppliers, that:
- a) trades must be to the receiving supplier group's licence with the biggest original obligation
 - b) an application must include the annual turnover of the licence-holder that would be taking on additional obligations, and
 - c) where a supplier is taking on an amount greater than its original phase 3 ECO2 obligation, do you agree with our proposed evidence requirements to demonstrate that the supplier can deliver the additional obligation?

If no, please state your reasons and any alternative proposals.

26. Do you agree with our proposed timescales for processing trading applications?

If no, please state your reasons and any alternative proposals.

PAS

What are we consulting on? Our proposed administrative processes for measures being installed by Publicly Available Specification (PAS) 2030 certified installers.

Current situation

- 4.62. Suppliers must ensure that measures are installed in line with the relevant standards. If a measure is referred to in the Publicly Available Specification

(PAS), the ECO2 Order states that the installation of the measure must be installed in accordance with PAS. To demonstrate compliance with PAS we require that measures are installed by a PAS-certified installer. Suppliers can however contact us to discuss alternative methods of demonstrating compliance with PAS.

Proposed change

- 4.63. The draft legislation to amend the ECO2 Order proposes that from 1 April 2017 measures that are referred to in PAS must be installed by a PAS-**certified** installer. This means that we could no longer accept alternative methods of demonstrating compliance with PAS.
- 4.64. In addition to this proposed change, revisions to PAS are currently underway. As the implementation date for the revised PAS is currently unknown, the draft legislation allows for both the current and revised version to be used for a period of time although this timeframe is yet to be determined.

Proposed administrative approach

Evidencing an installer is PAS-certified

- 4.65. In order to evidence that a measure has been installed by a PAS-certified installer we will require the PAS certification number to be reported to us, as part of a measure notification, in the notification template. This should reflect the number reported on the Declaration of Conformity and Completed Installation.

New version of PAS

- 4.66. We will use the date of completed installation to determine which version of PAS an installer should be certified to.
- 4.67. We will state how the transition will be managed once the implementation date for the new version of PAS is set in amendments to the ECO2 Order.
- 4.68. Draft guidance for PAS can be found in Chapter 10 of the draft guidance document published alongside this consultation.

Questions

27. Do you agree with us collecting an installer's PAS certification number as part of notification?

If no, please state your reasons and any alternative proposals.

Appendix 1 Consultation questions

Please provide feedback on the questions that have been asked throughout this consultation document; you will also find these listed below. We have provided a template for responses to help us collate and analyse the feedback we receive. Where use of the template is not possible, other formats will still be accepted.

Unless marked confidential, we will publish all responses on our website www.ofgem.gov.uk.

If you want your response to remain confidential, clearly mark the document to that effect and include the reasons for confidentiality. The document will remain confidential unless we are required to disclose this information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Next steps: After we've considered the responses to this consultation, we will publish a response on our website. If you have any questions please direct them to eco.consultation@ofgem.gov.uk.

Consultation questions

Scheme extension

1. Do you agree with our proposed administrative approach and guidance relating to our final determination of CSCO?

If no, please provide reasons and any alternative suggestions.

Help to heat group

2. Do you agree with our proposed approach to evidencing help to heat eligibility?

If no, please provide reasons and any alternative suggestions.

Social housing with an EPC energy efficiency rating of E, F or G

3. Do you agree with our proposal to use a declaration signed by a social landlord to evidence that the EPC energy efficiency rating reflects the current characteristics of the property

If no, please state your reasons and any alternative proposals.

4. Do you agree with our proposal to evidence that premises have been let below market rate using a declaration signed by a social landlord?

If no, please state your reasons and any alternative proposals.

5. Do you agree that where multiple measures are installed in a single property, a further declaration should be signed by the social landlord after each installation to confirm the energy efficiency rating remains below Band D?

If no, please state your reasons and any alternative proposals.

First time central heating

6. Do you agree with our interpretation of "at no point prior"?

If no, please state your reasons and any alternative proposals.

7. Do you agree with our proposal to evidence that a central heating system or electric storage heater was not present prior to installation of a central heating system or DHS using a declaration signed by a social landlord?

If no, please state your reasons and any alternative proposals.

8. Do you agree with the primary heating sources we have listed as eligible for evidencing first time central heating measures?

If no, please identify which primary heating sources you think should be included/excluded.

9. Do you agree with the heating measure types we have listed as eligible first time central heating measures?

If no, please identify which heating measure types you think should be included/excluded.

Flexible eligibility

10. Do you agree with the proposed approach for administering local authority declarations for HHCRO eligibility?

If no, please state your reasons and any alternative proposals.

Regular score minimum requirement

11. Do you agree with the list of measures in Table 4 that we propose should not count towards the RSMR?

If no, please identify which measure you think should be included/excluded.

Party cavity wall insulation

12. Do you agree with our proposal to distinguish between the different in-use factors for PCWI based on the date of installation?

If no, please state your reasons and any alternative proposals.

Evidencing pre-existing loft insulation

13. Do you agree that a PAS pre-installation survey can be used to record the depth of any pre-existing loft insulation?

If no, please state your reasons and any alternative proposals.

14. Do you agree that 3% of technical monitoring for loft insulation measures should take place pre-installation?

If no, please state your reasons and any alternative proposals.

15. Do you agree that the depth of any pre-existing loft insulation can be checked post-installation during a technical monitoring inspection?

If no, please state your reasons and any alternative proposals.

Evidencing non-gas fuelled premises

16. Do you agree that the PAS pre-installation survey can be used to evidence the main heating system fuel type for the premises?

If no, please state your reasons and any alternative proposals.

New build definition

17. Do you agree with our proposal to evidence occupancy for all ECO measures as an alternative to demonstrating that premises receiving ECO measures are not new build?

If no, please state your reasons and any alternative proposals.

18. Where premises are unoccupied, do you agree with our proposal to evidence previous occupancy?

If no, please state your reasons and any alternative proposals.

19. Where a measure is delivered exclusively to a new build extension, do you agree with our proposal to evidence that the extension was completed before installation using building control sign off?

If no, please state your reasons and any alternative proposals.

20. Where there is no evidence of occupancy prior to installation, do you agree with our proposals for evidencing that premises were erected before 1 April 2017?

If no, please state your reasons and any alternative proposals.

Automatic extensions for 5% of measures

21. Do you agree that the first 5% of late measures notified to us for a particular calendar month, without an extension request, should be processed automatically?

If no, please state your reasons and any alternative proposals.

22. Where the automatic 5% allowance is exceeded within a single month's notifications, do you agree that a supplier should be given an opportunity to determine which measures it wants to include in the automatic 5% and which it will submit an extension request for?

If no, please state your reasons and any alternative proposals.

23. Where a supplier does not indicate to us which measures it wants to include in the automatic 5% within 10 days, do you agree that we should select which measures will be automatically processed?

If no, please state your reasons and any alternative proposals.

Trading obligations

24. Do you agree with our proposal that where a supplier trades between its own licences, it must trade to the licence with the biggest original obligation?

If no, please state your reasons and any alternative proposals.

25. Do you agree with our proposals for trading between different suppliers, that:

- a. trades must be to the receiving supplier's licence with the biggest original obligation
- b. an application must include the annual turnover of the licence that would be taking on additional obligations, and
- c. where a supplier is taking on an amount greater than its original phase 3 ECO2 obligation, do you agree with our proposed evidence requirements to demonstrate that the supplier can deliver the additional obligation?

If no, please state your reasons and any alternative proposals.

26. Do you agree with our proposed timescales for processing trading applications?

If no, please state your reasons and any alternative proposals.

PAS

27. Do you agree with us collecting an installer's PAS certification number as part of notification?

If no, please state your reasons and any alternative proposals.