

ECO: Home and Local Energy Directorate
Department for Business, Energy & Industrial Strategy
Level 6, Orchard 1
1 Victoria Street
London
SW1H 0ET



Making a positive difference
for energy consumers

Email: eco@ofgem.gov.uk

Date: 26 April 2018

Dear Sir/Madam,

**Ofgem's response to [Energy Company Obligation: ECO3, 2018 to 2022](#)
– Consultation**

Ofgem is the GB energy regulator and a non-ministerial government department. Our principal aim is to protect the interests of current and future energy consumers and energy efficiency is central to this aim. We are the administrator of the current ECO scheme. Energy efficiency has many benefits including reducing carbon emissions, reducing the cost of moving to a low carbon energy system, reducing consumers' energy bills, and in particular helping to bring vulnerable consumers out of fuel poverty.

We welcome the opportunity to respond to the Department for Business Energy & Industrial Strategy (BEIS) consultation on ECO3. We have provided responses to all questions that relate to our administration of ECO and Ofgem's interests more widely.

Ofgem looks forward to continuing to work with BEIS to build on the success so far in moving to a cleaner, greener energy system. We see improved energy efficiency as a central pillar of this. Should you wish to get in touch with us please do so by emailing eco@ofgem.gov.uk.

Yours faithfully,

A handwritten signature in black ink, appearing to read "David Fletcher", with a long horizontal line extending to the right.

David Fletcher

Associate Director, Energy Efficiency and Social Programmes

ECO3 BEIS consultation questions with Ofgem responses

1.	<p data-bbox="342 254 1084 285">Do you agree with the current supplier obligation threshold?</p> <p data-bbox="342 296 1032 327">We agree with the current supplier obligation threshold.</p> <p data-bbox="342 369 1360 506">Any increase in the number of obligated suppliers is likely to impact on our administration of the scheme both in terms of additional work required in setting obligations and in monitoring delivery of a greater number of suppliers, resulting in increased costs in our administration of the scheme.</p> <p data-bbox="342 548 1308 726">In order to streamline the regulatory burden on suppliers and to calculate indicative obligations for the next phase of ECO we have already collected customer number and supply volume data in accordance with our standard procedures. Therefore, any change to the current supplier obligation threshold would require some recalculations.</p> <p data-bbox="342 768 1308 873">In the event that the thresholds were reduced we would need to audit those suppliers on and around these in order to ensure their numbers were accurate. The cost of this would be additional to the current audit budget.</p> <p data-bbox="342 915 1354 1125">We also understand that for a newly obligated supplier, delivering ECO may have a disproportionate effect on its business, for example it could encounter cash flow problems and may have proportionally high administration costs when compared with larger suppliers. We do however recognise that trading and the ability to transfer measures are options available to any obligated supplier which can support their delivery and potentially reduce this burden.</p>
2	<p data-bbox="342 1171 1344 1245">Do you agree that we should amend the taper mechanism to a supplier allowance approach?</p> <p data-bbox="342 1255 1325 1318">We agree that the taper mechanism should be amended to a supplier allowance approach.</p> <p data-bbox="342 1360 1354 1539">We believe this simplified approach would reduce the burden on smaller obligated suppliers by creating a more gradual increase in delivering their obligation as their market share increases. This should reduce administrative difficulties for smaller suppliers. However, we would welcome early clarity on any changes to the taper mechanism to allow sufficient time to prepare for this.</p>
3	<p data-bbox="342 1617 1247 1648">Do you agree with our proposed obligation phases for the future scheme?</p> <p data-bbox="342 1659 1195 1690">We agree with the proposed obligation phases for the future scheme.</p> <p data-bbox="342 1732 1357 1904">The proposed timelines would keep phases in line with the current obligation setting cycle which is when we have previously gathered customer number data and also aligns with the timing of supply data reconciliation runs. We would encourage early clarity on the start dates for the first phase of the scheme to allow us and the supply chain sufficient time to plan accordingly.</p>

4	Do you agree that an unlimited amount of Affordable Warmth delivery (from 1st April 2017) and up to 20% CERO delivery should be allowed to be carried over to the future scheme (with the exception of oil and coal heating systems)?
	<p>We believe that an element of 'carry over' is essential for supply chain continuity and supplier compliance as we transition from ECO2 to ECO3 and we strongly prefer this option to carry under.</p> <p>In the transition between ECO1 and ECO2 we encouraged suppliers to consider over delivery to ensure that they could minimise the risk of non-delivery should we need to reject measures (due to them being non-compliant). 'Carry over' provisions ensured that promoted savings were not lost.</p> <p>It is our understanding that carry over would apply only to ECO2 measures delivered up until 30 September 2018. As such we agree with this proposal, particularly the cap on CERO considering ECO3 will be a 100% HHCRO scheme, however we have a number of questions and concerns that we wish to raise.</p> <p>We would like clarification on whether the 20% of CERO delivery limit includes the amounts traded, as the draft Order currently details "ECO2 CERO target". So for example is it BEIS's intention that a supplier could trade away to another supplier and subsequently still carry over 20%? Based on the draft Order, it is our understanding that this would be for the whole of ECO2, and not ECO2t.</p> <p>Administratively, any amount of carry-over will create additional work for Ofgem. Notification volumes are generally lower in the run up to a scheme closedown. With the option of carry-over, it is likely that there will be no such reduction. Alongside processing increasing volumes Ofgem will also be managing the closedown of the existing scheme and making decisions on all remaining measures; this is likely to result in additional resource being required. We think that such increased volumes are particularly likely as the proposed deemed scores for ECO3 do not include the 30% uplift included for all ECO2t deemed scores. These sharp increases and subsequent decreases in processing volumes would likely be amplified further if there was a gap in the delivery of the schemes. If necessary, we will work with suppliers to prioritise the measures they would need to carry over and in particular how to handle any measures that might be in a non-approved state.</p> <p>We will require confirmation of the score conversion factors (from ECO2t to ECO3) for carry-over measures as early as possible, so that we can develop our measure validation processes and make any necessary system changes accordingly. Additionally, as BEIS are proposing wholesale changes to the approach for heating measures (i.e. removing the qualifying/non-qualifying concept), we will require confirmation on the approach for these types of measures. As the timing for developing the necessary processes and systems is already challenging, the earlier</p>

confirmation for all such details can be provided will help facilitate a more seamless transition in administrative arrangements.

We also need confirmation that only ECO2 and ECO2t surplus actions can be carried over and not previous surplus actions from ECO1.

5	Is carry-under necessary and do you agree with our planned approach?
	<p>We strongly believe that carry under should not be implemented.</p> <p>This is because it undermines the obligation that suppliers have been set and our engagement with suppliers to date has indicated that they are confident that they will meet these obligations. We see no evidence that any adjustments should be made to this given the resulting administrative cost</p> <p>It has the potential to result in a slowdown of delivery, which is contrary to the policy intent of the previously discussed carry over mechanisms. Additionally, there are likely to be significant administrative costs which would need to be met.</p> <p>Suppliers are still legally obliged to meet their ECO2 obligations, if implemented as proposed this may no longer be the case under certain circumstances. We cannot see how this would be achieved without the current ECO order being amended to accommodate this new policy intent. We believe that clarity over how this can be delivered before the deadlines set out in the current order is required. Additionally we would seek clarity on scenarios where a supplier is no longer obligated under ECO3 and under delivers under ECO2 or if it is the intent that a supplier could trade away their under delivery.</p> <p>If carry-under were to proceed then we agree with the proposed approach.</p> <p>We will need to carry out the final determination on ECO2t before we can begin to assess carry-under (based on these figures) and adjust obligations, so the new ECO Order will need to reflect this and give us sufficient time to carry out our duties.</p> <p>Carry-under in general will increase the amount of administration required by Ofgem, particularly with regard to applying the penalty rate.</p>
6	Do you agree with our planned approach to early delivery during a potential gap between schemes?
	<p>We have some concerns regarding the planned approach to early delivery.</p> <p>We believe that this significantly increases the risk to many aspects of Ofgem's administration of ECO. This is due to the current lack of either a legally binding ECO Order or policy certainty during a potential gap. There would be an associated risk</p>

to the delivery of the scheme in general, and the wider supply chain. Avoiding the need for early delivery is by far the best approach.

If a gap between the schemes does happen, then enabling the rules and scores for early delivery to both be based on ECO2 simplifies what could otherwise be an extremely complicated administrative process. For example, having any combination of ECO2 and ECO3 rules or scores doesn't reduce any risks in delivery whilst increasing the complexity. However even as is, this will still create a significant administrative burden, particularly with respect to the conversion of heating measures.

In the event of a gap between schemes, during the time when there is no ECO Order in place, the supply chain and suppliers will not know what measures they can notify or when, and there would be nothing for us to assess against. In theory, measures could be notified but we would be unable to carry out any formal checks and would then have a backlog to process once the order is in, which will have a resource impact.

7

Do you agree with the proposal to increase the Affordable Warmth obligation so that it represents 100% of the future scheme?

Fuel poverty is a significant challenge in Great Britain. As the energy regulator, we have an obligation to protect the interests of existing and future energy consumers, including through our Social Obligations Reporting, and in doing so having regard to the interests of vulnerable consumers. We are therefore broadly supportive of the principle to focus resources on vulnerable consumers who may benefit the most from measures under the scheme.

In line with this proposal we have only developed deemed scores for cost savings.

A scheme with a single obligation would in theory be easier to administer, due to only having one set of rules. However, we recognise that it may be more difficult for suppliers to meet their obligation without the current untargeted element of the scheme. If having one obligation does create more delivery challenges for suppliers, this could have an administrative impact for us in trying to support suppliers in reducing the risk of non-compliance and any subsequent action required as a result of non-compliance.

Impact on the EU Energy Efficiency Directive

Article 7 of Directive 2012/27/EU of the European Parliament and the Council on energy efficiency (the "Energy Efficiency Directive") requires the UK to achieve an energy savings target by the end of 2020, by means of an energy efficiency obligation scheme and/or other policy measures. The energy efficiency obligation scheme for the UK is the Energy Company Obligation. The impact of the move to a fuel poverty focused scheme means that there will need to be a separate calculation of the carbon savings attributed to the measures installed under ECO3

so that ECO can continue to be the UK's energy obligation scheme. We would look to BEIS to calculate this going forward as we will not need to produce lifetime carbon savings for the purposes of our administration of ECO3.

8	Do you agree with our proposal to include a rural sub-obligation representing 15% of the total obligation?
	<p>We agree with this proposal.</p> <p>Implementation of this proposal would not significantly alter our administration of the scheme.</p> <p>Our most recent ECO public report on supplier progress, published on 1 March 2018, reveals that suppliers have achieved over 50% of CERO rural and are progressing well towards meeting their obligation by 30th September 2018.</p> <p>Based on delivery trends in ECO2, we have no reason to believe that suppliers will not meet their rural sub-obligations, as delivery patterns tend to fluctuate across the scheme. However, it is difficult to comment on the future scheme as suppliers will need to ensure that the measures are eligible under both Affordable Warmth (AW) and the rural sub-obligation, which may impact supplier administration costs. Further, the rural obligation will make up a bigger proportion of the ECO scheme as a whole than it does currently.</p> <p>To minimise the costs and potential challenges associated with identifying eligible households, we will update our ECO tool, which is publically available, to help suppliers identify eligible HHCRO rural areas.</p>
9	Do you agree with the proposal to include the disability benefits noted in Table 2 above within the eligibility criteria for private tenure households under ECO3?
	<p>We agree with this proposal. It will have minimal impact on our administration of the scheme and we support such a process that would enable eligible customers to be more easily identified.</p> <p>All of the propositions detailed under '<i>Household eligibility criteria for new scheme</i>' could help to further align the ECO and Warm Home Discount eligibility requirements with each other. This should 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.</p> <p>To minimise the costs and potential challenges associated with identifying eligible households under the proposed new criteria, we suggest the revised benefits and income thresholds should be incorporated into the Department for Work and Pensions data matching service. Furthermore, where suppliers or the supply chain</p>

are not signed up to the data matching service, the household income should be easy to prove via alternative routes, such as benefit letters, although this would need to comply with the requirements of the General Data Protection Regulation (GDPR). We will work with stakeholders to establish any requirements for evidencing eligibility outside of the DWP data matching service.

10	Do you agree that Child Benefit subject to an equivalised income threshold should be included within the ECO3 eligibility criteria for private tenure households?
	See response to Q9. We agree with this proposal. It will have minimal impact on our administration of the scheme assuming this can be easily validated and verified.
11	Do you agree with the proposal to remove the income thresholds under the future ECO scheme for households in receipt of Universal Credit and Tax Credits?
	See response to Q9. We agree with this proposal, particularly as it aligns with Ofgem's wider remit of protecting vulnerable consumers. As long as this can be easily validated and verified, it remains easy to administer.
12	Do you agree with the proposal that self-declaration is used for proving eligibility under the income threshold requirement attached to Child Benefit and for the benefits administered by Veterans UK?
	<p>We have some concerns over this proposal as it will affect our administration of the scheme.</p> <p>From an administrative perspective, we require further clarification on this proposal. In particular, we would ask BEIS to provide a detailed explanation of the requirements for self-declaration. To be satisfied that this criterion is met, we will likely require additional information/evidence from suppliers and the supply chain to ensure eligibility can be verified.</p>
13	Do you agree with the proposal to retain eligibility for social tenure housing only for those properties with an EPC Band rating of E, F or G?
	<p>See response to Q9. We agree with this proposal. As long as this can be easily validated and verified, it remains easy to administer.</p> <p>We support retaining eligibility for those residing in social tenure as it gives additional flexibility to suppliers to identify Affordable Warmth (AW) recipients and extends the pool of eligible customers.</p>

14	Please provide evidence on how the mapping tool described above could reduce the search costs of identifying eligible households, quantifying the cost reduction where possible.
	We are unable to provide any evidence on this.
15	Do you agree that, subject to supportive evidence being available, up to 25% of ECO can be delivered through flexible eligibility?
	<p>We agree that up to 25% of ECO can be delivered through flexible eligibility provided sufficient evidence is available.</p> <p>With a view to the consumer vulnerability strategy, we welcome proposals to expand how much of ECO3 can be delivered through flexible eligibility.</p> <p>The impact on our administration of the scheme is limited as we have no remit over local authorities and the criteria/data analysis they use in selecting eligible households. If the volumes of flexible eligibility increase significantly then we may increase focus on declarations made by local authorities in our audit programme.</p>
16	Do you agree with our proposal to exclude the installation or repair of oil and coal fuelled heating systems?
	<p>We agree with this proposal.</p> <p>We would encourage the use of minimum conditions for preferred measures or measure types, alongside the exclusion of certain technologies. This would provide certainty to the supply chain and help to avoid unintended consequences such as the installation of other similar technologies. A previous example of this was the significant increase in the installation of oil boilers in ECO2t following the cap on mains gas replacement boilers. In line with this, we would request confirmation as to whether boilers burning other fuels, such as peat or LPG, would also be excluded from the future scheme.</p> <p>In line with this proposal we have not developed deemed scores for the installation of oil or coal boilers.</p>
17	Do you agree with the broadening of the criteria for the installation of FTCH?
	<p>We agree and welcome proposals that align with our consumer vulnerability strategy, including this proposal to broaden the criteria for the installation of FTCH.</p> <p>There have been approximately 500 central heating systems installed into properties with no pre-existing central heating system or electric storage heaters during ECO2t. There have been approximately 350 further central heating systems installed into properties with electric storage heaters. So if properties with electric</p>

storage heaters had been counted as FTCH during ECO2t there would have been an increase of approximately 70%.

Where a heating measure is installed into a property with electric storage heaters we do not currently check the responsiveness of the storage heaters being replaced. We are developing our approach to evidencing the storage heaters being replaced, with an aim to achieve consistency with our current electric storage heater checklist.

18 Do you agree with our proposed approach to limit the replacement of all broken heating systems to the equivalent of 35,000 per year, (excluding the installation of FTCH, renewable and district heating systems, inefficient heating upgrades delivered alongside insulation and heating controls) and our proposals for limiting certain heating repairs?

We do not have a view on the proposed limit.

However, as outlined in our response to question 16, we encourage the use of minimum conditions to ensure that particular measures are delivered. Further, the use of minima is more likely to reduce the risk of unintended consequences. A previous example of this was the significant increase in installation of oil boilers that followed the introduction of a cap on gas boilers.

19 Do you agree with our proposal to allow certain heating system upgrades where they are delivered alongside certain insulation measures?

We do not have a view on this policy proposal. If implemented, we would aim to administer this policy in line with how we currently administer primary and secondary insulation measures under CERO.

We would like to understand whether the policy intent is that this policy will be isolated to ECO3, or whether insulation measures installed under ECO2/ECO2t could support heating measures installed under ECO3.

20 Do you agree with our proposal to include a requirement to treat a minimum number of solid walled homes? What technologies or combinations of technologies could cost-effectively deliver the same bill saving outcomes as SWI?

This proposal would add further complexity to our administration of the scheme.

If adopted, this proposal would change the way in which we are notified about and in turn report on measures. We would need to collect entirely new data on and develop our administration processes to reflect additional 'combination of technology' savings. Any such changes would require a lead in time to ensure that they are introduced as seamlessly as possible. Given the current timelines for

finalising the policy for ECO3 are already challenging, we would request clarity on this area as soon as possible to reduce risks around its introduction.

We have completed some analysis and note that there are some scenarios where combinations of technologies could deliver the same bill savings as SWI, and these are often dependent on there being a heating measure included.

The following examples are based on a three-bedroom semi-detached property.

1. For properties where a heating measure is possible;
 - a) depending on the pre-main heating source, heating measures can sometimes deliver the same saving outcomes as SWI.
 - b) In other cases, a heating measure combined with one or more low cost measures (eg loft insulation, draught proofing or high performance external doors) is almost always sufficient.

2. For properties where a heating measure is not possible;
 - a) Where it is possible to install room in roof or flat roof insulation, the savings for these are similar to those for SWI.
 - b) The savings for loft insulation in combination with underfloor insulation and/or window measures would be enough in almost all cases to match the savings for SWI.

Given the number of possible scenarios and inputs we are unable to include an exhaustive list of these. However, our initial analysis indicates that they are similar across at least some of the other property types.

We note that the use of such scenarios may not be in keeping with the policy intent of incentivising heating measures where insulation has been upgraded.

21	Alternatively, do you believe that an SWI-only minimum should be continued?
	As detailed in our response to question 20, it is difficult to provide exhaustive evidence to support that approach, except to note the increased complexity in administration if the ECO2 SWI-only minimum is not continued. We note that the SWI-only minimum may be more in keeping with the policy intent expressed elsewhere.
22	Do you agree that the minimum is set at the right level (17,000 homes treated per annum)?
	We do not have a view on the proposed level. From an administrative point of view, the level does not impact us provided that it does not excessively impact the supplier's ability to deliver measures and remain compliant with their obligation. We note that annual progress has been at a similar level so far although up to now, the vast majority have been delivered under the

	<p>CERO rather than the AW part of the obligation. So it is difficult to predict whether this number is easily attainable given the future scheme will be entirely AW focussed.</p>
23	<p>Do you think a 66% minimum requirement of eligible households should be introduced under Affordable Warmth for the Solid Wall Insulation and District Heating? Please suggest an alternative preferred percentage, and supporting evidence where applicable.</p>
	<p>We welcome the introduction of an in-fill mechanism for Solid Wall Insulation and District Heating.</p> <p>From an administrative point of view, we would recommend that the minimum percentage is set at the same level as for local authority flexible eligibility. We believe that having two different minimum requirements for similar mechanisms would be confusing for stakeholders and would be very likely to increase the risk of error and non-compliance.</p>
24	<p>Do you think the infill mechanism should be implemented using the same area based methodologies used for the current flexible eligibility in-fill mechanism? Please suggest an alternative preferred mechanism, and supporting evidence where applicable.</p>
	<p>We do not have a view on this.</p> <p>As detailed in our response to Q23 we would recommend that the infill mechanism is aligned with flexible eligibility as much as possible. We note that we have received many queries regarding the application of in-fill under the current rules so there may be scope for BEIS to simplify these rules.</p>
25	<p>Do you agree that all eligible and in-fill measures should be notified together and within six months after the first measure was completed?</p>
	<p>We do not have a view on the time limit. Although we note that the time limit for notifying a second measure would need to be shorter at the end of the scheme.</p> <p>However, we will need a method for ensuring that the correct percentages are met. We are developing our approach to this, with a view to aligning it with our current primary and secondary measure approach, as well as our approach to local authority flexible eligibility.</p>
26	<p>Do you agree that the proportion of homes in the same building, adjacent buildings or the same terrace that can receive solid wall insulation as 'in-fill' under ECO flexible eligibility should be limited to 50%?</p>

	<p>From an administrative point of view, as detailed in our response to Q23, we recommend that the level of in-fill should be consistent with the level for local authority flexibility eligibility.</p>
27	<p>Do you agree that any measures which receive the RHI should not be eligible for ECO?</p> <p>We do not have a view on this proposal, however this would introduce potentially significant additional administrative requirements to both the RHI and ECO operations teams to implement a cross-checking mechanism.</p> <p>Overall it is simpler for the majority of stakeholders if measures were not supported under multiple schemes, particularly if the policy intent with regard to deployment remains as intended via any appropriate tariff or scoring adjustments on the schemes in question.</p> <p>However, as currently detailed, administration of this from an Ofgem ECO perspective is likely to be through a check of the RHI database. It is worth pointing out that a measure would likely be submitted under ECO before any RHI accreditation and any subsequent RHI payments. BEIS would need to make parallel RHI regulation changes that stop a subsequent accreditation, thus preventing an ECO measure being granted RHI accreditation. These would need to be enforceable after the ECO scheme has closed, to be able to take action against any measures that subsequently applies on to the RHI scheme.</p>
28	<p>Do you agree with our approach for scoring ECO3 measures?</p> <p>We agree with the approach for scoring ECO3 measures.</p> <p>We have published a consultation detailing our approach to updating deemed scores based on the proposals raised in this consultation. We welcome the clarity provided by BEIS on the impact that policy proposals may have on deemed scores. We note however that in the case of heating measures, we have been tasked with identifying equivalent energy efficiency ratings for certain measures. This will require additional research from our side and incur additional administrative costs before the approach to scoring these measures can be confirmed.</p>
29	<p>In the event that separate rules are made for ECO in Scotland, do you agree with the proposal to:</p> <p>(a) apportion the cost envelope between England & Wales and Scotland using a methodology based on the total amount of gas and electricity supplied in each region, with an equal weighting for each fuel?</p>

	<p>(b) that the calculation is based on an average taken from the last three years of domestic gas and electricity consumption data published annually in December by BEIS?</p>
	<p>We do not have a view on these proposals. However, as the administrator of the scheme we note that this would add a layer of complexity in final determinations and obligation setting particularly if there are different rules in Scotland. We note that a separate consultation would be required in the event that separate rules are introduced for Scotland.</p> <p>In the event that we were not the administrator of the scheme we would require significant interaction with the administrator of the Scotland scheme.</p>
30	<p>In the event that separate rules are made for ECO in Scotland, do you agree with the proposal to apportion an individual supplier's targets between Scotland and the rest of GB?</p>
	<p>We note that any delay required to confirm separate rules for Scotland would be likely to cause uncertainty and a potential increase to the hiatus for Scotland.</p> <p>We note that a separate consultation would be required in the event that separate rules are introduced for Scotland.</p>
31	<p>Do you agree that obligated suppliers should have the option of delivering a proportion of their obligation through innovative products, technologies and processes and, if so, where the maximum allowed should sit between 10% and 20%?</p>
	<p>We agree that obligated suppliers should have the option of delivering a proportion of their obligation through innovative products, technologies and processes.</p> <p>However, we recognise that the introduction of innovation will require a significant change in our administrative processes and is likely to require significant engagement with stakeholders, as such we believe that robust mechanisms for recognising innovation are unlikely to be available for the start of ECO3.</p> <p>We have an existing process in place for recognising innovative products and technologies. However, we are aware of the difficulties of introducing such products through this process, and the stringent criteria which applications must be assessed against. As a result, few 'appropriate / alternative methodologies' or new deemed scores have been successfully developed for the ECO scheme. We recognise the need for additional or adjusted incentives if there is a definite policy intent to promote innovation under the scheme.</p> <p>Given the move to a 100% fuel poverty focused scheme, we recognise that there may be some risks with incentivising delivery of innovative measures to vulnerable consumers which ultimately may not address fuel poverty. We therefore suggest</p>

allowing certain innovative measures, such as demonstration actions, to be delivered to all consumers, rather than just those in fuel poverty.

We note that under CERT and its predecessors the lead time for our approval of schemes and in particular innovative schemes was a significant concern for suppliers.

32 Do you agree with the proposed routes through which ECO can support innovation?

Please provide reasons, and if applicable, any alternative preferred proposals.

Demonstration actions

Our understanding of the policy proposal is that demonstration actions would follow a similar approach to that under the previous CERT scheme. On this basis we think that this would be a suitable route through which ECO can support innovation.

In order to ensure there is a robust approach to this, we think there should be a requirement that the route is proposed in advance and includes a value for money test. Ofgem, or a panel of experts appointed by Ofgem including BEIS, could then assess whether the proposal is a suitable use of funds. We also think that any action should include a mandatory publically available evaluation report at the end of the action to demonstrate the viability of the measure and to inform future policy. This evaluation report should, where relevant, include a methodology for calculating the savings of the action in order to assess its suitability for becoming a measure under the ECO scheme.

Clarity is needed on the level of risk appetite for the expected savings of a product and who would determine this – we feel this would benefit from clear direction within the Order. Unless a low risk appetite is chosen, we recommend that demonstration actions should not be restricted to householders in fuel poverty, as they relate to measure types which are not fully tested, and therefore carry a higher level of risk than typical ECO measures.

Innovation score uplifts

Our understanding of the policy proposal is that innovation score uplifts would work in a similar way to ‘market transformation actions’ under the previous CERT scheme, and would be similar to our current ‘appropriate / alternative methodology’ approach. Based on our understanding we think that this would be a suitable route through which ECO can support innovation. This route would also provide support for innovative techniques of installing existing measure types, the advantages of which are not recognised in the existing ECO scoring methodologies.

In order to encourage suitable innovation, we think the route should be open to any measure for which a robust scoring methodology could be developed, not just measures with an existing deemed score. This is in line with the current process in ECO2t, where applications for a new scoring methodology can be made, as well as applications for a new deemed score.

We recommend the use of a fixed uplift rather than a variable uplift. This would be easier to administer, reducing the time taken to assess applications, and would help to reduce uncertainty among applicants.

In order to administer this effectively we would look to work with BEIS to appoint a panel of experts who could help to assess applications.

In-situ performance

We support innovation and data gathering to support the savings achieved. We also support a 'whole house' approach which can provide substantial benefits to home occupants beyond that of single measures.

We do not have sufficient understanding of this proposal to be in a position to recommend administrative solutions for this.

We would note that the required timeframes around measuring in-situ performance are challenging in a 3.5 year scheme. Such measures would need to be monitored for a sufficient time period before any useful conclusions could be drawn. Therefore, this is also likely to be impacted by notification timescales.

33	Are there other ways in which suppliers can meet their targets more cost effectively, in order to maximise energy bill savings achieved through the scheme, while also ensuring that work is done to the right standards?
	We do not have a view on this question.
34	Do you think the one-month reporting period should be extended? Please provide reasons, including any alternative preferred proposals, and supporting evidence where applicable.
	Implementation of this proposal would affect our administration of the scheme. If adopted, this proposal will affect how we report monthly on the progress of energy companies towards their ECO obligations. Currently the monthly report, sent to the Secretary of State and published online, relates to measures which were approved in the previous month i.e. a report for October will relate to measures approved in September and notified in August. By extending the reporting period, the data in the energy company progress reports will be delayed

by a further month. This will result in a more delayed view on actual progress which would have an impact, particularly at the end of the scheme.

In addition, this would cause delays during closedown of the obligation period and in making our final determination of whether a supplier has achieved its obligations. This is because each month a proportion, on average 4-7%, of processed measures subsequently fall into additional operational checks which delay the approval of the measure. The timings in the ECO Order for final determination of ECO3 would need to be extended compared with those for ECO2t closedown given we would have to wait an extra month for all measures to be notified.

However, we believe this approach could in some cases be beneficial for the supply chain, if the suppliers adjust their processes accordingly, and may provide more certainty around the notification of measures.

35	If the one-month reporting period was extended, do you think the 5% extensions provision could be removed?
	<p>We agree that if the proposal outlined in question 34 was implemented, then the automatic 5% extensions provision could be removed.</p> <p>We have seen limited use of the automatic extensions and a continued use of the previous extensions process throughout ECO2t. We have observed peaks when suppliers have utilised their 5% automatic extensions provision however we believe this was primarily used to support internal IT issues at the start of the scheme.</p>
36	Do you agree with the proposal to retain the mechanism for the trading of obligations?
	<p>We agree that BEIS should retain a mechanism for the trading of obligations between obligated suppliers and between a supplier's licences.</p> <p>The majority of obligated suppliers for Phase 3 made at least one trade request, and this provided some flexibility for how they meet their obligations. We have also seen smaller, newly obligated suppliers trade all or part of their obligations to another supplier, allowing them to meet their obligations in a more cost effective way.</p> <p>We would require increased direction from BEIS or increased guidance to mitigate the complexities associated with trading sub-obligations, such as the Provisional Solid Wall Minimum Requirement (PSWMR), to ensure the obligations can be fully streamlined. This is largely because the PSWMR is related to obligations from previous schemes, and can be met through various different obligation categories instead of being directly linked to a single main obligation in one scheme period.</p>

We would ask BEIS to recognise, when determining whether to retain the mechanism for trading, the appropriate length of time to set the trading deadline. We recognise that this should be an absolute length of time in relation to the scheme end, rather than a proportion of the scheme length. Allowing a period of six months for this would reduce the risk that a supplier receiving the traded obligation would have insufficient time to deliver the savings. It will also ease the administrative burden for suppliers towards the end of the obligation period, which is often a busy time for them and the administrator.

37 Once the quality mark requirements are fully established, functional and enforced, do you agree that in order for installers to deliver ECO measures under the quality mark, they should be quality mark approved and compliant with quality mark requirements?

We agree that installers should be quality mark approved and compliant with quality mark requirements provided that BEIS are satisfied that these meet essential criteria.

Until the quality mark is operating to a standard considered by BEIS to be satisfactory, we would not look to adjust our current approach to technical monitoring. We think that it is unlikely that the quality mark will be fully operational by the time ECO3 commences and it is our view that specific direction should be included in the ECO Order to cover technical monitoring in the period before the quality mark is fully operational.

38 Do you agree that once the quality mark is established and functional, and where we are satisfied with the guarantee principles enforced through the quality mark, all solid wall, cavity wall, park home and room in roof insulation delivered under the scheme should be accompanied by a quality mark approved guarantee in order to receive the standard applicable lifetime?

We agree with this proposal.

Given it is part of an industry led initiative to improve quality it should significantly reduce our administrative burden in this area. We do however have considerable concerns about what is meant by 'established and functional' and whether this means that guarantees will have undergone appropriate scrutiny prior to being accepted as compliant with the quality mark. We therefore urge that BEIS is fully confident that the level of assurance provided by quality mark guarantees provides the consumer with at least the same level of protection provided by the current ECO appropriate guarantees.

As part of this, BEIS should be confident in the principles set out by the quality mark and the process for the body responsible for approving that guarantees meet these principles. In particular, part of this process should ensure that there are no exclusions that unfairly limit the guarantee. In addition, we would like to

understand further what the process will be for protecting consumers if a guarantee provider falls away.

BEIS should ensure that the same level of consumer protection applies for other measure types such as room-in-roof insulation which have not previously required an appropriate guarantee.

Finally, we would also like to seek clarity on what the proposed cost threshold would be for energy efficiency measures to receive a guarantee and to ensure that BEIS are happy that this threshold will include all relevant measures.

39	Do you agree that all ECO measures referenced in PAS 2030 and PAS 2035 should be installed in accordance with PAS2035 and the latest version of the PAS 2030?
	<p>We agree that measures referenced in PAS 2030 and PAS 2035 should be installed in accordance with the latest versions of these standards.</p> <p>We understand that these standards are currently being updated/developed and that there is some uncertainty about timelines for completion and when certification bodies will be accredited to certify installers to these standards. We therefore agree that there should be a grace period for installers to become certified to these new and updated standards. However, BEIS should be certain that any grace period set in the ECO Order is achievable by industry to prevent a pause in delivery as measures would risk not being compliant with the legislation.</p> <p>If there is no certainty on an exact date, we would suggest that BEIS explore any other ways of mandating these standards at a later date in the scheme.</p>
40	Do you agree that installers delivering measures referenced in PAS 2030 and PAS 2035 should be certified against PAS 2035 and the latest version of PAS 2030?
	<p>We agree that installers delivering measures referenced in PAS 2030 and PAS 2035 should be certified to these standards for the relevant measure types. Our comments under question 39 around grace periods also apply to this question.</p>
41	Do you consider that heat networks installed under ECO, or connections to heat networks should require specific consumer protection standards?
	<p>We welcome requirements for appropriate consumer protections standards for all ECO measures.</p> <p>Provided that existing consumer protection schemes are compatible with District Heating Systems (DHS) measures notified to ECO, we support the introduction of a requirement to offer further protection to consumers.</p> <p>As per our response to the Help to Heat consultation in 2016, most DHS delivered under ECO has been targeted toward social housing. As a result, BEIS may take the</p>

view that domestic consumers are sufficiently protected by social housing providers. With the move to a HHCRO based scheme in ECO3, DHS is more likely to be delivered to private households. This change therefore implies a need for increased consumer protections in this area.

We would support an approach that aligns the consumer protection requirements under ECO and those introduced under the Government's Heat Networks Investment Project (HNIP). This approach would also avoid the need for Ofgem to determine what the equivalent standards to the Heat Trust would be (something that we do not believe would be appropriate for Ofgem to 'approve' on a case-by-case basis).

However, we understand that there are limitations to this approach. The consumer protection schemes currently available 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. In addition, we understand that HNIP does not cover communal heating. Under ECO, DHS measures may relate to a district or communal system (e.g. within a single block of flats) and we believe that these communal systems could present a gap not covered by this consumer protection proposal.

We would welcome further discussion and investigation regarding how consumer protection could be introduced which would cover all DHS measures under ECO.

42 The Government invites views on the general requirements set out in this consultation and the illustrative draft of the ECO Order.

Technical & Score monitoring

We recommend that Ofgem is given powers under the ECO Order to continue to carry out technical and score monitoring. The current basis for carrying out technical and score monitoring is linked to EU legislation and set down in a formal direction from the Secretary of State. We believe it would be more transparent if we could rely on the Order alone.

Areas of potential fraud/gaming

Where we identified areas that posed a risk of fraudulent behaviour or gaming we have communicated this separately to BEIS policy colleagues.
