

Energy Company Obligation (ECO): Help to Heat (2017-2018)

Government Response - SEA Briefing

The consultation on the [ECO: Help to Heat](#) ran between 29th June 2016 and 17th August 2016. The consultation received 236 formal responses. In addition to the Government's response, the final stage impact assessment was also published. The implementation of the reforms is subject to Parliamentary approval. The Government's response to the consultation can be found here ([link](#)).

This document will provide a summary of the key policy decisions and the next steps for engagement.

Key policy decisions

Original proposals

The following policy decisions are in line with the proposals outlined in the original consultation paper:

- The Energy Company Obligation will be extended at a level worth an estimated £640m per annum, rising with inflation, and re-balanced towards tackling fuel poverty and others who are on low incomes;
- The Affordable Warmth obligation will be increased as a proportion of the overall scheme (from around 36% to 70% of estimated supplier spend);
- The Carbon Emissions Reduction Obligation (CERO) will decrease as a proportion of the overall estimated spend, from approximately 34% to 30%;
- The Carbon Saving Community Obligation (CSCO) will be brought to an end;
- Eligibility for Affordable Warmth will be simplified and better targeted. Sub-criteria will be removed for recipients of some means-tested benefits. The income thresholds for Tax Credit and Universal Credit recipients will be amended to better reflect disposable household income;
- Eligibility for certain measures under Affordable Warmth will be extended to social housing in EPC Bands E, F or G;
- Local authorities will be able to determine eligible homes under the new 'flexible eligibility' mechanism. Suppliers will be able to use this voluntarily for up to 10% of their Affordable Warmth obligation;
- The number of qualifying gas boiler replacements will be limited to the equivalent of around 25,000 per year;
- A requirement to deliver a minimum level of solid wall insulation will be retained;

- The requirement for CERO measures to be recommended in a Green Deal Advice Report or chartered surveyor's report will be removed;
- The method of assessing bill and carbon savings will be simplified. 'Deemed scores' will be introduced in place of the current Standard Assessment Procedure (SAP) methodology;
- The Government will collect more detailed information on ECO costs.

Changes to proposals

There are a number of changes to the proposals put forward in the original consultations. These are summarised below:

- **The length of the ECO scheme extension will be increased from 12 months to 18 months;**
The longer extension will provide industry with a longer period to transition to a new refocused ECO. This longer period was deemed necessary due to the significant changes to the measure mix, the pool of eligible households and the rules which will require new delivery models, IT systems and administrative processes to be introduced.
- **The size of the respective obligations on energy suppliers have been updated, partly reflecting new evidence on delivery costs provided during consultation;**
The existing obligations will be increased by the following amount during the extension period:
 - CERO: 7.3 million tonnes of lifetime carbon savings
 - Affordable Warmth: £2.76 billion lifetime energy bill savings (notional)
- **The requirement to deliver a minimum level of solid wall insulation will be increased from the proposed equivalent of 17,000 measures per year to 21,000 per year;**
There was "very strong support" for retaining a solid wall minimum. The Department has revised some of the assumptions in the impact assessment, including those for solid wall insulation. This means that more measures can be delivered under the scheme for the same level of spend. The Government has therefore decided to increase the minimum to 21,000 per annum. This is closer to the level required under the current scheme (25,000 per annum) and should provide a smoother transition.
- **The Affordable Warmth Group will be increased to around 4.7m rather than 4m households;**
This will be done by raising the income threshold for recipients of Universal Credit and Tax Credit, thereby including more households who are in fuel poverty, and those on lower incomes, who may be struggling to meet heating and other bills.
- **An uplift will be introduced to bring the new deemed scores more closely into line with the SAP scores achieved under the current scheme;**
The Government will require all savings to be calculated using deemed scores. This change will simplify the scheme and reduce costs. A range of stakeholders expressed concern that deemed scores are considerably lower than those calculated using SAP assessments. The Government estimate that deemed scores are approximately 20-50% lower than SAP/RdSAP scores. In order to offset this, the Government will apply an uplift of 30% to the deemed scores for all measures installed from 1st April 2017. This will limit any reduction in the number of measures needed in order for suppliers to comply with their obligations should they deliver early.

- **Central heating (including renewable heating) or district heating will not be eligible for installation in social housing under Affordable Warmth where there has previously been central heating (including renewable heating), district heating or electrical storage heating in place.**

Many respondents noted that social landlords have sufficient funding and a duty to maintain and improve their housing stock and as such ECO funding should be directed to those most in need of help in the private sector. Social housing providers will be eligible for ECO given that insulation measures are installed. Boiler and heating replacements or repairs on the other hand, will not be eligible in social housing unless a first time central or district heating system is installed. This will avoid significant levels of ECO support going towards upgrading heating systems in social housing properties.

- **Local authorities will be able to determine non-fuel poor households as eligible for solid wall insulation, where this forms part of a project that delivers solid wall insulation to fuel poor, or low income and vulnerable households;**

The majority of respondents agreed with the proposal to include non-fuel poor private tenure homes under flexible eligibility. The responses noted that many projects might not proceed without this provision. The Government has therefore decided to allow local authorities to determine non-fuel poor households eligible for Affordable Warmth. This will be allowed in adjacent properties so long as at least two thirds of households in any project are declared fuel poor or low income and vulnerable to the cold by the local authority.

- **The Government will introduce a rural sub-obligation of 15% under CERO to safeguard and maintain delivery in rural areas under a simpler mechanism than the current CSCO.**

The rural sub-obligation will be simpler than the current CSCO sub-obligation as homes in all areas defined as rural will be eligible. As highlighted in the consultation paper, the delivery of measures into rural property types and locations has been similar in CERO and CSCO despite only the latter having a sub-obligation. It is therefore unlikely that the new sub-obligation in CERO will add significant burden to suppliers but will ensure that rural delivery is achieved. It is also worth noting that incentives do exist for rural delivery including the decision to cap the number of qualifying mains-gas boiler replacements.

Next Steps

The decisions outlined in the Government's response are subject to Parliamentary approval of the Electricity and Gas (Energy Company Obligation) (Amendment) Order 2017, which will be laid before Parliament shortly. The Government is aiming to introduce the regulations as soon as possible in order to provide certainty to the supply chain and suppliers.

There were a number of decisions outlined in the Government's response which will be considered in more detail within the consultation on the 2018-2022 scheme. The Government will use the scheme extension to better understand the impacts of a range of changes and to inform the consultation on the next phase of ECO. These areas are listed below:

- **Carry under**

The Government has stated that it is looking favourably on enabling suppliers to 'carry under' a limited amount of short fall. The consultation on the 2018-2022 scheme will assess the amount of shortfall that can be carried under, the size of penalties for carrying under and the obligations it would apply to.

- **Intermediaries**

The Government suggested that intermediaries could play a role in the identification of fuel poor and/or vulnerable households in addition to local authorities. The majority of respondents agreed with this proposal, however there were some reservations made. Some respondents highlighted a need for clear guidelines and robust approval processes. The Government has acknowledged the important role intermediaries could play, however it has decided not to take the proposal forward during the extension period. The extension period will instead introduce local authority led flexible eligibility first. The Government is welcoming intermediaries to work in partnership with local authorities to identify fuel poor households. The role for third parties will be considered for the 2018-2022 scheme based on findings from the extension scheme which should provide insight into how they are working with local authorities.

- **Data monitoring**

The Government will continue to monitor and publish data on the number and types of measures delivered, including information in regard to property types and location. This data will be used to inform any changes for the 2018-2022 scheme. For example, at present the Government has decided not to introduce additional requirements for suppliers to deliver measures in high cost areas, the data collected and published will help inform decisions in regard to this proposal in the next phase of ECO.

- **Brokerage Model**

The Government has decided to retain the existing due diligence process for the extension process and the current performance rating system for the extension period and not to make any radical changes to brokerage at this time. The Government will therefore monitor effectiveness and transparency in light of the recent changes to the brokerage contract over the extension period in order to inform future proposals.

The consultation posed a number of questions regarding the second set of reforms for ECO 2018-2022. The Government will use the responses from these questions to inform future policy decisions:

- **Scottish Supplier Obligation Scheme**

The Government invited respondents' views on diverged Scottish scheme. The comments received were varied, with no consensus on what aspects of the schemes should be kept the same or should be different. Respondents noted that there is a need to ensure that the Scottish scheme reflects Scottish priorities. The UK and Scottish Governments will consult on a Scottish supplier obligation scheme before a devolved obligation is introduced.

- **Customer number threshold**

Most respondents believed that the customer threshold should be changed, with the majority of respondents stating that the threshold should be lowered. Those who did not support a lower customer threshold highlighted that smaller suppliers may face disproportionate costs. Concerns

were raised that obligated suppliers, below the taper, are not encouraged to grow due as for every extra unit of energy they supply, their obligation increases at a greater rate than those above the taper. The responses will help inform future proposals.

- **Brokerage Model**

The Government has decided to retain the existing due diligence process for the extension process and has decided not to make any radical changes to brokerage at this time. The Government will therefore monitor the effectiveness of recent changes to the brokerage contract over the extension period in order to inform future proposals.

- **Innovation**

The Government acknowledges that the supplier obligations must strike a balance between encouraging innovation and ensuring that reliable savings are delivered. The Government's response highlights the need to ensure that savings are delivered through well-tested and established measures, technologies and methods. If changes are to be made in regard to the delivery of innovative products or technologies, the Government will consult on these proposals.

For more information please contact Samantha Crichton
Samantha.crichton@sustainableenergyassociation.com