



Department
of Energy &
Climate Change

ECO: Help to Heat

Consultation Document

29 June 2016

The consultation and impact assessment can be found on DECC's website:

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

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General information

Purpose of this consultation

The Energy Company Obligation (ECO), a programme to deliver energy efficiency measures in homes across Great Britain, is due to finish at the end of March 2017. The 2015 Spending Review¹ set out Government plans to have a supplier obligation in place until 2022, with a focus on fuel poverty.

This document has three main purposes:

- to provide interested parties with visibility of our high level vision for supplier obligations to 2022;
- to set out our specific proposals for a first set of reforms, to be delivered from 2017; and
- to seek views on both the proposed changes for this first year transition and the high level design for the longer term (2018-22).

Alongside this consultation document we have published the following supporting documents:

- a detailed draft impact assessment
- a catalogue of consultation questions
- a glossary

An illustrative draft amendment Order for the one-year transition will be published shortly, for information.

These are working drafts that will need to be revised following the consultation; however, we are sharing them now to help illustrate how the current proposals might be reflected in legislation.

We would like to hear from a wide range of stakeholders.

Issued: 29 June 2016

Respond by: 17 August 2016

Enquiries to:

ECO: Help to Heat, Department of Energy & Climate Change, 2nd Floor Area C, 3 Whitehall Place, London, SW1A 2AW

Email: deccecoteam@decc.gsi.gov.uk

Territorial extent:

This consultation is for England, Wales and Scotland.

How to respond:

Where possible, responses should be submitted electronically via the **e-consultation** available at <https://econsultation.decc.gov.uk/decc-policy/eco-help-to-heat-consultation>. This is our preferred method for receiving responses. However, responses sent to the postal address or email address above will also be accepted.

¹ Available at: <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents>

Your response will be most useful if it directly addresses the questions posed, though further comments and evidence are also welcome. To aid our analysis, please state 'yes' or 'no' to indicate whether you agree or disagree with each proposal. If you have information which supports your view, we invite you to provide details in support of your response.

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Electronic copies of the consultation document, impact assessment and associated documentation can be found on DECC's website at: <https://www.gov.uk/government/consultations/energy-company-obligation-eco-help-to-heat>

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us using the email address and/or postal address above to request alternative versions.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator, 3 Whitehall Place, London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk.

1. Introduction

The Energy Company Obligation (ECO) is a programme to deliver energy efficiency measures in homes across Great Britain, which helps households cut bills and reduces carbon emissions.

ECO was launched in January 2013 and is currently in its second obligation period, which is due to end on 31 March 2017. The Government's Spending Review 2015 announced plans for a supplier obligation to run for 5 years from April 2017 at an estimated level of £640m per year². The proposed scheme will be the primary vehicle through which Government would meet its manifesto commitment to insulate a million more homes over this Parliament, supporting its commitment to tackle fuel poverty, whilst making progress towards carbon budgets.

This consultation primarily relates to a proposed one year period from April 2017 to March 2018, which will act as a transition towards a longer term scheme from 2018-2022.

Our vision

Helping those in greatest need to heat their homes is a Government priority. Over the next few years more than 2 million low income households per year will continue to be helped with a £140 rebate on their energy bills through the Warm Home Discount (WHD), to assist with the affordability of energy bills. The Renewable Heat Incentive (RHI) is undergoing reform, with one of the aims being to support those less able to pay in accessing the scheme. Furthermore, all homes will have the opportunity to benefit from the roll out of smart meters by 2020, and we will continue to encourage households to save money by switching energy suppliers through our Power to Switch campaign.

The best long-term solution to tackle fuel poverty is to make it easier for people to heat their homes, through energy efficiency. Measures such as insulation and efficient heating systems achieve a long-term reduction in the cost of heating homes and keep them warmer year-round. This helps households to avoid the potential impacts of living in a cold home, such as negative health outcomes, thereby supporting life chances. Supplier obligations have helped improve the energy efficiency of homes across Great Britain for over twenty years. During this time many millions of homes have had energy efficiency measures installed, significantly reducing their fuel bills and making an important contribution towards the UK's efforts to reduce carbon emissions. These schemes were funded by all households through their energy bills, and often the recipients of energy efficiency measures were households that could have afforded to pay for the measures themselves. This Government wants to refocus supplier obligations towards those who need help most – the fuel poor and vulnerable.

This is why, from 2017, we plan to introduce a series of reforms to both better target the scheme and make it simpler and more cost-effective to deliver. We intend to reduce the overall

² Based on 2017 prices, and rising with inflation. All figures cited in this section are based on 2017 prices and include fixed administrative costs.

spend from £870 million to £640 million, lowering energy bills for all households, yet increase the element focused on fuel poverty from £310 million to £450 million. Our proposals will result in over 1 million warmer homes over the course of this Parliament. In doing so, we will help keep energy affordable, enhance the country's security of supply and reduce carbon emissions.

We want to implement these reforms as soon as we can; however, we also want to avoid imposing sweeping change in one go. We have concerns that trying to fully implement all changes in 2017 would not allow industry enough time to adapt to such wide-ranging changes. With a shift in scheme focus to different measures and eligible recipients, we believe it is desirable to stagger changes. The first reforms, covered by this consultation, will provide a one-year transition to the longer-term scheme, which will take full effect from April 2018. This will allow for continuity in delivery and provide more time to develop, test and implement some of the more complex proposed elements of the future scheme.

Fuel poverty focus

Government is committed to helping the lowest income households with the highest energy costs keep their homes warm. A home should be warm and comfortable and provide a healthy and welcoming environment. The Government is clear that it is unacceptable that some people living on a low income should have to do so in properties that cannot be kept warm at reasonable cost. Living in a cold home can result in a range of negative health outcomes³. It is also associated with poor educational attainment, which may have knock on implications for social mobility and life chances⁴.

Improving a low income household's energy efficiency is the best long-term solution to alleviating fuel poverty and enabling households across Great Britain to keep warm. Available support for energy efficiency measures such as insulation and more effective heating systems should be directed to those that need it most. The changes proposed in this consultation have been designed to help the scheme better support households who are on the lowest incomes and are living in the coldest, least energy efficient homes.

Devolution – fuel poverty

Fuel poverty is generally a devolved matter, with separate indicators, targets and strategies adopted by each nation. Although fuel poverty is measured differently in Scotland and Wales compared to England, there are significant similarities between the characteristics of households considered to be in fuel poverty across Great Britain. This document assumes that a consistent approach to the design of the supplier obligation will be used across all parts of Great Britain. However, under the Scotland Act 2016 the Scottish Government will, in the future, be able to design and implement supplier obligations with respect to Scotland and suited to Scottish consumers.

³ For more information, see the Hills Review:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48297/4662-getting-measure-fuel-pov-final-hills-rpt.pdf

⁴ For more information, see:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80188/Higher-Education.pdf

Scotland and Wales

Scotland and Wales use variations of the 10% fuel poverty indicator, whereby a household is considered fuel poor if they need to spend more than 10% of their net income on energy. In Scotland and Wales a household is considered to be in severe fuel poverty if they have to spend 20% or more.

In the design of the future scheme (2018-22) we are working closely with Welsh officials and the Welsh Government to ensure that the scheme reflects the needs of fuel poor households across both England and Wales. (For information on the future scheme relating to Scotland, see Chapter 6).

England

In England, a household is considered to be in fuel poverty if the home has higher than typical energy costs (for instance because of poor energy efficiency) and, were they to spend that amount on energy, they would be left with a residual income below the official poverty line⁵. Households who meet both conditions are referred to as Low Income High Costs (LIHC). According to the latest official statistics, there are just over 2.3m households living in fuel poverty in England⁶.

In March 2015, the Department of Energy and Climate Change (DECC) published a new fuel poverty strategy, '*Cutting the cost of keeping warm: a fuel poverty strategy for England*'⁷. The strategy is England's roadmap for meeting the statutory fuel poverty target⁸ in a way that reflects a number of guiding principles – prioritising the worst cases first, taking account of vulnerability and deploying cost effective policies. The strategy also includes interim milestones for as many fuel poor homes as is reasonably practicable to achieve energy efficiency Band E by 2020 and Band D by 2025. This focuses attention on reforming policies to support the least energy efficient low income households.

Reforming the supplier obligation

Since ECO began in 2013, Government has continued to analyse how current policies are contributing to the alleviation of fuel poverty.

We have taken stock of how to reflect this understanding in the design of future policies, including a supplier obligation. A key consideration is the degree to which a supplier obligation supports households who are on the lowest incomes. In its current format the Affordable Warmth obligation (AW), which is focused on low income and vulnerable households, only accounts for approximately one third of the overall spend towards achieving the ECO targets.

The Hills review⁹ into fuel poverty found that supplier obligations are an effective mechanism through which to address fuel poverty and set out ways that such schemes can best contribute to the alleviation of fuel poverty. The report suggested that a greater proportion of ECO should be directed towards Affordable Warmth and that this part of the scheme could be better

⁵ 60% of median household income - our latest fuel poverty statistics have this level at approximately £12,000

⁶ Annual Fuel Poverty Statistics Report 2015: <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2015>

⁷ Available at: <https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm>

⁸ http://www.legislation.gov.uk/ukdsi/2014/9780111118900/pdfs/ukdsi_9780111118900_en.pdf

⁹ Hills Fuel Poverty Review (2012), www.gov.uk/government/publications/final-report-of-the-fuel-poverty-review

focused on those in fuel poverty. Some of the changes we propose to the scheme structure (see below and Chapter 2) and household eligibility criteria (see Chapter 3) will address some of the review findings.

Figure 1, below, shows how the proposals in this consultation are intended to support the transition from the current supplier obligation to a longer term fuel poverty focused scheme. The transition year, from April 2017 to March 2018 will be implemented through an extension to the current Energy Company Obligation, with some changes to increase the scheme’s focus on supporting fuel poor households.

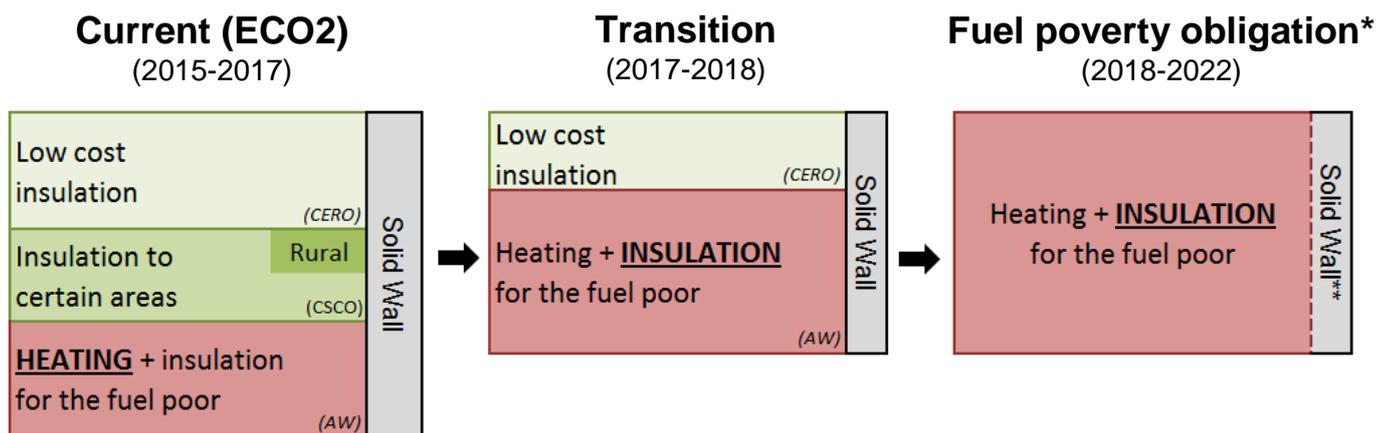


Figure 1 Transformation of the supplier obligation from the current scheme to a fuel poverty obligation***

Notes:

* This is the proposed design of the England and Wales supplier obligation (2018-22). The Scottish Government will determine the design of the Scottish scheme.

**We will consult later this year on whether to retain a solid wall minimum post-2018.

***These diagrams are not to scale and are for information purposes only.

The increase in the relative size of the Affordable Warmth (AW) obligation proposed for 2017-18 in Chapter 2 and the changes to the household eligibility criteria in Chapter 3 are designed to better support low income households that are living in the least efficient homes throughout Great Britain. We also propose a greater focus on those energy efficiency measures that tend to be the most effective in supporting the least efficient homes, such as insulation or installing a central heating system in properties that do not have one – see Chapter 4. We propose ways to improve delivery and administration, primarily aimed at reducing costs, in Chapter 5. Each of these four chapters sets out how our proposals for the one-year transition (2017-18) fit into the context of our proposed direction for the longer-term scheme (2018-22). We set out some potential further reforms to take effect in 2018 in Chapter 6.

Key principles for this transition year, but also for the longer-term scheme, are to:

- focus on households who are most in need;
- simplify and remove complexity, improving cost effectiveness;
- encourage greater involvement of local actors, especially where vulnerability is a concern; and
- reduce carbon emissions and make progress towards carbon budgets.

We intend to consult on the longer-term scheme in early 2017.

Devolution – supplier obligations

The Scotland Act 2016 transfers powers to the Scottish Government over the design and delivery of energy supplier obligation schemes relating to energy efficiency and fuel poverty.

The Act gives Scottish Ministers powers to determine how the national programmes obligating energy companies to install energy saving measures in domestic households (currently ECO) and rebate fuel poor homes (currently the Warm Home Discount) are designed and implemented in Scotland. Responsibility for setting the way the money is raised (the scale, costs and apportionment of the obligations as well as the obligated parties) remain reserved.

DECC officials are working closely with their counterparts in Scotland to implement the devolution settlement. It is currently envisaged that Scotland will use their new powers in 2018, to coincide with the start of the long-term successor to ECO. Therefore for the purposes of this consultation we are assuming that Scotland remains within the GB-wide scheme in 2017-18.

Bonfield Review

The installation of measures to improve the energy performance of existing properties has the potential to make homes warmer, cheaper to heat, and more attractive to live in. However, it is important that the right measures are fitted in the right properties and that they are installed to a suitable standard which is properly enforced. Consumer needs must also be fully taken into account, including how a consumer uses their property before and after measures are installed and that they are properly protected if an installation fails. A greater focus on quality across the supply chain will also help ensure that Government support is as effective as possible.

For this reason, DECC and the Department for Communities and Local Government (DCLG) jointly commissioned Dr Peter Bonfield to undertake an independent review into consumer advice, protection, standards and enforcement for energy efficiency and renewable energy in existing domestic homes.¹⁰ We are keen to ensure that the recommendations from this review can be considered alongside the development of future schemes to support the delivery of high quality measures to consumers.

Scheme administrator

The Office of Gas and Electricity Markets (Ofgem) E-Serve will continue to be the scheme administrator for the 2017-18 period.

Energy and Climate Change Committee

The Energy and Climate Change Committee's report on 12 March on home energy efficiency and demand reduction¹¹ contained a number of recommendations relating to ECO. These were helpful to us in preparing this consultation document and we will respond to the Committee shortly.

¹⁰ Further information on the Bonfield Review is available at:

<https://www.gov.uk/government/publications/bonfield-review-terms-of-reference>

¹¹ Available at: <http://www.publications.parliament.uk/pa/cm201516/cmselect/cmenergy/552/55202.htm>

2. Purpose and structure of extension

Under the current ECO, Government has set targets for energy suppliers to achieve by March 2017. We propose to extend this current obligation period to 31 March 2018, introducing a first set of reforms from 1 April 2017 in order to transition towards a longer-term scheme until 2022, focused on addressing fuel poverty¹². This consultation's prime focus is the one-year extension from April 2017 to March 2018; however, it also signposts our plans to 2022.

Reasons for extending the existing scheme

The extension of the current obligation period, alongside the other proposals outlined in this consultation, is designed to provide a smoother transition from the current ECO arrangements to an obligation which is more focused on supporting homes on the lowest incomes and tackling the root cause of fuel poverty. The extension allows us to stagger changes to the scheme, giving energy companies and their supply chains time to adapt their current delivery strategies. This will ensure that the new targets can be met as cost effectively as possible, supporting as many homes as possible without imposing additional costs on energy bill payers.

Government considers that one year is the appropriate length of time for an extension – a longer period than this would delay the introduction of important elements of the scheme discussed later in this consultation.

Question 1

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

Obligation structure

The current ECO scheme (ECO 2¹³) has three separate obligations, two focused on reducing carbon emissions and one focused on low income homes:

- Carbon Emissions Reduction Obligation (CERO): delivering primarily insulation measures to any home in Great Britain. CERO has a target of 12.4 MtCO₂.
- Carbon Saving Community Obligation (CSCO): delivering primarily insulation measures restricted to any home within the 25% most deprived areas in Great Britain. CSCO has a target of 6 MtCO₂, of which 15% must be delivered to rural areas.
- Affordable Warmth (AW, described in legislation as the Home Heating Cost Reduction Obligation): primarily delivering heating measures to low income and vulnerable households. Affordable Warmth has a target of £3.7 billion notional bill savings.

¹² We will extend the scheme from 2017 to 2018 through amendment to the existing secondary legislation.

¹³ ECO 2 runs from 1 April 2015 to 31 March 2017. The regulations are available at: http://www.legislation.gov.uk/uksi/2014/3219/pdfs/ukxi_20143219_en.pdf.

We propose to re-balance the obligations during the extension, with a greater focus on Affordable Warmth, the obligation that supports lower income and vulnerable homes. Figure 2 and Table 1, below, illustrate the proposed changes to the current obligation breakdown. The figures given for the proposed targets are provisional. They reflect the spending level of £640 million per annum¹⁴ set out in the 2015 Spending Review and are based on evidence around measure and delivery costs, and illustrative estimates of the deemed scores. The targets will be finalised in the regulations in the light of consultation responses and drawing upon improvements made to our evidence base and the deemed scores developed by Ofgem E-Serve (see Chapter 5). Further details are set out in the accompanying consultation stage impact assessment.

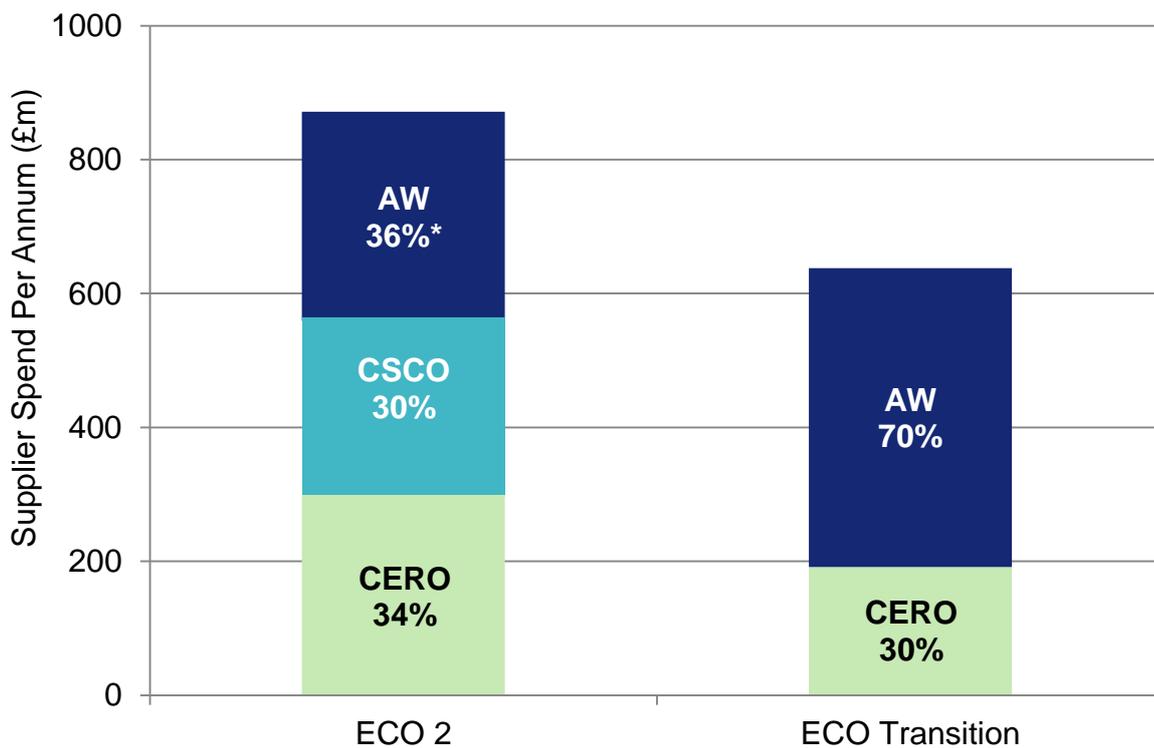


Figure 2 Estimated annual supplier spend on each ECO obligation

* Percentages show the proportion of the total supplier spend estimated for each obligation.

¹⁴ Based on 2017 prices, and rising with inflation

Table 1 Proposed changes to the supplier obligation structure (2017-18)

| Obligation (period) | Current ECO targets (1 Apr 2015 – 31 Mar 2017) | Proposed targets* (1 Apr 2015 – end date shown) | Increase for transition* (1 Apr 2017 – 31 Mar 2018) |
|-------------------------------|----------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------|
| CERO | 12.4 MtCO ₂ | 15.4 MtCO ₂ by 31 Mar 2018 | 3.0 MtCO ₂ (24% increase) |
| CSCO | 6 MtCO ₂ | 6 MtCO ₂ by 31 Mar 2017 | - |
| AW | £3.7bn | £5.54bn by 31 Mar 2018 | £1.84bn (50% increase) |

* These figures are provisional.

Affordable Warmth (AW)

We propose increasing Affordable Warmth to £5.54bn (an increase of £1.84bn), and extending the deadline to 31 March 2018. This will increase its share of the overall estimated spend from 36% to 70%.

The proposal to extend this obligation, rather than introduce a new target for one year, means that any measures delivered before 31 March 2017 will automatically count towards the extended targets and the new deadline of 31 March 2018, subject to suppliers meeting the proposed Affordable Warmth minimum requirement (see Chapter 4).

Affordable Warmth delivers insulation and heating measures to households on certain means-tested benefits (see Chapter 3). It is better at tackling fuel poverty than CERO or CSCO – for example, analysis shows that approximately 29% of homes in England eligible for Affordable Warmth measures are fuel poor, compared to only 13% and 10% respectively for CSCO and CERO. We propose improvements in how Affordable Warmth is aligned to assisting the fuel poor in terms of the measures it supports and the households it treats (see Chapters 3-4). From 2018 we propose that fuel poor households will become the sole focus of the supplier obligation in England and Wales.

Carbon Emissions Reduction Obligation (CERO)

We propose to increase CERO to 15.4 MtCO₂, and extend the deadline to 31 March 2018. This is an increase of 3.0 MtCO₂ but decreases the proportion of the overall estimated spend to be achieved through CERO from approximately 34% to 30%. This decrease enables a greater proportion of the overall scheme to be directed to low income households. The intention is that retaining CERO for an additional year before a full transition to a fuel poverty focused scheme will enable early cost effective progress towards the Government's manifesto commitment of insulating 1 million more homes, and enable suppliers to wind down their existing carbon-focused delivery models more gradually, instead of bringing them to an abrupt halt when they meet their existing ECO 2 targets.

As with Affordable Warmth, by extending this obligation rather than introducing a new target for one year, measures delivered before 31 March 2017 will count towards the extended targets and new deadline of 31 March 2018, allowing delivery and administration to continue uninterrupted.

Carbon Saving Community Obligation (CSCO)

CSCO¹⁵ was originally designed to deliver insulation and district heating measures to households in low income and rural areas. However, delivery patterns under ECO to date have shown that CSCO is little more effective than CERO at directing measures to fuel poor homes, but with higher delivery costs.

Eligible CSCO areas are the 25% lowest income areas¹⁶ in the country. However, the areas themselves contain thousands of homes, meaning that, while some specific parts of CSCO areas may have high fuel poverty rates, the overall instances of fuel poverty across all areas is little higher than the national average. Even where there are fuel poor homes within the eligible population, there is no guarantee that it is these homes that receive support. Therefore, delivering measures to these areas does not necessarily lead to better targeting of households in fuel poverty than CERO. CSCO is also more costly than CERO. The estimated average cost per tonne of carbon savings delivered under CERO was £39 from July 2014 to December 2015, compared to £48 under CSCO for the same period¹⁷. This is likely to be because CSCO is limited to a much smaller number of eligible homes. Therefore, for the purposes of a one-year transition from 2017-18, retaining a (smaller) CERO, rather than CSCO, should result in more cost effective carbon savings and greater progress towards the Government's manifesto commitment of insulating 1 million homes. This change would also allow a greater proportion of the overall ECO scheme to help fuel poor and low income households through Affordable Warmth.

Stakeholder engagement has suggested that economies of scale can be achieved by delivering measures to households on a 'street-by-street' basis. However, we do not have evidence that CSCO incentivises greater levels of this type of concentrated delivery any more than under CERO – indeed, many stakeholders have told us the opposite, as CSCO can constrict street-by-street delivery due to its defined boundaries. By retaining CERO rather than CSCO in a transition year, we can enable street-by-street delivery to the whole country rather than limiting it to 25% of areas.

We are proposing that the CSCO deadline remains 31 March 2017. Ofgem E-Serve (the scheme administrator) could then determine whether suppliers have achieved their CSCO obligation and notify them of this determination by 30 September 2017, rather than waiting a further year. This will provide earlier certainty to suppliers on the compliance of measures notified towards their CSCO obligations. Extending the deadline to 31 March 2018 may not facilitate early resolution of any issues relating to CSCO-notified measures during this period.

A potential drawback of ending CSCO in March 2017 is that suppliers will have to close down their CSCO obligations without knowing carryover rules into a future fuel poverty obligation. However, suppliers would have the option of transferring measures delivered over their targets to their CERO (or subject to eligibility, Affordable Warmth) obligations instead.

¹⁵ Throughout this consultation, we assume that CSCO ends in March 2017 when we describe our other proposals.

¹⁶ They are determined based on the Lower Layer Super Output Areas (LSOAs) on the Indices of Multiple Deprivation (IMD).

¹⁷ We have selected this time period as the mix of measures delivered was broadly similar across both schemes, with similar levels of solid wall insulation in particular; this should help ensure that the figures are more comparable and are not skewed due to the types of measures delivered.

CSCO Rural

There is currently a requirement for 15% of the CSCO target to be delivered to rural homes, defined as 'not urban' on the rural urban classification system¹⁸. By not increasing the CSCO obligation, this effectively removes the mandatory requirement of delivery to rural homes after March 2017.

However, delivery statistics for ECO show that 14% of CERO has been delivered in rural areas. This indicates that rural delivery will occur under the scheme, without the need for intervention.

In order to allow suppliers to deliver their obligation in the most cost-effective way and to avoid complicating the scheme without a clear policy benefit, we do not propose to have a mandatory requirement to deliver to rural homes after March 2017.

We are, however, proposing reforms to the obligation which should mean that it is likely that there will be a greater proportion of support to low income households in rural areas. In particular, our proposal to limit gas boiler replacements (see Chapter 4), which are predominantly an urban measure type, will mean a broader range of measures appropriate to rural homes will be delivered, including first time central heating systems and insulation and heating measures. We also propose to retain the current uplift for measures delivered in non-gas fuelled homes, which are more applicable to rural areas.

Question 2

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

Question 3

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

Question 4

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

¹⁸ The England and Wales Rural-Urban Classification is a Government Statistical Service product developed by the Office for National Statistics; the Department for Environment, Food and Rural Affairs; the Department for Communities and Local Government; and the Welsh Assembly Government, in collaboration with Sheffield and Nottingham Universities. Further details on the Rural-Urban Classification can be found at: <https://www.gov.uk/government/collections/rural-urban-definition>. Scotland uses an independent methodology for the Rural-Urban Classification; though this is broadly similar, there some differences in their classification system. Further details on the Scottish Rural-Urban Classification can be found at: <http://www.gov.scot/Topics/Statistics/About/Methodology/UrbanRuralClassification>.

3. Affordable Warmth targeting and household eligibility criteria

This chapter sets out our proposals to simplify the eligibility criteria for the Affordable Warmth obligation and better align them with the characteristics of low income and vulnerable households, particularly those living in fuel poverty.

If implemented, compared to the current scheme, we estimate the changes will, in 2017-18:

- increase the total number of households that are eligible for support from around 3 million to approximately 4 million in Great Britain;
- increase the number of fuel poor households eligible for support (for example, in England¹⁹ alone this will result in an additional 430,000 fuel poor households eligible, almost a 60% increase compared to the current scheme); and
- enable support to be delivered to fuel poor and vulnerable households who would not otherwise be eligible.

What is 'household eligibility' for Affordable Warmth?

Under the Affordable Warmth obligation, households meeting specific criteria are 'eligible' to receive heating or insulation measures. This means that energy suppliers delivering measures to these households can count them towards their Affordable Warmth obligation. Energy suppliers only target enough households within the eligible pool to allow them to reach their targets cost-effectively. Therefore, not all households which meet the eligibility criteria receive a measure under the scheme. We estimate that around 160,000 households will be supported in 2017-18 under Affordable Warmth, although at least 4 million households will be eligible.

Eligibility for Affordable Warmth under the current ECO scheme is based exclusively on private tenure households in receipt of certain means-tested benefits. This approach may inadvertently exclude some households in fuel poverty or who are vulnerable to the effects of living in a cold home. Our proposed changes to the eligibility criteria include additional ways of determining eligibility for Affordable Warmth to help include those households most in need of help. The number of households eligible would be increased through our proposal to include households in the most energy inefficient social housing and our suggested options for 'flexible eligibility', building on the local knowledge and networks of local authorities and potentially other intermediaries.

¹⁹ This is the estimated impact in England. Due to modelling and data limitations it has not been possible to undertake equivalent estimates for Scotland or Wales, although we would anticipate the direction of travel to be similar to that in England. Throughout this chapter, there are further instances where the only data available relate to England.

Targeting fuel poor households

How Affordable Warmth works at present

Currently, private tenure households are eligible for support under the Affordable Warmth obligation if they are in receipt of specific means-tested benefits, or a combination of benefits; sometimes needing to have a household income below a set threshold. These criteria are used to approximate which households are likely to be low income or fuel poor; however, there are limitations to this approach.

Since ECO began in 2013 we have continued to enhance our analysis and insight into how the Affordable Warmth obligation is contributing to the alleviation of fuel poverty. Our analysis suggests that around 29% of the homes in England that are eligible under the Affordable Warmth obligation are fuel poor (according to the English fuel poverty indicator) and that the current criteria exclude about two thirds of all fuel poor households in England. This is in part due to the change in the English fuel poverty indicator in 2013, after the current eligibility criteria had been set.²⁰

These findings suggest that there is scope to improve the eligibility criteria to enable support to be better targeted towards low income and fuel poor households most in need of energy efficiency improvements.

Overview of proposed changes

Fuel poverty is at the heart of the new re-focused scheme. Building on recent findings, including the Hill's Review²¹, the suite of proposed changes set out in Table 2 are designed to amend the eligibility criteria to better focus on the lowest income households including those who are living in the least energy efficient homes (where energy bills are typically highest).

We are proposing to introduce changes in two stages. The first stage, from April 2017, is the focus of this consultation. The second stage, from April 2018, will be subject to a further consultation, in early 2017. These later proposals will build on the first set of changes.

We will consult on additional measures to take effect from April 2018 to further improve the targeting of support towards fuel poor households in greatest need. This may include better utilising Government data to help identify the homes likely to be in severe fuel poverty. We are exploring new statutory powers to achieve this and they are currently subject to a separate public consultation²² led by the Cabinet Office. If taken forward, it may be possible to introduce enhanced processes to share public data from 2018. Any such changes to the legislation for ECO would be subject to further consultation at a later date.

²⁰ The 2012 ECO Impact Assessment estimated that under the previous fuel poverty indicator in England over 50% of Affordable Warmth eligible households were fuel poor.

²¹ Hills Fuel Poverty Review (2012), www.gov.uk/government/publications/final-report-of-the-fuel-poverty-review

²² The 'Better use of data in Government' consultation ran until 22 April and details are available at: <https://www.gov.uk/government/consultations/better-use-of-data-in-government>

Table 2 Overview of proposed changes to eligibility criteria and vision for 2018

| <p>Stage 1: Apr 2017 – Mar 2018</p> <p>We are currently consulting on these proposals.</p> | <p>Stage 2: Apr 2018 – Mar 2022</p> <p>We are currently developing proposals to take effect from April 2018. The details below are subject to change but provide an indication of our current thinking – specific proposals will be consulted on in early 2017.</p> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Changes to better target low income households</p> | |
| <ul style="list-style-type: none"> - Introduce income thresholds based on household composition for Universal Credit and Tax Credits recipients - Simplify the criteria currently required for other benefits - Remove Pension Credit Saving Credit from the list of eligible benefits (aligning with WHD Core Group eligibility criteria) while still enabling these homes to be eligible under ‘flexible eligibility’ where they are fuel poor or vulnerable | <ul style="list-style-type: none"> - Continue with 2017-18 benefits criteria and continue exploring options to better target low income households through benefits-based eligibility criteria - Explore better use and sharing of Government data to target fuel poor households more effectively |
| <p>Changes to target the most inefficient homes</p> | |
| <ul style="list-style-type: none"> - Inclusion of all social housing with an E, F or G EPC rating - New build homes not eligible under ECO | <ul style="list-style-type: none"> - Explore ways to better use Government data to make it easier to identify homes facing higher energy costs - Explore ways to encourage more delivery to the most inefficient homes |
| <p>Flexible eligibility</p> | |
| <ul style="list-style-type: none"> - Local authorities (and potentially other appropriate parties) to be able to identify and designate households as eligible under Affordable Warmth up to a percentage of the target | <ul style="list-style-type: none"> - Explore options for continuing with 2017-18 approach to flexible eligibility and consider increasing the proportion of the scheme which can be met through this route |

Additional considerations

One of the biggest challenges in tackling fuel poverty is identifying affected households. Of the 2.3 million households in fuel poverty in England, for example, around 20% are estimated to not be in receipt of any benefits. In addition, we recognise that some vulnerable households which need support will not fit within the Affordable Warmth eligibility criteria. The introduction of some flexibility around these criteria and including households in the most inefficient social housing, described in more detail later in this chapter, is expected to help these groups which have hitherto been excluded.

By April 2017, the current Affordable Warmth eligibility criteria will have been in place for over four years. As of the end of January 2016, over 400,000 of these households have received at least one energy efficiency measure. The remaining number of homes that could benefit from an energy efficiency measure is therefore reducing over time, making them gradually more challenging to find.

We expect that the proposed changes will address this challenge, by increasing the total number of households that are eligible, while also increasing the coverage of fuel poor households. The proposals presented here will increase the number of eligible households from around 3 million to approximately 4 million, including an additional 430,000 fuel poor households and 1.8 million households that have not previously been eligible under Affordable Warmth. Enabling local authorities and potentially other bodies to determine households as eligible will increase this even further.

Targeting low income households

Income thresholds for benefits recipients

The findings of the Hills Review suggest that means-tested benefits can be a good approximation for households living on low incomes. Therefore, we intend to continue to base eligibility around recipients of means tested benefits.

The Hills Review showed that larger households (those with more occupants) require higher income levels to achieve the same living standards as smaller households. For instance, £10,000 would provide lower living standards to a family of four than to a single-person household. Compared to smaller households, larger households, who often have higher energy needs, tend to have a smaller proportion of their income available to meet their energy costs. For example, almost half of fuel poor households in England consist of families with children, despite less than 30% of the general population being made up of those families.

Our intention is for support to be targeted towards those who we believe are experiencing the most severe problem. In practice, this can be achieved through the use of income thresholds, with higher thresholds for larger households, reflecting their need for a higher income in order to achieve the same standard of living.

To start with, from April 2017, we propose to include income thresholds that better reflect household composition for Tax Credits (Child Tax Credit and Working Tax Credit) and Universal Credit recipients. The current eligibility criteria already require suppliers to verify income levels for these benefits. It is our aim that the definition of household composition and income aligns with information available for data matching and on benefit letters, and that the supply chain will be able to continue using existing methods to identify and verify customers as eligible (using either benefits documents or electronic verification). We will work closely with DWP and HM Revenue and Customs (HMRC) to investigate options for implementing eligibility changes within electronic verification systems over the coming months.

For tax credits, an electronic verification system is already in place to enable suppliers to verify households as eligible with the Department for Work and Pensions (DWP). This system, which only requires a recipient's name, address and date of birth to determine whether they are eligible, could be adapted to reflect these new eligibility criteria.

We propose to have a number of income thresholds which will take into account whether the household consists of a single person or a couple and will take into account the number of children within a household. Taking into account the number of children is particularly important, as they can have a significant impact on how fuel poor a household is likely to be.

In particular, we propose to adopt income thresholds based on whether the household consists of a single person or a couple and whether they have one, two, three or four or more dependent children (these ten household composition types are shown in Annex A).

The Hills Review suggested taking into account other occupants, which would have resulted in around 40-50 possible household composition types, to get the best targeting accuracy. However, based on our analysis, ten household composition types provide a similar improvement in accuracy while not adding undue complexity.

It is our aim that income thresholds will be consistent on Tax Credits and Universal Credit. However, in practice, income thresholds for Tax Credits and Universal Credit may be presented differently to factor in their different definitions of income (i.e net monthly earnings for Universal Credit and gross annual taxable income for Tax Credits). More details on setting income thresholds are set out in Annex A.

This is an important first step in improving the accuracy of the scheme. Compared to introducing a single income threshold that does not take account of household composition, for example, this approach will ensure that an additional 100,000 low income households will be eligible under the scheme in Great Britain (according to the Hills Review definition), of which around 54,000 would be fuel poor in England. Over time, these figures are expected to increase as more benefits recipients move to Universal Credit, thus continuing to improve the targeting accuracy of the scheme. We are currently investigating with DWP whether this information can be made available for other eligible benefits. In the meantime, we propose simplifying the eligibility criteria for the other working age benefits (Income Support, Income-based Jobseeker's Allowance and Income-related Employment and Support Allowance), so that a customer only needs to prove they are in receipt of the benefit, rather than having to prove additional qualifying criteria (as per the current scheme). This means that, for 2017-18, there will be no income threshold applied to these benefits and it will not be necessary to provide evidence of a disability or parental responsibility for a child, for example.

For full details of these proposals, see Annex A.

Question 5

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

Question 6

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

Question 7

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

Pension Credit Saving Credit recipients

Currently, in addition to the benefits referred to in the section above, any person in receipt of Pension Credit is considered to be eligible for Affordable Warmth. Pension Credit is made up of two parts: Guarantee Credit, which tops up weekly income if it is below £155.60 (for single

people) or £237.55 (for a couple); and Savings Credit, which is an extra payment to reward people who have saved towards their retirement.

An individual can receive both types of Pension Credit where they meet both sets of eligibility criteria. This means that households which are solely in receipt of Savings Credit (and not in receipt of Pension Credit Guarantee Credit or other benefits) have higher disposable incomes than those in receipt of Pension Credit Guarantee Credit. As a result, only around 10% of households solely in receipt of Savings Credit are fuel poor according to the English indicator. This is in line with the national average, suggesting recipients of this benefit should not be targeted by the scheme any more than the general population. For comparison, 19% of those in receipt of Pension Credit Guarantee Credit are fuel poor, and 27% of households in receipt of the working age benefits proposed for inclusion in the scheme are fuel poor. This means that recipients of these working age benefits are almost three times more likely to be in fuel poverty than recipients of Savings Credit.

Wider reforms made to the pension system in 2016 abolished the Savings Credit element of Pension Credit for people who reach State Pension age on or after 6 April 2016, but retains Pension Credit Guarantee Credit for pensioners on the lowest incomes.

Therefore, bearing in mind our objective to increase the focus of the supplier obligation on fuel poor households, we propose to continue to enable over 1 million pensioners in receipt of Guarantee Credit, and as such on low incomes, to be eligible for the scheme. We propose in addition that solely being in receipt of Savings Credit should no longer be sufficient to qualify for support under Affordable Warmth. In doing so, we would rebalance the targeting of the scheme towards those who need it the most, including continuing support to low income pensioners and low income households in receipt of working age benefits.

It is important to note, however, that all households on Savings Credit only would still qualify where they have been identified as fuel poor or vulnerable by a local authority (see the section on 'Flexible Eligibility' below), through the CERO element of the scheme (which has no household eligibility rules), or where they are in the least efficient social housing (see social housing section below). Note also that households that are solely in receipt of Savings Credit have been eligible under Affordable Warmth since 2013 and many will have been offered measures already.

This change also brings the eligibility criteria in line with the Warm Home Discount core group, creating more consistency in the approach taken across the two policies.

Question 8

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

Targeting the most inefficient homes

People living in social housing tenure

Social housing tenure has not previously been eligible for support under the Affordable Warmth obligation, owing to the relatively high efficiency of those properties and the relatively high proportion of funding these homes received under ECO's predecessors. Many have also benefited from previous investment programmes such as the Decent Homes Standard.

However, people living in social housing are generally more likely to also be living on lower incomes than those in private tenure, and where social tenants live in energy inefficient properties they tend to have a high likelihood of being fuel poor. For example, in England, in the least efficient social housing (Energy Performance Certificate (EPC) bands E, F or G) the proportion of households that are fuel poor is around 45%. Given the relatively high costs faced by people in these properties, we propose to allow all those living in social tenure housing with an EPC band of E, F or G to be eligible within Affordable Warmth. Also, given the high proportion of fuel poor households living in this housing and the general low income levels, we propose that additional eligibility criteria relating to the occupants of those properties is not required (for example being in receipt of any benefits or below an income threshold), which will make delivery of energy efficiency measures simpler, especially in blocks of flats.

Including social housing up to band E will mean an estimated 480,000 additional households would be eligible for support across Great Britain. The ability of social landlords to achieve economies of scale and lever in other funding sources could also help to facilitate cost-effective delivery to these homes.

These factors could also mean, however, that there is a risk of measures being delivered disproportionately in the social housing sector, leaving behind fuel poor residents in private housing. To partially mitigate this, we are proposing to restrict the delivery of some heating measures in social housing (see Chapter 4). Our modelling estimates that social housing is likely to make up around 10% of Affordable Warmth measures from 2017-18, which we do not consider to be unreasonably detracting from measures delivered to private tenure properties.

We would expect most social landlords to have EPCs for their housing stock. We welcome views on whether an EPC on its own should be sufficient proof to establish which premises are eligible, whether additional assurance should be required from the social landlord, or whether an EPC should not be needed where properties are very likely to be E, F or G rated, for example properties that have solid walls and are not fuelled by mains gas.

Question 9

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

Question 10

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

New build homes

In order to better target delivery to inefficient homes which are expensive to heat, we propose making it explicit that, prior to completion of building works, new build homes are not eligible for ECO support from 1 April 2017. These proposals relate to new dwellings which have not yet been occupied following construction at the point of measure installation.

Homes which are newly built today must meet stringent energy efficiency standards set out in building regulations. Therefore they are less likely to be fuel poor, and significantly less likely to house those in deepest fuel poverty. It is likely that only small volumes of ECO measures are currently being delivered in such premises, as work must exceed the energy efficiency requirements of building regulations and the 'score' awarded only relates to savings achieved over-and-above those regulations.

Although there are benefits of exceeding the requirements of building regulations, any measures delivered to new build homes under ECO would be diverting funding away from more thermally inefficient and expensive to heat homes. We do not think this is appropriate for a reformed, fuel poverty focused ECO.

Energy efficiency standards in extensions and refurbishments are often also set by building regulations; however, as these can occur at properties which have poor energy efficiency ratings, we do not propose to change the current rules in order to exclude them from ECO.

Question 11

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

Flexible eligibility: A role for local authorities and other organisations

Local authorities are often well placed to identify fuel poor households, as they can have access to locally held data on the housing stock. Local authorities may also be well placed to identify low income and vulnerable households, including those that are elderly and those with a health condition that can be exacerbated by living in a cold home. These particularly vulnerable households can be the hardest to reach with fuel poverty support. Local authorities could have a key role in overcoming this, by making the most of existing services or networks and coordinate referrals from local agencies (eg health bodies, community groups and charities). These partnerships may also be well placed to support these households to receive more holistic support with ancillary services - eg benefit entitlement checks or home adaptations.

In order to make the most of this knowledge, we intend to give local authorities (and, potentially, other intermediaries) the ability to determine whether households are eligible, for a proportion of the scheme ('flexible eligibility'). We believe this would enable people to be reached who would otherwise be excluded.

We propose that this is optional and neither local authorities nor energy suppliers will be mandated to use this form of eligibility. This is in keeping with the principle of setting out the types of household and measures that we want to be targeted through suppliers' obligations, without unduly constraining how energy suppliers deliver them. It would offer suppliers an alternative way of complying with a portion of their obligation, increasing the number of eligible households, and potentially reducing the costs of identifying these homes. This, in turn, could improve the cost effectiveness of the scheme.

Note that whilst we are proposing a more flexible approach to determining eligibility, all other scheme requirements (such as measure eligibility, administrative rules etc) would remain as they are for the rest of the Affordable Warmth obligation.

Which types of households would be eligible?

There are two main categories of private tenure household that we intend to be made eligible:

- i) Fuel poor households that are not in receipt of eligible benefits (including the estimated 20% of fuel poor households that are not in receipt of any benefits)
- ii) Low income households that are vulnerable to the effects of living in a cold home

To assist participants, we propose that we would publish guidance on the types of household that we intend to be targeted under flexible eligibility.

We also invite views on whether to allow some non-fuel poor private tenure homes to be included in flexible eligibility in order to facilitate multi-property projects for solid wall insulation in rows or blocks (and potentially some other measure types), as long as a minimum proportion of homes are fuel poor.

We understand that treating rows or blocks of adjacent homes with solid wall insulation can achieve economies of scale. It may be relatively rare for there to be rows of fuel poor, private tenure homes that meet the specific benefits criteria outlined earlier in this chapter. This means that suppliers may deliver most, if not all, of their solid wall insulation minimum to 'able to pay' households in CERO (which has no eligibility rules), and to blocks of social tenure households.

Whilst suppliers could treat fuel poor homes under Affordable Warmth and claim adjacent properties under CERO, they may not be incentivised to do so. We are concerned that this may indirectly limit delivery of solid wall insulation to fuel poor private tenure homes, especially as from 2018 we will be proposing that the scheme will be even more focused on assisting fuel poor households.

Enabling this type of delivery under flexible eligibility could potentially result in more delivery of solid wall insulation to private tenure fuel poor homes. A consequence of doing so, however, could be a reduction in the number of fuel poor homes that would be supported under Affordable Warmth overall, as some of the obligation would instead be used to treat able-to-pay homes as part of these multi-property projects.

There may be other measures types, for instance district heating and flat roof insulation, which are similarly affected and could be included within flexible eligibility. We welcome your views on whether the flexibility should cover these measures too, in addition to solid wall.

Size of flexible eligibility

As this is a new mechanism, and one which we have not tested under previous supplier obligations, we propose that flexible eligibility is introduced gradually, and limited to a proportion of each energy supplier's 2017-18 Affordable Warmth obligation. We invite views on whether this should be 10%, 20% or another amount. We will review retaining this flexibility beyond 2018, working with stakeholders during the course of 2016 and early 2017 to determine whether the percentage of the obligation that can be delivered under this route should be increased in future years.

Social housing and flexible eligibility

We do not propose including social housing within flexible eligibility, as the most inefficient social housing (those with an EPC band E, F or G) is already eligible (see social housing section above). In this way we will prioritise the use of flexible eligibility for vulnerable and fuel poor households in private tenure properties.

Note that for the 2017-18 transition, energy suppliers would still be able to deliver carbon savings in social housing EPC bands A-D under CERO.

Delivery of flexible eligibility

We set out our proposals below on how flexible eligibility could work.

Local authority declarations

We propose that local authorities would provide a declaration to energy suppliers that they had determined a household, or a number of households, as eligible under Affordable Warmth. Energy suppliers would then be able to count savings from any measures installed in those households towards their obligation. Local authorities could either seek out and identify eligible homes themselves, or provide an assurance role where other bodies (eg suppliers, installers or other organisations) identify suitable households. We believe there will be significant scope for local authorities to work with existing partners and other organisations such as charities, health organisations or community groups in order to identify households, referring households on to other locally provided services as required.

Under this proposal local authorities will be required to set out in a declaration the addresses of the households and the reasons for determining them as eligible.

In order to enable DECC to monitor and review whether flexible eligibility is being delivered in the way we intend, energy suppliers will be required to provide Ofgem E-Serve with the reasons given by local authorities in their declarations for granting eligibility to each household. We are also interested in other ways of monitoring how local authorities are meeting the intent of this policy and would welcome views on whether this could be achieved by:

- i) requiring the local authorities to have set out publicly in advance the method by which they will identify and engage households and any monitoring or auditing processes in place for this; and/or
- ii) requesting that local authorities publish an annual report on how they have identified and engaged households.

More generally, we welcome suggestions on how this mechanism could be designed in such a way as to encourage the involvement of local authorities across the country, while meeting our fuel poverty objectives in an accurate and cost effective way.

Schemes involving other intermediaries

In addition to local authority declarations, we welcome views on whether to enable parties other than local authorities to determine eligibility. This may be particularly helpful, for example, in parts of the country where local authorities may not have capacity to get involved and/or where there are community energy or health projects established with the expertise and capability to determine eligibility.

Under this approach, we would propose that details of schemes or projects would be submitted to the scheme administrator (Ofgem E-Serve) for approval. We suggest that a scheme would have to be submitted by an energy supplier and involve one or more additional parties experienced in the identification of fuel poor households (this could, for example, include charities, health organisations, or other parties with an interest in fuel poverty).

Our proposal would be that Ofgem E-Serve would approve schemes based on criteria set out in legislation. For example, Ofgem E-Serve would have to be satisfied that a scheme is aimed to deliver measures to fuel poor households that are not in receipt of eligible benefits (including the estimated 20% that are not in receipt of any benefits) or households vulnerable to the effects of living in a cold home. In addition, approval of the scheme could be dependent on Ofgem E-Serve being satisfied that robust identification methods, monitoring, auditing and verification processes are in place, and that the organisations involved have appropriate expertise and experience.

We welcome views on this, including whether involvement should be limited to certain types of organisation and/or whether DECC should set criteria to ensure that only schemes from appropriate bodies with the appropriate expertise and experience to identify fuel poor

households are approved. We are also interested in views on how we could avoid large volumes of schemes being submitted, potentially resulting in additional administrative burden and lengthy assessment timescales.

Once the scheme is approved, our suggested approach would be that a scheme could determine eligibility for households under the Affordable Warmth obligation. Approved schemes could be published and could then be used by any energy supplier, enabling multiple suppliers to access schemes operating across specified parts of the country. Alternatively, we could require that each scheme had to be promoted by a single energy supplier. This approach could segment delivery geographically, with each area covered by a scheme dominated by a single supplier; however, it could also provide greater control on fuel poverty targeting and assurance, with a single energy supplier responsible for the accuracy of household targeting of each scheme.

We welcome your views on how this mechanism could be designed in such a way as to encourage the involvement of organisations other than local authorities across the country, while meeting our policy intent to support fuel poor households, in an accurate and cost effective way.

Question 12

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

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

Question 13

Do you consider that solid wall insulation for non-fuel poor private tenure homes should be included under flexible eligibility, as described above?

Please provide reasons, including views on whether this should be allowed for measure types other than solid wall insulation.

Question 14

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

Question 15

Do you consider that schemes involving other intermediaries should be allowed, as described above, in addition to local authority declarations? Please provide reasons, including whether there are any viable alternatives that meet the policy intent.

4. Eligible energy efficiency measures

Overall measure eligibility

During the one-year extension to ECO, retaining some continuity with the existing scheme will support industry in the transition towards a future fuel poverty focused obligation. The types of measures that are currently eligible and which achieve heating cost savings and/or carbon savings will continue to be eligible under the scheme during the transition and energy companies will have freedom to select the measures that they believe can achieve their share of the obligation in the most cost effective way.

There are, however, some measures where we propose to intervene to ensure the scheme is aligned with our strategic objectives, which this chapter sets out.

It is important to broaden the range of measures delivered under Affordable Warmth (currently dominated by gas boiler replacements) to include more insulation and heating measures which are expected to offer the most help to those in inefficient homes and on low incomes²³. Our proposals below seek to support this transformation by reducing the volume of gas boiler replacements, thereby requiring increased delivery of other measures such as first time central heating and insulation.

This chapter also sets out proposals for retaining the solid wall minimum requirement. Solid wall insulation measures are considerably more expensive than other types of insulation, and as such retaining a solid wall insulation minimum threshold for 2017-18 would increase the cost of the scheme relative to the number of measures installed. However, many fuel poor households live in solid walled properties and there are potentially benefits in ensuring a minimal level of support for this measure, in order to make progress towards our long-term fuel poverty targets and to maintain the supply chain. We are proposing increasing the solid wall minimum requirement to 4.74 MtCO₂ (an estimated 17,000 additional solid wall insulation measures).

We also propose that an in-use factor for party wall insulation should be introduced and set at 15%.

These proposals are discussed below.

Boiler replacements

Under the current Affordable Warmth obligation, there are two broad types of boiler installation measure:

- A **'qualifying' boiler replacement** involves the replacement of a broken or inefficient boiler (meeting specific criteria) with a new heating system. The cost savings attributed

²³ See Chart A1 of the Impact Assessment supporting this consultation, which shows a comparison of historical AW delivery and the fuel poverty marginal abatement cost curve for an illustrative mix of measures. This shows our projections that insulation measures such as cavity wall insulation, loft insulation and solid wall insulation and renewable heating and other heating measures will be more cost effective than boiler replacements in 2017-18.

to these measures assume that the home is heated by portable electric heaters prior to the boiler replacement, reflecting the fact that the old boiler was not working.

- A **boiler installation** involves the installation of a boiler in any home where that measure will deliver a heating cost saving. The cost savings in this case are based on the difference between the original heating system and the new system.

This scoring system for qualifying boiler replacements was introduced to help drive delivery to those homes with no functioning heating system. However, the favourable scores have resulted in these measures dominating the Affordable Warmth obligation, at the expense of other measures which can have a bigger impact on addressing fuel poverty. Currently around 90% of the measures delivered under Affordable Warmth are qualifying gas boiler replacements and associated heating controls. The improvement in a household's energy efficiency from installing a more efficient gas boiler is not as great over the long-term when compared to other measures such as insulation or first time central heating. They do help ensure that low income households have a functioning heating system, but our analysis suggests they would be less cost effective in making progress in tackling fuel poverty.

Furthermore, we have evidence that shows that fuel poor homes will ultimately replace a broken boiler without Government support – even if it takes them longer to do so than a non-fuel poor home. This means that providing support for boiler replacements results in less additionality than supporting first time central heating or insulation, which a fuel poor home is much less likely to undertake themselves. Therefore, we propose to limit the delivery of qualifying gas replacement boilers, where a gas boiler is replaced by another heating measure, within the Affordable Warmth obligation.

We are, however, mindful that limiting gas boiler replacements may mean that more low income households may use expensive coping mechanisms such as plug-in electric heating, if they do not currently have the means to replace their boiler. Therefore we are keen to retain an element of support, so that some gas boilers can be replaced under the scheme. It will be important to get the right balance between continuing some support for boiler replacements, but rebalancing the scheme to encourage more of a fabric-first approach with significantly more insulation delivered to the least energy efficient, low income homes. In addition, there are several types of heating measures which we do not propose to limit as they are important for supporting the least energy efficient homes. These include 'first time central heating', district heating, heat pumps and non-mains gas heating measures, eg those fuelled by oil or liquefied petroleum gas (LPG).

Minimum requirement for measures other than qualifying gas boiler replacements

We propose to impose a requirement on suppliers to achieve a minimum of their extended Affordable Warmth target through measures other than qualifying boiler replacements, where the existing boiler is gas-fuelled ('qualifying gas boiler replacements').

We intend to require that only measures installed after 1 July 2016 will be eligible for the minimum. If we allowed measures delivered since the beginning of ECO2 to count towards the minimum, it could unfairly benefit some energy suppliers over others, depending on their historic delivery profiles. However, we also want to enable suppliers to make early progress towards their minimum target, in order to provide more time and flexibility for them to deliver their obligations cost effectively. We think our proposed date will achieve an appropriate balance between fairness and flexibility.

We explored alternative options such as capping the number of qualifying gas boiler replacements from 1 April 2015, but such a cap could unfairly benefit some suppliers over others depending on how many boilers they had delivered from the beginning of ECO2, to

now. We also explored options such as capping the number of qualifying gas boiler replacements carried out in 2017-18 only, or by reducing the score all these qualifying gas boiler replacements receive. But, as we are extending the ECO targets, we believe this could create an incentive for suppliers to ramp up delivery of boilers before the scheme rules changed, thereby reducing the volume of insulation measures delivered.

To avoid transitional issues in the one-year extension, we do not propose introducing any additional criteria on boiler replacements – such as excluding the private rented sector from support or ensuring that boilers delivered are most likely to go to those in severe fuel poverty or most in need, eg by limiting replacements to a specific boiler efficiency rating or limiting to households with an occupant with a specified health condition. It is our belief that significantly restricting volumes *and* altering the rules of the boilers they are allowed to replace, would risk making measures more costly for energy suppliers to find.

Note that, under these proposals, energy suppliers would be able to install and count a boiler measure meeting the definition of a qualifying boiler towards this requirement, provided the score used is appropriate to the actual before and after heating fuel types (rather than using a false baseline of electric heating).

Question 16

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

Please provide reasons and describe any preferred alternative proposal, if applicable.

Question 17

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

Please provide reasons and describe any preferred alternative proposal, if applicable.

Level of the Affordable Warmth minimum

Over the three-year period from January 2013 to January 2016, approximately 360,000 qualifying boilers were replaced under ECO, the equivalent of around 120,000 each year. We propose to set the size of the minimum so that it limits the total number of qualifying gas boiler replacements under the transition year to approximately 25,000 installations. This equates to approximately £0.42 billion in cost savings or around 23% of the £1.84 billion increase in the Affordable Warmth obligation for the transition year (provisional figures²⁴). This proposal represents a significant reduction in the support for qualifying gas boiler replacements that could be delivered under the scheme, with the benefit of significantly increasing support for measures that make more progress towards our objectives and improving the efficiency of the least efficient low income homes.

²⁴ The provisional size of the minimum target for measures other than qualifying gas boiler replacements would be around 77% of £1.84 billion. These provisional figures are based on evidence around measure and delivery costs, and illustrative estimates of the deemed scores. The targets will be finalised in the regulations in the light of consultation responses and drawing upon improvements made to our evidence base and the deemed scores developed by Ofgem (see Chapter 5). Further details are set out in the accompanying consultation stage impact assessment.

Question 18

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

Please provide reasons and describe any preferred alternative proposal, if applicable.

The limitations referred to above would apply only to qualifying gas boiler replacements. We do not propose any changes to the current rule that qualifying boiler repairs are limited to 5% of an energy supplier's Affordable Warmth obligation.

Heating measures that we have not proposed to limit include:

- **Heating controls (any fuel type)**
These currently account for approximately 20% of the measures installed under Affordable Warmth. We do not propose to impose limits on heating controls, but by limiting qualifying gas boiler delivery we anticipate that this will lead to a lower level of heating control delivery.
- **First time central heating (any fuel type)**
The installation of a central heating system in a home that does not have a boiler and heat distribution system can significantly reduce the cost of heating a home to an adequate level. Homes without central heating are also twice as likely to be fuel poor than the average household and are also particularly concentrated in the least energy efficient properties. Upgrading to a boiler with a heat distribution system can significantly improve the energy efficiency rating of these properties.
- **Qualifying non-gas boiler replacements, such as oil or LPG boiler replacements**
Despite introducing a non-gas uplift in April 2015, these non-gas boiler replacements have not been installed to expected levels. We are keen to support fuel poor households in non-gas properties so propose that these measures are not subject to limits. However, as they would continue to be scored using an electric heating baseline we recognise that there is a risk that these measures could be unduly incentivised over other measures that may have a greater impact on a household's energy efficiency rating.
- **Non-qualifying boiler repair or replacement (any fuel type)**
Scores awarded for non-qualifying boilers do not benefit from an electric baseline and we believe it encourages suppliers to seek opportunities to replace the oldest, least efficient boilers while not unduly incentivising these measures over others.
- **Electric storage heaters**
We are not proposing any changes to the current rule that qualifying electric storage heater repairs are limited to 5% of an energy supplier's Affordable Warmth obligation. We are not proposing any other limits on qualifying or non-qualifying electric storage heater measures. However, we recognise that there is a risk that these measures could be unduly incentivised over other measures that may have a greater impact on a household's energy efficiency rating.
- **Renewable heating**
Renewable heat is important for our long-term decarbonisation, renewable energy and fuel poverty targets. Subject to responses provided to question 20, we do not propose to limit renewable heat deployment.

- **Heat networks**

These also have a significant role to play in our long-term approach to decarbonisation. We are supportive of ECO having a role in the financing of heat networks, so are not proposing to limit them, including for renewable heat networks (subject to responses provided to question 20). We are also keen to see increased consumer protection in this area (see below).

Question 19

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

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

Renewable heat

Currently a renewable heating measure which receives either a domestic or non-domestic Renewable Heat Incentive (RHI) tariff is able to receive support from ECO and be claimed towards a suppliers' obligation. We have seen renewable district heating deployed at a small scale under CERO and CSCO. While renewable heat and district heating are eligible under Affordable Warmth, we have not seen any delivery between the start of ECO in January 2013 up until the end of February 2016.

We expect that our proposals to allow renewable heat and district heating measures in E, F and G rated social housing and to limit gas boiler replacements could make it more likely that renewable heat will be delivered in Affordable Warmth in the future.

There is a proposal to improve access to those less able to pay by introducing 'Assignment of Rights'²⁵, which allows RHI payments to be made to third parties in the Domestic RHI. This may also support renewable heat delivery under Affordable Warmth, depending on the final policy design.

Government is keen to ensure that the RHI and ECO can interact to incentivise renewable heat for those that are least able to pay, alongside other measures. However, we are considering whether changes to both schemes could shift the balance of measures delivered in ECO, limiting the delivery of other measures that support the scheme's objectives, such as insulation. We are also considering how to prevent a situation where an energy supplier can receive a disproportionate benefit from claiming the measure towards their CERO or Affordable Warmth obligations once RHI payments to the supplier or other third parties are taken into consideration. For example:

- monitoring the use of ECO and RHI in combination;

²⁵ See page 41 - 42 at <https://www.gov.uk/government/consultations/the-renewable-heat-incentive-a-reformed-and-refocused-scheme>

- limiting the number installations of RHI-eligible technologies that can be supported in ECO; or
 - by reducing the ECO score for measures where RHI payments have been assigned.
-

Question 20

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

Heat networks

The Government is keen to ensure that households which are connected to local heat networks receive adequate consumer protection. In order to support this objective, we are seeking views on whether there are suitable arrangements for consumer protection, such as by being a member of the recently launched 'Heat Trust' scheme, that a supplier should be required to demonstrate for a heat network to be eligible under ECO (either CERO or Affordable Warmth).

Question 21

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

Please state your views, including suggestions for appropriate consumer protection arrangements.

Social housing

In previous schemes we saw that social housing received a disproportional share of support. Whilst it is important to support the least efficient social housing, we would want such support to mainly be focused upon measures that improve the fabric efficiency of the property. We therefore propose that, should social housing with an EPC energy efficiency rating of E, F or G be included under the Affordable Warmth obligation, these homes will be eligible for insulation measures.

If a heating system is broken or in need of repair we would expect a social landlord to take action to ensure their tenants have a functioning source of heating. We therefore propose that measures delivered to those properties should not include boiler or other heating system replacements or repairs of any fuel type. The only exceptions we are proposing to this are for first time central heating (including district heating) or, subject to responses to question 20, the installation of renewable heat.

Question 22

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

Solid wall insulation minimum requirement

Solid wall insulation (SWI) represents a significant challenge for the nation's housing stock, with nearly eight million homes of solid wall construction, of which only 5 per cent have wall insulation. Analysis shows that this challenge disproportionately impacts on those living in fuel poverty; for example while about 29% of all English homes have solid walls, 46% of homes occupied by the fuel poor have solid walls. While these homes are considerably more expensive to treat than other remaining standard insulation opportunities, insulating them will help us to tackle fuel poverty and meet our longer-term national carbon reduction targets. Some ongoing certainty for this supply chain will support both of these longer term objectives.

The Government believes that there are potential benefits to ensuring that a certain minimum level of solid wall insulation delivery continues through 2017-18. We therefore propose to maintain a specific sub-target for the delivery of insulation to solid wall properties. This would also support our objective of a smooth transition by avoiding a sudden halt in SWI delivery once suppliers meet their current SWI minimum targets.

However, retaining a solid wall insulation minimum threshold for 2017-18 at current levels, when the overall obligation is reducing to £640m per year, would increase the cost of the scheme relative to the number of measures installed, and would reduce the number of more cost effective measures which can be installed.

We propose to retain the solid wall minimum requirement for the extension period, increasing the target from 4 MtCO₂, by 31 March 2017 (which included ECO1 measures) to 4.74 MtCO₂ by 31 March 2018. This is broadly equivalent to an additional 17,000 measures which is an annual pro-rata decrease (from the estimated 25,000 measures per annum delivered under ECO2), in line with the overall reduction in the overall spend from 2017. This minimum should provide an appropriate degree of certainty and predictability to the supply chain for investment purposes.

To retain a solid wall minimum above this level yet still meet the manifesto commitment to insulate 1 million more homes within a level of £640m would require stark trade-offs – namely, further limiting the number of heating measures that suppliers could support under the Affordable Warmth obligation. Of course, suppliers will be able to deliver more than the minimum requirement. Where cost effective opportunities for SWI present themselves beyond this minimum, installations could continue to be counted towards the relevant targets.

Question 23

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

Question 24

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

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

Party wall insulation

Party wall insulation, to treat cavity walls separating adjacent terraced houses, is an eligible measure under ECO. Unlike other ECO measure types, there is currently no measure-specific in-use factor (IUF) attributed to it in the ECO Order, so it shares that of cavity wall insulation (35%). An IUF is applied to each CERO and CSCO measure's savings to take account of performance in-use, which is typically 10-35% lower than predicted by the Standard Assessment Procedure (SAP) methodology. IUFs have a significant impact on the contribution a measure makes towards an energy company's obligation, and can impact on the commercial viability of delivering these measures under the scheme.

Following an independent review and technical assessment, the in-use factor for party wall insulation was set at 15% for the purposes of the Green Deal²⁶. A key reason why this IUF differs from that for cavity wall insulation is due to the different type of heat loss that party walls are subject to, relative to cavity walls. The Government proposes that this in-use factor of 15% also be applied to the installation of party wall insulation measures under CERO after 31 March 2017.

Primary and secondary measures

Under CERO, there is a limited set of measures which can be installed without additional conditions. These are called primary measures, and include cavity wall insulation, solid wall insulation, district heating, loft insulation and other types of roof insulation. Other types of measures can only be installed at the same premises as a primary measure, where the primary measure meets certain conditions.

At present, party wall insulation is a primary measure under CERO, but it cannot support secondary measures. This means that, where party wall insulation measures are installed under this obligation, it will not be possible to install secondary measures such as glazing, draught proofing or underfloor insulation unless another primary measure is also installed.

Given party wall insulation is a relatively new measure, we think a high proportion of the potential for party wall insulation will be in homes where cavity wall insulation and loft insulation has already been installed. We think this is restrictive – and disincentivises the supply chain to install party wall insulation. We therefore propose that party wall insulation measures installed after 31 March 2017 be upgraded to full primary measures under CERO, enabling them to support secondary measures from April 2017.

Question 25

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

Question 26

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

²⁶ See the Green Deal and ECO Measures Update 2014, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/383541/GD_and_ECO_Measures_UpdateFINAL_2_.pdf

5. Delivery and administration

Over 1.4 million homes have been treated with energy efficiency measures under ECO²⁷ since it was first launched in January 2013. This high volume of installations is testament to the success of this scheme in improving the energy efficiency of our housing stock.

With the need to focus on those who need support the most, inevitably there need to be rules governing which measures can be delivered, who is eligible to receive them, the quality of installation, the savings they are estimated to deliver and how this can be evidenced. However, there is a general view from all parts of the supply chain that the level of administration under the first two phases of ECO is higher than necessary, adding to delivery costs.

A considerable amount of work has been undertaken, by both Government and industry, during the current obligation to simplify the scheme. In particular the work of the ECO Reporting Working Group has standardised and simplified reporting requirements, and the progress made in using data matching to evidence eligibility has reduced the volume of paperwork that the supply chain needs to handle. However, the reforms to the obligation present an opportunity to go further. A full list of scheme simplifications proposed as part of the reforms is presented at the end of this chapter.

As outlined in previous chapters, a number of the proposed changes to the scheme structure and targeting should act to reduce complexity. The removal of the CSCO obligation and rural sub-obligation would remove a set of rules that many measures would have had to comply with, and simplifying the eligibility criteria for certain benefits should facilitate the targeting of eligible households.

In addition, this chapter sets out a series of proposals which have been designed to help simplify delivery, reducing administrative burden and complexity, where possible, while continuing to support the delivery of measures to an appropriate quality.

For continuity with the current scheme, the one-year extension will be administered by Ofgem E-Serve.

The proposals set out below include:

- the removal of the requirement for CERO measures to be recommended in a Green Deal Advice Report (GDAR) or chartered surveyor's report;
- the introduction of 'deemed scores', which should reduce the complexity, cost and risks associated with calculating ECO savings;
- an amendment to the one-month reporting rule to help prevent otherwise eligible measures from being lost on the basis of one-off administrative issues;
- the extension of the deadline for transferring measures in CERO and Affordable Warmth to allow more time to manage obligations at the end of the scheme;
- permission for energy companies to trade their obligations, under certain conditions;

²⁷ Figures correct for installations to the end of February 2016. See DECC's April 2016 release of Household Energy Efficiency National Statistics: <https://www.gov.uk/government/statistics/household-energy-efficiency-national-statistics-headline-release-april-2016>

- alignment with outcomes of the Bonfield Review, to support the delivery of appropriate quality measures under ECO; and
- the introduction of a single date of effect for all new scheme rules (except the Affordable Warmth minimum).

In addition, we are seeking views on three other areas of the scheme:

- the collection and publication of ECO cost data;
- options for supporting delivery in locations with higher than average delivery costs; and
- options to ensure that brokerage rules can support other changes proposed in this consultation.

Measure recommendation reports

Measures installed under the current CERO and CSCO obligations must be recommended on either a GDAR or a chartered surveyor's report (CSR) (there is no equivalent requirement under Affordable Warmth). This requirement was intended to ensure that consumers were given appropriate advice about the range of measures they could install, in order to drive demand for additional measures (and in the case of GDARs, specifically for Green Deal finance) and also to encourage householders to install those measures which provided the most benefit. CSRs were intended to be used where a GDAR was not technically viable – though CSRs have been used to a much greater extent than anticipated, accounting for approximately 30 per cent of measure recommendations since the beginning of ECO2 (Apr 15 – Jan 16).

Delivery statistics have shown that, in spite of multiple measures being recommended on GDARs, homes are in the majority of cases treated with a single measure under ECO and, before funding for the Green Deal Finance Company ended in July 2015, there was not a significant volume of blending with Green Deal finance. Therefore, the Government believes that the current recommendation requirements are not justifying their cost in the current scheme. In order to reduce administrative costs, we propose to remove the requirement for measures to be recommended on either a GDAR or a CSR. This change would take effect for measures completed on or after 1 April 2017.

We are aware that a key theme emerging from stakeholder dialogue through the Bonfield Review is that the quality of technical pre-installation surveys which assess suitability of measures for a property prior to installation and the subsequent design stage are insufficient in many cases, particularly when considering external wall insulation, which may have an adverse effect on quality. Pre-installation surveys are a requirement of the quality framework underpinning ECO (PAS 2030) and are separate to the assessment required to recommend measures. The Government believes that the existing recommendation requirements do not provide assurances as to the technical suitability of particular measures in particular properties. But, the Government is seeking views on whether there are any appropriate steps that can be taken to ensure that measures are installed in suitable properties, particularly in light of the outputs of the Bonfield Review (discussed in more detail later in this chapter).

Question 27

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

Question 28

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

Scoring of measures

Deemed scores

In order for suppliers to meet their obligations, they must deliver measures to eligible homes. Each measure is awarded a 'score' based on the anticipated carbon or notional bill saving that will be achieved over the measure's lifetime. The current ECO scoring system requires a unique score to be calculated for each measure in every property treated under the scheme, using the Standard Assessment Procedure (SAP) or reduced data Standard Assessment Procedure (RdSAP). Under this system, certified domestic energy assessors are required to carry out a full house assessment of each property in order to determine a savings score for a measure. The use of SAP and RdSAP under ECO is consistent with the methodology used under the Green Deal, where a bespoke estimate of savings was required to ensure that the golden rule²⁸ was met.

The requirement to use individual household SAP and RdSAP assessments has been cited as a particular cause of complexity within the scheme due to the need to collect and evidence a large quantity of data for every measure installed. We have heard that installers would typically be uncertain of the commercial value of a measure until the assessment had been completed – making it difficult to make a standard offer to all households in a particular area, and meaning that sometimes an installer would decide not to proceed with a measure once the assessment had been carried out. This reduces the cost-effectiveness of the scheme and could be potentially frustrating for customers.

In addition, there have been some concerns regarding the accuracy of the information collected during property assessment, which has undermined confidence in the savings being awarded in some instances. In order to gain assurance in the scores, a number of compliance checks have been introduced by the scheme administrator (Ofgem E-Serve). Under ECO1, these checks resulted in over 840,000 tCO₂ savings and over £6m cost savings being removed from the scheme. However, the checks themselves have increased administrative complexity.

In line with our aims to simplify the scheme and improve value for money, the Government is proposing that measures completed from 1 April 2017 should be scored using 'deemed scores', rather than the current bespoke scoring approach (with the exception of district heating system measures). This would entail the production of a finite set of scores that reflect the savings expected from different measures in different properties, based on a limited number of predictable and checkable inputs, such as property type, number of bedrooms and heating type. This system of scoring would simplify scheme delivery and administration, and reduce costs. The Government proposes that these scores would be determined by Ofgem

²⁸ The expected financial savings must be equal to or greater than the costs attached to the energy bill.

E-Serve, who would consult on the methodology used to calculate the scores prior to the start of the scheme extension²⁹.

In reflecting the performance of measures, we expect that the scores would generally be higher for properties with higher heating costs, as has been the case in previous schemes where deemed scores have been used, such as the Carbon Emissions Reduction Target (CERT) and the Community Energy Savings Programme (CESP). This would act to incentivise the delivery of measures to properties where they will have greater impacts.

We would also expect that, to a certain extent, the relative performance of different technologies can be taken into account in the deemed scores. This differentiation would support technologies that perform more effectively and potentially incentivise improvements in quality and innovation in product design, leading to reduced delivery costs and improved outcomes for consumers. In order to maintain the simplicity that deemed scores provide, we would expect that this differentiation takes into account broad levels of performance rather than a separate set of scores being provided for each and every available product.

We anticipate that an energy supplier may wish to promote a measure that fulfils the ECO eligibility criteria but is not covered by existing deemed scores, for example, if it is a type of measure that is new to the obligation. In these circumstances, Ofgem E-Serve would be able to determine additional deemed scores with regard to the methodology used to create the existing scores.

The Government proposes that Ofgem E-Serve should have regard to the national standard model, SAP, when developing the deemed scores. This will provide confidence that the set of savings produced is fair and representative of potential in typical GB homes. It will also provide a level of consistency with national fuel poverty targets and current ECO scores, both of which are based on the SAP methodology. In addition, the underlying assumptions used to inform the calculation of deemed scores should be made available as part of Ofgem E-Serve's consultation. Where a measure meets all ECO eligibility criteria but does not have an available deemed score, there should be a mechanism through which an appropriate score can be produced.

To calculate a final score for notification, deemed scores will be subject to the same multiplication factors currently applied in ECO:

- **Lifetime** – the number of years that a measure is expected to continue delivering savings at the calculated level. Current ECO lifetimes range from one to 42 years
- **Weighted average factor** of 0.925 (for all CERO measures) – converts the savings calculated using SAP methodology from carbon dioxide equivalent (CO₂e) to carbon dioxide (CO₂)
- **In-use factors** (for CERO measures only) – reduce the savings calculated using SAP to take account of likely measure performance in use. Affordable Warmth does not require these corrections as the unadjusted savings calculated in SAP are consistent with the way that fuel poverty is measured under Government targets
- **Non-gas uplifts** (for Affordable Warmth insulation and qualifying boiler measures) – these are an incentive mechanism which increases the savings for measures delivered to homes not heated using gas. This is currently in place under ECO and will remain

²⁹ Ofgem published a consultation on deemed scores on 27 May, which is available here: <https://www.ofgem.gov.uk/publications-and-updates/eco2-consultation-deemed-scores>

appropriate under the extension to help incentivise delivery to those homes which are most expensive to heat

- **Qualifying gas deflator** (for Affordable Warmth gas boiler replacement measures) – reduces the savings for qualifying boiler measures which replace one mains gas-fuelled boiler with another. As above, this is currently in place under ECO and will remain appropriate under the extension to help encourage delivery to those homes which are most expensive to heat

Deemed scores should be calculated for all measure types currently carried out under ECO, with the exception of district heating system (DHS) measures, for which we consider that retaining the current requirement for a bespoke SAP or RdSAP score would be more appropriate. We consider this a suitable exception for two key reasons; (i) the particular configuration of DHS measures varies considerably from scheme to scheme, suggesting that a set of deemed scores would not be widely applicable; and (ii) the higher costs, detailed planning requirements and larger scale of many of these schemes is better suited to the production of bespoke SAP or RdSAP assessments compared to other ECO measures, as such assessments are much less likely to be prohibitively burdensome for industry.

Question 29

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

Please provide reasons, including details of any alternative proposals you would support, if applicable.

Question 30

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

The one-month reporting rule and extension of the deadline

The current ECO legislation requires that measures are notified to the administrator by the end of the month following the month of installation. The administrator may grant extensions to this deadline, but not in instances where the supplier's administrative oversight has caused the delay in notification.

The current rule ensures that suppliers report progress towards their obligation promptly and ensures that measures are not notified in a spike towards the end of the scheme, as experienced under ECO's predecessors (the Carbon Emissions Reduction Target and the Community Energy Savings Programme). We view regular monthly reporting as essential to providing transparency to both Government and industry on how the scheme is operating. As such, the Government believes that it is desirable to maintain the current deadlines in the majority of circumstances. However, there are concerns that the current deadlines can sometimes be too strict, which may lead to poor quality reporting of information and measures not being accepted or approved, leading to issues of non-payment to installers.

We intend that simplifications to the scheme, in particular a move to deemed scores, should significantly reduce evidence requirements, making it easier for the supply chain to meet the one-month reporting deadline. In addition to this, we are proposing to relax the circumstances

in which the scheme administrator may grant an extension to a reporting deadline. These two changes would take effect for measures completed on or after 1 April 2017.

Firstly, we propose that a proportion (5%) of a supplier's measures may be notified up to three months later than the standard reporting deadline, without the need for an extension request to be approved by the Administrator. The 5% will be calculated with respect to the number of measures notified within standard reporting deadlines, for each particular installation month. This will provide additional time to resolve administrative issues, whilst ensuring the majority of measures are notified on time. Suppliers will still be able to apply to the scheme administrator for an extension for measures which exceed the 5% threshold; however (as per current practice), approval of such requests will be at Ofgem E-Serve's discretion.

Under the first obligation phase of ECO (2013-2015), the number of measures with accepted extension requests equalled 4.8% of all approved measures. Therefore, a limit of 5% for automatic extensions should provide sufficient flexibility to overcome issues with small batches of measures, whilst ensuring that the majority of measures are still notified in accordance with the usual monthly reporting requirements.

Secondly, we are proposing to change the scheme legislation to allow energy companies to request an extension in instances where they have made an administrative error. We intend this relaxation to enable energy suppliers to make extension requests for measures which have narrowly missed the notification deadline for administrative reasons, and are otherwise compliant. As mentioned above, the Administrator will retain overall discretion for whether an extension request over and above the 5% limit should be accepted.

Question 31

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

Question 32

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

Transferring of measures

Government intends to retain the mechanism for transferring measures between suppliers, as it provides flexibility and helps suppliers to manage their obligations. As CERO and Affordable Warmth are being extended, the deadline for submitting transfer requests should also be extended. The current deadline for suppliers to notify transfers to the scheme administrator allows little or no time for the transfer of measures notified towards the end of the scheme. We intend to resolve this by further extending the transfer deadline. Therefore, we propose to extend the deadline for the submission of transfer requests for CERO and Affordable Warmth to 30 June 2018.

Trading of obligations

Government believes that allowing flexibility for obligated suppliers in how they discharge their obligations may help to reduce delivery costs and simplify scheme administration. One area of flexibility that we are investigating is the trading of obligations. Trading an obligation would enable a supplier to pay another obligated energy company to take on liability for its obligation, accepting any risks (including fines) associated with delivery and enforcement. This could allow smaller suppliers a cost effective route to discharging their obligations, and it could allow companies to specialise in certain kinds of delivery, improving efficiency.

We are also aware that most suppliers are obligated on multiple licences, which can cause administrative burden and additional risks as they have to meet each scheme requirement (including obligations, caps and minimum thresholds) on each of these licences. If they do not, the licence will be non-compliant even if, in aggregate, the parent company has delivered sufficient savings to be compliant across its licences. Trading of obligations would allow suppliers to concentrate their obligations onto single licences, reducing administrative complexity.

Trading could take place between licensed gas and electricity suppliers only and it would be important to ensure that any potential Ofgem enforcement for under-delivery of a target was not limited by this mechanism. Therefore, we propose including a provision in legislation for Ofgem E-Serve to approve or reject trades. This is to ensure that obligations will only be traded when the company taking on an obligation is large enough to bear the consequences of non-compliance.

Trading is intended to enable energy 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 – existing mechanisms for transferring measures can be used for that purpose. Trading towards the end of the obligation would reduce the transparency of suppliers' progress towards meeting their targets for both Ofgem E-Serve and the supply chain. Furthermore, it would be an additional administrative process that duplicates the role of transfers, at a critical point in the scheme. Therefore, we propose that trading is restricted to a six month window at the beginning of the transition year, starting 1 April 2017.

Question 33

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

Question 34

Do you agree that Ofgem E-Serve should approve trades, to ensure that energy suppliers can bear the consequences of non-compliance? Please provide reasons and, explain any alternative suggestions, if applicable?

Quality and standards

Good quality energy efficiency installations have the potential to transform homes, making them warmer, cheaper to heat, and potentially more attractive to live in. To identify opportunities to further drive up quality and standards of energy efficiency and renewable

installations in UK homes, DECC and DCLG have commissioned Dr Peter Bonfield to undertake an industry-wide review into consumer protection, advice, standards and enforcement, which is due to report shortly. In our development of the 2017-18 scheme and future supplier obligations, we intend to reflect the recommendations from this review, incorporating them into the scheme(s), where appropriate. It is our current understanding that recommendations relevant to ECO are likely to include strengthening of the Publicly Available Specification (PAS) 2030 standard for the retrofitting of energy efficiency measures and a greater emphasis on the assessment and design stage of measure delivery, including the introduction of new rules for the pre-installation survey. In parallel, there is likely to be strengthening and updating of the underlying guidance, standards and skills requirements referenced by the PAS 2030 document following the review.

PAS 2030

The current ECO scheme requires measures to be installed in accordance with PAS 2030:2014, Edition 1. It is anticipated that this version of PAS 2030 will be updated, subject to a four-week public consultation, following the Bonfield Review. To ensure that measures delivered under the extension to ECO can benefit from the strengthened PAS 2030 framework, we propose that the version of PAS 2030 which is specified in the regulations is updated to the latest version when available.

To further support the installation of appropriate quality measures, we also propose that installation companies delivering measures covered by PAS 2030 must be certified³⁰ against this updated standard. We understand that installation companies operating within the ECO supply chain are already certified against PAS 2030 in the majority of cases. By requiring all installation companies to become certified against this framework, we hope to ensure that all companies are operating to the same minimum standard. This change would take effect for measures completed on or after 1 April 2017.

Question 35

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

Question 36

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

Technical monitoring

In addition to ensuring that measures are installed in accordance with PAS 2030, Ofgem E-Serve requires that energy suppliers conduct on site technical monitoring in order to check that measures have been installed correctly, and as notified. Government expects that sufficient, robust, on site monitoring of ECO measures will continue in 2017.

³⁰ Certification bodies certify installer organisations against the relevant parts of the PAS 2030 standard. A register of certification bodies is available here: <http://gdorb.decc.gov.uk/certification-body-search>

ECO cost data

One of the priorities of this Government is to minimise the impact of policies on consumer energy bills. This is one of the reasons why reforms are being made to ECO, in particular reducing the overall cost of the scheme (in 2017 prices) from around £870 million at present to £640 million per annum (rising with inflation thereafter), whilst increasing the portion of the scheme which is targeted at fuel poor households.

Having a clear understanding of scheme costs is important to evaluating the impact of our policies on consumers and in modelling our proposals for future schemes. Cost transparency also provides price signals to the market, helping competition and access for new entrants.

Significant improvements in collecting and publishing cost information were already made under the last parliament. Previously, using powers under Section 103B of Utilities Act 2000 we have collected (via Ofgem) information about each supplier's delivery and administration costs, and we publish them in aggregate each quarter. In addition, ECO brokerage can provide a signal of the price of ECO measures³¹.

Fully understanding the cost of ECO is not as simple as obtaining the overall delivery and administrative costs to the obligated suppliers. The delivery costs reported by suppliers incorporate the costs of installing measures, plus the administrative and search costs borne by the supply chain. We know that other actors may contribute towards the cost of installation – eg local authorities and the households receiving the measures – but these are not reported by suppliers. This makes it difficult to assess the costs of individual measure types, and how costs vary across different parts of the country. Instead, we have tended to rely on intelligence gathering and surveys to collect information of this type.

The most robust and 'real-time' way of collecting this detailed information would be to require suppliers to collect and report on it on a measure-by-measure or aggregate basis. This would ensure that the right information was being collected and held onto by the supply chain throughout the duration of the scheme. However, energy suppliers might not routinely collect a lot of this information. Such an approach could therefore add significant cost and administrative burden.

A key focus of this consultation is to reduce administrative burden on the supply chain, and therefore any additional reporting requirements must be proportionate. In addition, we recognise that some of the information collected may be commercially valuable for individual companies, and that sharing this information with suppliers may have an impact on their business.

Alternatively, DECC could rely on retrospective evidence gathering for detailed cost information. This would be less administratively burdensome; however, it would not provide real time transparency and is likely to be less robust, as it is reliant on sample surveys. Furthermore, by not setting data collection requirements up front, the information voluntarily provided to DECC through a survey could be patchy.

We want to achieve an appropriate balance between the value gained by collecting additional cost information and the burden to the market. We welcome views on what types of cost information could be collected and reported on by suppliers without causing a disproportionate impact on administration.

³¹ Information regarding reported ECO delivery costs and brokerage prices are published here: <https://www.gov.uk/government/collections/household-energy-efficiency-national-statistics>

Question 37

Do you think there is value in collecting and publishing more information on ECO costs in the future? If you do, what information do you think should be collected and how should it be obtained?

The date of introduction of new scheme rules

The Government believes that any changes made to the scheme should be introduced in a simple and timely manner. Therefore, we propose that the changes in scheme rules governing the eligibility of measures should all come into effect for all measures installed from 1 April 2017, the first day of the transition year. Introducing all of the new rules on one particular date for all measures will provide clarity for the supply chain and prevent a situation where two sets of rules have to be run in parallel. Introducing changes on 1 April 2017 should give industry sufficient time to set up new processes, whilst ensuring that the improvements being made to the scheme are introduced on the first day of the transition year.

We recognise that the limit being proposed for the installation of qualifying gas boilers may have a substantial impact on how energy suppliers meet their Affordable Warmth obligations. In order to support energy suppliers and their supply chains to make the necessary transformation of their delivery models, we propose that requirement to achieve a minimum proportion of Affordable Warmth through measures other than qualifying gas boiler replacements – the ‘minimum’ – should take into account measures installed from 1 July 2016 to 31 March 2018. (For further information, see Chapter 5 and Question 17).

Question 38

Do you agree that, with the exception of the Affordable Warmth minimum, the new scheme rules being proposed should be introduced for measures installed from 1 April 2017? Please provide reasons, including details of any particular rules that should be introduced earlier or later, if applicable.

Geographical distribution of measures

Under a supplier obligation model, obligated energy suppliers are incentivised to deliver their obligations as cost effectively as possible. This market-driven approach benefits consumers because suppliers are likely to pass the costs of meeting their obligations onto energy bills. However, it also means that delivery under ECO and its predecessors is skewed towards parts of the country where delivery is most cost-effective. Areas that are less cost-effective are likely to receive proportionately less, all things being equal - including those that are particularly remote (eg islands and remote areas), or which are harder to access or treat (eg inner cities with older housing stock and greater logistical challenges). Fuel poor homes in these areas may therefore struggle to receive assistance for home improvements. A breakdown of ECO delivery by area is available in our statistical releases³².

³² <https://www.gov.uk/government/collections/green-deal-and-energy-company-obligation-eco-statistics>

There are some factors that encourage more delivery to areas with higher than average delivery costs. Some organisations have sought to increase the attractiveness of delivering to certain areas by setting up schemes and offering additional funding. Non-gas properties, which are more common in rural areas and inner city tower blocks, are already eligible for uplifts. Furthermore, as the number of remaining uninsulated lofts and cavities gradually reduces, delivery of these measures in what have thus far been higher cost areas will become more commercially attractive. This may become more pronounced as we increasingly focus delivery on fuel poor households, through reforms in 2017 and 2018, which will reduce CERO and, as a result, narrow the pool of households that can receive a measure under ECO.

We are also proposing a greater role for local authorities in determining eligibility under the scheme – see Chapter 3 for more details. Local authorities that are proactive in partnering with energy suppliers, and who actively identify eligible homes, may be able to attract higher levels of delivery in their areas.

We are interested in views on whether we should introduce any additional measures to incentivise more installations in higher cost areas, for example, through uplifts or sub-obligations. However, we are keen to maintain the current level of flexibility with which suppliers can deliver their obligations, as this supports the cost effectiveness of the scheme and thus limits the costs passed through to all consumer bills. We also have concerns that trying to adjust scheme rules to incentivise particular areas or regions would add complexity and be difficult to define in a fair way.

Question 39

Government invites views on whether we should introduce any additional rules to incentivise greater delivery to areas with higher delivery costs? If so, please set out how this should work.

ECO brokerage

The ECO brokerage platform has been in place since January 2013. Over £470m of ECO delivery contracts have been sold through brokerage since then. We have seen fluctuations in the level of trading over this time, including a slowdown of trading during 2014 and 2015. Following changes to the ECO brokerage contract, implemented in November 2015, trading levels have so far increased to a level not seen for over a year (see figure 3).

ECO brokerage is a double blind platform which means that neither the seller nor the buyer knows who either party is until they enter into a contractual agreement. Some of the changes introduced in November 2015 enable buyers to cancel a contract where specific due diligence checks carried out by the buyer identify problems.

ECO brokerage was designed to support the Green Deal by creating a market that is transparent and competitively delivers energy efficiency measures in the most cost-effective way. The current route to access brokerage requires seller participants to obtain authorisation to become a Green Deal Provider. The due diligence provided as part of the Green Deal authorisation process was intended to also provide reassurance to the buyer with regard to the types of organisations accessing brokerage.

Figure 3 shows the trading levels from the start of brokerage up to 26 January 2016 (lot number 76). There was little or no trading over more than 20 auction dates (about a year) from auction number 50 (December 2014), when the announcement was made to reduce the

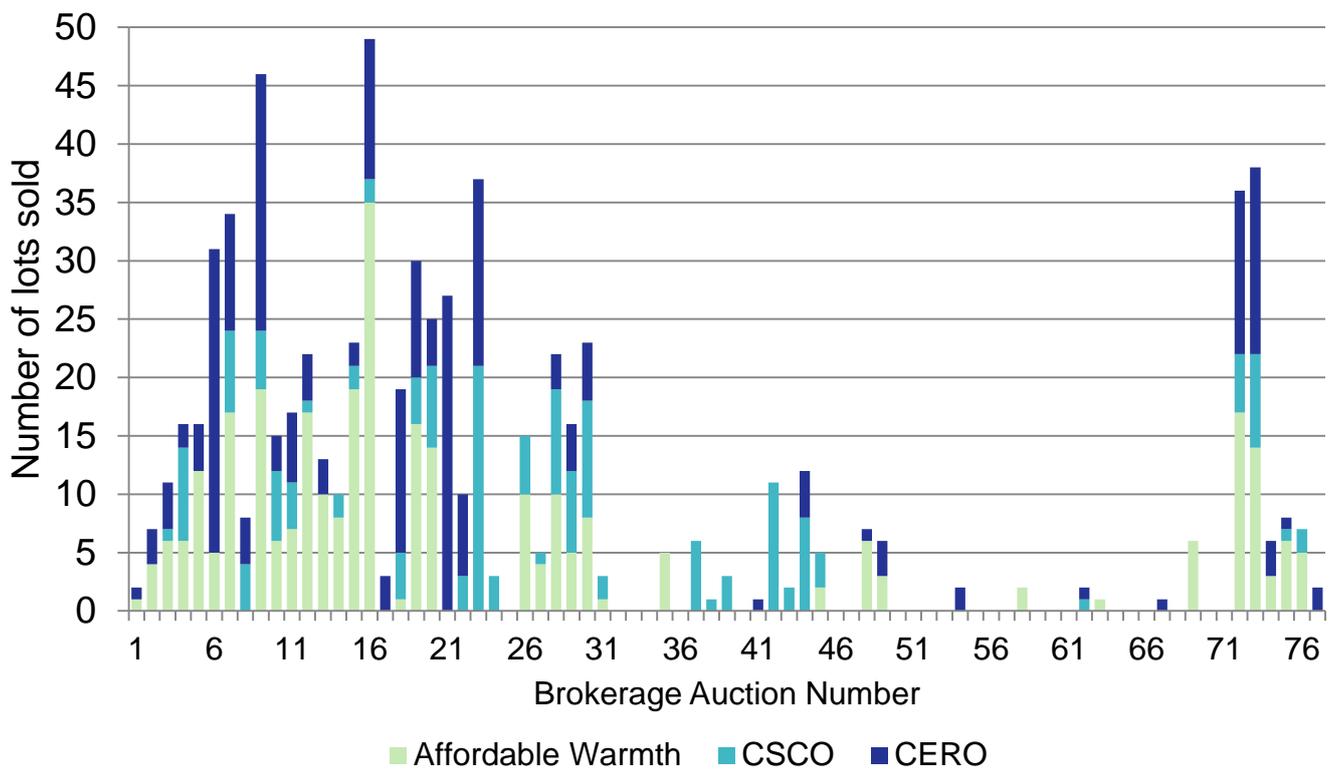


Figure 3 Brokerage lots sold per auction

obligation under ECO. The increase in trading from auction 72 reflects the point when the revised brokerage contract came into force.

At the end of December 2015, over 11% of measures were delivered under brokerage.

We undertook a high level review of brokerage in late 2015/early 2016. The findings suggest that, while the changes introduced in November 2015 have been helpful, there are still areas of brokerage which could be further improved.

One of the areas we were keen to understand is whether brokerage should be continued in the future. The survey responses we received indicated that there is strong support from some participant groups for continuing brokerage. However, others questioned whether brokerage offers good value for money for the taxpayer. We are interested in views on whether there is value in continuing with this model in the future.

Question 40

Should a brokerage mechanism be continued? Please provide reasons and, if responded 'yes', what value do you think a brokerage mechanism could add in the future?

We are interested in understanding how brokerage would work alongside the proposed changes to ECO set out in this consultation. One of the key aims of the reformed obligation is to encourage greater involvement of local actors. Elsewhere in the consultation (see Chapter 3), we are proposing a greater role for local authorities in determining eligibility under the scheme. The current brokerage scheme does not prohibit local authorities from accessing brokerage, but to do this they must first meet the requirement of becoming a Green Deal Provider (GDP). At present, no local authorities are utilising brokerage.

In order to support our proposals on greater involvement of local organisations and to enable wider market participation, we are reviewing the requirement to be a GDP in order to access brokerage. In our recent brokerage review, we asked about the impact that opening up access may have on brokerage. The responses suggested that, where the market is opened beyond GDPs, organisations should undergo rigorous checks to give energy suppliers confidence that they can successfully deliver brokerage contracts.

Question 41

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

Question 42

In addition, should access for an individual organisation be reviewed for any reason (eg at certain intervals or for certain behaviours)? If 'yes', what should be considered as part of the review?

Question 43

Is brokerage a barrier to local delivery? Please provide reasons and, if 'yes', explain how it is a barrier and your recommendations (if applicable) for how we could remove the barrier(s) to improve local delivery under brokerage?

Question 44

Does the current performance rating system provide the assurance of quality and delivery needed? Please justify your response and, if 'no', what changes would you recommend?

From 2018 onwards

If brokerage is found to be good value for money and retained for 2017-18, it is unlikely that significant changes would be introduced for this period. However, in the longer term, there is scope for more substantial changes to the design of brokerage. As we are now undertaking early development of the supplier obligation scheme for 2018-2022, we are interested in views on whether changes to the design of brokerage could be introduced to better reflect its fuel poverty focus.

For example, we would be interested to know whether brokerage could be improved through mechanisms such as reverse auctions, mandating delivery through brokerage, charging for access or other ideas on the types of lots being traded. Note that these examples are not exclusive or necessarily current proposals.

Question 45

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

Scheme simplification summary

The table below summarises the reforms we are proposing to implement in 2017 that should make the scheme simpler to deliver.

Table 3 Summary of reforms that simplify the scheme

| Summary of reforms that simplify the scheme | Chapter |
|----------------------------------------------------------------------------------------------------------------------------------------|---------|
| Reducing the number of obligations by ending the Carbon Saving Communities Obligation | 2 |
| Removing the rural sub-obligation | 2 |
| Simplifying the eligibility criteria for certain qualifying benefits | 3 |
| Providing simpler routes to evidencing Affordable Warmth eligibility through flexible eligibility and social housing options | 3 |
| Introducing 'deemed scores' to greatly reduce the volume of evidence that must be collected for each property treated under the scheme | 5 |
| Removing the requirement for CERO measures to be recommended on a Green Deal Advice Report or chartered surveyor's report | 5 |
| Relaxing the rules around the monthly reporting of measures | 5 |
| Allowing trading of obligations to enable suppliers to better manage their obligations, particularly across multiple licences | 5 |
| Introducing new scheme rules (except the Affordable Warmth minimum) from a common date | 5 |

6. Second set of reforms (2018-2022)

The transition year lays the foundations for a longer-term fuel poverty focused obligation from 2018 to 2022. The changes introduced in 2017-18 should help prepare energy suppliers and their supply chains for the 2018 obligation. These include phased changes to householder eligibility, measures and administrative requirements, intended to shift the scheme towards making a bigger difference for fuel poor households. Many aspects of the future scheme should therefore follow on as a natural progression from the proposals outlined in the previous chapters relating to the 2017 one-year transition.

There will be some instances where new changes could be introduced in 2018. We are keen to get early insight into views on these areas to help inform the scheme design process that is already underway. This chapter provides details and specific questions on some of those areas.

We intend to publish a full consultation on the 2018-2022 fuel poverty obligation in early 2017.

High level changes under consideration

The next supplier obligation, to be introduced from 2018, will be a completely new scheme, requiring new secondary legislation. This gives us an opportunity to consider the best scheme structure to deliver energy efficiency measures to those in fuel poverty. We have indicated in Chapter 1 our intention to move towards a model of delivery that focuses on low income households living in the most inefficient properties, with just a single obligation (similar to current Affordable Warmth) rather than the current three obligations. As outlined in Chapter 3, the data-sharing capabilities consulted on separately as part of the 'Better use of data in Government' consultation³³ could help organisations target those with the most severe levels of fuel poverty, and thereby help us achieve this ambition.

In order to make progress towards the Government's manifesto commitment to insulate 1 million homes during this Parliament (and, in England, towards our 2020 fuel poverty milestone), we are considering whether interim targets are needed for April 2020, to provide confidence that a certain level of insulation delivery will have been achieved by then. Otherwise, delivery of measures could be backloaded, delaying the benefits to recipient households and progress against our objectives.

We are also considering whether to enable suppliers that exceed their ECO obligations in 2018 to count excess activity towards the new scheme. We will need to decide which types of activity, if any, may be 'carried forward', and how they will be counted towards the new obligations. This 'carryover' will provide suppliers with more flexibility in how they meet their targets and is something we have historically allowed between consecutive supplier obligations.

³³ This consultation ran until 22 April 2016 and details are available at: <https://www.gov.uk/government/consultations/better-use-of-data-in-government>

Early views sought

At this early stage in the design of the 2018-2022 obligation, we are interested in initial views on a range of areas to help inform the further development of the scheme design. These areas include:

- the potential for differing schemes operating in England and Wales and Scotland, once the Scottish Government commence using their powers;
- obligation setting: the threshold at which energy companies become obligated and are allocated targets under the scheme;
- innovation in energy efficiency technologies, and whether the scheme could better support this; and
- general administrative improvements.

Scotland

As stated previously in this consultation, current indications from the Scottish Government are that they intend to use their powers to deliver an energy efficiency obligation from 2018 onwards. However, DECC has been seeking the views of the Devolved Administrations to ensure that changes made to the scheme in 2017-18 work for all jurisdictions. In addition, we have been exploring with Scottish Government officials how we can, where possible, align future obligations in England and Wales, should the Scottish Government lay regulations in the Scottish Parliament to use their powers from 2018.

Under the powers in the Scotland Act 2016, the Secretary of State may request that specified modifications are made where an obligation in relation to Scotland is likely to:

- cause detriment to the United Kingdom (including consideration of the costs imposed on suppliers by the obligation) or affect the ability of the UK to meet its international agreements or arrangements; or
- result in costs incurred by suppliers that are not broadly equivalent in relation to England and Wales and in relation to Scotland.

In the very last resort, the Secretary of State can intervene to legislate on behalf of Scotland.

Clearly it is important to avoid this action being required. Therefore, we are interested to hear views on examples of where actions taken could constitute detriment to the UK energy market, or result in costs to suppliers in Scotland that are not broadly equivalent to those in England and Wales.

Question 46

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

Question 47

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

Obligation threshold

Strong competition, driven by consumer engagement, is essential to incentivise suppliers to improve customer service, innovate, reduce their costs and keep prices as low as possible.

Our vision is for a diverse, fair and competitive market where all suppliers, from large established suppliers to small new entrants, compete to make better offers to consumers. That is why, over the last few years, the Government and Ofgem have put in place a range of measures designed to enhance competition and choice for consumers. One such measure was to increase the customer number threshold at which suppliers are required to participate in certain Government programmes from 50,000 customer accounts to 250,000. The current ECO scheme adopted this customer number threshold for exempting smaller energy suppliers.

Smaller businesses suffer disproportionately from the burden of regulation. Government regulatory guidance states that small businesses should be exempt from regulation unless any disproportionate impact can be offset. ECO rules exempt energy suppliers with fewer than 250,000 customers, and those that supply less than 400 GWh of electricity or 2,000 GWh of gas per annum. This small supplier exemption acts to protect smaller companies from disproportionate delivery costs, particularly upfront set-up costs and any fixed costs associated with delivering the obligation. There is also a 'taper' which means that suppliers do not have to bear their full proportionate share of the overall obligation until they supply 800 GWh of electricity or 4,000 GWh of gas; this is to avoid a 'cliff edge' in policy costs once a supplier passes the exemption threshold.

Some suppliers maintain that the current ECO exemption confers an unfair competitive advantage on the smaller suppliers, over and above compensating them for the disproportionate costs they would face in the absence of an exemption. Additionally, as independent suppliers have grown in number and size, the number of customers with previously obligated larger suppliers has decreased. On its own, this would lead to the cost of the obligation being spread across a smaller number of customers. However, the obligation of new suppliers that have grown past the exemption threshold acts to counterbalance this effect.

On the other hand, we have heard from some small suppliers that the exemptions act as a disincentive for companies to grow beyond the 250,000 customer account threshold. Some companies have reported that the taper is too steep, particularly for suppliers that have customers who consume more energy than the industry average. The Competition and Markets Authority (CMA) investigation is examining the impact of the exemptions on competition. The CMA's provisional decision on remedies report does not list the exemptions as having an adverse effect on competition. The CMA's provisional findings report discusses the exemptions in more detail, and notes that without them entry to market for small companies would be more difficult³⁴.

As set out in Chapter 5, we are proposing to introduce a trading mechanism from 2017 that could enable smaller suppliers to transfer their obligations to larger suppliers. This might reduce the upfront set-up costs for smaller suppliers. However, trading prices will be set by the market and this could include a premium. Furthermore, there is no guarantee that large suppliers would be willing to take on the obligations of small suppliers. Smaller suppliers are already able to purchase completed carbon and cost savings through a 'transfer' mechanism,

³⁴ The final report is being published in June 2016. The provisional decision on remedies report can be found here: https://assets.digital.cabinet-office.gov.uk/media/56efe79040f0b60385000016/EMI_provisional_decision_on_remedies.pdf

so the introduction of a trading mechanism may not significantly change the impact on smaller suppliers of becoming obligated.

A reduction in the exemption threshold for the 2017-18 transition year would result in placing new obligations on a number of smaller emerging energy suppliers at relatively short notice and for just one year of the scheme, providing them with little time to prepare and set-up, and reducing their ability to compete with larger suppliers. An increase in the exemption threshold would suddenly remove obligations from suppliers who have invested in developing delivery models.

As such, we are not considering changing the exemption for the 2017-18 scheme. As the CMA investigation has not reported that the exemption causes an adverse effect on competition, we are also minded to retain the exemption for the 2018-22 scheme. However, we are interested in your views. We are also interested in your views as to whether there is any justification for changing the taper level for the 2018-22 scheme.

The Scotland Act 2016 gives Scottish Ministers powers to determine how energy efficiency supplier obligations are designed and implemented in Scotland. Responsibility for determining who is obligated, the scale of the obligations, and how they are apportioned between national and devolved administrations is reserved for the UK Government. We will be consulting on how suppliers are obligated in a devolved context in our consultation in early 2017.

Question 48

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

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

Question 49

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

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

Innovation

One of DECC's priorities is encouraging innovation. New products, technologies or delivery models may have the ability to produce improved performance and reliability, and to reduce costs. We are keen to explore whether the future supplier obligation may be able to stimulate innovation to a greater degree than at present.

A supplier obligation running until 2022 will provide longer-term certainty for industry to invest in innovative models and technologies. Furthermore, deemed scores (which we propose introducing from 2017 - see Chapter 5) could facilitate product differentiation, eg by awarding a higher score for better performing technologies.

There may be more we can do to encourage innovation. We are interested in views on what barriers currently exist within the design of current and previous supplier obligations to the deployment of new models and technologies. In addition, we are seeking views on how

innovation might be further encouraged in a future obligation. For example, previous mechanisms have included scoring uplifts for 'market transformation' technologies, or have enabled suppliers to claim investment in innovative technologies against their obligations.

Question 50

Under current and previous supplier obligations, are there barriers in scheme design inhibiting innovation in delivery models and technologies? If so, how should we design the scheme in order to overcome these barriers and incentivise the delivery of innovative products, technologies and delivery models in a future supplier obligation?

General administrative improvements

The creation of a new four year obligation from 2018 presents a further opportunity to improve administrative processes in a manner that could improve delivery of the scheme. Therefore, the Government is taking this opportunity to seek views on whether there are any significant administrative improvements that can be made. Examples of areas where there may be scope for improvement include:

- **Notification and approval of measures**

In particular, we are aware of concerns that delaying final approval of measures until the end of an obligation period can result in issues regarding payments to installers, and high levels of risk being carried by suppliers or the supply chain. These issues may be exacerbated if the future scheme is to last for four years. The current administrator, Ofgem E-Serve, has taken steps to provide increased certainty on the compliance of measures. However, we seek views as to how further improvements can be made in the timelines for the approval of measures.

- **Transparency for the supply chain**

Government is aware that installers may not have information as to the status of the measures that they have installed. This is a particular concern if an installer's measures are at risk of being rejected and the installer is not aware of this. The current administrator, Ofgem E-Serve, has taken steps to provide greater transparency about the provisional status of measures. However, we seek views as to how greater transparency could be provided to the supply chain.

Question 51

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

Annex A: Proposed changes to better target low income households for the Affordable Warmth obligation in 2017

Table A1 Comparison of benefits-based eligibility criteria under current scheme and under proposed 2017-18 scheme

| Benefit | ECO 2015-17 | Proposal for 2017 |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PRIVATE TENURE | | |
| Child tax credit | <ul style="list-style-type: none"> ○ The claimant has a relevant income of £16,010 or less | <p>A claimant is eligible if household³⁵ income is below the relevant income threshold³⁶ for their household composition, according to whether it is a single or joint claim and the number of qualifying children claimants have responsibility for³⁷.</p> <ol style="list-style-type: none"> 1. Single claimant, no children 2. Single claimant, one qualifying child 3. Single claimant, two qualifying children 4. Single claimant, three qualifying children |
| Working tax credit | <ul style="list-style-type: none"> ○ The claimant has a relevant income of £16,010 or less AND ○ has responsibility for a qualifying child; ○ is in receipt of a disability or severe disability element; OR ○ is aged 60 years or over. | |

³⁵ Note that households may elsewhere be referenced as Benefit Units for welfare purposes.

³⁶ The definition of income will be aligned with data available on benefits letters and DWP data matching systems. There are different definitions of income for Tax Credits and Universal Credit, as explained in more detail later in this annex.

³⁷ The definition of responsibility for qualifying children will be aligned with data available on benefit letters and DWP data matching systems. We will work with DWP and other Government departments to ensure the definition is in line with the data held and used by DWP on these benefits.

| Benefit | ECO 2015-17 | Proposal for 2017 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Universal credit | <p>The single claimant has received earned income, or a joint claimant has a combined earned income which is at or below £1,250 in any of the 12 preceding assessment periods;</p> <p>AND</p> <ul style="list-style-type: none"> ○ has responsibility for a child or qualifying young person; ○ has limited capability for work, or limited capability for work and work-related activity; ○ is in receipt of a disability living allowance; <p>OR</p> <ul style="list-style-type: none"> ○ is in receipt of a personal independence payment. | <ol style="list-style-type: none"> 5. Single claimant, four or more qualifying children 6. Joint claimants, no children 7. Joint claimants, one qualifying child 8. Joint claimants, two qualifying children 9. Joint claimants, three qualifying children 10. Joint claimants, four or more qualifying children |
| <p>Income support (IS)</p> <p>Income-based Jobseeker's Allowance (JSA)</p> <p>Income-related Employment and Support Allowance (ESA)</p> | <p>The claimant:</p> <ul style="list-style-type: none"> ○ has responsibility for a qualifying child ○ receives child tax credit which includes a disability or severe disability element; a disabled child premium; a disability, enhanced disability or severe disability premium; ○ is a pensioner, higher pensioner or enhanced pensioner premium; OR ○ is in receipt of employment and support allowance, and is receiving a work-related activity or support component | <p>The claimant only needs to be in receipt of</p> <ul style="list-style-type: none"> ○ income support ○ Income-based Jobseekers Allowance ○ Income-related Employment and Support Allowance |
| Pension Credit | <p>In receipt of Pension Credit Guarantee Credit, Savings Credit or both.</p> | <p>In receipt of Pension Credit Guarantee Credit or both Guarantee Credit and Savings Credit.</p> |
| SOCIAL TENURE | | |
| Social housing | <p>Not eligible</p> | <p>Any social housing in EPC Band E, F,G is eligible</p> |

Methodology proposed for setting income thresholds under Affordable Warmth in 2017

The accuracy with which the scheme targets fuel poor households is in part dependent on the income threshold(s) set. Generally speaking, lower income thresholds lead to greater accuracy (as they target lower income households) but this also limits the overall number of eligible households. As discussed in Chapter 3 of the consultation document, we intend to strike a balance between improving the accuracy of the eligibility criteria and making sure eligible households are sufficiently easy to find.

When setting income thresholds for households eligible through Tax Credits and Universal Credit, adjustment factors will be used in order to take into account the household composition for each group. This will provide different income thresholds for different household composition types. Adjustment factors are such that households with fewer occupants will have lower income thresholds and larger households will have higher income thresholds. This approach reflects the idea that larger households need more income to have the same standard of living as smaller households. As an example, £10,000 would provide lower living standards for a family of four than for a single-person household. This type of adjustment has been used by DWP for poverty measures and is used in the low income high costs indicator of fuel poverty in England, as recommended in the Hills Review³⁸.

The low income high costs indicator in England uses adjustment factors set out in the Household Below Average Income series (DWP)³⁹ and takes into account the total number of adults and children within a household. This means it accounts for 40 to 50 possible household composition types. It also uses “after housing cost” income, (accounting for mortgage or rental payments). This approach is recommended in the Hills Review to provide the best accuracy in targeting fuel poor homes.

Our proposal however is to use a similar but lighter touch approach in order to balance accuracy with ease of delivery. Currently, we envisage the use of “before housing cost income”, as accounting for mortgage or rental costs for eligibility would be an additional burden for consumers and supply chains. In addition, income thresholds will be set for ten household composition types based on the adjustment factors (an illustrative example is shown in table A2 below) instead of the full 40-50 used in the low income high costs indicator. Our analysis suggests that using ten adjustment factors will provide a similar improvement in accuracy as using the full set of adjustment factors while providing greater simplicity, whereas fewer than ten adjustment factors reduces accuracy considerably.

Proposed adjustment factors are 0.67 for the first adult, 0.33 for the second adult and 0.2 for each qualifying child. These adjustment factors are based on the Household Below Average Income series (see footnote 39 for more information), although our definition of a qualifying child will be aligned with data available on benefit letters and DWP data matching systems.

³⁸For further detail on equivalisation see :

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48297/4662-getting-measure-fuel-pov-final-hills-rpt.pdf

³⁹For detailed information on the methodology to derive the adjustment factors see:

<https://www.gov.uk/government/statistics/households-below-average-income-19941995-to-20132014>
(Households Below Average Income: Quality and Methodology Information Report – 2013/14)

Table A2 – Adjustment factors for before housing cost income thresholds⁴⁰

| | 0 children ⁴¹ | 1 child | 2 children | 3 children | 4 or more children |
|--------------------|--------------------------|---------|------------|------------|--------------------|
| Single adult | 0.67 | 0.87 | 1.07 | 1.27 | 1.47 |
| Two adults or more | 1.00 | 1.20 | 1.40 | 1.60 | 1.80 |

We propose no additional eligibility criteria for those in receipt of JSA, ESA, Income Support, Pension Credit Guarantee Credit or those living in social rented properties with an energy efficiency rating of EPC E, F or G. According to our estimates, these eligibility routes would account for approximately three million eligible households in 2017. Therefore, in order to achieve a total eligible pool of approximately four million households, we intend to set income thresholds for Tax Credits and Universal Credit at a level that is consistent with identifying around one additional million eligible households through these particular benefits.

The income thresholds will be developed in the following way:

1. We will use the latest available data from the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) on Tax Credits and Universal Credit recipients' income and household composition.
2. We will analyse the data to identify the appropriate income threshold to allow for approximately one million households in receipt of either Tax Credits or Universal Credit (only) to be eligible⁴².
3. This income threshold will be multiplied by the adjusted factors in table A2 to derive different income thresholds – one for each household composition.
4. These income thresholds will be set as the eligibility criteria in the amended ECO Order.

For example, if the adjusted income threshold was £16,000 (this being an illustrative figure), the ten income thresholds would be as set out in table A3 below.

Table A3 –Income thresholds by income composition type if adjusted income threshold was £16,000⁴³

| | 0 children | 1 child | 2 children | 3 children | 4 or more children |
|--------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Single adult | £10,720 (£16,000 x 0.67) | £13,920 (£16,000 x 0.87) | £17,120 (£16,000 x 1.07) | £20,320 (£16,000 x 1.27) | £23,520 (£16,000 x 1.47) |
| Two adults or more | £16,000 (£16,000 x 1) | £19,200 (£16,000 x 1.2) | £22,400 (£16,000 x 1.4) | £25,600 (£16,000 x 1.6) | £28,800 (£16,000 x 1.8) |

⁴⁰ Adjustment factors might be subject to changes based on future improvements in the evidence base on fuel poverty targeting as well as evidence emerging from the consultation and the information that can be validated through DWP/ HMRC benefit letters or online data matching.

⁴¹ The definition of qualifying children will be aligned with data available on benefit letters and DWP data matching systems.

⁴² Based on our latest evidence, over 800,000 households in receipt of Tax Credits (only) are eligible under Affordable Warmth. We do not have information on the number of households in receipt of Universal Credit that are currently eligible under Affordable Warmth but we expect this number to be comparatively small.

⁴³ These thresholds are illustrative based on an example income threshold of £16,000 and the adjustment factors shown at table A2.

There are different definitions of income for Tax Credits and Universal Credit (i.e net monthly earnings for Universal Credit and gross annual taxable income for Tax Credit). Income thresholds may therefore be different for Tax Credits and Universal Credit, reflecting the different income information held and used by DWP on these benefits. We will reflect these differences when setting income thresholds on the different benefit types and we will aim to achieve a consistent treatment across these benefits.

