

Energy Company Obligation III – consultation response

August 2016

Introduction

This response is submitted by National Energy Foundation, formed through internal discussion and incorporation of comments received from the steering groups for the Affordable Warmth Networks (AWNs) that NEF coordinates. The AWNs, covering Buckinghamshire and Oxfordshire, are governed by steering groups formed of local authorities (both upper-tier county councils, and lower-tier district and city councils), Citizens Advice Bureau, AgeUK, and Public Health, etc.

The Networks aim to reduce fuel poverty and health impacts from cold/damp housing conditions, whilst maximising other associated services via an established cross-referral mechanism. There are no eligibility criteria for residents to access the service, although it is targeted towards vulnerable residents. It encourages residents to look out for their neighbours, and those more vulnerable than themselves, particularly when the temperature drops, and risk of adverse health effects are increased.

As well as helping residents to understand how best to keep warm, use their heating system and controls effectively, switch tariff to gain a better deal, etc; we negotiate access to funding streams (some of which NEF administers on behalf of local authorities, others are national sources such as the Energy Company Obligation, which is why this consultation has particular relevance to our work) for energy efficiency improvements.

The service offers an impartial freephone helpline and email advice service, frontline staff training, and outreach events directly targeted to residents with one or more vulnerabilities to fuel poverty and/or health effects from poor housing conditions.

NEF is keen to ensure that measures deliver the in-use performance improvements that are expected, that sufficient pre-improvement assessment and post works checking is carried out to ensure that suitable measures are being installed for the property characteristics, that these do not ‘lock out’ or render inappropriate further, perhaps deeper refurbishment, in the future.

Responses to consultation questions

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

Yes / No / I do not have a strong view

We do recognise that improvements to the ECO scheme need to take place, and the transitional year will allow changes to be brought in whilst continuing some activity that more closely aligns with the current ECO II deliverables. We are supportive of the overall move to have a focus on supporting fuel poor households, whilst simplifying and removing complexity, therefore improving cost-effectiveness. We would further encourage the involvement of local, trusted, impartial organisations

in the delivery of ECO, in recognition that energy suppliers themselves are not best placed to deal with the complexities and support required by vulnerable residents.

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?

Yes / No / I do not have a strong view

We would further encourage the adoption of minimum deliverable *quarterly* targets to achieve the overall figures above. This would help to remove disproportionate delivery as has currently been experienced which has led to funding streams being cut without notice in some circumstances, and other obligations having a rush of delivery in the closing weeks of the scheme. Quarterly minimum targets would ensure continued activity throughout the transition year.

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

In the interests of simplifying the delivery of the scheme, perhaps it is correct to remove the specific target for rural areas in recognition that they can still be included (as with urban areas) if fuel poverty eligibility is met. In Oxfordshire and Buckinghamshire (where NEF currently coordinate county-wide Affordable Warmth Networks), the current requirement of 15% of the CSCO target to be delivered to rural homes is typically met through referrals made to energy suppliers; however, the rural need for these two counties is perhaps disproportionate to the UK average. Other changes, such as the limit for mains-gas boiler replacements will perhaps favour delivery of remaining measures (insulation) to rural areas as these are available and appropriate measures to all, regardless of rurality (as the incidence of properties being off the mains-gas network is far greater in rural areas).

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

Although the Hills Review suggested several times more household composition types, if the Department for Business, Energy & Industrial Strategy (previously DECC) are satisfied that using just 10 household composition types provides enough accuracy, we would support this as this helps to keep the eligibility criteria simpler to administer. In adopting this, we would hope that targeting accuracy be improved.

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

Yes / **No** / I do not have a strong view

We feel in this case this might be an over-simplification of eligibility which, whilst widening the number of eligible residents, may lose some of the targeting to those most in need, and then risks being a wasteful use of the reduced funding.

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

Yes / No / **I do not have a strong view**

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

Yes / No / I do not have a strong view

Although tenants in social housing tenure tend to be in more energy-efficient properties (as compared, for example, to tenants privately renting or owner-occupiers), social tenure also has the highest incidence of fuel-poor tenants and those in receipt of benefits. For those properties not achieving an EPC of D or above, we are generally in agreement that a proportion of ECO should be able to be used (assuming no 'state-aid' issues). We are in agreement that local authorities / registered housing providers (housing associations) or authorised organisation should be able to satisfy the need of the tenants and sign a declaration of this, thus avoiding means testing. An expenditure of ECO for this tenure of up to 10% is thought to be acceptable.

10. Do you agree an EPC would be an appropriate way of proving the efficiency banding of social housing?

Yes / No / I do not have a strong view

If applicable, please provide details of any additional assurance which should be required alongside EPCs, or details of alternative ways of evidencing which may be sufficient in certain cases.

An EPC or equivalent data analysis (such as stock profile) would be acceptable, this will ensure data quality.

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

Yes / No / I do not have a strong view

Where appropriate, justify your response.

However, we also feel that this should be coupled with a review of current new-build regulations, ensuring that these stipulate high levels of energy efficiency should be achieved in practice. New-build properties should, under the recently adopted Low income, High cost definition of fuel poverty, be less likely to contain a resident falling within fuel poverty, so limited ECO funding not be spent in this scenario.

12. Do you agree with the proposal to allow flexible eligibility?

Yes / No / I do not have a strong view

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

Agreed – suggest higher percentage of 20% for the transition year, with review of this for subsequent years.

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

Yes / No / I do not have a strong view

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

Whilst we are sceptical of there being *significant* economies of scale leading to significant cost-savings in undertaking EWI along a terrace at once (our experience of a scheme which has installed EWI across an area has been that the installer didn't undertake the work in a sequential fashion down the street), we do see that some savings can be made in reduced finishing of one attached house to the next, and scaffolding can be erected in bulk across multiple properties. However, a larger justification in agreeing that SWI for intermediary / adjoining properties for non-fuel poor private tenure be offered is the encouragement for further installations to take place, and the look of the properties be consistent. This should be reviewed following the transition year.

Within an area of 'fuel poor residents', there will be a mix of incomes, some falling just outside the margin of threshold of being eligible, and that therefore to have flexible eligibility, these could now be assisted.

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

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

To an extent, this is the role that NEF currently take (coordinating county-wide Affordable Warmth Networks in Oxfordshire and Buckinghamshire). If set up on behalf of local authorities, they should be able to approve collective schemes to

We already make and have links with energy suppliers, but act in an impartial capacity, both in terms of advice given, and the route then taken (including any onward referrals to schemes or source of funding, including ECO). We're not clear from information provided how the scheme being submitted by an energy supplier would best work in practice: it could have the effect of helping to limit the number of schemes put forward involving other intermediaries (in effect, the energy suppliers helping to pre-qualify to just those schemes wished to be worked with, satisfying their objectives and obligations), however, could also have the effect of limiting referral routes for an Affordable Warmth Service such that NEF provides currently, and thereby limiting choice for residents and impartiality.

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)?

Yes / No / I do not have a strong view

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

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?

Yes / No / I do not have a strong view

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

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?

Yes / No / I do not have a strong view

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

Although this is a significant reduction in delivery of gas-boiler replacements (the average over the past three years has been 120,000 per annum), the £0.42 billion cost saving is equivalent to around 23% of the Affordable Warmth obligation for the forthcoming transition year. This 'saving' in expenditure will therefore be better targeted towards those residents most in need, and to measures that make more progress towards the objective of improving the energy efficiency of the least efficient low income homes. We therefore feel that this limit to gas boiler replacements is justified, for review towards the end of the transition year.

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

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

Yes / No / I do not have a strong view

Not heat networks due to expense.

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?

Action is needed / Action is NOT needed / I do not have a strong view

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?

Yes / No / I do not have a strong view

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?

Yes / ~~No~~ / ~~I do not have a strong view~~

This should help to ensure social landlords do not receive a disproportionate level of assistance from the supplier obligation. Such organisations have a responsibility for maintaining adequate heating systems anyway, and we do not feel they should benefit from a contribution from ECO, which could additionally cause delays in repair/replacement.

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

Yes / ~~No~~ / ~~I do not have a strong view~~

Perhaps a solid wall maximum should also be considered.

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

Yes / ~~No~~ / **I do not have a strong view**

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?

Yes / ~~No~~ / ~~I do not have a strong view~~

Where appropriate, justify your response.

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

Yes / ~~No~~ / **I do not have a strong view**

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

Yes / ~~No~~ / ~~I do not have a strong view~~

However, this shouldn't prevent the full range of measures recommended being considered, and that works proceeding do not lock out future options that would be appropriate for the property.

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?

Alternatives are needed / ~~Alternatives are NOT needed~~ / ~~I do not have a strong view~~

We do consider there may be a need for a bespoke technical report for installation of solid-wall insulation, or heat network to progress.

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?

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

Where appropriate, justify your response.

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

With review at end of initial year, in particular to consider if a restriction on trading within the initial 6 months of each subsequent year is required.

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

Yes / No / I do not have a strong view

So long as the administrative burden isn't excessive.

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

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

Additional rules are needed / Additional rules are NOT needed / I do not have a strong view

With the other changes proposed, for example, the greater role for local authorities in determining eligibility for the scheme, and registered providers being able to identify pre-qualified housing stock for assistance, we would suggest that additional rules not be imposed at this stage as there are already a lot of changes, and further ones would make it difficult to assess the impacts of the current ones. Imposing additional rules is likely to also increase costs of delivery of the scheme, which, in turn, are passed onto consumers.

40. Should a brokerage mechanism be continued?

Yes / No / I do not have a strong view Where appropriate, justify your response and, if responded 'yes', what value do you think a brokerage mechanism could add in the future?

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?

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

Yes / No / I do not have a strong view

43. Is brokerage a barrier to local delivery?

Yes / No / I do not have a strong view

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

Yes / No / I do not have a strong view

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

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

Yes / No / I do not have a strong view

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

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?

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

Yes / No / I do not have a strong view

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.

Comments received from the Affordable Warmth Network partners were mixed, and there is no clear view. Some favoured competition amongst energy suppliers, so encouraged incentives for smaller suppliers to offset additional costs in meeting obligations. Some agreed with the proposed trading mechanism from 2017 that would enable small suppliers to transfer their obligations to larger suppliers in order to reduce upfront set-up costs. NEF feel that the latter could hold additional difficulties:- trading process will not be regulated, and therefore could include a premium as they are set by the market. Indeed, there is no guarantee (unless this is legislated for) that larger suppliers would take on additional obligations and responsibility for any fines resulting from failing to meet these.

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

~~Yes / No /~~ I do not have a strong view

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

Yes / ~~No / I do not have a strong view~~

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

ECO and its predecessors have become increasingly constrained in terms of the measures that can be applied, and do not facilitate whole house deep retrofitting of measures, such as have been demonstrated using the Energiesprong concept that we are currently assisting with the roll-out in the UK. By increasingly focusing on maximising the number of installations for the minimum possible cost, opportunities to bring homes up to the standards that will be required by 2050 are being lost, and homes will need further work done – at a higher total cost – in future years. We recommend therefore that, as an alternative to the minimum levels set for solid wall insulation (question 23), suppliers should be permitted to undertake whole house upgrades that incorporate a minimum of two primary measures and achieve a minimum post-implementation EPC of B for homes previously rated D or E, or C for those previously rated F or G, and should be encouraged to do so by receiving an uplift in the recognition of savings or customer numbers against their targets.

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

It is noted that momentum created by individual projects (delivered through successful bids or otherwise) should not be taken as an indicator of less ECO delivery required. Consistency offered by national schemes such as ECO grant delivery is a requirement for local delivery also during uncertain times, perceived or otherwise. This consistency can then be enhanced by local project elements in order to add value to, or tackle issues specific to a region, or to gap-fill service provision otherwise missing, but this should anyway be minimal, covered by governmental deliverables.

[ENDS]