Response to the DECC Consultation on *The Future of ECO* Executive Summary

Key Concerns

Policy Context for ECO: Energy measures delivered in buildings need a step-change in the scale of political ambition for the role they can play. Our recent analysis of the cost-effectiveness of all energy measures concludes that demand-side energy measures are the more cost effective way of delivering energy policy objectives such as reducing carbon emissions or reducing fuel poverty. The attached infographic, which uses the Government's own data, summarises this analysis. We believe there is an urgent economic case for prioritising a cost-effective mass retrofit of energy measures.

Rushed reform and its market impacts: We have fundamental concerns over the process undertaken to deliver the proposed changes, rather than the changes themselves (although our members have strong views on the Government proposals too). It is clear that these proposed changes to ECO were driven by a political agenda, where energy bills have become a key election issue for May 2015, rather than by one which is focussed on delivering sustainable low-carbon or social policy as cost-effectively as possible. This has destabilised the marketplace, particularly the energy efficiency supply chain. Industry and investor confidence in the Government's commitment to a policy framework for energy efficiency is low; it is essential that the next Parliament develops a long-term strategy for energy policy in building which seeks to address this.

Key Points from Question Responses

1. The politicisation of ECO has been unhelpful to making sensible and sustainable policy decisions. Delivering energy efficiency measures in a cost-effective way at a retained level of ambition, must be policy priorities if the objective is to reduce consumer energy bills and address carbon emissions in the long term.
2. Joined-up policy thinking is essential. DECC should integrate their policy proposals for off-gas grid heating in this Consultation with the recently launched RHI. Renewable heating technologies should be eligible for the off-gas uplifts proposed.
3. No Supplier should be commercially disadvantaged for having delivered substantial volumes of CERO through expensive measures, and we agree with the carry-over of excess actions from CERT & CESP. However, the proposed levelisation mechanism might not be the best approach for delivering an equitable marketplace.
4. The able to pay market is still critical for the roll out of energy efficiency measures. One way to make ECO deliver more effectively is to address the market failure of the Green Deal. The £540m of Green Deal incentives are welcome, but ensuring their "additionality" is a key concern.

5. There is a long-term issue with single walled dwellings in the UK which will need to be addressed in order to properly tackle fuel poverty and rising bills. The SWI minima must be in Carbon Savings (if not both CO2 and number of buildings).
6. Simplicity is welcomed. The best proposals in this consultation centre on making ECO less complex. The Government must not build in additional burdens as it takes many away, however, and a careful approach must especially be taken around the proposals for the boiler market to make sure they are truly cost-effective.

Member Views

The Sustainable Energy Association membership includes a cross-section of stakeholders in ECO, included obligated parties and members of the delivery supply chain. We have taken an organisational viewpoint, which represents the general balance of opinion across our membership, but not all members agree with every position. Many of our members have also submitted individual responses to the Consultation, and we recognise there are differing viewpoints that Government will need to consider when finalising its decisions. Of the 63 questions in this submission, we have strong consensus on all but 5. These are: Questions 1 and 2, around the proposed cut to CERO; Question 5, concerning compliance for CERT/CESP excess actions; Question 10, on the modelling approach taken by DECC; and Question 35 around levelisation proposals.

About the SEA and this Consultation Response

We are a member based industry body offering innovative policy solutions that links up building-level technologies and the wider energy system to achieve a low carbon, secure energy future for the UK, benefits for UK consumers, and commercial growth for businesses working in the sector. Our membership comprises a wide range of organisations that engage to develop policy positions through member-led working groups and our Executive Committee, discussing and authorising policy positions that have real commercial impacts.

We have been engaged on the delivery and reform of ECO since January 2013. In the summer of 2013 we held a workshop looking at revisions to ECO with DECC, in preparation for the expected Consultation on a 2015-2017 Obligation. We also submitted a paper to central Government in the autumn of 2013, following the “Green Levies Review”, suggesting ways to reduce costs without scaling back ECO’s ambition. This response has been complied through intensive group and one-on-one discussions with members; a final draft was also discussed at our Executive Committee on 14 April 2014, and this version approved shortly thereafter following some feedback on points of detail.

Question Responses

1. **Do you agree that the 2015 CERO target should be reduced by 33 per cent from 20.9mtCO2 to 14mtCO2?**

Overall we are disappointed that the process for making changes to CERO has been driven not by a concern for good policy design, but rather because of a political agenda to reduce energy bills in the short-term. The cut to CERO will enable Suppliers to make a £35 reduction to consumer bills in autumn 2013, before the end of the first phase of ECO in 2015 and the start of a new Government administration in May 2015. However, we believe that with a proper period of consultation and reform, cost-savings for ECO could have been established without necessarily reducing the ambition of the scheme.

However, an efficient programme of delivery for building-level energy measures, including energy efficiency, is the only long-term way to tackle carbon reduction and social objectives such as addressing fuel poverty. The speed with which the Government has disrupted already timetabled policy review processes for ECO to enact the proposed cut to CERO before 2015 has undermined industry confidence that policymakers understand the importance of these energy measures and the savings they offer to UK Plc if delivered effectively. The Government needs to recommit to a roll-out of carbon-saving building level measures to at least the same level of ambition that ECO was originally set to.

There has been a disruption of normal policy making processes: not least a planned Consultation for the 2015-2017 Phase of ECO which would have looked at ways to make delivery more cost-effective. The fact that the changes to CERO will apply retroactively, and that new measures will be eligible for installation from April 2014 before Ofgem are able to consult on changing the regulations has led to some uncertainty over compliance regimes, with Ofgem stating that they cannot be held legally responsible for the regulation of any measures installed between April 2014 and October 2014 when the Statutory Instrument is properly amended.

Some members have argued that the cut to the CERO target may be in a reality a greater reduction in ambition than 33%. In particular, they are concerned that the planned combination of levelisation, excess actions from CERT & CESP, and additional recent delivery will mean that the calculations done in December 2013 over the level of cut required to CERO might not be up-to-date. We are supportive of mechanisms which ensure that Suppliers who have delivered a substantial volume of their CERO targets with expensive measures are not commercially disadvantaged from the decision to allow cheaper measures into CERO. However, we would like DECC to ensure that they have properly modelled the total impacts of the proposed changes to CERO, levelisation, carry over, and excess actions.

As the Government intends to “make up” this carbon through the implementation of the £450m of additional Green Deal incentives, it is important that the process for reducing CERO does not outstrip the potential carbon gains made from introducing different incentives; this will lead to a carbon shortfall for the UK, and a reduction in the profound social gains such as reduced fuel poverty from the roll out of energy efficiency measures.

2. Should the new 2015 CERO target be applied to Phases 1, 2 and 3, or to Phase 3 only? Please provide justification for your answer.

It is a welcome step to have announced the targets for ECO out to 2017. It is testament, however, to the uncertainty created by the sudden change to ECO that many in industry would argue that the future of ECO and the Green Deal is less certain that it was prior to the December 2014 announcement. The "Green Levies Review" is perceived as a being politically motivated. Therefore it is hard, in an election year, to assuage industry concerns that there could be political motivation for this Government to change their ECO or Green Deal policy again before 2015, and then motivation for any new Government to replace it upon their taking office. Industry confidence in the future of ECO is therefore reliant upon the commitment of political stakeholders outside of DECC, with reassurances from central Government in particular needed to secure faith in the governance of this important policy.

3. Do you agree that underachievement against the CERO target at 31 March 2015 should be able to be carried forward at a penalty rate of 1.1 times the amount of the shortfall?

It is sensible, in the climate of uncertainty around ECO, and given the haste with which the scheme has been redesigned, to have some kind of transition between the end of the March 2015 obligation and the start of the March 2017 phase. This allows for both under and over delivery of each Obligated party's targets; this may prevent any harmful "cliff edges" forming at the beginning and end of the different phases of policy. Transition is important: at the end of the previous Government's CERT and CESP schemes, industry estimates that the delays and complexities of the change-over to ECO cost somewhere in the region of 100,000 UK jobs in the insulation sector supply chain.

Secondly, it is right that if the Government is making considerable efforts to level the playing field for Suppliers affected by changes to their targets through uplifts. Therefore there should be a penalty rate attached to non-compliance with the 2015 targets. In terms of the detail of the penalty rate mechanism, our membership has supplied a range of views. Some have suggested that the penalty rate should be higher to act as a proper disincentive to non-delivery and to encourage Suppliers to keep the volume of delivery of ECO high as there is some evidence that the supply chain is already being affected by uncertainty and the change in targets as Obligated Parties wait for clarity from Government about future policy design.

4. Do you agree that CSCO and Affordable Warmth targets should remain unchanged for 2015?

Yes. It is important that delivery to specific demographics continue to be progressed in order to meet key social objectives for ECO such as the reduction of fuel poor and the roll out of measures to vulnerable groups and regions in the UK.

5. Do you agree that all excess activity under CERO, CSCO and Affordable Warmth should be compliant with rules put in place for these sub obligations from 1 April 2015?

We received a range of views from members on this issue, and it is fair to say that DECC needs to balance the need to determine and make clear *as soon as possible* the exact quantity of excess actions brought forward, and the need to ensure that those excess actions were relevant to the targets for ECO. Overall we would support excess actions being deemed as compliant based on the standards in place *at their time of installation* but would caution that DECC needs to judge carefully that excess actions carried forward are consistent with, and do not undermine, delivery of ECO beyond 1st April 2015.

The time-pressures placed on DECC officials by central Government to bring in changes to ECO which cannot come into legal effect until October 2014, when the Statutory Instrument will be amended, which will then *be retroactively applied to April 2013* has resulted in a complete lack of certainty about how measures installed between April and October will be regulated and certified. Ofgem has released a note following the release of the DECC Consultation[1] to state that they cannot draft regulations until the legislation has been finalised, and therefore that any measures installed in the interim period cannot be guaranteed to comply with the eventual ECO legislation laid before Parliament. This is both destabilising for industry, and reflective of the pressure being placed on the policy making process by the wider, politicised, environment for energy prices.

6. Do you have a view on whether, and what proportion, of over-delivery against 2015 CERO, CSCO and Affordable Warmth targets should be permitted to count towards 2017 targets?

We believe that allowing over-delivery against CERO, CSCO and Affordable Warmth targets should be permitted to count towards 2017 targets. This is because we are concerned that the comprehensive changes announced to ECO could risk market uncertainty, as Obligated Parties adjust their activity to reflect the changes made to CERO with consequential impacts on the supply chain. Allowing any excess delivery to count towards the next phase of the Obligation could help prevent a damaging hiatus for industry. However, we endorse this policy only in relation to the principle that it is the lesser of two evils: clearly it would be

[1] Ofgem, *Changes to ECO:* https://www.ofgem.gov.uk/publications-and-updates/changes-eco-ofgem-publications

better if the policy design process were not to risk destabilising the market in the first place. In addition, it will be important to make sure that this carry-over mechanism doesn't lead to a later market slow-down.

7. Do you have views on how such a cap mechanism should be calculated and then implemented? Do you have a view on how such a cap could work alongside the proposed SWI minimum threshold, and whether there are distinct implications for any of the three ECO sub obligations?

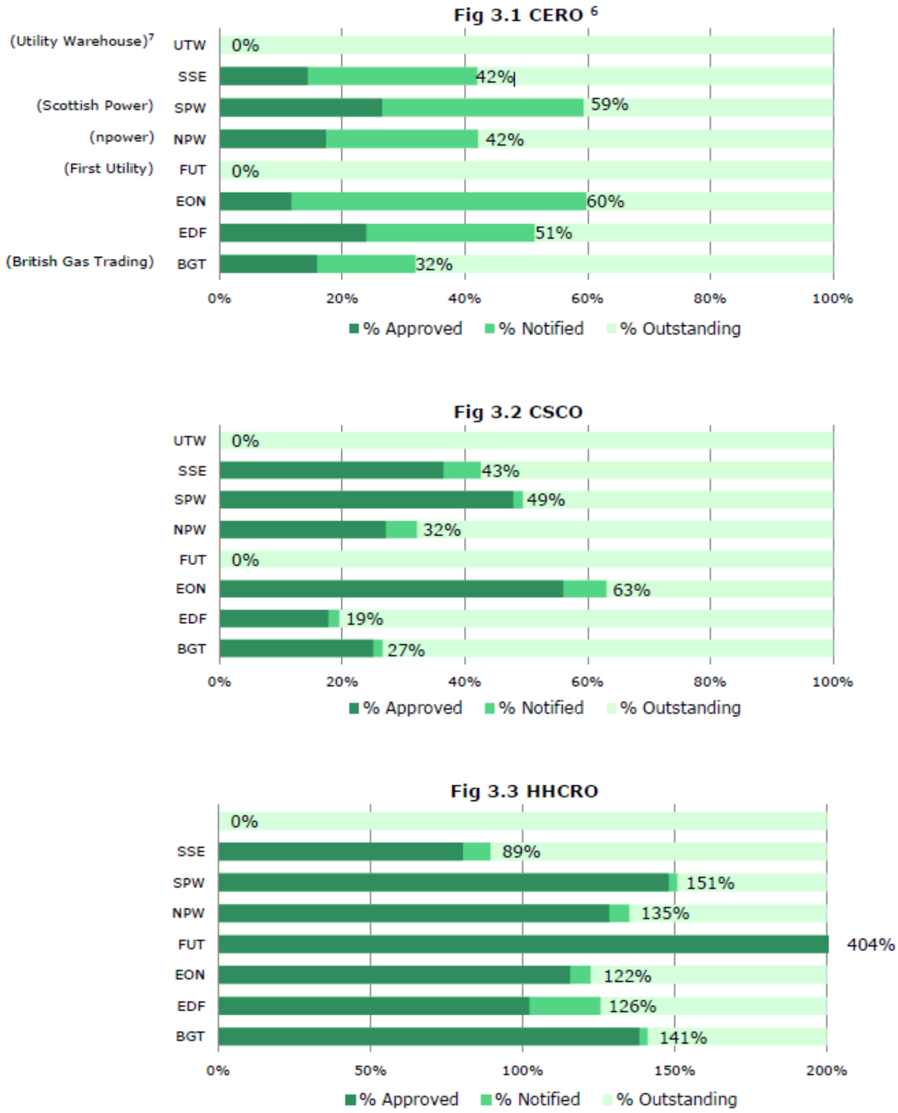
We do not believe that a cap mechanism would be effective; indeed, with industry concerns about a market hiatus following changes made to CERO, it makes sense for the Government to do all it can to encourage delivery to continue.

8. Do you have views on whether the rules relating to transfer of activity can be improved or simplified?

We believe that it is important that Transfer is maintained. Removing the ability to trade compliance in effect reduces the group of Obligated Parties to a single entity, whereas the reality of the marketplace is that the Suppliers have delivered to different levels. The latest available statistics from Ofgem for notified measures demonstrates that there is variance in levels of delivery across Obligated Parties, and further that there is variance in general levels of delivery across CERO, CSCO, and AW.

Moreover, the Consultation shows that DECC is concerned with making sure that those Suppliers which have moved early to deliver their DECC ECO targets are not competitively disadvantaged by the changes to CERO. Therefore from a consistency point of view, it makes sense to keep in legislation the ability for Suppliers who have moved early to benefit commercially through Transfer activity.

Figure 1: Notified ECO measures as a % of overall Targets [2]



9. Do you agree that the ECO scheme should be extended from March 31 2015 to March 31 2017?

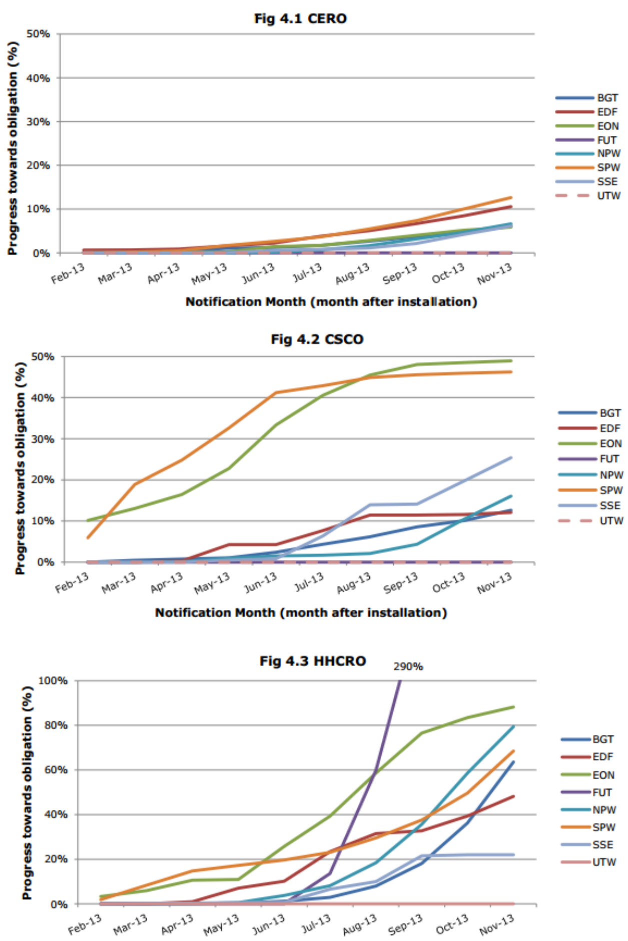
Yes. It is a welcome aspect of this Consultation that the Government has committed itself to maintaining an ECO scheme out to 2017 with new targets.

[2] Figures according to Ofgem *ECO Quarterly Report*: April 2014

10. Do you have a view on the modelling approach taken to set the 2017 targets, and are there other approaches that Government should consider? If so, please provide justification for your answer.

We are concerned that rather than compare the original ambition of the scheme from the original 2012 Final Stage Impact Assessment with the proposed “Option 2” to revise ECO outlined in the *Assessment of Impacts*, DECC have altered their original model and have calibrated a BAU approach which is instead based on “early market” trends from the first year of ECO. Taking “early market” indicators as a measure of the likely overall performance of a policy intervention could lead to a distortion; this is more the case with a policy as complex as ECO, where supply chains and processes took time to develop. There is considerable evidence that ECO activity was accelerating in the last quarter of 2012 across all three individual ECO schemes:

Figure 2: Notified Measures for ECO in 2013, showing accelerated delivery Sept-Nov 2013[3]



[3] Figures according to Ofgem *ECO Quarterly Report*: https://www.ofgem.gov.uk/ofgem-publications/85595/energycompaniesobligationecocomplianceupdateandquarterlyannex-january2014.pdf

Further, DECC undertook an evidence collection exercise, to the end of August 2013, that looked at the real costs to deliver ECO for the seven obligated energy suppliers. The findings of this exercise suggested that the scaled-up costs in the real marketplace matched the Central scenario of the original Impact Assessment:

Figure 3: Costs of delivering ECO (August 2013), against 2012 IA Projections [4]

Table 1: ECO delivery costs by obligation (up to end August 2013)

Estimated ECO delivery costs as reported by energy suppliers (up to end August 2013)				
Obligation	**Average price[1]**	**Total delivery costs**	**Scaled-up annual cost[2]**	**Central Impact Assesment**
Affordable Warmth	0.17	171,652,809	321,303,068	350,000,000
Carbon Saving Communities	£60.35	61,904,407	182,393,607	190,000,000
Carbon Saving Obligation	£89.68	186,546,289	833,056,977	760,000,000
Total		**£420,103,505**	**£1,336,753,651**	**£1,300,000,000**

We would be interested to see whether the economic justification for the policy changes proposed in this document would be effected if a more the "BAU" approach was changed. Some of our members have informed us that they are supportive of the Government's BAU approach because it reflects their current delivery costs (versus the original assumptions of the 2012 Green Deal and ECO Final Stage Impact Assessment). We would encourage DECC to consider this viewpoint, but base our response on the data publicly available and previous Impact Assessment principles.

11. Do you agree that the 2017 CERO target should be set at 12.4MtCO2?

Please see Question 1.

12. Do you agree that the 2017 CSCO target should be set at 6MtCO2?

Yes.

13. Do you agree that the 2017 Affordable Warmth target should be set at £3.8 billion of lifetime notional bill savings?

We are concerned about the difference in figures between the 2015 target for AW and the 2017 target for AW. While it is sensible to pro-rata the savings made because there are fewer months for delivery in the 2015-2017 phase of the scheme, the Government rhetoric has stated that in absolute terms, the carbon and heating savings commitments of ECO will be unchanged between March 2015 and March 2017.

[4] According to DECC *ECO Delivery Costs*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/260907/eco_delivery_costs.pdf

In absolute terms, the *Assessment of Impacts* projects a difference of £0.4bn of heating savings from the pro-rata Target; this cannot, surely, be said to be the "same" ambition, but is rather a modelled equivalency. As the new £450m package of Green Deal Incentives is calculated to replace an absolute value of carbon lost from the reductions to savings proposed under "Option 2" for ECO, any different in absolute volumes of carbon saved could leave a shortfall.

14. Do you agree therefore that work carried out to fulfil obligations under ECO should be additional to work funded under the incentive package? If yes, do you have suggestions on how this additionality could be ensured?

There are mixed views from our members about the exact functioning of the proposed incentives package, and how to ensure additionality.

On the one hand, the original intention of the Green Deal and ECO scheme was to ensure that able to pay consumers funded work with a pay-as-you-save loan mechanism (the Green Deal) with ECO working as a grant to target specific areas and consumer groups. In addition, ECO and the Green Deal were specifically designed to target the Hard to Treat and Solid wall insulation (SWI) measures which had not been prioritised under the previous CERT and CESP schemes. Because these measures are more expensive, it was envisaged that these would be delivered through blended finance.

Indeed, a key unexpected cost of ECO delivery has been that the Suppliers have financed 100% of more expensive measures. Under this scenario, it would make sense from a policy principle point of view if able to pay consumers benefitting from CERO were able to leverage all the financial income streams available to them, including cash back, where State Aid permitted it in order to make the delivery of expensive measures as attractive as possible. Various members have expressed disappoint about the work they have done in trying to develop an attractive solution for able-to-pay consumers and expensive measures; they feel strongly that imposing restrictions on the additional incentives does not match market realities. On the other hand, others in our membership are understandably nervous about any mechanism which may further reduce "real" ECO delivery still further.

Figure 4: Measures installed with Cashback to Feb 2014 [5]

	Total number of Cashback measures delivered	Percentage of Measures
Boiler	**9,333**	***91***
Gas Boiler	9,268	*90*
Oil Boiler	65	*1*
Cavity wall insulation	**138**	***1***
Loft Insulation	**330**	***3***
Loft Insulation	329	*3*
Room in Roof Insulation	1	*0*
Other Heating	**6**	***0***
Electric Storage Heaters	0	*0*
Flue Gas Heat Recovery Devices	0	*0*
Heating Controls	6	*0*
Warm Air Units	0	*0*
Waste water heat recovery systems	0	*0*
Other Insulation	**24**	***0***
Draught Proofing	8	*0*
Flat Roof Insulation	1	*0*
Hot Water Cylinder Insulation	5	*0*
Passageway Walk-through Doors	8	*0*
Under Floor Insulation	2	*0*
Solid Wall Insulation	**394**	***4***
Window Glazing	**27**	***0***
Double Glazing	27	*0*
Secondary Glazing	0	*0*
Total number of measures	**10,252**	***100***

[1] More than one measure can be installed with Cashback per unique property.

The concern with the incentives, particularly the cashback, is that it will encourage work to be carried out which would have either been done under ECO already, or is unnecessary. The previous phase of the Green Deal Cashback Scheme was spent largely on boiler replacements; the questions in the Consultation document about boiler warranties and “repair rather than replace” suggests that DECC believes that the number of boiler replacements so far undertaken through HHCRO funding and Green Deal Cashback is problematic.

15. Do you agree that all forms of cavity wall insulation, including standard “easy-to-treat” cavities installed from April, should be eligible as a primary measure under CERO?

The original design of the Green Deal and ECO had a specific focus on delivering hard to treat and solid wall measures. The vision was for the Green Deal to cover Affordable Warmth consumers paying for easy-to-treat measures, and for ECO to fully fund work for specific consumer groups or areas; the two schemes, it was thought, would overlap in the middle to allow the part-financing of complex measures being delivered through the CERO obligation with blended Green Deal and ECO finance in an able to pay market.

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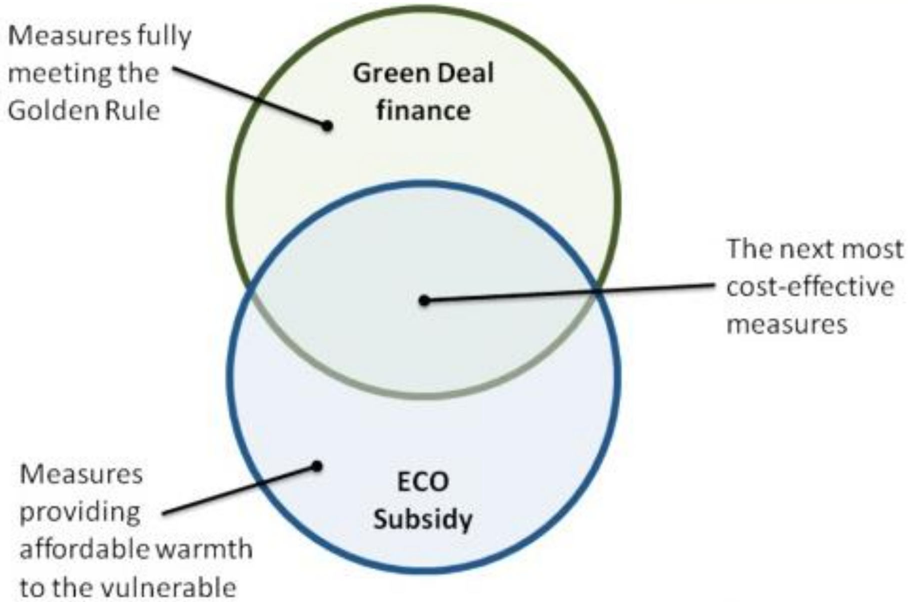
[5] According to Ofgem, *Green Deal and ECO Statistics*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294353/Monthly_Statistical_Release_-_Green_Deal_and_Energy_Company_Obligation_in_Great_Britain_-_20_March_2014.pdf

Figure 5: Green Deal and ECO Scheme Design[6]



The reality of the market has not matched the original scheme design. The delivery of HTT and SWI measures has been funded through ECO without blended finance; in fact, ECO and the Green Deal are currently operating as two largely separate schemes. Therefore the logic which originally carefully calibrated and delineated between "expensive" and "low cost" measures for installation across ECO and the Green Deal is no longer applicable (whether the Government should prioritise fixing the functioning of a blended Green Deal and ECO model is a different question).

When it became clear in autumn 2013 that the Government was keen to reduce the costs of ECO, the trade associations ACE and the Micropower Council argued[7] that by allowing more flexibility over the types of measures that could be installed, it would be possible to reduce the costs of ECO. We believed that this step would lead to savings which were sufficient that a cut need not be applied. Moreover, we have seen evidence from our members that there are still significant numbers of easy-to-treat insulation measures left to deliver in the UK-certainly far more than was estimated by DECC following the closure of the CERT and CESP schemes.

We support the inclusion of "easy-to-treat cavities" into CERO. Again, however, we would argue that the process for their inclusion is confused, and that in particular being able to backdate the installation of measures to April of this year has caused market uncertainty. Nor in our original position paper did we suggest that the inclusion of less expensive

[6] Diagram from *CPA Report: http://eepb.org.uk/Publications/Green_Deal_Opportunities_for_Industry.pdf*
[7] Micropower Council *ECO Position Paper*: http://www.micropower.co.uk/news/micropower-council-launch-eco-position-paper

measures as CERO primary measures should have been with a cut to the CERO ambition- we believed that through consultation and review enough savings could be made that a cut would be unnecessary. Please see Question 1 for more information in regard to these two points.

Finally, we would point out that the process complexities of making easy-to-treat measures eligible as a primary measure under CERO from April 2014 is writ large in the administration of the current Brokerage scheme. Our current understanding is that the changes to CERO have added complexity into the Brokerage scheme, but that DECC has been keen to amend the Brokerage as soon as possible because measures that are installed between April and October will in theory be eligible under the new rules for ECO. This has led to confusion, and DECC has had to compromise by offering to separate out the CERO scheme by measure, so that participants in the Brokerage auctions can see what measures, exactly, they may be getting for their funding. This complexity could have been avoided if the proper time-lines for policy revision and industry engagement had been observed.

16. Do you agree that loft insulation which is installed from April 2014 should be eligible as a primary measure under CERO?

Please see Question 15.

17. Do you think it would be appropriate to make provision to ensure that low income and vulnerable households benefit from the delivery of loft and easy-to-treat cavity wall insulation under the 2017 CERO target? Please provide views on any appropriate mechanism by which to do this.

We believe that it is right to acknowledge that energy efficiency is critical to the reduction of fuel poverty, which also encompasses many low income and vulnerable groups. There are 5.1million UK households which are "fuel poor" and 26,000 excess winter deaths each year[8], and demand reduction is the only way that we can tackle this problem in the long term.

It is therefore one of the perversities of the cut to ECO that the Government has stated this change will save consumers money on their energy bills when arguably, in the long term, the opposite is true. This is why we are arguing that the Government needs to comprehensively revisit their strategy for energy in buildings in the next Parliament, and put in place a cost-effective roll-out of retrofit measures to tackle affordability in the long term.

[8] Energy Bill Revolutions and ACE Figures; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/42984/5533-final-stage-impact-assessment-for-the-green-deal-a.pdf

However, we do not believe that complicating the CERO target with a mechanism to direct easy-to-treat measures at the fuel poor is the right approach. Indeed, including easy-to-treat measures in CERO was motivated by a desire to simplify the approach to the delivery of ECO. It has been a criticism of the Rural Sub-Obligation, for example, that identifying specific consumer groups or regions requires either Government support (e.g. the "hot-spot" approach being developed by DWP and DECC) or costly administrative processes. We would therefore counsel against using the CERO scheme to achieve the roll out of measures to the fuel poor, adding complexity to the generation of activity which still largely originates with the installer base; this is the purpose of the HHCRO target.

As an additional point: it is a misconception that CERO does not already reach vulnerable consumers; several Suppliers have stated publicly that around a third of their overall CERO delivery has so far gone to social housing projects[9]. This delivery pattern may of course change now the measures eligible under CERO have changed, but it does further indicate that the Government cannot accurately claim that the changes to ECO will not affect vulnerable or fuel poor consumers.

18. Do you agree that heat networks (district heating schemes) should also become eligible primary measures under CERO from 1 April 2014?

We agree that that heat networks should become eligible primary measures under CERO. Industry and policy makers took a decision early on in the design of ECO and the Green Deal that efficient and low carbon heating technologies could all be eligible measures. This was consistent with the policy precedents set by the CERT and CESP schemes. Moreover, energy efficiency and efficient heating are symbiotic: heating technologies perform best in thermally efficient buildings.

District heating features as a priority technology in the updated Government Heat Strategy and are identified as an ideal technology for reducing the bills of social housing tenants. As there has been a significant level of social housing retrofit delivered through CERO, it makes sense to include district heating as a primary measure- provided the scoring of carbon savings is calculated carefully.

Finally, we would be concerned about the regulation of any installation of district heating between April and autumn 2014, for the same reasons as outlined in Questions 5, 15 etc.

[9] Evidence given in PRASEG debate on ECO, 7th April 2013, where the exact figure quoted was 38% of CERO measures notified.

19. Do you agree with the proposal to extend the number of eligible areas under CSCO from the lowest 15 per cent of areas, as identified using the Index of Multiple Deprivation, to the lowest 25 per cent of areas for measures delivered from 1 April 2014?

We welcome the extension of eligible areas under CSCO from the lowest 15% of areas to the lowest 25% of areas. We would make the same points as under Question 5, 15, and 18 above that the regulation of measures installed between April and autumn 2014 is, as yet, confused.

Several members have raised concerns about whether the Indices of Multiple Deprivation 2010 (IMD) are the best tool for identifying Affordable Warmth consumers inside rural areas. ACRE has undertaken detailed analysis of the Index of Multiple Deprivation 2010 and identifies that only 2% of the most deprived 20% of areas in England are rural. This is because deprivation inside rural areas is often in small pockets, and this detailed level of understanding is often missing from generalised LSOA numbers. An alternative could be to use Output Area definitions instead of Super Output Area definitions, if DECC wanted truly wanted to target community groups that were <u>both</u> rural <u>and</u> deprived, as this immediately increases the rural proportion of areas in the bottom percentages.

20. Do you agree with the proposal to change the criteria for measures installed under the CSCO rural sub target so that, measures delivered from 1 April 2014 can count towards the sub target if they are installed at any domestic property located in the poorest 25 per cent of rural areas, as well as to households living in rural areas that are in the Affordable Warmth Group.

As mentioned in Question 19, simplification of the targets is a welcome step. Equally, the removal of the need to certify every rural consumer as an Affordable Warmth consumer should simplify processes and reduce the number of visits required to consumer homes. However, we wish to state the same concerns about the regulation of eligible measures between April and Autumn 2014 as we have in Questions 5,15,18, etc. We would also caution that DECC must be confident that the mechanism for identifying "the poorest 25 per cent of rural areas", currently suggested to be the IMD 2010, will accurately forecast rural poverty (please see Question 19 for more details).

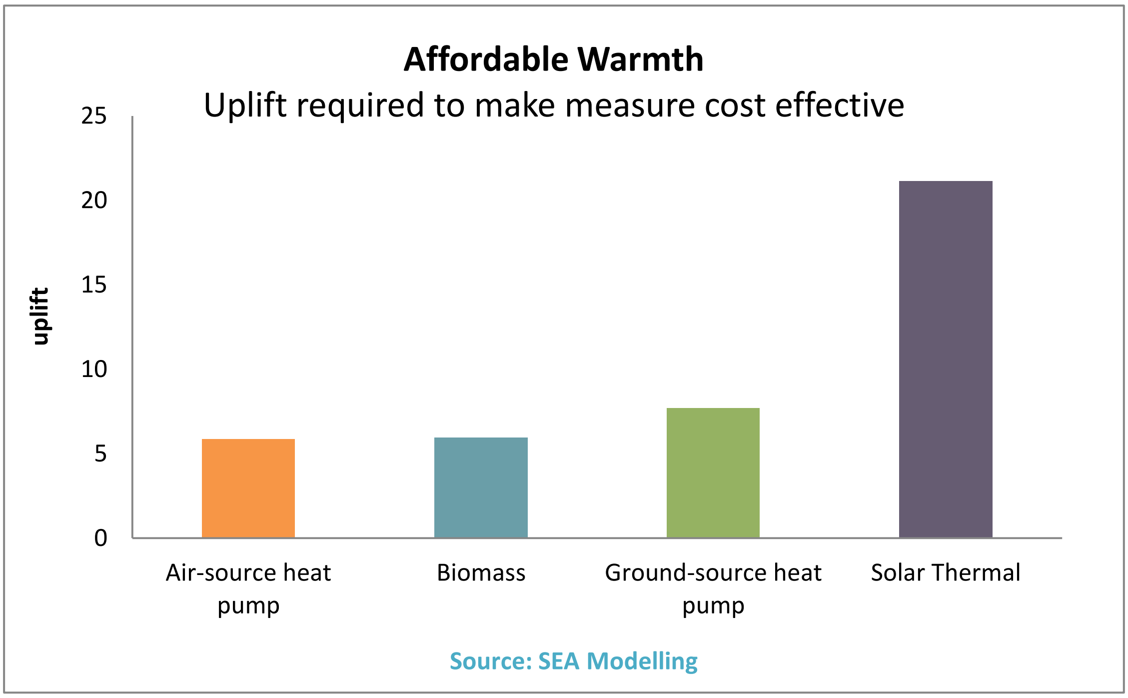
21. Do you agree that an uplift should apply to the notional lifetime bill savings of non-gas fuelled households? Please provide views on the form and level of the uplifts as suggested above.

We agree with DECC's comments in the Consultation that the current structure of ECO prioritises gas heating technologies and fails to encourage delivery to the off-gas grid areas particularly affected by high energy bills. Therefore we support the idea of uplifts for non-gas heating technologies; of the options consulted upon we think it is the most sensible for reaching Affordable Warmth consumers in both gas and non-gas grid markets, levelling the playing field across these markets, and not causing market distortions.

However with the Domestic RHI having been finally launched on the 9th April 2014, a a mechanism specifically designed to roll out 160,000 domestic renewable heating systems to off-gas grid areas by 2020/21[10] where analysis has shown that in these areas a good economic case for switching to renewables can be made, it seems perverse that DECC would not even consider these technologies alongside electric heating, oil, and LPG technologies as the possible replacement heating technology for off-gas grid Affordable Warmth consumers in the *Assessment of Impacts* even if- as it the case for LPG- they are not currently the most cost-effective option for Suppliers to prioritise.

We have therefore undertaken to model these technologies according to the DECC methodology described in the *Assessment of Impacts*, and in relation to the models outlined in the 2012 Final Stage Impact Assessment for the Green Deal and ECO. As the Renewable Heat Incentive specifically targets the off-gas grid consumer, we have modelled the counterfactual to reflect this in line with the DECC methodology: we have assumed that the technologies would replace either a stand-alone electric heater (60% of consumers) or a non-functioning oil boiler (40% of consumers). Our findings are below:

Figure 6: Uplifts for Renewable Heating in the Off-Gas Sector (without RHI)



[10] DECC *Domestic RHI Impact Assessment*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211978/Domestic_RHI_Impact_Assessment.pdf

Tariff Uplift Required: 5.86 for ASHP, 5.94 for Biomass, 7.71 for GSHP, 21.14 for Solar

Figure 7: Modelling Assumptions

	Air Source Heat Pump	Ground Source Heat Pump	Biomass	Solar Thermal
Upfront Costs (£)	7,500.00	12,000.00	9,000.00	4,500.00
Efficiency (SPF/%)	2.76	2.91	80	-
Heating & Hot Water Requirement (KWh)	13600	13600	13600	900
Fuel Costs (£/KWh)	0.161	0.161	0.0453	-
In-use factors (%)	25	25	25	25

This modelling demonstrates that, as is the case for the LPG example given in the *Assessment of Impacts*, the uplift required for renewable technologies exceeds the uplift cap of 2.0 that DECC has applied. However, the results for an ASHP and Biomass in particular are close to the values that DECC has put forward for LPG (5.75), and LPG will be eligible for an uplift at the level of the DECC cap (2.0). We would therefore like to see renewable heating technologies included at the very least in DECC's modelling for ECO uplifts, and for these technologies to be eligible for the maximum uplift of 2. Clearly, the market will prefer technologies which require an uplift of less than 2 as these are cost-effective.

However, the market is also expecting a cost-down curve for renewable technologies to develop with increased deployment driven through the RHI. It is therefore likely that the business case for their inclusion in the uplift for off-gas grid technologies will continue to improve, and that it will eventually become cost-effective to offer these technologies as well as replacement boilers for off-gas consumers.

The renewable heating market has invested considerably in building up consumer offerings and supply chains in the off-gas grid market, and it would simply be a matter of pragmatism to capitalise upon some of this interest for ECO delivery. This approach both represents true technology agnosticism and ensures that various DECC policy objectives are aligned.

22. Are there other practical and effective means of incentivising delivery to non-gas fuelled households? In particular we are interested in views on a minimum level of delivery and changing the baseline heating technology for the replacement of "qualifying boilers".

Please see Question 21.

An option for incentivising delivery to non-gas fuelled households would be to set a specific target, similar to the Rural Sub-Obligation, for minimum delivery to off-gas grid households-or setting an off-gas grid minimum level, in the same manner as for SWI. Both of these options risk building in complexity to the scheme, and both would need careful modelling to ensure that costs were not driven up.

23. Do you agree that broken or not functioning efficiently electric storage heaters should be scored on the same basis as that used for "qualifying boilers"? Do you foresee any unintended consequences of this approach?

In principle, having the same scoring methodology for electric storage heaters as other, "qualifying boilers" is sensible; it recognises that there are savings to be made by installing an efficient storage heater running on economy 7 instead of an electric stand-alone heater.

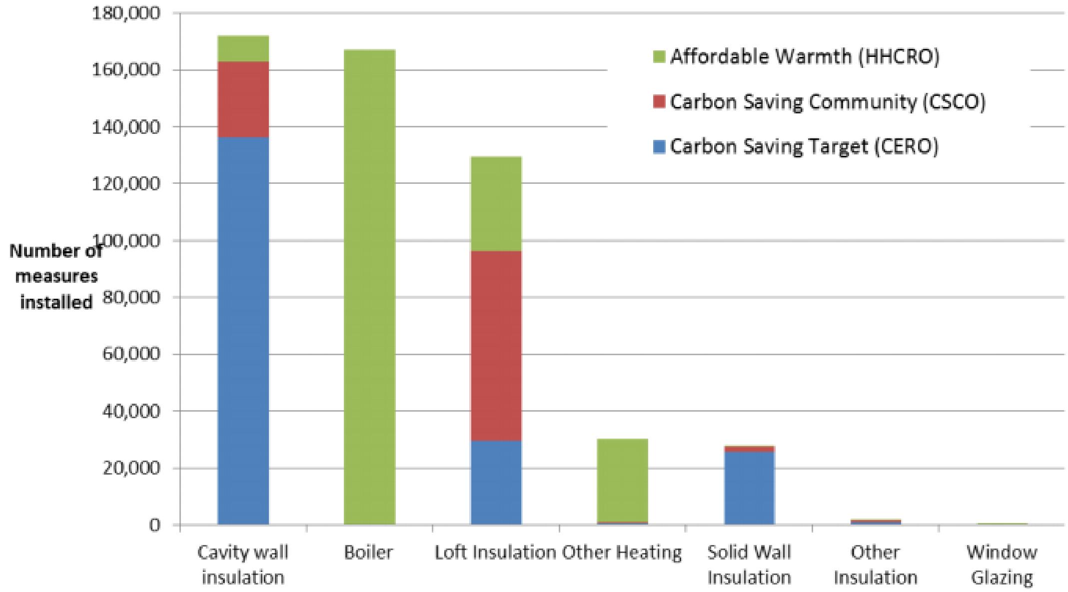
However we have also heard several views from industry which suggests that the risk of fraudulent activity around the scoring of electric storage heaters is higher than for boilers. Firstly, this could be simply due to the problem DECC acknowledges in the Consultation, which is that storage heaters are not tied into the heating system (necessarily) in the way that a boiler is; it is also difficult to tell, for instance, how many rooms the heaters may be in or how they are being used. In addition, we have heard views that proving that a storage heater is broken- or worse, breaking it intentionally- would be easier than with a boiler.

This could mean that the existing boiler checklist needs adjusting in order to limit opportunities to falsify assessments and scoring; the "Boiler fault list", for instance, is obviously geared towards "qualifying boilers" being gas boilers.

24. Do you have any views to why packages of measures may not be being delivered to Affordable Warmth households?

In the autumn of 2012, we outlined various changes to the ECO scheme which would have made, in our view, the next phase of ECO more cost effective. We were aware that the delivery of measures to Affordable Warmth had largely been single measure, and that the measure most commonly delivered was a boiler replacement:

Figure 8: Measures installed under ECO by type, by obligation, to December 2013[11]



We argued that boiler installation in its own right is not problematic; indeed we supported the inclusion of boiler installations through ECO and the Green Deal as a policy principle. However, we endorse fabric-first approaches to the installation of new heating systems.

One option is to mandate the packaging of boiler replacements with insulation measures or heating controls, where applicable. The Renewable Heat Incentive requires cavity and loft insulation to be installed alongside the new heating system where required.

The Government could also increase the incentive to package measures: there were uplifts for packaging measures under the previous CESP scheme. However, there were issues with the "multiple measure uplift" offered by this scheme that resonate with some of the concerns over the delivery of ECO, and which therefore may not want to be replicated. In particular, delivery partners felt the requirements and paperwork were "too onerous to complete" relative to the level of the eventual carbon score, and that there significant difficulty in finding households, where more than one measure was easy to deliver.

However, regulating or incentivising the packaging of measures in this sector risks building in complexity. While the "scatter-gun" approach to delivery, with individual measures being installed across different areas is not necessarily cost-effective, we do not necessarily believe that multiple measure, regional roll-out will offer cost or carbon saving efficiencies.

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[11] DECC ECO Monthly Statistics: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/282915/Statistical_Release_-_Green_Deal_and_Energy_Company_Obligation_in_Great_Britain_-_20_Feb_2014.pdf

That said, we fundamentally endorse a "whole house" approach to retrofit, and believe that the Government needs to be better at driving approaches to this market which look at both fabric efficiency and self-production of energy as mutually inclusive. At the end of the CESP scheme, stakeholder learnings indicated that the "whole-house approach to delivery is right in principle".[12]

This is because parts of the supply chain have streamlined the process for identifying particular consumers and rolling out single-measure replacements- this is particular true of heating engineers and installers (and particularly SMEs within that group) who still, offer the majority of ECO leads. If DECC wishes to the supply chain to work in a different way, support might be needed to identify appropriate leads and delivery partners – otherwise they might risk slowing down the rate of Affordable Warmth delivery, or making it more costly. Some of the other changes proposed in this Consultation response, which will change some of the current delivery patterns for ECO, may also change the delivery of Affordable Warmth; it is entirely possible that DECC may be able to take a clearer view of deployment at a later date.

25. Do you have any views on whether incentivising or, where applicable; requiring packages of measures is justified? Do you think there would be any unintended consequences from such a change to the policy and if so, what would they be?

Please see Question 24.

26. Do you agree that there should be a SWI minimum figure equivalent to 100,000 properties insulated with SWI by 31 March 2017? Should this be set as number of properties, or as a carbon equivalent? If the former do you have any views on how this should be set? If the latter, do you have suggestions as to how the target should be calculated?

Our members have supplied a range of views on this issue. We believe that a SWI minimum target should be set, given that the changes made to CERO will likely cause the delivery of easy-to-treat measures to be prioritised over more expensive external and internal SWI. Treating solid wall and hard to treat properties in the UK must remain on the agenda for an energy efficiency roll out, because the proportion of single-walled dwellings in the UK housing stock remains high. However, we accept that allowing less expensive measures into the CERO target may reduce the cost of ECO delivery (see Question 15).

The level of the Solid wall minimum does, however, risk holding the solid wall market at its current level, rather than allowing for any acceleration or growth in this sector, and there has been concern raised at various points by industry that the target will end up being a

[12] DECC, *Evaluation of the Community Energy Saving Programme:* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48210/3342-evaluation-of-the-community-energy-saving-programm.pdf

"maximum" figure rather than a minimum threshold. What is certain is that the change to CERO has already had an impact on the present solid wall market.

On March 11th, Lillian Greenwood MP suggested that various projects being delivered in Nottingham had been changed or withdrawn due to "changes to the ECO that were announced in December".[13] It is therefore important that the support given to SWI through the minimum level genuinely offers an inventive for delivery of this technology. It would also be sensible to separate out SWI in the CERO lots on Brokerage as soon as possible, to give Suppliers and supply chain genuine clarity over what measures they were buying to ensure that SWI can be purchased.

Our members have different views as to whether the target should be set in carbon or number of properties, and several have suggested that the only way to prevent gaming of the mechanism will be to proscribe the minimum level on both metrics. If DECC opts for an either/or approach then we have heard convincing arguments that the level should be set in terms of carbon, not in terms of numbers of properties; there is a possible incentive to only treat the smallest properties if the standard is set as a number of properties as this would be the cheapest option. In terms of scoring the carbon, the average score for SWI as reported to Ofgem across ECO so far has been 36 tonnes; a value of around 40 tonnes would therefore be appropriate to use to set the target.

27. Do you agree that we should specify SWI lifetimes in legislation for installations accompanied with an appropriate guarantee, and do you have any views on what the specified lifetime should be?

We endorse approaches that encourage quality installation. We are therefore not opposed to the principle of applying lifetimes for measures. We would also suggest that the current method- where Ofgem lays down prescribed lifetimes for measures at the start of the Obligation (36 years for SWI and 42 years for CWI/LI) should not be amended part-way through one obligation period because that would be disruptive for industry. Overall, we believe that laying down lifetimes for each three-year ECO period is a good idea.

On the one hand the fact that the scheme is relatively brief suggests that laying down prescribed timelines into legislation might protect consumers; on the other hand, ascribing liability and administrative processes to any prescribed lifetimes which outlasted the length of ECO itself would prove difficult and possibly unfair. Finally, we would like to note that changing the assumed lifetimes of the measure for SWI could impact on its carbon savings scoring, and therefore the third factor that DECC must consider in applying a guaranteed lifetime to SWI is whether or not it will affect the delivery of the SWI minimum.

[13] Westminster Hall Debate, 11th March 2013: http://www.theyworkforyou.com/whall/?id=2014-03-11a.68.1

28. Do you have a view on whether lifetime for other measures should also be set in legislation, and if, which measures?

We do not have a view on whether or not to apply lifetimes for other measures to be set in legislation, apart from to restate the basic principles about wanting to ensure quality of installation and product as outlined in Question 27. We would also encourage DECC to ensure that where possible the same principles and approaches to lifetimes, standards, certifications etc. are adopted across the eligible measures.

29. Do you agree that the SWI minimum threshold should be apportioned according to market share, and if so, should this be calculated on a phased basis? And if so, what principles should apply?

The same principle should apply to the SWI minimum threshold has to the other obligations and sub-obligations for ECO. Some in industry have suggested that phasing is, ultimately, unhelpful, as it distracts from the only targets that really matter, which are the March 2015 and March 2017 scheme deadlines. On the other hand, in an uncertain world for SWI following the changes to CERO, phasing could encourage the supply chain to continue a steady trajectory for SWI delivery rather than a sudden cliff-edge. One member voiced concern about the impact of the changes to CERO on the way that SWI is apportioned, as some Suppliers could be very close to the completion of their CERO 2015 target.

30. Do you agree that secondary measures installed alongside SWI should not be counted towards the proposed SWI minimum threshold? What are the practical implications of this proposal, for instance, Brokerage trading?

The SWI minimum threshold must prioritise the delivery of internal and external wall insulation (see Question 26). The Suppliers are commercial entities that will aim to deliver their ECO Obligation, quite rightly, as cost-effectively as possible. This means that, in the same way as setting the target as a number of properties would incentivise delivery to smaller properties first, allowing any additional measures to count towards the SWI threshold risks further watering down the delivery of SWI. The *Assessment of Impacts* assumes that the SWI minimum target is calculated on SWI delivery, and therefore that should be what DECC expects to see delivered. In terms of Brokerage, we would echo what others in industry have said about separating out SWI from the lots as a separate commodity as soon as possible.

31. Were we to take legislative action, what would be your preferred option based on those set out above? Do you agree that scoring uplifts is likely to be the optimum approach?

The originally model for ECO and the Green Deal saw blended finance as a key "third way" for the able-to-pay consumers who were also installing expensive but critical measures such as HTT or SWI insulation (see Question 15). It is disappointing that there have been so few "blended" finance packages in the ECO, so few Green Deal Plans, and above all that where consumer contributions are made, they are made by Affordable Warmth consumers.

Clearly, there have been significant market failures in the roll out of Green Deal finance; criticism has in particular focused on the administration costs for the Green Deal Finance Company's provision of finance, which can often push the interest rate of a package of measures up from the base rate of 6.93% to nearer 8% for smaller loans (less than £2,000).[14] However, DECC appear to be agnostic about what kind of "blended finance" they would regulate into combined offerings. This, of course, allows some flexibility but has risks of its own.

We oppose legislating in this area. It would be a complex regimen that would not solve the broken Green Deal and ECO model, as it is far more likely to encourage the use of private sector financing or customer contributions which carry their own risks- such as the encouraging mis-selling or difficulties ensuring consumer protection.

With regard to uplift, it seems illogical as a policy principle to reward activity which should be in the best interests of the supply chain to deliver (as blended finance should reduce the cost of installation for the more expensive measures). The problem with blending is not due to a market failure on the part of the ECO supply chain, but rather, we would contend, a policy failure in the original Green Deal and ECO schematic. If the Government wishes to fix this, then the Government must fix the able to pay market mechanism.

Finally any further changes to ECO would be difficult to bring in before the second phase of the ECO scheme, and if anything is needed from Government with regard to this scheme, it is some stability in the policy trajectory between when changes made by this Consultation come in, and March 2017 when the ECO is now due to finish.

32. What are your views on a scoring uplift for blended finance and could you provide evidence for your view?

Please see Question 33.

33. Please provide views on whether, and if so, the extent to which Affordable Warmth measures should be part funded by customer contributions and other types of finance.

Affordable Warmth customers who are captured by the targets under HHCRO should not be required to contribute towards any core ECO installation carried out in their property. They

[14] Ecuity Modelling, January 2013.

have been correctly identified as vulnerable or fuel poor consumers who require support through ECO- the idea of such consumers funding activity is a perversity which should be prevented.

We have also heard views from the supply chain that DECC should re-examine the scoring for HHCRO.. We would suggest a possible alternative to the current system would be to set a clearer heating specification and deemed scoring which more accurate reflects the cost of installing measures in different house types.

The most delivered measure under HHCRO to date has been boiler replacements. HHCRO scoring does not, in any sophisticated way, link the size of the property with the real cost of installing a measure- in this case a boiler- for different house types. The incremental cost of boiler replacement across different types of house is not large; however a small flat only receives 37% of the funding that a large detached property would receive to get their boiler replaced. There are two consequences: the occupier of the small flat gets less funding and has to contribute a share of the cost; the prices on the Brokerage are driven down as the supply chain prioritises treating the biggest properties where ratio of funding versus costs of measures offers the best scoring margin.

Finally, several members have made the reasonable point that if Affordable Warmth consumers choose to carry out the installation of measures over and above what they are eligible to claim through HHCRO, they should not necessarily be prevented from funding (or part-funding) this work themselves.

34. Do you believe there is a case to limit customer contributions under Affordable Warmth?

See answer to Question 33.

35. Do you agree with the above "levelisation" proposals for recognising and rewarding early progress, and do they sufficiently address any adverse competitive implications of the other proposed changes to CERO?

We agree with the principle that no single obligated party should be commercially disadvantaged because they met they have delivered significant volumes of their March 2015 CERO target through HTT and SWI, which are more expensive measures. We also recognise that setting the threshold for at 35%of a Supplier's target as delivered and the uplift rate at 1.75 was the "least generous" of the options informally consulted upon with industry by DECC.

Some members have argued that the planned combination of levelisation, excess actions from CERT & CESP, and additional recent delivery will mean that the calculations done in December 2013 over the level of cut to CERO and the levelisation process required to ensure a fair commercial playing field for Suppliers might not be up-to-date. This in turn could lead to an artificially small percentage of the CERO target remaining to be delivered before March 2015, which in turn would have market impacts as the Suppliers, particularly those who moved early, will be commercially disadvantaged if they risk *over-delivery.* This is not ideal for industry across the supply chain that wants to invest and deliver a stable market; a "boom and bust" style of delivery is costly for all concerned

We are supportive of mechanisms which ensure that Suppliers who have delivered a substantial volume of their CERO targets with expensive measures are not commercially disadvantaged from the decision to allow cheaper measures into CERO. However, we would like DECC to ensure that they have properly modelled the total impacts of the proposed changes to CERO, levelisation, carry over, and excess actions.

36. Do you agree that the uplift threshold should be set at 35 per cent (primary measures only) of Phase 1 and 2 of the current CERO obligation?

See Question 35

37. Do you agree that an uplift of 1.75 should be applied to primary measures above the proposed 35 per cent threshold installed by the end of March 2014?

See Question 35

38. Do you agree that Government should consider adopting a different approach to the delivery of SWI as part of the levelisation exercise? Should delivery of SWI above the 'expected delivery profile' for individual suppliers at 31 March 2014 be permitted to count towards the 35 per cent levelisation threshold?

Please see Question 35

39. Do you agree we should amend the legislation to allow the optimum carry forward of excess action from CERT and CESP?

We agree with the principle of allowing the carry forward of excess action from CERT and CESP into ECO (as we stated in Question 5). We are concerned about this activity might not been taken into consideration for the setting of the levelisation mechanism, and that this might make the assumptions around levels of uplift required out of date. We would like DECC to ensure that they have properly modelled the total impacts of the proposed changes to CERO, levelisation, carry over, and excess actions.A secondary concern has also been voiced by a minority of members that DECC ensure that the relative costs of carbon between CERT & CESP, and ECO, do not lead to a market distortion (as the carbon carried over was delivered at a cheaper price).

40. In amending the legislation (as set out above) should we allow the process for notifying and approving excess actions to rerun in its entirety?

We agree that Suppliers should be able to benefit from the carry-over of excess actions under the CERT and CESP scheme, and that this may mean rerunning the notification and approval of excess actions.

We would comment however, that it is again disappointing in terms of policy processes that DECC are still not certain about carry-over over a year after the CERO scheme began, and that the need to re-run the notification of excess actions process will mean that industry will have been waiting for almost three years for clarity on the amount being carried over by the time the process is concluded.

DECC should also be aware that there was a difference in the cost of carbon between the CERT and CESP schemes, and delivery under ECO. The *Assessment of Impacts* indicates that this could lead to an additional 1.1Mt of carbon being carried over into ECO. This could impact the delivery required to 2015. Therefore if notification is re-run, DECC could consider making an adjustment to carry over so that 1tCO2 in CERT and CESP would equal 0.35t CO2 in ECO, for example.

41. Do you agree we should change the rules, as set out above, to:

- **Align the notification arrangements for Adjoining Installations with the arrangements for Qualifying Actions.**
- **Introduce greater clarity on the rules on the re-election and re-elections after transfer of Qualifying Actions, to ensure flexibility and aligning the rules on Excess Actions with these changes.**
- **Extending the final date for transfers by one month to align with the final notification date for work completed under ECO.**

We agree.

42. Are there any further technical changes we could make to the rules on Qualifying and Excess Actions which would add flexibility, but without undermining the scheme objectives?

No Comment

43. Can you provide evidence for a need to strengthen consumer protections under ECO? If so, what do you suggest are the best options for strengthening consumer protection?

A general comment on the consumer journey under ECO would be that occasionally the desire for compliance has actually been less beneficial for consumers than a degree of flexibility. One example is the requirement for multiple visitations, particularly under HHCRO, to certify the consumer's eligibility for the scheme- it is clearly not ideal that a consumer, particularly a vulnerable consumer, has to be visited multiple times or share confidential data.

However, we support measures which aim to improve the quality of installations and to reduce fraud, and recognise that DECC has some concerns around boiler replacements in particular which might mean looking again at the Ofgem Boiler Checklist to ensure that the best quality boiler installations are going forward.

For that reason, many of our members think that installers should be PAS2030 qualified; this is only a logical reflection of the current ECO compliance standards which ask that measures have to be installed to a PAS2030 standard. The installer base is still driving a considerable percentage of leads for ECO delivery- it makes sense that we try to ensure that these installers are accredited to a high standard given the importance of their engagement with consumers. This is also consistent with other policy and we would like to encourage joined-up policy thinking wherever possible.

It is only fair to comment that where there has been concern about asking installers to be PAS2030 accredited, it is that the cost of qualifying to PAS2030 standards could be prohibitive for SME and individual installers, and that furthermore there is so far no significant evidence of poor quality installations under ECO to date. Others argue that the PAS2030 qualification costs have prevented many smaller heating installers from qualifying as Green Deal Installers. These members of industry argue that the requirement for installers to be Gas Safe certified, and the restrictions around the standard of each installation administered by Ofgem, are enough to preserve quality.

44. Do you agree that boiler replacements should require a warranty to cover parts and labour, which should not be invalidated by incorrect installation/commissioning, and that it should provide for the actual repair/replacement rather than compensation?

We believe that it will be difficult and costly to implement any warranty which tries to cover the installation and the product; the current 2 year warranty for ECO specifically covers the installation, and is the installer's obligation. Until product manufacturers have direct control over every installation which uses their product, they will not be happy with allowing their products to be covered by warrantees if they could cover faults that develop due to poor installation/commissioning.

45. Do you have views on what minimum period such a warranty should cover?

Please see Question 44. The current length of warranties for boiler replacements under ECO is 2 years. The maximum length of warranties for boilers in the market place is around 3 years. Therefore we suggest a warranty of 2 years is probably appropriate.

46. What are your views on how we should reflect the more stand-alone nature of electric storage heaters within this proposal?

Please see Question 23. In our view, the stand-alone nature of electric storage heaters means that they have a slightly higher risk for scoring and/or fraudulent installation than boilers, which are "tied in" to the heating system. We therefore think it is right to consider that they may need different warranty standards.

47. Do you believe that there are grounds for concern around the quality or nature of Affordable Warmth installations? If so, how should concerns be addressed?

The structure of ECO encourages the marketplace to install product at the lowest possible cost, as is reflected in the fact that Affordable Warmth prices on Brokerage are currently around half what was originally modelled and predicted by DECC in 2012. This could lead to a reduced quality of installations, but we would argue this is an unavoidable market distortion of balancing the need to roll out energy efficiency to consumers with keeping deployment costs low, rather than something that can be addressed through e.g. setting higher warranty standards.

48. Do you believe that additional safeguards are required to ensure the quality of installations under Affordable Warmth, and if so, in what form?

Please see Question 43.

49. Do you believe the current means of checking the requirements of eligibility for a "qualifying boiler" are appropriate? Do you have any suggestions on how this could be improved?

Please see Question 23. We have also heard views from members which suggest that guidance could be a simple scenario based around the lifetime or efficiency e.g. any boiler older than X years or rated at X or below should be replaced as a "qualifying boiler"; the boiler checklist would then deal with boilers outside this simple case for Ofgem approval.

50. Do you think any changes to the definition or guidance on what constitutes a "qualifying boiler", for both repair and replacement, are necessary? If so, what changes would be suitable?

Please see Question 23.

51. What evidence can you provide on the reasons for limited levels of boiler repairs rather than replacements?

Boiler replacements are much easier than repairs which can take time and often have an uncertain chance of success. Labour costs generally outweigh component costs for both repair and replacement, but are relatively fixed for replacement (i.e. it's possible to plan how long it will take) and lower cost as lower competency is required to replace with one type of boiler, compared to repairing a boiler which could have been made by any number of manufacturers at any point during the past 10 years.

The market is therefore heavily biased towards replace rather than repair wherever the required repair has a degree of complexity. We have heard strong views from members that a boiler repair is often uneconomic for both the scheme and the consumer and that this, providing the boilers being installed are at the correct standard and target the right consumers, is not in itself a problem for ECO. On a practical note, scoring a boiler repair's carbon savings would also be difficult and in the long run, will not tackle fuel poverty.

52. Do you have a view on whether measures funded through ECO from April 2015 should be recommended on the basis of a GDAR? In which case, do you have a view on whether Chartered Surveyors Reports should only be used to recommend measures in exceptional circumstances only? And if so, what should constitute an 'exceptional circumstance'?

We welcome the proposals announced in December which look to address the complexities of the Green Deal process, including the GDAR, which we believe will help prevent an unnecessary barrier to uptake or unexpected costs. We also recognise the work done by the Green Deal Provider's Forum on simplifying the GDAR.

Where possible we also agree that consistency in policy design should be a priority. With the GDAR as the route to market for the RHI, and integral to the Green Deal process, from a policy principle point of view, it makes sense for it to be better integrated into ECO. If DECC decides to introduce a simplified GDAR or an enhanced EPC then we would only be in favour of it if it could be done without an additional round of consultation.

There is, however, still concern about the cost of the GDAR, and who should pay for it- it would be inappropriate for the Affordable Warmth consumers to have to pay this additional cost, for instance. Moreover, we would only support making GDAR the gateway to ECO from

April 2015 if the Chartered Surveyors report were limited to social housing or private rental properties; it is right to keep the Chartered Surveyors report for these markets where they are a well-connected and familiar route.

53. Do you have other views on improving accuracy of assessments, for example the use of lodged EPCs?

We are generally in favour of using lodged EPCs, though we heard different views on this.

54. Where GDAR's are a paid for service when recommending Affordable Warmth measures, we welcome views on where any cost would likely – or indeed – should sit.

We do not believe that the cost of doing a GDAR should be passed onto Affordable Warmth consumers and would speculate that perhaps some of the additional Green Deal funding coming forward from the Government could be used for subsiding or removing the cost of the GDAR from this consumer group. If there is no way of financing these GDARs centrally, we believe the Government should not mandate GDARs for Affordable Warmth consumers

55. Do you have a view on whether measures promoted under ECO from April 2015 should be delivered by an accredited Green Deal installer and/or an installer who is PAS2030 certified?

We received a variety of views from members on this issue. As there is already a requirement that installations for ECO meet PAS2030 standards, there is a logical consistency in asking for installers to be PAS2030 qualified. With quality of installation also a key concern for ECO, it could make sense to make sure installer standards remain high.

On the other hand, some of our members are concerned that the cost of qualifying to PAS2030 standards would be prohibitive for SME and individual installers, and that furthermore there is so far no significant evidence of poor quality installations under ECO. Others argue that the PAS2030 qualification costs have prevented many smaller heating installers from qualifying as Green Deal Installers. These members of industry argue that the requirement for installers to be Gas Safe certified, and the restrictions around the standard of each installation administered by Ofgem, are enough to preserve quality.

56. Do have a view on whether there is value in a demand aggregation service for the carbon elements of the ECO obligation? If so, is ESAS the most appropriate provider of this service?

Our larger members, who have resources and the networks required to build up an overall vision of the UK market for energy efficiency, would argue that they themselves act as a demand aggregation service for the Suppliers. Green Deal Providers are often acting as managing agents on the Brokerage in exactly this way. In addition, many of the leads for HHCRO in particular still come from individual installers, and installer networks.

Overall we think that ESAS (were it to be more efficient) is a valuable service that should be continued and that it should primarily focus on the Affordable Warmth consumers. We received particularly positive feedback from the Suppliers on the ESAS service.

57. Please provide views on the current administrative cost of checking Affordable Warmth Group eligibility and any other actions taken to meet Affordable Warmth Group audit requirements.

Please see Question 43.

We believe that the customer journey for proving Affordable Warmth eligibility can be intrusive, involves repeat visits, and requires the collection of personal data which is complex and costly for industry to manage- as well as often difficult for consumers. There is a lack of clarity about who in the supply chain should hold consumer data, and whether it is required for eligibility. We would support an installer-based service which was administered centrally that could supply a straightforward yes/no following a query on Affordable Warmth eligibility. We recognise that DECC has already started to speak with the Department of Work and Pensions (DWP) on this issue, and would encourage them to continue this.

58. Do you agree that DECC should safeguard the continued existence of the ESAS referrals service for Affordable Warmth? If so, how?

Please see Question 56

59. Please provide views on whether there are wider developments and improvements to the ESAS Affordable Warmth referrals service which DECC should consider.

We have received information from members who use the ESAS Affordable Warmth referrals service which suggests that while it is valued it is inefficient. In particular, they feel that DECC could improve the information offered to consumers and their “customer journeys” so that the understand more clearly what eligible parties have a clearer idea of what measures and services they might expect to be able to access.

One interesting suggestion was that referrals from health practitioners to identify householders for whom poor housing and excess cold are causing health problems could be welcome. Such referrals would need to be carefully governed and controlled; we believe there would need to be an independent clearing house and an agreed framework for dealing with them.

60. In light of the proposed changes to ECO, can you provide new evidence that may warrant a change it the current Government's position on mandating Brokerage? Do you believe a case now exists for regulating participation on the Brokerage platform, for example, by requiring energy companies to deliver a proportion of their ECO obligation through the platform? Are there other options available to Government to ensure our objectives for a competitive energy efficiency market can be met?

We received a range of views on this subject. However, in summary, there is no need to regulate participation in the Brokerage platform at present but would not be adverse to DECC maintaining a watching brief on this issue going forward.

61. Do you have views on the accounting treatment of the obligation?

Broadly we are in favour of the current accounting treatment. There has been a suggestion made that DECC should consider switching the accounting method from a "cash" accounting approach to a "straight-line" approach to enable the development of a delivery profile for consumers across accounting years. There is some disagreement about whether Suppliers should be made to use the same approach to accounting: we heard some views that suggested that a consistent approach should be prioritised so that Suppliers could be asked to publish cost information which would be easily comparable and readily available to DECC and consumers. On the other hand, other views suggested that it was appropriate to allow Suppliers to each use the accounting treatment most appropriate to their business model.

62. Government invites views on what elements of the ECO scheme rules would benefit from simplification, and if so, how this can most effectively be done while still ensuring that the scheme objectives are met and the schemes integrity maintained?

As has been referred to throughout this response, there is currently a lack of consistency between the Ofgem requirements and different contractors in the market with regard to guidance and evidencing required. We welcome, for instance, the recent work conducted by EnergyUK which looked at producing templates for paperwork which were consistent across the Suppliers. There must be more of this kind of approach across the Supply chain.

We would also like the customer journey in Affordable Warmth simplified as the process of proving eligibility is both costly and difficult for consumers; we would like DECC to continue to work with DWP to come up with a simpler eligibility check and to help reduce the amount of confidential data that installers must hold.

Views from the members suggest that the Carbon Banking Deadline could be extended from the current 30 day limit; an alternative suggested has been to extend this to quarterly limits.

There is an issue at the moment with the amount of time it can take to certify a measure if any changes are required or any delays occur in the compliance process which is causing, we understand, measures to be “lost” unfairly.

Similarly, some of our members have commented that the phased approach to target setting might cause more complexity than it does add benefits: on the one hand, with a possible cliff-edge having been created for CERO, phasing targets might encourage a smooth delivery curve for remaining work in an environment which otherwise may be stop-start; on the other hand, several members rightly point out that the only target deadlines, legally speaking, are those at the end of March 2015 and March 2017 and perhaps it would be sensible not to overcomplicate this.

It is also worth remarking again on the lack of clarity created in eligibility, standards, and certification for the CERO scheme by the sudden changes announced in December, and primarily by the intention to apply these before the final regulations can be laid in Parliament in the autumn. This has built in complexity for the supply chain over the next 6 months, with the Suppliers understandable likely to be willing to spend money on installing measures that Ofgem may not eventually be able to approve if the terms of this consultation change.

We do not believe that the *process* behind the changes to CERO have been reflective of good governance, but we would acknowledge that this is not the fault of the civil servants at DECC but rather the wider political environment. We would urge policymakers from across the political spectrum to bear in mind the complexities they cause in the marketplace when policy processes are enacted hastily, or when policies are altered mid-delivery.

63. Government invites views on whether there are improvements that could be made to the ECO scheme on a longer term basis to ensure the scheme can best meet its objectives. We welcome evidence justifying the case for change.

We believe that the changes proposed by the Government in this Consultation will have a profound impact on ECO and certainly go far enough at this point. We have made some suggestions for improvements and changes throughout this consultation (see Question 62) to improve the process. We have also asked that Renewable Heating measures are at least modelled and kept under review by DECC for an uplift in the off-gas grid sector. We believe that this is more in line with the Government’s long term objectives as outlined in the Heat Strategy 2013, and match the stated policy objectives of the recently launched domestic Renewable Heat Incentive (see Question 21)

Finally, we believe that in the long-term ECO needs to be placed in its proper policy context. Energy measures delivered in buildings need a step-change in the scale of political ambition for the role they can play. Our recent analysis of the cost-effectiveness of all energy measures concludes that demand-side energy measures are the more cost effective way of delivering energy policy objectives such as reducing carbon emissions or reducing fuel poverty. The attached infographic, which uses the Government's own data, summarises this analysis. We believe there is an urgent economic case for prioritising a cost-effective mass retrofit of energy measures.

Annex B- Heat Networks

We have no comment on the questions for Annex B at this stage.

1. **Do you think a standard lifetime for heat networks is needed under ECO, regardless of fuel type or technology? Please provide any information you have on average times between the failure of key system components and suggestion for acceptable lifetimes and your reasoning**
2. **Given the uncertainty of the information surrounding the lifetime calculations the in-use factor is used as a risk management tool. What would be an appropriate level in-use factor be for heat networks? Please give your reasoning**
3. **Please give examples of where ECO support has helped to deliver heat networks.**
4. **Do you think there is a wider need for a service that match makes potential heat network projects with ECO support to maximise the delivery under ECO? Yes/No Please give reasoning and your views on who might provide this**
5. **In light of the long lead times (typically 2-3 years for design and build) what issues could there be with meeting the supply side of the ECO 2017 targets for heat networks?**
6. **Do you agree that operators of heat network schemes that receive ECO support should be obliged to sign up to the emerging heat customer protection scheme? Yes/No Please give reasoning**

7. **What barriers do you think there are in delivering heat networks under ECO support? Are there any other points you would like to raise?**