SCOTTISH GOVERNMENT RESPONSE TO CONSULTATION BY UK GOVERNMENT DEPARTMENT OF ENERGY & CLIMATE CHANGE :

THE FUTURE OF THE ENERGY COMPANY OBLIGATION

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# LEVEL AND NATURE OF TARGETS

**Question 1**

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

The Scottish Government strongly disagrees with this proposal as it will lead to a major reduction in investment in energy efficiency which is the most effective, long term way of tackling fuel poverty and reducing emissions from housing. Insulating hard to treat cavities and, in particular solid walls, is essential if we are to make progress in these areas. Scottish Ministers have written to the UK Government to highlight their concerns about the impact on investment, jobs, fuel poverty and emission targets.

We do not agree with the position that because CERO is principally a carbon target that this reduction in targets will not impact on fuel poverty. The Scottish Housing Condition Survey shows that support for solid wall measures is particularly important for Scotland as 89% of our solid wall properties are not insulated and 37% of households living in homes with solid walls are in fuel poverty compared with 27% of households overall. The residents of these homes are paying for ECO through their energy bills and have also contributed to the cost of its predecessor schemes, so it is vital that they receive their appropriate share of support. The industry also needs continuing support to ensure that a viable and cost-effective supply chain can be developed and maintained. It is therefore extremely important that the impacts to the Solid Wall industry created by these changes are mitigated as much as possible and that the UKG’s final plans following consultation address this.

The Scottish Government agrees with the UKG’s stated aim of reducing household energy bills. However, our position is that this should be done in a way that does not reduce much needed investment in improving the energy efficiency of our homes. That is why in *Scotland’s Future* we set out our plan to permanently transfer responsibility for ECO and Warm Homes Discount from energy companies to the Scottish Government - meeting these costs from central resources and maintaining investment in energy efficiency. By passing on these long term cost reductions to their consumers, energy companies will be able to reduce bills year on year – in contrast to the short term arrangements proposed by the UK Government in this consultation. This change will be made at an appropriate point to ensure continuity of work for Scottish businesses in the energy efficiency provider sector and for households and landlords arranging for improvement works. Meanwhile, we have taken action through our Home Energy Efficiency Programmes working flexibly with our delivery partners to mitigate these impacts as far as possible.

We also note that DECC estimates the Net Present Value for the Business As Usual (ie current ECO) option as £2.6bn as compared with £2.1bn for the proposed changes. This illustrates that the existing ECO offers good value for money, and so it does not make sense to scale back programmes.

While the proposed headline cut to the CERO target is 33%, other proposals in the consultation, such as those relating to optimising the carry forward of CERT/CESP as well as the 75% uplift proposed under the levelisation mechanism, mean that the reduction in activity under CERO will be significantly more than 33%. Activity in the period April 2014 to March 2015 is likely to fall particularly sharply. Organisations such as the Energy Saving Trust, National Insulation Association and the Association for Conservation of Energy are citing analysis to show that the proposed cuts to ECO go beyond what is needed to achieve the UKG’s stated aim of an average £35 per year reduction in household energy bills. We note in particular that ECO delivery has risen significantly over time, and the amount of activity in the months leading up to March 2014 could be well have been above the level that DECC estimated when it first announced its proposals in December. This would mean, for example, that the impact of the levelisation mechanism would be much greater than DECC originally envisaged.

If DECC considers that proposals relating to carry forward and levelisation are necessary to achieve fairness between energy companies, then we would strongly argue that these mechanisms should be designed in such a way as to prevent the cut in activity being much higher than the headline 33% (for levelisation, this could be through reducing the uplift rate, increasing the threshold above which it applies, or only considering energy company performance at an earlier date – perhaps prior to the December announcement rather than by 31 March 2014). As an alternative, or in addition, we would propose that the reduction in the headline target should be lower than 33%, to compensate for the fact that increasing the deemed amount of performance towards CERO will reduce the amount of activity that energy companies are required to take to meet the headline target.

We would also call on DECC to ensure that the impact assessment which accompanies any regulatory changes transparently sets out how the changes will reduce the costs of ECO delivery relative to the business as usual by no more than the amount required to achieve a reduction of £35 per annum in energy bills.

**Question 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.**

The new, reduced CERO target should be applied to Phase 3 (i.e., 1 April 2014 - 31 March 2015) only. As the reduction was designed to reduce future energy bills it does not seem appropriate to apply it retrospectively .

**Question 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?**

The principle of a penalty rate seems reasonable and we hope this will encourage steady delivery. However, there is a significant contrast between the 1.1 times penalty rate for underachievement and the 1.75 uplift for early activity. We suggest that these two adjustments should be brought closer together to avoid over-rewarding and under-penalising.

We suggest that the final compliance in 2017 is, in any case, strictly enforced.

**Question 4**

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

We are content for the CSCO target to remain unchanged. This reflects the fact that delivery under this target has been relatively low so far and we welcome plans elsewhere in the consultation to widen eligibility which may help to address this.

We believe that the Affordable Warmth target should be investigated further.

We are aware that the majority of suppliers are well in excess of the phase 1 and 2 HHCRO targets, and indeed some are close to meeting their 2015 targets, achieving this mainly through the replacement of gas boilers. This will mean that there is a danger many vulnerable households will not receive any service under this obligation until the period 2015-2017 once current targets are met. Together with the uncertainty about arrangements for carryover between obligation periods created by this consultation, this has led to some energy companies pulling out of their referrals arrangements with Scottish Government as part of the Affordable Warmth Scheme. Scottish Government is making adjustments to its own, Scottish Government funded national fuel poverty scheme, the Energy Assistance Scheme to mitigate the impact of this as far as possible.

These issues suggest that the targets as originally set were too low and too focussed on gas boiler installations. We risk this situation recurring unless targets are higher and off-gas heating systems are made more attractive to suppliers. We encourage UKG to look at the costs of delivering HHCRO. If the data shows that the delivery costs are lower than expected then in our view DECC should consider increasing the target.

More broadly, however, the Scottish Government has concerns about the principle of making provision for fuel poverty through a market-based mechanism such as HHCRO. The outcome so far appears to have been provision of a service that , in practice, means that despite being eligible for measures households outside urban centres find it very hard to access help; that assistance may not be accessible at all for a considerable period once current targets have been met; and the full range of measures needed by many fuel poor households are not being offered; together with concerns about the quality of installations made in some cases.

Our view is that a more comprehensive, consistent, effective and fairer service for those vulnerable to fuel poverty can be provided with a properly planned and Government funded service, working with delivery partners, rather than through a system based on market incentives. Value for money for the taxpayer can be obtained through use of competitive tendering with delivery provided by national or local level delivery partners, as appropriate. This is our approach through the Home Energy Efficiency Programmes for Scotland. The Scottish Government intends to procure a new national scheme to tackle fuel poverty to address the market failures within ECO.

**Question 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 support the aim of seeking to ensure a more consistent delivery profile across the obligation period. However, as noted in our previous answer, the fact that many energy companies are now close to meeting their 2015 targets for HHCRO and the uncertainty created by this consultation on the arrangements for any carry-over of excess actions, together with the possibility of a cap, has led to some energy companies discontinuing HHCRO activity and temporarily withdrawing from the Scottish Government’s Affordable Warmth Scheme. We would therefore welcome clarity on the final arrangements as soon as possible. Meanwhile, the Scottish Government is making adjustments to its own, Scottish Government funded national fuel poverty scheme, the Energy Assistance Scheme, to mitigate the impact of this as far as possible.

**Question 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?**

The proportion should be set at a level which would encourage steady delivery over the obligation periods.

**Question 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?**

See answer to Question 5.

**Question 9[[1]](#footnote-1)**

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

We welcome the proposed extension. Longer schemes will help our stakeholders to make longer term plans and provide greater stability for jobs.

However, the proposed changes to ECO are creating enormous disruption to the industry which follows the difficult transition from CERT/CESP to ECO. Delivery partners must therefore have assurance that the scheme will not be changed again over this period. The major changes which will be introduced this year have led to significant levels of uncertainty and wasted opportunities and resources as good projects have been scaled back or cancelled completely and this must not be repeated.

We hope that the UKG will take the opportunity to signal as soon as possible that beyond 2017 it will restore ECO to its original level of ambition and return to tackling measures such as solid wall insulation which are necessary to tackle our emission reduction and fuel poverty targets.

**Question 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.**

As progress on carbon abatement becomes more challenging as “low hanging fruit” is harvested, it may be that to achieve the necessary carbon abatement, the required expenditure levels need to increase in real terms over time, rather than being reduced as proposed.

**Question 11**

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

We strongly disagree for the reasons outlined in our response to question 1. The 2017 CERO target should be set at a level comparable with the original 2015 target. As we have highlighted, we are concerned that organisations such as the Energy Saving Trust, National Insulation Association and the Association for Conservation of Energy are citing analysis to show that the proposed cuts to ECO go beyond what is needed to achieve the UKG’s stated aim of an average £35 per year reduction in household energy bills. In the absence of full transparency, it is not clear whether or not any additional savings are being passed on fully to consumers or being retained by the energy companies.

**Question 12**

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

We agree.

**Question 13**

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

This target should be re-investigated as per our response to Question 4.

# INCENTIVE SCHEMES AND MITIGATING PROPOSED REDUCTIONS TO CARBON SAVINGS

**Question 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?**

The UK Government has stated that the incentives packages is intended to ensure that the reductions to ECO are “carbon neutral” overall. That is, the emission savings from the package are intended to compensate for those lost compared to original plans, by the changes to ECO. Therefore, if the emission savings are not to be fully additional to those provided under the reduced ECO, then the onus would be on UKG to increase funding for the incentive schemes to ensure that the carbon neutral pledge is achieved. The incentive schemes offer an important method of making up the funding shortfall created by the ECO changes, and makes householders more likely to undertake measures. In general, in light of challenging climate change targets there should be no action taken that reduces uptake.

However, in respect of the specific operation of the incentive schemes in England and Wales, the Scottish Government has no view. We have been in discussion with the UK Government since the announcement of the incentive schemes in December to seek to ensure provision of consequential funding for Scotland with maximum flexibility to allow us to design a scheme in line with Scottish needs and circumstances.

More generally, we would highlight the importance of ensuring that ECO can be combined with a range of funding sources, particularly funding from local authorities and Devolved Administrations, without failing foul of any “additionality” restrictions.

# CARBON EMISSIONS REDUCTION OBLIGATION

**Question 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?**

As noted in our response to Question 1, the Scottish Government has serious concerns about the major proposed reduction in support for insulation for solid walls and hard to treat cavities under CERO. Since 2008, more than 540,000 homes in Scotland received over 629,000 cavity wall or loft insulation measures through CERT assisted by our home insulation programmes delivered by local councils.

While significant numbers of standard cavities remain to be insulated in Scotland, (for example, in 2012, there were around 350,000 uninsulated standard cavities), it will become increasingly harder to find suitable properties with householders wishing to take up the relevant measures. The Scottish Government would prefer a better balance with continuing strong support for SWI alongside other measures.

If the UKG is minded to prioritise further activity on lofts and cavity walls in order to reduce short term costs, then our view is the obligation should return to a more balanced range of measures as soon as possible.

**Question 16**

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

We do not agree with loft insulation being eligible as a primary measure. Our analysis suggests that the majority of lofts in Scotland currently have some insulation. We are aware of widespread concerns around the false creation of virgin lofts . Our preference would be for loft insulation to remain as a secondary measure under CERO.

**Question 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.**

The Scottish Government supports the principle that ECO should be designed to contribute to both fuel poverty and emission reduction obligations. As with previous obligations, it is important that ECO is structured to provide appropriate support for households on low incomes . The CSCO and HHCRO targets within ECO are already focussed on low income areas and/or households, however, there has been a low level of delivery under CSCO so far. Support for energy efficiency measures for those on low incomes is complemented in Scotland through both national and area-based HEEPS programmes which also target low income areas and/or households.

Including additional requirements to target CERO on low income households would further add to the cost and complexity of the scheme. Requiring a certain proportion to be targeted at low income households could also complicate arrangements to treat flats. These may be particular issues in Scotland where the success of previous home insulation programmes has already achieved high levels of uptake for these measures in many areas and there is a high proportion of flats.

 On balance, we propose that specific support for lofts and cavity wall insulation for low income households should continue to be concentrated through the reformed CSCO and HHCRO targets, complemented in Scotland by our HEEPS. An increased CSCO target could also be considered if the proposed reforms enable delivery to increase sufficiently. This would be likely to have benefits for social landlords and residents of rural areas (due to the rural safeguard). As noted in our response to Q4, we have concerns about the overall approach of using market mechanisms such as ECO to tackle fuel poverty and would urge the UKG to reconsider this.

**Question 18**

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

Yes, the Scottish Government supports the development of district heating and published targets for district heating for consultation in the Heat Generation Policy Statement. We welcome the extension of support for district heating under ECO as a primary measure for CERO.

# CARBON SAVING COMMUNITY OBLIGATION

**Question 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?**

Yes. This will improve delivery and make more areas with vulnerable households and with high levels of fuel poverty eligible.

**Question 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.**

We welcome these proposals as the current criteria are not working as is evident from the extremely low levels of delivery under the CSCO rural safeguard to date. These changes should improve delivery and will make more areas with high levels of fuel poverty eligible. However, there is a risk that suppliers will continue to deliver measures in areas which are easiest to access and which are closest to urban areas. While welcome, these change are likely to predominantly benefit only the more accessible rural areas. The Scottish Government has different indicators for rurality and considers that these indicators should be applied in Scotland to help ensure that rural parts of Scotland can be targeted more appropriately.

Levels of delivery to remote rural areas is a concern of the Scottish Government and we would welcome changes which would provide protection for these areas. For example, the Shetland Islands, Orkney Islands and Western Isles have the highest proportion of fuel poor households in the UK but have received very few ECO measures to date. These areas are unlikely to benefit sufficiently from the proposed changes so we would welcome discussion on what can be done to improve delivery in these areas and other remote parts of Scotland. Meanwhile, we will continue to support the installation of energy efficiency measures in all parts of Scotland through HEEPS.

# AFFORDABLE WARMTH

**Question 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.**

The Scottish Government supports changes intended to enhance delivery in Off Gas Grid areas, a much-needed improvement to ECO. However, it is possible that the changes proposed will not result in the increased delivery to off-gas grid and rural areas which are required. The current criteria for rural CSCO have resulted in extremely low levels of delivery which suggests that suppliers have difficulty in identifying AWG households living in rural areas. This also needs to be seen in the context of the fact that most energy companies are already exceeding their HHCRO targets.

As rural and off-gas delivery has been at such a low level we would welcome consideration being given to this uplift being applied to measures supported under CERO. This would mean that all targets within ECO including additional support for rural delivery which would help levelise the costs involved in delivering to rural areas.

**Question 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”.**

The Scottish Government supports changes intended to enhance delivery in Off Gas Grid areas, a much-needed improvement to ECO. We would welcome a minimum level of delivery for rural and off-gas grid areas and would support this being rolled out across all ECO sub-obligations.

**Question 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?**

Setting an equitable baseline would incentivise replacement of broken storage heating and is a reasonable approach. However, DECC should encourage arrangements to ensure that the cost effectiveness of replacement heating is maximised, such as requiring high efficiency storage heating or switching to a gas or renewable heating source.

**Question 24**

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

Households with broken heating systems are more likely to present themselves than those requiring insulation and different trades are required for insulation and boiler replacement. So with lower identification and engagement costs the lack of economies of scale may result in only heating systems being addressed. While simply replacing a boiler may be a rational approach for a specific installer this is not the kind of comprehensive approach that is needed to tackle fuel poverty.

The market rate appears to be covering standard cavity wall and loft insulation and boiler replacement, although in practice, even these complementary insulation measures may not be installed. However, not all householders will need cavity wall or loft insulation. Where they do, these could, in theory, be covered through CSCO and, in future, CERO. It is possible that heating installers may have access to funding through agents working on behalf of suppliers and use this for boiler replacement, without referring for available insulation measures. Solid wall measures cannot be fully funded under HHCRO and it is likely that connection to district heating would be difficult to fully fund at current market rates.

We have also identified a number of other concerns about HHCRO delivery:

1. Energy companies may be selecting bigger properties in order to get a better household fuel bill saving. There is a danger that many smaller properties do not receive support because of this (or have to wait much longer to receive it). This is inequitable, especially for a fuel poverty scheme.

2. Some households cannot afford customer contributions and suppliers do not always communicate these requirements clearly.

3. Energy companies may change their offer on a regular basis, which makes it hard for households to be given consistent advice.

**Question 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?**

The Scottish Government would welcome a defined minimum package of measures, where these are applicable, which must be delivered to all qualifying households. This would avoid changes and confusion around the offer and prevent the cherry picking of the more lucrative installations (e.g. larger properties). This kind of approach has been used in previous programmes such as the Scottish Government’s Energy Assistance Package. This may increase costs, but would be much more likely to address the needs the fuel poverty needs of those targeted.

To achieve the approach set out above, an uplift would make it more likely that packages of measures could be delivered free, up to a certain level. An uplift could also be useful in encouraging improvement in heating controls.

# SOLID WALL INSULATION MINIMUM THRESHOLD

**Question 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?**

We have set out our concerns about the reduction in support for SWI in our response to Question 1. If, despite the concerns expressed there, DECC choses to go ahead with reductions to CERO, then it is essential that there be a minimum for solid wall insulation. However, our view is that the minimum should be much higher, reflecting DECC’s original Impact Assessment as far as possible. It is essential that capacity is maintained in the solid wall insulation industry, as insulation of this type will become increasingly important if further progress is to be made in improving energy efficiency. As we noted in our response to Question 1, 89% of Scottish solid wall properties are not insulated and 37% of Scottish households living in homes with solid walls are in fuel poverty compared with 27% of households overall.

A low level of demand due to the ECO cuts, compounded by start-stop rather than consistent demand due to the various changes that have been proposed to ECO, will make it harder for the industry to maintain its capacity and skills base, meaning that any potential advantages from economies of scale in the industry will be lost. This is likely to increase costs after 2017 when solid wall insulation delivery levels need to be ramped up, and thus the reductions in cost due to lower solid wall delivery in ECO up to 2017 may well prove to be a false economy in the long term

Our view is that any minimum should be based on property numbers rather than carbon saved. In particular, given that only the legislated minimum level of solid wall insulation is likely to be delivered under ECO, it is important that the number of installations still requiring to be done at any point in time is clearly communicated to the industry.

**Question 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?**

We agree. Apportioning according to market share will ensure that all suppliers will deliver measures and a phased approach should ensure a more steady flow of work for installers.

**Question 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?**

Yes, secondary measures should not count against the minimum threshold as this would further reduce support for SWI. Secondary measures would still count against overall emission savings.

# BLENDED ECO AND GREEN DEAL FINANCE

**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 Scottish Government is opposed to the principle of legislative action to require use of Green Deal finance.

A requirement to blend Green Deal finance and ECO will act as a barrier to ECO uptake. We would also question any action which would effectively reduce a customer’s choice of how to fund improvements to their home.

Even the agreement of voluntary commitments with energy companies raises some concerns. The pressure to achieve these targets will inevitably be passed onto Green Deal Assessors and we would question how, under these circumstances, assessors could maintain their impartiality. We are also concerned that such a target creates an environment where mis-selling or pressure selling of Green Deal finance may occur to allow suppliers to meet their targets. Although these practices are not allowed under the Code of Practice, anecdotal evidence suggests that some mis-selling of Green Deal finance may already have occurred and driving uptake through targets may only exacerbate this problem.

**Question 32**

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

We would also reject proposals for a scoring uplift for blending for similar reasons to those outlined in our response to Question 31. Any such action to drive the uptake of Green Deal finance could lead to mis-selling and questions about the impartiality of assessors. We would also question any action which may distort a customer’s choice of how best to fund improvements to their home.

**Question 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.**

The Scottish Government considers that the offer of an installation with a customer contribution is much preferable to no offer at all. It is important that customers are provided with clarity from the outset and the Scottish Government considers that energy companies should provide a table of standard charges for contributions. A defined minimum package (Q25) will push up costs unless customer contributions are allowed.

**Question 34**

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

Customer contributions need to be a minority part of the funding for an installation and some form of control or cap may be necessary. Contributions for electric load upgrades and gas connections, however, should not be capped as the costs associated with these are theoretically unlimited.

# RECOGNISING COMPANY PERFORMANCE

Our responses to these questions should also be seen in the context of our response to Question 1.

**Question 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?**

Levelisation has distorted the ECO market in 2013/14 as suppliers have rushed to achieve the bonus. It does not reward only those who delivered early but also those who moved quickly in December. There is a real danger it will contribute to a significant reduction in ECO activity post March 2014.

It is also important to consider what impact the levelisation uplift has on total CERO activity. If it is too generous, it risks reducing actual delivery by significantly more than the headline 33% cut. If a levelisation uplift is considered necessary to create a level playing field between energy companies, then we would strongly argue that there should be a compensating increase in the headline CERO target so that actual levels of activity do not fall below the proposed 33% cut.

**Question 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?**

Whatever level is chosen, our view is that it should not cause activity to fall below the headline level, and if necessary the headline target should be increased to compensate.

**Question 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?**

As noted in our response to Question 3, there is a significant contrast between the 1.1 times penalty rate for underachievement and the 1.75 uplift for early activity. We suggest that these two adjustments should be brought closer together to avoid over-rewarding and under-penalising.

In particular, we think that there is a significant risk that the proposed uplift of 1.75 is too high and that it will result in actual delivery falling considerably below the headline 33% cut. The pattern of delivery under CERO showed a sharp increase over the course of last year as the scheme bedded in. This, coupled with energy companies looking to increase delivery in response to DECC’s December announcements, suggests that there is likely to have been a high level of delivery in the months leading up to the 31 March 2014 cut-off. As a result, a 1.75 uplift may cause a reduction in the actual level of delivery required to meet the headline target. If the statistics available to DECC now that the cut-off period has ended confirm that this will be the case, we would strongly urge DECC either to reduce the 1.75 uplift or raise the headline target for CERO (either the 2015 or 2017 target) in order to compensate for this and so ensure that the cuts are no larger than required to meet the desired cost saving .

In DECC’s response to this consultation, we would expect the accompanying impact assessment to clearly set out how much actual carbon abatement is expected to be delivered under CERO and the ECO as whole in comparison with the headline targets. This is essential to provide assurance that the actual delivery will not fall by more than the proposed 33% cut.

**Question 38**

**Do you agree that we should adopt 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?**

Assuming that this proposal is required for the purposes of fairness between suppliers, our view is that DECC must ensure that this does not result in actual delivery falling below the headline targets, and similarly that it does not prejudice the total amount of solid wall insulation expected to be delivered. If necessary, the headline carbon abatement target and solid wall minimum should be adjusted upwards to compensate for this effect.

**Question 39**

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

Bill payers have already contributed the cost of CERT and CESP and it is reasonable that additional action is carried forward. However these savings were delivered through schemes that were quite different to those of ECO, where targets and market rates were radically different from ECO. Therefore new arrangements to carry forward measures should not be used as a mechanism to reduce the cost of delivering ECO below the level of ambition set by government and again impact on national carbon savings targets and ongoing availability of ECO funding. The funding rates that applied to the CERT and CESP measures should be taken into account in carrying forward activity.

# TRANSFER AND RE-ELECTION OF ADJOINING INSTALLATIONS, QUALIFYING ACTIONS, AND EXCESS ACTIONS

**Question 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 response.

# CUSTOMER EXPERIENCE

**Question 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?**

Consumer protection under the ECO should, in general, be aligned with that offered under the Green Deal i.e. it should require:

* PAS2030 certified installers to undertake work;
* only fully qualified and certified Green Deal Assessments to carry out assessments (where Green Deal Assessments are being used);
* participants to sign up to the Code of Practice and a full complaints and redress procedure to be in place.

This option ensures consumers are offered a high level of protection without requiring industry to undertake additional training and certification. There should be some form of standard contract between the customer and the supplier to protect the customer's rights.

There are, however, significant issues with the supply chain in remote rural areas of Scotland. There is unlikely to be sufficient demand in the medium term for it to make economic sense for enough local contractors to become PAS qualified. Larger contractors may not be willing to travel. Hence requirements to be PAS qualified may reduce activity. This may therefore require some allowance for the specific circumstances of remote rural areas.

Based on the cases brought to our attention, the consumer protection problems with ECO fall into two broad categories associated with a minority of installers. These are, firstly, rogue traders and secondly, malpractice ie, installers who are not setting out to defraud, but who either make promises they do not keep, or carry out shoddy or defective work.

Local authorities Trading Standards officers may be able to assist in respect of rogue traders, however, it is recognised that this service faces a wide range of demands. Officers may also have limited locus to intervene in cases where the measures are provided free to the householder and there is no contract and the installer is basically simply selling the carbon to the utility. Lack of clarity about contractual relationships, and absence of proper formal relationships between the commissioning client, the client who benefits from the work, and the installer, is at the centre of most of the complaints we receive. We have had a number of examples of households not being given proper information about the identity of the installer and/or the energy company. It is an issue that requires to be properly addressed, to avoid a repeat of some of the mistakes made with the early days of cavity wall insulation, which is now in a few cases causing problems which are expensive and difficult to remedy.

It has been put to us that the operation of the brokerage system may have the unintended consequence of increasing the lack of transparency and connectivity between consumers, installers and the energy company funding and claiming for the measure.

We would therefore ask that consideration is given to a requirement of ECO being that installers offer households contracts, which detail items such as the company’s identity, the measures to be installed and to what standard, the energy company funding the work and their formal complaints procedure. If need be, a nominal payment from a customer should be required, in order to secure rights of redress for the beneficiary of the work.

As far as shoddy work is concerned, the more complex the measure, the greater the risk of serious problems arising. There is a particular potential problem with solid wall insulation in terms of ensuring that ancillary measures eg ventilation, not covered by ECO, are carried out to the required standard. Energy companies inspect on average only a 5% sample of completed works. Consideration should be given to the potential role of an independent inspector who can ensure quality of work as it is being carried out – with solid wall insulation, this is particularly important as some aspects of poor workmanship can be literally covered up, and would require an invasive inspection to detect.

Providing warranties for heating installs would increase the cost of delivery of HHCRO but would help to ensure measures are appropriately installed and therefore maximise bill savings to the beneficiary.

**Question 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?**

Yes. The Scottish Government considers that the energy company should arrange for, or cover the cost of, repairing any breakdown during the first year after installation.

**Question 45**

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

The warranty should operate for at least 12 months.

**Question 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?**

Yes. The Scottish Government has received correspondence from, and on behalf of customers, about poor workmanship. The fact that boilers are being attached to existing pipework and radiators may mean that installs are technically inappropriate as in some cases. Radiator and controls replacement would ensure that savings are maximised and systems able to deliver heat throughout the property. In some cases this may not happen where only the boiler is installed.

**Question 48**

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

Ideally, the energy company should arrange for an inspection of the works after install by a different contractor to ensure that work is done properly. This should be in addition to any Quality Assurance by Ofgem.

**Question 51**

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

One factor is likely to be due to the cost of warranties that are required for repairs.

**Question 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 be used to recommend measures in exceptional circumstances only? And if so, what should constitute an ‘exceptional circumstance’?**

Currently installers may recommend ECO measures using either a Green Deal Advice Report (GDAR) or a Chartered Surveyor’s report. The ability to use both methods has provided much needed flexibility in respect of a programme that sets out a range of detailed requirements for delivery partners. We accept that a GDAR may be of assistance in assessing a property for whole house solutions and encouraging behaviour change. Further we understand that the UK will wish to promote the use of Green Deal finance. However, given the low levels of uptake so far, this should not be the primary driver of the system and is less appropriate for the CSCO and HHCRO targets which are aimed at low income households.

In particular, we believe that a GDAR should not be a requirement for the assessment of measures in the social housing sector. This reflects the fact that most social landlords will already have good information on their own housing stock, a plan for property maintenance and an ongoing relationship with tenants to provide advice and support where necessary. Social housing properties often receive measures as part of a programme serving similar house types and requiring GDAR surveys to recommend measures in every property is likely to be more costly than issuing a chartered surveyor report.

**Question 53**

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

As custodians of SAP, DECC are aware of what the SAP methodology can deliver and what it cannot. To summarise, it can deliver consistent benchmarking of building performance through a calculation based upon theoretical performance, but it does not predict actual energy use. Application of the same process pre and post installation would, like in Green Deal, enable consistent reporting of the calculated benefit from improvement, but not the actual benefit, which is subject to a number of factors that SAP does not consider. DECC has developed subsidiary tools, such as the occupancy assessment to enable illustrations which are closer to how occupants may use a building in support of Green Deal, but these sit outwith the EPC process.

**Question 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.**

Our view is that this cost should sit with the energy supplier. It would seem counter intuitive and inappropriate to ask low income households to pay for surveys to access assistance for measures to alleviate fuel poverty.

**Question 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?**

There are significant issues with the supply chain in remote rural areas of Scotland which may mean that some flexibility may be required in such areas to ensure activity takes place.

 **Question 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?**

The Scottish Government is in favour of proposals which reduce the costs of ECO delivery and assist low income households to access the energy efficiency measures they need. However, it is not clear how demand aggregation would operate across the CSCO and CERO obligations and we would welcome further information and discussion on this.

The Scottish Government has its own referral mechanism in place and its own arrangement with DWP. We would not be in favour of any system which does not provide the flexibility required to develop our own approach for Scotland.

**Question 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.**

The Scottish Government is concerned that agents acting on behalf of energy companies sometimes request proof of eligibility from customers in cases where DWP has already confirmed that the customer is eligible prior to referral from Home Energy Scotland.

**Question 58**

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

The Scottish Government has its own referral mechanism in place and its own arrangement with DWP. We would not be in favour of any system which does not provide the flexibility required to develop our own approach for Scotland. With regard to services in Scotland, the Scottish Government would not want to see any changes which adversely affected the Home Energy Scotland hotline, which provides a comprehensive advice and referral service to households across Scotland including advice and referrals relating to Affordable Warmth.

**Question 59**

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

The Scottish Government has its own referral mechanism in place and its own arrangement with DWP. We would not be in favour of any system which does not provide the flexibility required to develop our own approach for Scotland.

# MANAGING COSTS AND ENSURING TRANSPARENCY

**Question 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?**

The Scottish Government remains opposed to any additional requirements in respect of mandating the use of brokerage. We consider that energy suppliers should retain flexibility on how they decide to deliver the obligations. There is anecdotal evidence that the operation of the brokerage system may have the unintended consequence of increasing the lack of transparency and connectivity between consumers, installers and the energy company funding and claiming for the measure. There is concern that safeguards for consumer protection and technical quality may not always be adhered to due to lack of transparency in brokerage contracts. These issues should be investigated and addressed before any extension to brokerage is considered.

**Question 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?**

The simplification measure most consistently highlighted to the Scottish Government is a return to deemed scoring which was used in previous obligation regimes. This would mean that specific measures would attract scores based on house type, number of bedrooms and location. This would provide far greater certainty for promotion of measures to householders and cut down on costs of administration relating to verification of carbon dioxide savings. The argument for deemed scores is particularly strong for more straight-forward measures such as insulation for lofts and standard cavities which will become a more important part of the obligation over the next few years, particularly as administration and survey costs form a high proportion of the overall costs of these measures.

The Scottish Government has welcomed the introduction of regional weather data within rdSAP methodology which recognises that the anticipated emission reductions from a house in, for example, the North of Scotland would be greater than for a warmer location in the South of England. It is therefore essential that any move to deemed scoring also reflects this regional weather data.

In addition, it has been highlighted to us that the specific requirements from different energy companies may differ from each other and be additional to that set out in Ofgem guidance. While it is accepted that energy companies will have their own approaches to risk management, and will want to develop procedures accordingly, this increases cost and complexity to the supply chain. UKG could assist in minimising this by continuing to work with Ofgem and the energy companies to develop common reporting templates wherever possible.

# WIDER ISSUES

**Question 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.**

Scale of ambition

Scottish Government believes that ECO should return to its original level of ambition from 2017, including a focus on SWI and other hard to treat properties. The impact on energy bills of the higher costs associated with this can be mitigated by increasing use of central Government resources, which is reflected in our plans for the funding of energy efficiency in an independent Scotland.

Overall scheme design

The Scottish Government has concerns about the principle of making provision for fuel poverty through a market-based mechanism such as HHCRO. Our view is that a more comprehensive, consistent, effective and fairer service for those vulnerable to fuel poverty can be provided with a properly planned and Government funded service, working with delivery partners, rather than through a system based on market incentives. Value for money for the taxpayer can be obtained through use of competitive tendering with delivery provided by national or local level delivery partners, as appropriate. This is our approach through the Home Energy Efficiency Programmes for Scotland. The Scottish Government intends to procure a new national scheme to tackle fuel poverty to address the market failures within ECO.

We would also call for more flexibility for Scottish Government to target fuel poverty schemes reflecting the different definitions of fuel poverty that now operate in Scotland and the rest of the UK.

Wider range of measures

ECO needs to be revised to address both practical and technical issues in respect of specific property types, for example, tenemental housing and other forms of traditional housing which are more common in Scotland, including support for dealing with mixed tenure and multi-ownership situations.

# ANNEX B – Heat Networks

**Q1. 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.**

The Scottish Government believes that both renewable energy and low carbon heat have an important role to play in the development of heat networks. In terms of fuel sources, priority should be given to renewables and heat recovery, including technologies such as geothermal and heat pumps, as well as biomass. However, CHP can also deliver carbon emissions reductions and is proving a pragmatic means of generating heat for new district heating networks in urban areas. We believe that a standard lifetime for non-renewable heat networks would be appropriate.

We are aware that a submission has been made to Ofgem by Craighall Energy in response to their Call for Evidence on the ECO Measure Lifetime for CHP in District Heating. We would note that the evidence provided supports an increase in the lifetimes for gas-CHP, and is endorsed by Aberdeen City Council, Aberdeen Heat & Power, Glasgow City Council and the Wheatley Group.

**Q3. Please give examples of where ECO support has helped to deliver heat networks.**

To date no district heating schemes in Scotland have been delivered by ECO funding. We are aware of at least two biomass district heating projects at an advanced stage which are currently on hold due to the changes to funding under ECO. Gas-CHP schemes are in development, for example in Glasgow, in part driven by the availability of ECO support. However, the major infrastructure cost is the district heating pipework which is not reflected in the 15 year lifespan for gas-CHP.

**Q4. 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.**

We would support measures to increase awareness of energy suppliers of district heating projects in development. The key mechanism in Scotland to support match making is the Scottish Government’s Heat Network Partnership which is working directly with projects to coordinate support across a number of agencies and programmes, and has built up a database of projects in development. The would be the most effective route to identify potential heat network projects to maximise ECO delivery.

**Q6. 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?**

The Independent Heat Customer Protection Scheme (IHCPS) is still being developed and until the final version has been fully endorsed by industry and consumer groups it is not possible to comment on whether this scheme should be an obligation under ECO.

We would however agree that an obligation to sign up to a consumer protection scheme should be kept under review. The Scottish Government is an observer on the IHCPS Steering Committee and supports the development of an industry-led scheme. The aim is to deliver increased consumer protection, transparency and common standards and we would support considering such as scheme as an obligation under ECO. We will continue to provide input to the Steering Committee to help ensure it takes account of Scottish specific legal, technical and regulatory issues, and the scope of the scheme will take account of the many networks, particularly in rural areas, which are operated by SMEs.

1. No response is provided to Question 8. During this consultation, Scottish Government has not responded to certain specific questions which are either not applicable to Scotland or relate to technical matters where other agencies, for example, members of the supply chain are better placed to answer. [↑](#footnote-ref-1)