

# ECO 3: 2018 to 2020

Citizens Advice response  
to BEIS's consultation on  
the future of the Energy  
Company Obligation



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# The Future of the Energy Company Obligation

## About Citizens Advice

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain. The service aims:

- To provide the advice people need for the problems they face; and
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 2,900 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups. Over 23,000 volunteers are involved with Citizens Advice.

We also operate the Citizens Advice Consumer Service. This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

In 2015/16 the Citizens Advice service in England and Wales advised 2.7 million people on 6.2 million problems. In Scotland, the Citizens Advice service helped almost 311,000 clients and dealt with over one million advice issues.

Across our GB network, we supported people with 162,300 energy related consumer problems and fuel debt issues, including 3,500 issues relating to Energy Company Obligation (ECO) and Green Deal, and 10,000 on Warm Home Discount. 27,900 clients were advised about an energy issue by the Consumer Service.

We are responding to this consultation in our capacity as the statutory consumer watchdog, drawing on the experience of our clients and on our externally commissioned research.

## **The consultation process**

We consider a four week consultation period entirely inappropriate for a consultation of this size and significance. As the government makes clear, the proposals it is consulting on cover £640 million annual funding for a four year period. It has given stakeholders 19 working days to respond to these proposals.

Many membership bodies involved in the delivery of ECO will be unable to gather views from their members in this time. Few organisations will be able to respond effectively to all relevant issues.

The government's consultation principles state that "consulting too quickly will not give enough time for consideration and will reduce the quality of responses<sup>1</sup>". By consulting for such a short time period, the government has reduced its chance of developing effective policy. This is a significant concern for Citizens Advice, given ECO is a policy directed towards consumers and paid for by them.

A short consultation period can sometimes be justified in emergency situations, where the need for legislation was not anticipated. However, this consultation was anticipated and entirely foreseeable.

Beyond the consultation period itself, the proposals currently under consultation have a very short lead-in time. Factoring in the time for the government response and guidance from Ofgem (which in turn will be consulted upon), we expect the details of the scheme will be confirmed very close to its launch date. This uncertainty is likely to increase costs across the supply chain, costs which are ultimately borne by consumers.

We made the same comments in our response to the Help to Heat consultation. The short lead-in time to that scheme appears to have slowed take up of local flexibility and made it difficult to build on learning from ECO2T in the current proposals.

## **Fuel poverty**

Around 2.5 million households in England live in fuel poverty<sup>2</sup>. This is 1 in 10 households who are either living in a cold home, or spending so much of their income on energy that they are pushed into poverty.

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<sup>1</sup> <https://www.gov.uk/government/publications/consultation-principles-guidance>

<sup>2</sup> National Statistics, [Annual Fuel Poverty Statistics, England, 2017](#). The figure cited refers to 2015, however projections suggest that the proportion of households in fuel poverty will remain at roughly the same level to the present

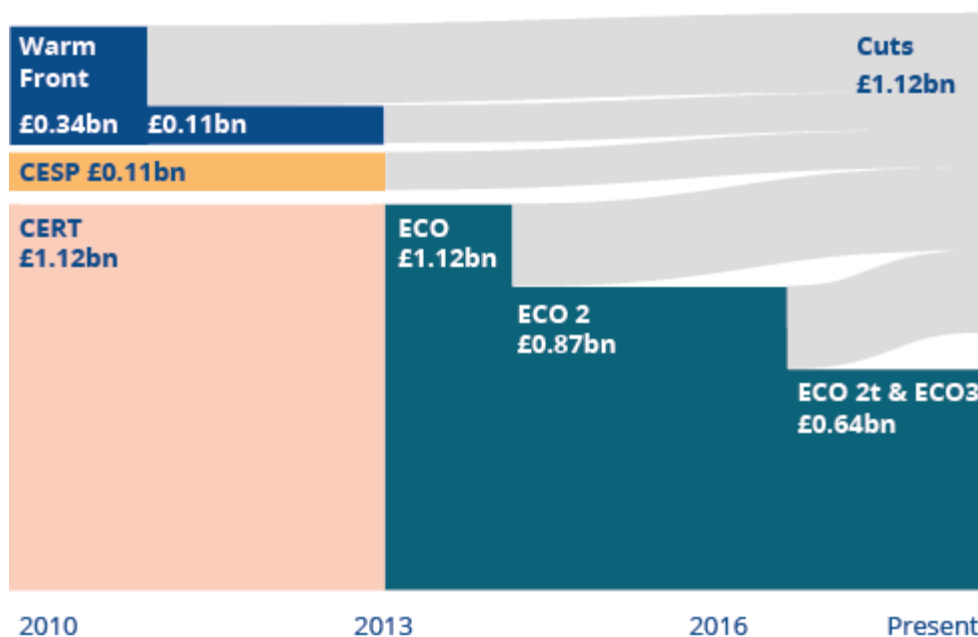
We support the government's commitment to tackling fuel poverty through energy efficiency measures, as set out in their fuel poverty target<sup>3</sup>. Delivering on these goals will provide low-income families with warmer homes and lower bills.

We welcome the reorientation of ECO to focus on fuel poor households. It's right that the limited funding available is focused on the people who need it most.

However, overall national support for energy efficiency has decreased considerably in recent years.

### How spending on energy efficiency schemes has declined

Changes in funding for national schemes, 2010-present



Notional spending figures. Citizens Advice analysis based on DECC/BEIS figures and House of Commons Briefings  
Doesn't include spending on the Green Deal or by devolved administrations in Scotland and Wales.

The Committee on Fuel Poverty (CFP) has demonstrated that the amount of funding available within the supplier obligation falls far below what is required to meet statutory fuel poverty targets.

Other policies risk increasing this gap further. For example, minimum energy efficiency standards in the private rental sector should play a significant role in

<sup>3</sup> [Fuel Poverty Strategy for England](#) (2015) of all fuel poor homes reaching Band C by 2030, and the interim milestone of Band E by 2020.

meeting the fuel poverty target. However, current proposals for a £2,500 cost cap will lead to a further funding shortfall. According to the Committee on Fuel Poverty, this shortfall will necessitate the government to “urgently identify or propose alternative financing” on top of the Energy Company Obligation<sup>4</sup>. As we have seen no plans of this kind, we expect the government to raise the cost cap to £5000.

More generally, the government needs to set out its coordinated plans for meeting its fuel poverty targets, including the funding gap. This includes its plans for the ECO funding beyond 2022, which we expect to involve moving beyond the current competitive supplier obligation model.

### **The supplier obligation mechanism**

Although we support continuing the supplier obligation to 2022, the competitive supplier delivery approach is not the best way to deliver the fuel poverty strategy in the long-term.

Suppliers’ incentives are not well-aligned with the delivery of an energy efficiency scheme. The NAO think this may increase the costs of delivering the fuel poverty targets and/or reduce the chance of meeting them<sup>5</sup>. The supplier delivery approach has led to a volatile market. Prices on brokerage for Affordable Warmth ranged from 7p to 24p over the course of the scheme<sup>6</sup>.

Supplier funding is more regressive than funding measures through taxation, as low-income consumers tend to spend a relatively high proportion of their income on energy bills<sup>7</sup>. This is exacerbated by the current exemption for suppliers with fewer than 250,000 customers, as vulnerable and low income households are less likely to switch supplier.<sup>8</sup> A consequence is that high income households are more likely to be with an exempt supplier - with more of the burden of scheme delivery falling on the larger ex-monopoly suppliers and their customers.

For the current scheme, we recommend removing, or at least reducing, the supplier threshold.

However, some distortion of the supply market is likely to be inevitable with the supplier delivery approach. The gap between the average delivery cost for the

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<sup>4</sup> Committee on Fuel Poverty, [Committee on Fuel Poverty annual report 2017](#), October 2017, p. 22

<sup>5</sup> National Audit Office, [Report on the Green Deal and Energy Company Obligation](#), 2016.

<sup>6</sup> This may have been exacerbated by the changing role of the brokerage with ECO.

<sup>7</sup> Jan Rosenow, Reg Platt and Brooke Flanagan [Fuel poverty and energy efficiency obligations – A critical assessment of the supplier obligation in the UK / Energy Policy 62 \(2013\) 1194–1203](#)

<sup>8</sup> CMA, [domestic customer survey results](#), 2016.

most and least efficient supplier in the Affordable Warmth obligation is 23%. For the carbon saving and rural obligations it is nearly 40%<sup>9, 10</sup>.

Suppliers are not necessarily well placed to reach vulnerable households. They may not have appropriate links with the services and organisations that vulnerable and low-income consumers use. They do not have incentives to provide home repair services that are often essential before energy efficiency measures can be installed<sup>11</sup>.

As a result, suppliers require a wide pool of eligible households to target, to limit the costs of finding households to help. The government's proposals expand the eligibility criteria to achieve this. This reduces the proportion of consumers eligible for the scheme who are in fuel poverty to 26%<sup>12</sup>. This ratio cannot be sustained if the government is to achieve the fuel poverty target cost-effectively. Moreover, within this pool, suppliers choose which customers receive what support, to meet their targets in the most cost-effective way. They have incentives to target households that are less likely to be in (the deepest) fuel poverty.

This is because the supplier obligation model encourages delivery to households who are:

- able or willing to contribute towards costs: There is evidence from delivery organisations, that fuel poor consumers have been left out of the ECO 2 scheme as they cannot afford to contribute<sup>13</sup>
- who are easiest to engage
- where the installation is simple and there is no additional maintenance work needed
- in urban areas (outside London) and accessible rural areas, despite remote rural and off-gas households having higher rates of fuel poverty

Despite its primary purpose being to tackle fuel poverty, the scheme has no target for numbers of fuel poor households helped.

Citizens Advice recommends that the government report on the proportion of the scheme actually going to households in fuel poverty, including those in the

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<sup>9</sup> BEIS, [Household Energy Efficiency National Statistics](#), April 2018

<sup>10</sup> We think this is driven by delivery approaches, rather than supplier size.

<sup>11</sup> Feedback from organisations involved with delivering Affordable Warmth ECO (local authorities, third-sector intermediaries, energy suppliers, and the supply chain) collected by National Energy Advice on behalf of Citizens Advice, published in our [Help to Heat](#) response

<sup>12</sup> BEIS ECO 2018-22 consultation document

<sup>13</sup> Feedback from bodies delivering ECO collected by NEA on behalf of Citizens Advice, see [Citizens Advice response to the Help to Heat consultation](#), 2016

the deepest fuel poverty. This should also be monitored for local flexibility projects specifically.

We also recommend re-focusing the rural sub-obligation to help households in the deepest need.

### **Consumer engagement**

The ECO delivery approach can also lead to a poor customer journey. Eligibility does not mean entitlement to help if it does not align with a supplier's delivery plan. Even if they are referred into the scheme because of a health condition, consumers are not guaranteed support.

- There is a lack of transparency over what help is available, and what client contributions, if any, are required<sup>14</sup>
- The type and levels of help available can change dramatically over time
- The scheme lacks a clear public interface and there is little client awareness of the scheme.<sup>15</sup>
- Quality of assessments and installations have often fallen short,<sup>16,17</sup> and there is no clear route for consumers to get redress for these problems.<sup>18</sup>

It is unsurprising therefore that those consumers who access the scheme have told us they found it complicated and difficult to engage with<sup>19</sup>.

These problems put consumers off engaging with the scheme and will make it more difficult to engage households in the future.

An efficient and effective fuel poverty scheme should be designed with the consumer at its heart and to reflect how people actually think and behave. It should provide clear, simple and credible offers to consumers, that can be tailored to individual circumstances. Suppliers should work with third-parties to

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<sup>14</sup>Feedback from bodies delivering ECO collected by NEA on behalf of Citizens Advice, see [Citizens Advice response to the Help to Heat consultation](#), 2016

<sup>15</sup> Among those who have had measures installed just over one in ten households were able to explicitly identify ECO. Department of Energy and Climate Change, [Energy Companies Obligation \(ECO\) customer journey research, 2015](#)

<sup>16</sup> Consumer Futures, [Green Deal watching brief part 2: Written evidence submitted by Consumer Futures](#) (GRE0026), 2014

<sup>17</sup> Pye Tait Consulting for Citizens Advice, [Research into quality assurance in energy efficiency and low carbon schemes in the domestic market](#), 2014

<sup>18</sup> If assessment and installation standards fall short, energy and carbon savings - the fundamental rationale for these policies - are also risked.

<sup>19</sup> Feedback from bodies delivering ECO collected by NEA on behalf of Citizens Advice, see [Citizens Advice response to the Help to Heat consultation](#), 2016



simplify, streamline and improve the customer journey to ensure that consumers can easily engage with the scheme and receive high quality work.

Increasing the local flexibility component should help deliver schemes that better meet consumer needs, in areas where the local authority is engaged. We recommend the innovation activities are expanded to support innovative delivery approaches. If implemented effectively Each Home Counts also has the potential to strengthen and simplify consumer protection.

The government is proposing to allow suppliers to continue to charge householders in need for part of the cost of work. The impact assessment assumes that the focus of the policy on low income households will remove requirements for client contributions, but provides no evidence for this. Feedback to Citizens Advice indicates that contributions have been required from fuel poor customers in the past, and have prevented those in most need from being helped<sup>20</sup>. We recommend that the government limit these charges in recognition of the aims of the scheme and its target group.

We recommend that the government does more to understand the customer journey in ECO<sup>21</sup>. Moreover, there needs to be better monitoring of the customer service performance of individual suppliers and their subcontractors, and penalties for poor customer service performance. We will also continue to use evidence from the Citizens Advice network and consumer service to help improve our under-delivery of the round.

### **Building a market for energy efficiency**

While we welcome focusing the supplier obligation on fuel poverty, this will decrease the carbon reductions the policy delivers. Domestic energy efficiency is a relatively cost-effective way of reducing carbon emissions, a cost that energy consumers too often pick up. Yet there are currently no major national energy efficiency policies outside Scotland aimed at households not in fuel poverty.

Without further policies or funding commitments on home energy efficiency, it is likely that the cost of meeting our carbon reduction commitments will increase, or that it will become less likely that we will meet our commitment. The government should introduce a package of measures needed to inspire trust, motivate householders, and help them pay for energy efficiency measures - as

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<sup>20</sup> Feedback from bodies delivering ECO collected by NEA on behalf of Citizens Advice, see [Citizens Advice response to the Help to Heat consultation](#), 2016

<sup>21</sup> Department for Energy and Climate Change, [Feasibility study on Green Deal & ECO customer behaviour, 2015](#)

set out in our response to the call for evidence on Building a Market for Energy Efficiency.<sup>22</sup>

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<sup>22</sup> Citizens Advice, Building a Market for Energy Efficiency: Citizens Advice response to BEIS Call for evidence, January 2018.

# Answers to consultation questions

## Chapter 1: Suppliers

### Supplier obligation threshold

#### 1. Do you agree with the current supplier obligation threshold?

No.

We recommend removing the supplier obligation threshold. Short of this, the supplier threshold should be reduced. This should be accompanied by a buyout mechanism to address the issue of higher relative fixed costs for smaller suppliers.

The supplier threshold is socially regressive, allowing more affluent customers who are more likely to switch to avoid policy costs. It also distorts competition, giving smaller suppliers an artificial leg up the best buy tables. While the CMA concluded that the exemptions did not give small suppliers an unfair advantage<sup>23</sup>, the market has already moved on significantly from the conditions that were in place during its investigation, with smaller suppliers taking an ever larger proportion of the market. As an economic regulator, the CMA was not able to take into account the socially regressive consequences of the exemption policy.

When the exemptions were introduced in 2011, over 99% of household consumers were served by one of the 6 largest energy suppliers. The number of households who were escaping policy costs, and the extent of the cross subsidy and detriment driven by it, was therefore very small. In 2018, around 50 suppliers - covering around 8% of the energy market or around 2 million customers - are covered by these exemptions.

Reducing the threshold requires an appropriate mechanism to address the issue of higher relative fixed costs for smaller suppliers. Delivering the ECO scheme brings greater fixed costs for suppliers than other obligations, like the Warm Home Discount, that are primarily transfer payments. It also requires competencies that have little relation to the core business of being an energy supplier.

This means, all things being equal, smaller suppliers are likely to face higher marginal delivery costs. This is not a significant issue at the 250,000 customer threshold. It is expected to have a much bigger impact with smaller suppliers becoming obligated. However, there are straightforward ways to overcome this. The trading mechanism introduced in ECO 2T appears to have worked effectively since its introduction with ECO. This allows smaller suppliers to pay another

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<sup>23</sup> CMA, [Energy market investigation](#), June 2016

supplier to deliver their obligation. However, this relies on the willingness of the supplier taking on the obligation. To date, this has only been tested in the context of the 250,000 threshold where fixed costs have relatively limited impact. With a lower threshold the relative power of the suppliers taking on the obligation increases and they may be able to make excess profit, which would represent a transfer from small to larger suppliers. For the smallest suppliers, their obligations may be too small to be attractive to other suppliers. We also note that the largely-dormant ECO brokerage scheme is unsuitable for this task. For the 2018-2022 obligation period we therefore recommend adding a buyout mechanism for suppliers with under 250,000 customers, to make sure they do not face significant competitive disadvantage. This would require that the suppliers can instead make a financial contribution, proportional to their size, towards delivery of energy efficiency schemes.

There are a number of ways this fund could be used to contribute to the aims of the scheme and improve its effectiveness. It could be made available to organisations who can deliver innovative approach to the delivery of energy efficiency measures to fuel poor houses. This would help inform the long-term changes to energy efficiency policy required to effectively deliver the fuel poverty strategy. It could also be a more effective way to fund the demonstration projects under the proposed innovation component of the scheme. This would run alongside a continued supplier obligation for larger suppliers

We recommend that the cost of the buyout mechanism be set at the lower end of the anticipated delivery costs of the scheme. The actual delivery costs of ECO are unpredictable and have often been lower than the government anticipated. Setting a relatively low buyout cost would guard against small suppliers facing unfair costs following the removal of the supplier threshold while ensuring the costs of policies are distributed fairly.

## **2. Do you agree that we should amend the taper mechanism to a supplier allowance approach?**

No

We welcome that BEIS is looking at the issues caused by the taper mechanism. However, the taper is only required to mitigate the adverse impacts of of the supplier threshold, which as outlined above we think should be removed or lowered. While the taper creates market distortions, removing the taper exacerbates the distributional and competition issues caused by the supplier threshold. It also does not address incentives to avoid the 250,000 threshold altogether. We do however, support removing the taper only in the context of

lowering the supplier threshold - this could reduce market distortions without an adverse distributional impact.

The taper does create perverse incentives. Suppliers currently have clear incentives to stay below the 250,000 threshold while the double marginal cost effect also means those that wish to expand above 250,000 customers are incentivised to grow very quickly to the 500,000 customer threshold. This is reflected in evidence we see from the market, where suppliers tend to cluster below the 250,000 customer threshold, or above the 500,000 threshold. Our market monitoring suggests deliberately modify their acquisition approaches in response to these incentives.

This can be bad for customer service. Where a supplier grows rapidly to 500,000 customers, their capacity to serve these customers can struggle to keep up. The customer service problems this causes can last long beyond this initial acquisition period.

However, while the proposal addresses this distortion, it further increases the regressive social impact and market distortion effects associated with the 250,000 supplier threshold. The change would further increase the costs for larger suppliers and would reduce the costs for smaller suppliers.

These proposals could increase the ECO obligation of the largest energy suppliers by 6% compared to their current obligation. This would lead to an even greater proportion of policy costs being paid for by low income consumers, through increased prices for these consumers.

This proposal is only made necessary by maintaining the 250,000 customer threshold, which we do not support. As outlined above, the most effective approach would be to remove the threshold, whilst giving smaller suppliers alternative ways to make a contribution to the scheme.

### **3. Do you agree with our proposed obligation phases for the future scheme?**

Yes.

No further comments.

### **4. Do you agree that an unlimited amount of Affordable Warmth delivery (from 1st April 2017) and up to 20% CERO delivery should be allowed to be carried over to the future scheme (with the exception of oil and coal heating systems)?**

No.

Allowing CERO delivery to count towards the 2018-2022 targets will divert resources for the 2018-2022 delivery period away from low income households. This undermines the government's commitment to 100% of the scheme going to fuel poor households. Suppliers have been given a clear indication of the government's intention to focus the 2018-2022 scheme on fuel poverty since the Help to Heat consultation. If the government does consider it necessary to allow for a certain level of carry over to manage risks related to measure approval, then we think this should be set at a lower rate than 20%: a well-managed supply chain should not have a ~20% uncertainty over compliance.

As set out elsewhere, we do not agree with completely excluding oil boilers from the scheme. Subject to a specified cap for this measure, we do not think they should be excluded from the carry over mechanism.

### **5. Is carry-under necessary and do you agree with our planned approach?**

No.

We see no evidence in the consultation or elsewhere that carry under will be necessary.

BEIS has not clearly set out the rationale for setting the rate of 1.1. We do not think this rate is sufficient to penalise under-delivery. Carry-under allows suppliers to avoid the full consequences of not meeting their obligations. It weakens incentives placed on them and risks creating regulatory uncertainty. The penalty rate should be high enough to not only cover any potential benefit to suppliers for late delivery but also to reflect the cost of fines for non-compliance that suppliers will avoid as a result of this proposal.

## **6. Do you agree with our planned approach to early delivery during a potential gap between schemes?**

Yes.

The supplier obligation approach used by ECO makes it hard for the government to ensure that delivery is consistent across time and to avoid gaps between schemes. This is a result of the ECO scheme being determined by supplier delivery approaches that are directed by market forces but not necessarily aligned with the needs of an efficient and effective fuel poverty scheme. These issues are further exacerbated by the government's last-minute approach to regulating and consulting on this next phase of ECO.

Citizens Advice recommends measures are taken to avoid gaps between the implementation of the schemes. Gaps can damage the supply chain and engagement with third-parties, and ultimately consumers, This is likely to increase costs and reduce the chances of support getting to those who need it most.

## **Chapter 2: Obligation Targets and Household Eligibility**

### **7. Do you agree with the proposal to increase the Affordable Warmth obligation so that it represents 100% of the future scheme?**

Yes.

Citizens Advice welcomes the proposal to focus the scheme on low income and vulnerable households. Given the current limited funds available for consumers to make their homes more energy efficient, it's right that it should be focused on the people who need it most. This is particularly true given that the regressive supplier funding mechanism hits low income consumers hardest.

We recognise that this proposal is likely to slightly raise the marginal cost of delivery<sup>24</sup>. However, this will be outweighed by increased efficiency in targeting help where it is needed, which will make a greater contribution to meeting the fuel poverty targets. The increased focus on fuel poverty, and the expansion of local flexibility, is also likely to increase referrals and funding from third parties( e.g. local authorities and health bodies) who have a shared interest in tackling fuel poverty.

Citizens Advice recommends the government consider how best to encourage better-off households to install energy efficiency measures through a more

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<sup>24</sup> By increasing search costs and, potentially, reducing client contributions

cost-effective set of incentives, as set out in our recent response to BEIS's Call for Evidence on Building a Market for Energy Efficiency<sup>25</sup>.

### **8. Do you agree with our proposal to include a rural sub-obligation representing 15% of the total obligation?**

No.

It is important to ensure ECO provides support to rural households. They are disproportionately likely to face high energy costs and fuel poverty, and have been less likely to benefit from schemes like ECO in the past. We recommend a more focused safeguard for remote rural areas. We also note that it is difficult to comment on the effect of the proposed cap based on the information provided with the consultation.

In the previous phases of ECO 2, those involved with delivering the scheme have told us there are particular barriers for householders in rural areas, and particularly remote rural areas. Evidence from the scheme also suggests that suppliers have focused on accessible rural areas, including those on the gas grid, rather than remote rural areas. In terms of fuel poverty, a more important distinction is between households on the gas grid and those off it.

The definition of a rural household used in the scheme is not sufficiently targeted to households in rural areas with the characteristics that necessitate specific support. The Office of National Statistics uses four categories of urban/rural area<sup>26</sup>:

Urban (population over 10,000)	
Town and fringe	Classed as rural
Village	Classed as rural
Hamlet and isolated dwellings	Classed as rural

BEIS follows this definition, using the last three categories for its definition of rural.

Citizens Advice recommends the government reconsider this broad definition of rural, and instead use a definition of based on the last two categories (village/hamlet and isolated dwellings). This would better target support for

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<sup>25</sup> Citizens Advice, [Building a Market for Energy Efficiency: Citizens Advice response to BEIS Call for evidence](#), January 2018.

<sup>26</sup> <https://www.gov.uk/government/statistics/the-rural-urban-definition>



households in deep fuel poverty, who are facing the specific challenges associated with rurality.

71% of households in these two categories are off the gas grid. 39% of F and G rated fuel poor households are in these categories. Therefore, reaching these households is important for meeting the interim fuel poverty milestone of Band E by 2020. The Committee on Fuel Poverty recommends that this should be a priority for the current ECO scheme<sup>27</sup>.

We recognise that this is likely to require the safeguard level being lowered from 15%, to manage scheme costs.

The consultation do not clearly set out or define the impact that the government is expecting these proposals to have on delivery patterns to rural consumers.

The proposal represents a threefold increase in the minimum share of support ring-fenced for rural households. Currently the rural sub-obligation represents 4.5% of ECO (it is 15% of the CERO component of the scheme, which is 30% of the whole scheme). At the same time, it will require these households also receive qualifying benefits, or are eligible through local flexibility.

However, the extent that the government expects this to impact delivery on the ground is not clear. The proposal predicts that even without this safeguard, around 20% of measures are expected to go to rural locations<sup>28</sup>. It therefore describes the position of the safeguard as a backstop that is unlikely to affect delivery.

However, elsewhere it implies the minimum will have an impact, as it will counteract the proposed exclusion of oil boilers.

It is hard to understand the context for these claims as the consultation does not clearly set out how the anticipated 20% of delivery to rural areas will be achieved, for example through what measures. We understand that replacement of oil boilers made a significant contribution towards delivery to rural areas in ECO 2T, but are proposed to be scrapped in ECO 3. It is also does not set out how much of the scheme is currently delivered to rural areas (rather than being delivered through the rural sub-obligation).

For these reasons, it is hard to comment on the effects of the sub-obligation, for example on the cost of the scheme (If the rural delivery is likely to be over 15%

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<sup>27</sup> BEIS, Committee on Fuel Poverty annual report, 2017, recommends “the entire post September 2018 ECO programme is focused on upgrading the energy efficiency levels of households in fuel poverty, with particular emphasis on upgrading Band F and G homes. For example, the ECO redesign needs to recognise that Band F and G fuel poor properties are disproportionately located in non-urban areas and that the majority are not connected to the gas grid.”

<sup>28</sup> BEIS, Energy Company Obligation ECO3: 2018 - 2022 [Consultation Stage Impact Assessment](#)

without the cap, the government argues there will be little impact on the costs of delivering ECO 3).

Citizens Advice considers some increase in delivery costs per measure to be acceptable for a rural sub-obligation in ECO, if that sub-obligation effectively targets support where it is needed most in line with the fuel poverty strategy. However, this requires a more focused rural obligation and more transparency on costs.

## **Household eligibility criteria for new scheme**

### **Including additional benefits criteria**

#### **9. Do you agree with the proposal to include the disability benefits noted in Table 2 above within the eligibility criteria for private tenure households under ECO3?**

Yes.

We welcome the move to include disability benefits. However, an income threshold should be considered for this group to ensure that this does not diminish the ability of the scheme to deliver to households in the greatest need and deliver the fuel poverty strategy.

It is important that the scheme provides appropriate support for consumers with a disability, particularly as they often have higher than average energy costs<sup>29</sup>. In our response to the Help to Heat consultation, we pointed out that benefit changes related to the introduction of Universal Credit could lead to some consumers with a disability and on a relatively low income missing out.

However, making this change without an income threshold will reduce the proportion of the eligible pool in fuel poverty. The low-cost targeting approach of ECO means that, within the target group, measures are likely to be directed to households with a higher income or in less severe fuel poverty. Without an income threshold this could lead to households in the most need missing out on support, including those with a disability.

If the government chooses not to include an income threshold then it should report on the proportion of measures going to this group and to low income consumers within this group.

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<sup>29</sup> Harriet Thomson, Carolyn Snell and Mark Bevan, [Fuel Poverty and Disability: a statistical analysis of the English Housing Survey](#) (2013)

**10. Do you agree that Child Benefit subject to an equivalised income threshold should be included within the ECO3 eligibility criteria for private tenure households?**

Yes.

No further comments.

**Income thresholds for benefit recipients**

**11. Do you agree with the proposal to remove the income thresholds under the future ECO scheme for households in receipt of Universal Credit and Tax Credits?**

Yes.

We agree that this is a suitable simplification, as the design of these benefits means their recipients will already be on a low income. It may also help support households in need who could miss out on support due to the income threshold methodology, for example some low-income single parents with one dependent child.

**Verification**

**12. Do you agree with the proposal that self-declaration is used for proving eligibility under the income threshold requirement attached to Child Benefit and for the benefits administered by Veterans UK?**

Yes.

No further comments.

**Social tenure housing**

**13. Do you agree with the proposal to retain eligibility for social tenure housing only for those properties with an EPC Band rating of E, F or G?**

Yes.

We agree that eligibility should include social tenure households, but only where they have the worst energy ratings, and excluding boilers.

While, in general, social housing providers should regard energy efficiency improvements as business as usual, it is likely that any properties remaining below EPC rating D face considerable barriers to improvement. Social housing tenants are more likely to be low income and vulnerable than any other tenure<sup>30</sup>. As such, making improvements to E, F and G rated properties in the social sector

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<sup>30</sup> Department for Communities and Local Government, 2017, [English Housing Survey Social rented sector](#), 2015-16

are likely to contribute to the policy's central aim of tackling fuel poverty. Including this group can also help deliver area-based approaches in areas with mixed tenure.

Even with this restriction, the scheme should be monitored to ensure the obligation does not go disproportionately to social housing, at the expense of other tenures where greater sustained investment is needed. The latest figures show that 15% of Affordable Warmth funding is now going to the social housing sector, a figure which has been increasing steadily since it was made eligible<sup>31</sup>.

## **Helping suppliers find eligible households**

### **14. Please provide evidence on how the mapping tool described above could reduce the search costs of identifying eligible households, quantifying the cost reduction where possible.**

We welcome the proposal for BEIS to use DWP data to create a mapping tool to help identify households in fuel poverty. Citizens Advice has for some time called for better data sharing to target fuel poverty support. In 2015 we published a report on how improved data use by energy suppliers and other organisations could improve the targeting and effectiveness of fuel poverty initiatives<sup>32</sup>.

Combined with local flexibility, the proposed mapping tool could help local bodies to deliver effective local area-based delivery schemes.

Effective targeting will increase in importance for energy efficiency schemes as we move towards the fuel poverty target deadlines and as the pool of easy-to-treat households and easy-to-treat measures reduces.

Depending on the data-sharing context, when using postcode-level data, steps must be taken to maintain anonymity in remote rural areas, where the number of households in a given postcode can approach 1.

### **15. Do you agree that, subject to supportive evidence being available, up to 25% of ECO can be delivered through flexible eligibility?**

Yes.

Citizens Advice supports the proposal to raise the local flexibility cap to 25%, something we called for in the Help to Heat consultation<sup>33</sup>. However, the government needs to do more to understand the impact of this element of the scheme.

Local flexibility can help ensure support gets to those households who need it. This includes:

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<sup>31</sup> BEIS, [Household Energy Efficiency National Statistics](#), April 2018

<sup>32</sup> Citizens Advice, 2014, [Data Sharing to Target Fuel Poverty](#)

<sup>33</sup> Citizens Advice, [Citizens Advice response to the Help to Heat consultation](#), 2016

- households in fuel poverty but outside the eligibility criteria
- those consumers not in fuel poverty but vulnerable to the effects of a cold home, for example elderly people and those with a health condition.

Also, by plugging gaps created by the eligibility criteria, it can encourage the delivery of an effective area-based support scheme.

As local flexibility is optional, suppliers will only use it where it is cost effective to do so, so we expect it to reduce the costs of delivering the scheme obligation.

20% of households in fuel poverty are not covered by the eligibility criteria, and the local flexibility aims not just to capture these households in fuel poverty outside the eligibility criteria, but a wider set of criteria related to need and area-based delivery.

The main risk of expanding this element of the scheme is that it could simply be used as a way to expand the pool of eligible consumers, and will further reduce the proportion of the scheme going to fuel poor consumers. We think this risk is mitigated by the design of local flexibility, and is outweighed by the likely benefits of the proposal.

However, the government should put in place monitoring to understand the effectiveness of local flexibility in delivering the scheme's aims. We recommend the government monitors:

- the profile of customers helped
- the rationale for helping them (fuel poverty, vulnerability, or area-based delivery of external wall insulation)
- and the sub-criteria used to determine this.

We recommend the department evaluates the mechanism centrally, rather than each scheme carrying out an evaluation.

In our response to the Help to Heat consultation, Citizens Advice recommended that the government carry out monitoring of local flexibility to inform the design of ECO 3<sup>34</sup>. It is therefore disappointing that this evidence is not available to inform the consultation process, especially given that one aim of the transition year was to gather learning for the 2018-22 scheme<sup>35</sup>. (The Impact Assessment states a survey of local flexibility was carried out but focusing on cost data).

The government's figures show uptake of local flexibility was initially slow: only around 2.5% of Affordable Warmth measures have been delivered through local flexibility and over half these measures have been delivered by 5 local

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<sup>34</sup> Citizens Advice, [Citizens Advice response to the Help to Heat consultation](#), 2016

<sup>35</sup> According to the Impact Assessment: "In order to improve the department's understanding of the impacts of ECO Flexible Eligibility, BEIS has commissioned a survey, distributed to the ECO supply chain, managing agents and Local Authorities (see annex B for more information). It is anticipated that this information will be taken into account in the final stage IA. "

authorities<sup>36</sup>. However, this is likely due to the short lead in time and set up costs. The number has risen rapidly as time has gone on and over 100 councils now have agreed statements of intent.

Even if uptake were low, this does not provide a rationale for limiting the cap: local flexibility is optional and a lower cap may limit local authorities appetite to participate in the scheme.

Finally, in general we agree that other scheme requirements, including on eligible measures, should apply to local flexibility. However, we recommend that there is additional flexibility to provide replacement (gas or oil) boilers for those eligible for the scheme due to a health condition. This is outlined in more detail in response to later questions.

## Chapter 3: Eligible Energy Efficiency Measures

### Overall measure eligibility

#### **16. Do you agree with our proposal to exclude the installation or repair of oil and coal fuelled heating systems?**

No.

While we recognise that the cap on mains gas boiler replacement led to an unintended increase in delivery rates for oil boilers, this does not necessitate removing all support for oil boilers.

The government's ambition is to move away from oil boilers in the long-term but in the short- and medium-term they are the only feasible heating option for many low income rural households. Low-carbon alternatives are currently often unaffordable or unsuitable for these households. Boiler replacement can make a substantial contribution to the comfort, affordability of warmth and health for off-gas households in the medium-term.

We see little evidence that the need for support for boiler replacement among vulnerable and low-income consumers is significantly declining. Many boilers installed for low-income consumers under Warm Front are likely to be nearing the end of their working life. Many households will be unable to replace broken boilers without support or taking on unsustainable debt. We note that there may be some support for boiler replacement outside ECO, for example, supplier trust funds. However, these are piecemeal and can be subject to long timescales<sup>37</sup>.

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<sup>36</sup> Up to December 2017, see BEIS, [Household Energy Efficiency National Statistics](#), April 2018 Table 2.1a

<sup>37</sup> Feedback from bodies delivering ECO collected by NEA on behalf of Citizens Advice, see [Citizens Advice response to the Help to Heat consultation](#), 2016

Off-gas households have a greater chance of being in severe fuel poverty, and are less likely to benefit from the proposed scheme. With the proposed restriction on oil boilers, just 2% of ECO 3 measures are expected to go to households using oil heating, who make up 8% of the population at large.

We agree that ECO is not a suitable delivery mechanism for boiler replacement in the long-term. Within the target group, ECO may be unlikely to direct boilers to those in most need, due to the tendency in a supplier obligation to target low cost/high score projects and potential requirements client contributions. In the long-term, more comprehensive support is needed for households who cannot afford to replace their boiler. However, until that is the case, support is needed through ECO.

We therefore oppose removing oil boilers from the scheme entirely. Instead, we recommend setting an appropriate cap for oil boilers to prevent over delivery.

Citizens Advice also recommend the government takes steps to encourage innovation projects that will help deploy cost-effective and user-friendly low-carbon heating solutions to households off the gas grid.

**17. Do you agree with the broadening of the criteria for the installation of FTCH?**

Yes.

In general, we welcome support for first time central heating. This can be a highly effective measure in tackling fuel poverty, especially when combined with extensions to the gas grid, for example through the Fuel Poor Network Extension Scheme.

We agree with supporting FTCH for households with inefficient storage heaters. Forthcoming research carried out for Citizens Advice highlights how existing storage heaters can be difficult to use efficiently, particularly for vulnerable consumers.

**18. Do you agree with our proposed approach to limit the replacement of all broken heating systems to the equivalent of 35,000 per year, (excluding the installation of FTCH, renewable and district heating systems, inefficient heating upgrades delivered alongside insulation and heating controls) and our proposals for limiting certain heating repairs?**

No.



Citizens Advice supports a cap for broken heating systems. We also welcome raising the cap from the 25,000 used in the Help to Heat.<sup>38</sup> Citizens Advice it also welcomes the proposal to allow additional heating system upgrades where they are delivered alongside certain insulation measures. However, we recommend setting an additional cap for off-gas households, as set out in our response to question 16. We also recommend additional measures are put in place to help replacement oil boilers for those households who need them.

We recognise that boilers are less cost-effective than other measures in terms of their contribution to the fuel poverty targets, in part because of their relatively short lifespan: however, they can make a substantial contribution to the comfort and affordability of warmth for householders in the medium-term. As outlined in our response to question 16 we see little evidence that the need for support for boiler replacement among vulnerable and low-income consumers is significantly declining.

A cap of 35,000 is not likely to support all households who are otherwise unable to replace broken boilers, at least without taking on unsustainable debt.

The government could provide this support and address some of the problems associated with boiler replacements by:

- lifting the boiler cap where the householder is referred because of a health condition
- Banning householder contributions, which have often been required for boilers in order to help consumers in genuine need receive support. As outlined elsewhere, the current approach, where householders are often required to help pay for boilers appear to prevent access for consumers in the most need<sup>39</sup>

These steps would also be likely to help engage third-parties in the scheme (particularly in the health sector) and get measures to households who need them most.

### **19. Do you agree with our proposal to allow certain heating system upgrades where they are delivered alongside certain insulation measures?**

Yes.

This should encourage more efficient and consumer-friendly multi-measure delivery. This tends to be undersupplied in part because of the tendency of firms to only deliver either heating or insulation measures.

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<sup>38</sup>Citizens Advice, [Citizens Advice response to the Help to Heat consultation](#), 2016

<sup>39</sup>Feedback from bodies delivering ECO collected by NEA on behalf of Citizens Advice, see [Citizens Advice response to the Help to Heat consultation](#), 2016



## Treating solid wall homes

### **20. Do you agree with our proposal to include a requirement to treat a minimum number of solid walled homes? What technologies or combinations of technologies could cost-effectively deliver the same bill saving outcomes as SWI?**

No.

While different approaches to treating solid wall homes should be encouraged, we think a minimum requirement for solid wall insulation should be maintained.

Given the country's housing stock, delivering solid wall insulation will be important to meet both fuel poverty and carbon targets. Rural consumers and those in the deepest fuel poverty are more likely than average to live in a solid-walled property.

Without a solid-wall minimum, it is possible that ECO would deliver little or no solid wall insulation. In England and Wales there are no other policies to support the delivery of solid wall insulation.

A hiatus in delivery would be disruptive to the industry and would be likely to raise costs of solid-wall insulation delivery that is required in the long-run. The National Audit Office report on the Green Deal and ECO suggests that the reduction in solid wall insulation measures through previous reforms to ECO will increase cost-effectiveness scheme in the short-term, but could increase costs in the long-term, because of the effects on the supply chain<sup>40</sup>.

Even with a solid wall minimum of 17,000, this is far below the rate needed to deliver on our fuel poverty and carbon targets. The government should set out its long-term plans for delivery of solid wall measures to meet these goals.

In the long term this is likely to be best achieved through an alternative delivery model due to:

- the high per-measure cost of solid wall insulation
- the required delivery profile
- the delivery challenges of the measure (the need for street-by-street work and to work with trigger points)<sup>41</sup>

### **21. Alternatively, do you believe that an SWI-only minimum should be continued?**

Yes.

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<sup>40</sup> National Audit Office, [Report on the Green Deal and Energy Company Obligation](#), 2016.

<sup>41</sup> Citizens Advice 2015 [Closer to home Developing a framework for greater locally led delivery of energy efficiency and fuel poverty services](#)

See answer to question 20.

**22. Do you agree that the minimum is set at the right level (17,000 homes treated per annum)?**

Given the budget constraints of the scheme, the minimum appears appropriate. As outlined under question 20, it will help maintain capacity during the scheme until a more significant solid-wall insulation policy is introduced. However, it is far below the rate needed to deliver on our fuel poverty and carbon targets in the long-term.

**In-fill: ECO3 Affordable Warmth**

**23. Do you think a 66% minimum requirement of eligible households should be introduced under Affordable Warmth for the Solid Wall Insulation and District Heating? Please suggest an alternative preferred percentage, and supporting evidence where applicable.**

No view

We have not been able to analyse these proposals.

**24. Do you think the infill mechanism should be implemented using the same area based methodologies used for the current flexible eligibility in-fill mechanism? Please suggest an alternative preferred mechanism, and supporting evidence where applicable?**

No view.

We have not been able to analyse these proposals.

**25. Do you agree that all eligible and in-fill measures should be notified together and within six months after the first measure was completed?**

No view.

We have not been able to analyse these proposals.

**In-fill: ECO3 flexible eligibility**

**26. Do you agree that the proportion of homes in the same building, adjacent buildings or the same terrace that can receive solid wall insulation as 'in-fill' under ECO flexible eligibility should be limited to 50%?**

No view.

We have not been able to analyse these proposals.

### **In-fill: ECO3 flexible eligibility**

**26. Do you agree that the proportion of homes in the same building, adjacent buildings or the same terrace that can receive solid wall insulation as 'in-fill' under ECO flexible eligibility should be limited to 50%?**

### **Interaction with the Renewable Heat Incentive**

**27. Do you agree that any measures which receive the RHI should not be eligible for ECO?**

Yes.

We agree this restriction is required to ensure funding achieves additionality.

### **Scoring**

**28. Do you agree with our approach for scoring ECO3 measures?**

No view.

We support the use of deemed scores as introduced in ECO2T<sup>42</sup>. We are unable to provide detailed comments on the methodology as it relates to specific measures.

## **Chapter 4: ECO in Scotland**

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<sup>42</sup> Feedback from bodies delivering ECO collected by NEA on behalf of Citizens Advice, see [Citizens Advice response to the Help to Heat consultation, 2016](#)

**29. In the event that separate rules are made for ECO in Scotland, do you agree with the proposal to: (a) apportion the cost envelope between England & Wales and Scotland using a methodology based on the total amount of gas and electricity supplied in each region, with an equal weighting for each fuel? (b) that the calculation is based on an average taken from the last three years of domestic gas and electricity consumption data published annually in December by BEIS?**

Yes.

We agree with apportioning the costs of the scheme if there are significant differences in the rules between Scotland and the rest of GB. Without apportionment, differences in the scheme rules could incentivise delivery on one side of the border over the other.

We note that factors outside the scheme rules currently mean suppliers tend to have greater incentives to deliver in Scotland.

- Scotland has around 8.5% of GB population and 9.5% of GB energy use.
- In ECO1 and ECO2, 12.5% percent of households receiving measures are in Scotland. Under ECO 2T the rate has been 18%<sup>43</sup>.

We think the proposed formula, based on energy use, is a suitable way for dividing the fund. This provides more equitable distribution of the scheme while reflecting the climatic and housing stock differences that drive higher energy use in Scotland.

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<sup>43</sup> BEIS, [Household Energy Efficiency National Statistics](#), April 2018 N.b. We have not seen figures for the value of measures or type of measures delivered in each region.

**30. In the event that separate rules are made for ECO in Scotland, do you agree with the proposal to apportion an individual supplier's targets between Scotland and the rest of GB?**

Yes.

Significantly different rules in Scotland and the rest of GB will require providing each individual supplier with a target for Scotland and/or one for England and Wales. In the context of supplier obligation, this appears to be the only way to ensure a certain proportion of delivery on either side of the border.

The consultation does not set out the government's proposed approach for passing this obligation on to suppliers. However, there are two ways this could be done:

- proportional to the percentage of the individual suppliers customers in each area (a supplier with 60% of customers in Scotland would have to meet 60% of its obligation in Scotland)
- proportional to the overall split of the scheme between the two areas (in this case each supplier would have to deliver around 9.5% of their obligation in Scotland)

The choice of policy could have a significant impact on fairness and the market. Each approach has relative strengths and weaknesses in terms of its impact on the suppliers and the supply market. The first method aligns delivery with supplier customer base. However, it could also give suppliers based in one region incentives not to expand across the border, because of the administrative costs this creates. If different scheme rules are to be introduced in Scotland, then the government should carefully examine these options and consult on them. We would also be interested to understand any alternative approaches that may be considered.

## **Chapter 5: Innovation**

**Question 31. Do you agree that obligated suppliers should have the option of delivering a proportion of their obligation through innovative products, technologies and processes and, if so, where the maximum allowed should sit between 10% and 20%?**

Yes.

Citizens Advice welcome that the government is looking at how it can encourage innovation in the ECO scheme. More innovative delivery can benefit consumers by improving the performance of energy efficiency schemes. We think 10-20% is the right order of magnitude for the innovation component of the scheme.

However, the government needs to clearly set out how it will ensure that the innovation incentives deliver value for money.

We agree with making innovation activities optional, subject to a cap. This should ensure it does not add to the total cost of the scheme. However, this is not enough to ensure they will deliver value for money.

The proposals do not specify the level of incentives for innovation (for example the innovation uplifts). They will need to strike a balance. If they are set too low, suppliers will not have sufficient incentive to divert from familiar delivery patterns. If they are set too high, innovation will be over-rewarded and the scheme will deliver fewer benefits for consumers. The government must therefore clearly set out its methodology for setting the level of incentive for innovation activities and how it will monitor their effectiveness. Given the relative novelty of these proposals, we recommend conducting a review 2 years into the scheme to assess their cost-effectiveness.

While this will be the first time innovation funding will be included in ECO, it was a feature of earlier energy efficiency schemes, CERT and CESP. The innovation uplifts were popular in CERT, and there is potential argument that the incentives were over-generous. However, the public evaluation of these schemes do not clearly set out the effectiveness, including cost-effectiveness, of innovation activities in these schemes<sup>44</sup>. Nevertheless, the government should show how it has integrated learnings from these schemes into its methodology for the innovation incentives.

Innovation activities must also take into account the specific needs of vulnerable consumers, who are disproportionately represented in the ECO target group. We understand that technologies used will have to meet technological readiness standards. However, further safeguards are needed to ensure that the following are appropriate for vulnerable consumers:

- engagement with these consumers during the installation process
- usability and maintenance requirements of the technologies

For example, the consultation proposes innovation measures include 'devices and controls that improve a consumer's' ability to manage their energy use'. These must demonstrate that they are accessible for vulnerable consumers and accompanied by appropriate advice and support.

Finally, we noted in our introductory comments that the consumer journey for ECO is often complex, including for third-party organisations working on behalf of consumers. The innovation proposals have the potential to increase the

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<sup>44</sup> Ofgem, [2013](#), the final report of the Carbon Emissions Reduction Target (CERT) 2008-2012,

complexity. We therefore encourage government and suppliers to make sure that innovation schemes can complement the rest of the scheme and are clearly communicated to those involved in delivering the scheme, to help ensure that measures get to those who need it.

**32. Do you agree with the proposed routes through which ECO can support innovation? Please provide reasons, and if applicable, any alternative preferred proposals.**

No.

- The scheme should also seek to support other innovative approaches to delivery, not just new products.
- This and other aspects of the innovation scheme may be better administered through a central fund, created through a buyout for small suppliers.
- Consumer experience of the innovation activities should be monitored

In CERT, the vast majority of innovation funding was delivered through innovation uplifts. Only 7 demonstration projects were carried out, accounting for less than 0.1% of carbon savings from the scheme. This is likely to be because the innovation uplift is more closely aligned with suppliers existing delivery models. If the situation with CERT is repeated, the administration associated with putting in place the demonstration element may outweigh any benefits to its inclusion in the supplier obligation. Citizens Advice believes demonstration projects could be better delivered through a central delivery fund, as would be created by our proposals for a small supplier buyout mechanism.

The proposed routes for innovation support are limited to technical/product innovation, despite the stated aims of the proposal being broader. For example, that the innovation activities should lead to 'better ways of identifying and targeting households for ECO support that result in improved consumer experience'. Meeting these broader aims is particularly key for informing the long-run changes to energy efficiency schemes to deliver the fuel poverty targets.

To support these broad aims, we recommend the government consider expanding the innovation activities to support innovative approaches to delivery. For example, it could support demonstration projects that include innovative methods for consumer engagement and advice, alongside installations.

The fund would be open to any organisation who can deliver a proposal to effectively deliver the aims of the innovation activities and contribute to the

long-term development of ECO. Bidding organisations should be encouraged to focus on those in the most severe fuel poverty, or hard-to-reach fuel poor households, for example those in remote rural areas or private-rented properties.

Bidding organisations could include local authorities, suppliers themselves acting outside of current ECO eligibility rules, or any other organisation (charity, healthcare delivery etc.) and approved by the government or Ofgem.

Finally, as improving consumer experience is one of the aims of the innovation activities, the government should set out how consumer experience of the innovation activities should be monitored.

**33. Are there other ways in which suppliers can meet their targets more cost effectively, in order to maximise energy bill savings achieved through the scheme, while also ensuring that work is done to the right standards?**

Yes.

As outlined in our response to question 32, Citizens Advice recommends think more innovative delivery approaches should be promoted under ECO. Chapter 6: Delivery and Administration

**34. Do you think the one month reporting period should be extended? Please provide reasons, including any alternative preferred proposals, and supporting evidence where applicable.**

No view.

**35. If the one month reporting period was extended, do you think the 5% extensions provision could be removed?**

No view.

## **Trading**

**36. Do you agree with the proposal to retain the mechanism for the trading of obligations?**

Yes.

We support the trading mechanism. Trading should lead to measures being delivered by the party who can do it most cost-effectively. This in turn should help minimise the costs of the scheme and its impact on energy bills. Since its introduction, several suppliers have taken advantage of the mechanism.

Although we support the trading mechanism, it is unclear whether it would be sufficient on its own to address the issue of fixed costs, if the supplier threshold is not lowered. Whilst we support removing the supplier threshold, it should be



supported by a mechanism to avoid smaller suppliers being significantly affected by the high proportion of fixed costs.

The current approach requires the voluntary agreement of the supplier taking on the obligation. It therefore implies a degree of cross-subsidy from the supplier trading its obligation. (A supplier would not take on an obligation if it did not expect to profit from it). In most cases, this is likely to be a transfer from a smaller supplier to a larger supplier. The scale of this transfer will increase as the threshold is lowered, and the impact of fixed costs increases. For this reason, we suggest an alternative buy-out option for suppliers with under 250,000, as outlined in our answer to question 1.

## **Heat networks**

### **37. Do you consider that heat networks installed under ECO, or connections to heat networks should require specific consumer protection standards?**

Yes.

Heat networks are effective monopolies with little competition to force downward pressure on bills, leaving customers vulnerable to price increases. They often have high standing charges, which leave customers less able to manage their energy. Customers are typically tied into long-term contracts, usually 25 or more years, and are unable to switch suppliers or change to an alternative heating system if they are unhappy with the service.

Any heat network scheme that receives funding from a Government-backed scheme, such as ECO or the RHI, should be required to make arrangements that provide consumer protection equivalent to that found in the regulated (gas and electricity supply) sector.

In the short and medium term, the government should require that heat networks and heat suppliers join the Heat Trust scheme, which sets out minimum standards for heat providers and a clear right to redress for the consumers in case of any disputes. We think that consumers on heat networks installed through ECO should not be left without this level of protection. And we are not aware of alternative scheme or arrangement currently available that is an adequate alternative.

New heat networks should also be required to sign up to the Chartered Institution of Building Services Engineers Heat Networks Code of Practice which covers the build and installation of the network.

More broadly, given the desire for the expansion of heat networks across the country<sup>45</sup>, it is important that the government seriously considers the introduction of a specific mandatory framework for protecting consumers on heat networks.

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<sup>45</sup>BEIS, [Clean Growth Strategy](#), 2017

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