

Ofgem evidence to inquiry into Energy Efficiency and Fuel Poverty in Wales

Ofgem E-Serve response to a call for evidence from the Environment and Sustainability Committee of National Assembly for Wales (13 June 2014).

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1. Introduction

1.1. Ofgem is grateful to the Environment and Sustainability Committee for providing us with the opportunity to respond to its inquiry into Energy Efficiency and Fuel Poverty in Wales. Ofgem's role in the Energy Companies Obligation (ECO) is to administer the scheme. Under the ECO legislation, we are responsible for determining suppliers' obligations, reporting to the Secretary of State on supplier progress, monitoring compliance and taking enforcement action where appropriate. The Department of Energy and Climate Change (DECC) is responsible for the underlying policy and legislation for the scheme. Our response to this call for evidence is given in our capacity as ECO administrator. The evidence presented here relates to the Committee's review of the implementation of ECO to date by the major energy suppliers in Wales. We will be happy to provide further information or clarification to the Committee should it be required.

Please note that much of the information provided here is sourced from DECC's quarterly release for Green Deal and ECO. The most recent statistical release was published in March and relates to measure installed up to 31 December 2013. DECC are due to publish the next statistical release later in June. We would be happy to provide the Committee with an updated version of this written evidence once at that time.

2. Number of measures installed across Great Britain

2.1. Regular monthly updates of the headline figures for the ECO delivery can be found from two published sources. These sources do not provide a breakdown of ECO measures by geographical region but instead give total figures for all of Great Britain.

- 2.2. DECC publishes the Domestic Green Deal and ECO Monthly Statistical Releases. Table 5a of DECC's report shows the provisional number of ECO measures installed under each of the three obligations. This is the number of measures notified by suppliers to Ofgem. The latest figures show that up to the end of March 2014 a total of 776,369 measures had been installed at 647,950 properties. The table below shows these measures split by the three obligations; the Carbon Emission Reduction Obligation (CERO) which focuses on hard-to-treat homes, the Carbon Saving Communities Obligation (CSCO) which targets lower income areas, and the Home Heating Cost Reduction Obligation (HHCRO) which targets fuel poor living in private accommodation.

Table 1: ECO measures notified by obligation up to the end of April 2014

Obligation	CERO	CSCO	HHCRO	Total
Total Measures Notified	335,647	122,163	318,559	776,369

- 2.3. Ofgem publishes a monthly ECO Compliance Update that reports the number of ECO measures **approved** by Ofgem.¹ The latest figures published in May (relating to measures installed by 31 March) show that a total of 495,806 measures had been approved by Ofgem. The table below shows these measures split by obligation.

Table 2: ECO measures approved by obligation up to the end of April 2014

Obligation	CERO	CSCO	HHCRO	Total
Measures Approved	114,994	99,527	281,285	495,806

- 2.4. Of the measures which were notified to Ofgem but not yet approved some have been sent back to obligated suppliers for data correction or completion of missing information, some are undergoing further checks to ensure that they are valid measures under ECO and some are being processed and are expected to be approved shortly.

3. Geographic breakdown of measures installed

- 3.1. DECC publishes a quarterly statistical release that provides a geographic breakdown of measures installed under ECO. The most recent release was published in March². Table 1.11a of that document provides a breakdown of the provisional (i.e. notified) number of households in receipt of ECO measures by country and by local authority. Table 3 below shows the number of measures installed in England, Scotland and Wales respectively. The table shows that a higher number of ECO measures have been installed per 1,000 households in Scotland and Wales than in England.

Table 3: ECO measures installed by country up to 31 December 2013

Obligation	CERO	CSCO	HHCRO	Total	ECO measures per 1,000 households
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¹ <https://www.ofgem.gov.uk/environmental-programmes/energy-companies-obligation-eco/public-reports>

² <https://www.gov.uk/government/publications/green-deal-energy-company-obligation-eco-and-insulation-levels-in-great-britain-quarterly-report-to-december-2013>

Great Britain	193,337	96,093	239,456	528,886	20.5
England	160,532	86,161	192,158	438,851	19.9
Scotland	24,184	6,166	27,708	58,058	24.5
Wales	8,566	3,765	19,478	31,809	24.4

3.2. The table in Annex A shows the number of measures installed in each local authority in Wales. The chart in Annex B compares the number of installations per 1,000 households across Great Britain.

4. Types of measures installed

4.1. ECO is a market-based scheme and suppliers are therefore naturally incentivised to install measures which cost the least amount per tCO₂ saved for CERO and CSCO and per £ heating cost saved for HHCRO. Table 5a of the Domestic Green Deal and ECO Monthly Report³ published by DECC provides provisional information on the number of each measure type installed under ECO. These figures are summarised in table 4 below, for the measures which are installed at highest volumes across Great Britain.

Table 4: Type of ECO measure notified by obligation up to the end of April 2014

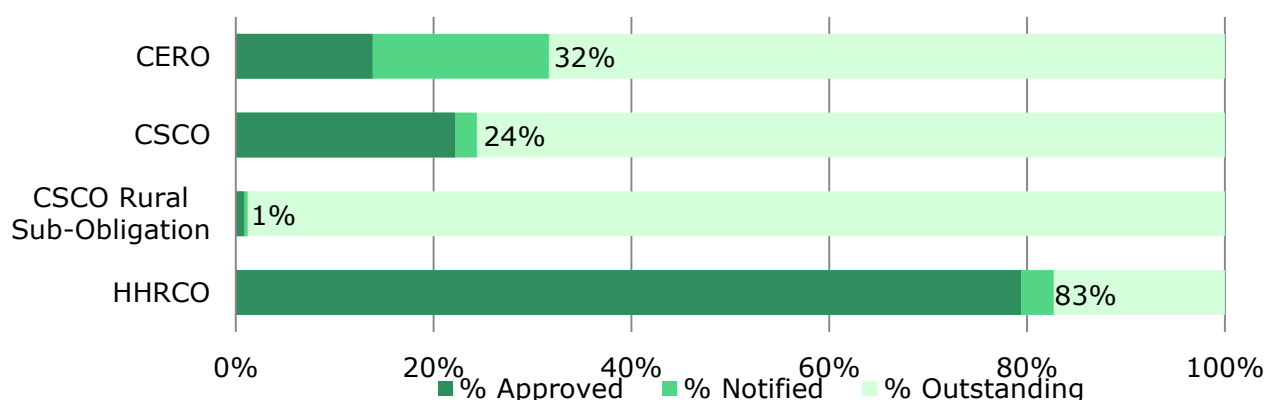
ECO measures delivered	Obligation			Total ECO measures delivered
	CERO	CSCO	HHCRO	
External Wall Insulation	46,078	1,933	10	48,021
Internal Wall Insulation	3,320	49	0	3,369
Cavity wall insulation	235,990	34,915	10,373	281,278
Loft Insulation	46,180	82,606	36,657	165,443
Other Insulation	2,486	1,780	80	4,346
Boiler	N/A	N/A	224,832	224,832
Heating Controls	N/A	N/A	46,591	46,591
Other Heating	1593	880	16	2489
Total number of measures	335,647	122,163	318,559	776,369

5. Supplier progress

5.1. Ofgem's monthly ECO Compliance Update shows aggregated supplier progress towards obligations. With less than twelve months remaining in which to meet the 2015 obligations, suppliers are making steady progress towards their targets. Figure 1 below shows aggregated supplier progress towards the three main obligations and the CSCO rural sub-obligation.

³ <https://www.gov.uk/government/publications/green-deal-and-energy-company-obligation-eco-monthly-statistics-may-2014>

Figure 1: Progress towards total obligations, to April 2014



5.2. They are now close to meeting the HHRCO obligation. Progress has been slower against the CSCO obligation and suppliers will need to step up their work in this area in order to meet their legislative obligations. The CSCO Rural sub-obligation, which targets the fuel poor living in rural areas, is a particular area of concern and we regularly meet with suppliers to stress the importance of compliance with their obligations and remind them that, should they fail to meet 100% of their obligations by the end of the scheme, we will consider taking enforcement action. Progress towards the CERO obligation has increased in recent months. This is thought to be a result of suppliers seeking to capitalise on early progress uplifts included in the government's proposed changes to ECO.

5.3. The figure excludes excess actions that suppliers may carry over from the previous CERT and CESP schemes. Our estimates suggest that, under the current ECO Order, excess actions will add roughly 9% to supplier progress against the CERO and CSCO obligations combined.

5.4. In addition, each quarter Ofgem publishes an annex to the ECO Compliance Update showing individual supplier progress towards each of their three ECO obligations. The most recent annex was published in April 2014.⁴

6. Effect of government's proposed changes to ECO

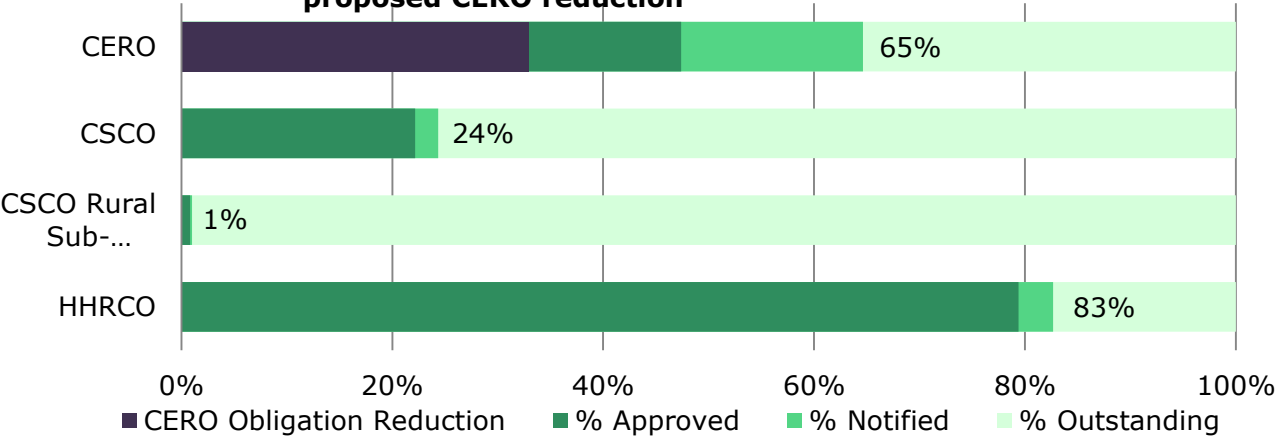
6.1. If introduced in their current form, the changes to ECO being proposed will improve suppliers' positions against their CERO obligation; in particular through the proposed 33% reduction of the CERO target, the introduction of lower cost primary measures in CERO, and the uplift to certain CERO measures. The March 2015 CSCO and HHRCO obligations will remain unchanged. DECC has proposed that all three obligations will be extended from March 2015 to March 2017 and will be increased on a pro-rata basis at the revised level.

6.2. Figure 2 below shows overall supplier progress when the government's proposed 33% reduction to the CERO targets is applied. If the proposed CERO reduction is introduced as expected suppliers will be on track to meet the CERO target by the end of the scheme.

⁴ <https://www.ofgem.gov.uk/ofgem-publications/87182/energycompaniesobligationecocomplianceupdateandquarterlyannex-april2014.pdf>

6.3. The figure excludes excess actions and any uplifts resulting from early progress. The proposed changes to ECO would increase the amount of excess actions that suppliers could carry forward into ECO from CERT and CESP. Although the impact of the proposed changes on the CSCO rural sub-obligation is likely to be positive, we are not confident regarding full compliance at this stage. We are therefore stepping up our engagement with suppliers and stressing the risk of non-compliance.

Figure 2: Progress towards total obligations, to April 2014, including proposed CERO reduction



7. Carbon and cost savings achieved

- 7.1. Table 1.15 of DECC’s Quarterly Statistical Release provides data on the energy and carbon savings delivered through CERO and CSCO. The table shows that total carbon savings of 5.16 million lifetime tCO₂ have been delivered through measures installed up to 31 December 2013.
- 7.2. Table 1.12d of the same publication provides data on the heating cost saving delivered through HHRCO. The table shows that total lifetime heating cost savings of £2.7 billion have been delivered through measures installed up to 31 December 2013.

Annex A – Geographic distribution of ECO measures by local authority area, installed by 31 December 2013⁵

Country	Local Authority Area	Obligation			Total number of ECO measures delivered	Valid percentage of ECO measures delivered ¹	Households with at least one usual resident ³	ECO measures per 1,000 households
		CERO	CSCO	HHCRO				
Great Britain		193,337	96,093	239,456	528,886	100	25,738,820	20.5
England		160,532	86,161	192,158	438,851	83.0	22,063,368	19.9
Scotland		24,184	6,166	27,708	58,058	11.0	2,372,780	24.5
Wales		8,566	3,765	19,478	31,809	6.0	1,302,676	24.4
	Rhondda Cynon Taf / Rhondda Cynon Taf	456	532	3,211	4,199	0.8	99,663	42.1
	Caerphilly / Caerffili	773	408	1,534	2,715	0.5	74,479	36.5
	Merthyr Tydfil / Merthyr Tudful	43	152	637	832	0.2	24,264	34.3
	Neath Port Talbot / Castell-nedd Port Talbot	602	210	1,219	2,031	0.4	60,393	33.6
	Blaenau Gwent / Blaenau Gwent	92	192	734	1,018	0.2	30,416	33.5
	Cardiff / Caerdydd	1,443	921	2,331	4,695	0.9	142,557	32.9
	Torfaen / Tor-faen	649	100	509	1,258	0.2	38,524	32.7
	Newport / Casnewydd	629	326	987	1,942	0.4	61,172	31.7
	Bridgend / Pen-y-bont ar Ogwr	307	234	1,252	1,793	0.3	58,515	30.6
	The Vale of Glamorgan / Bro Morgannwg	484	61	719	1,264	0.2	53,505	23.6
	Conwy / Conwy	375	41	758	1,174	0.2	51,177	22.9
	Denbighshire / Sir Ddinbych	155	49	696	900	0.2	40,546	22.2
	Flintshire / Sir y Fflint	422	92	868	1,382	0.3	63,781	21.7
	Swansea / Abertawe	462	199	1,541	2,202	0.4	103,497	21.3
	Pembrokeshire / Sir Benfro	505	79	321	905	0.2	53,122	17.0
	Carmarthenshire / Sir Gaerfyrddin	269	79	879	1,227	0.2	78,829	15.6
	Wrexham / Wrecsam	265	51	436	752	0.1	57,029	13.2

⁵ Table 1.11a of DECC's quarterly statistical release: <https://www.gov.uk/government/publications/green-deal-energy-company-obligation-eco-and-insulation-levels-in-great-britain-quarterly-report-to-december-2013>

	Monmouthshire / Sir Fynwy	280	1	189	470	0.1	38,233	12.3
	Ceredigion / Ceredigion	107	3	125	235	0.0	31,562	7.4
	Gwynedd / Gwynedd	115	18	221	354	0.1	52,473	6.7
	Isle of Anglesey / Ynys Môn	28	14	141	183	0.0	30,594	6.0
	Powys / Powys	105	3	170	278	0.1	58,345	4.8
Unknown		55	1	112	168	-		

Annex B – Geographic distribution of ECO measures by local authority area, installed by 31 December 2013⁶

ECO Measures Installed by LA per 1,000 Households

All ECO measures installed by 31st December 2013

