

ALEO National Secretariat
c/o LCC Energy Services
1st Floor, Phoenix House
King Street, Leicester
LE1 6RN



ECO: Home and Local Energy Directorate
Department of Business, Energy & Industry Strategy
Level 6 Orchard 1
1 Victoria Street
London
SW1H 0ET

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Response to the consultation on the Energy Company Obligation: ECO3, 2018 to 2022

The Association of Local Energy Officers

The Association of Local Energy Officers (ALEO) is a not-for-profit membership organisation that represents and supports local government officers working to reduce domestic-sector carbon emissions and tackle fuel poverty.

This response has been prepared following consultation with ALEO members although our views may not reflect those of our sponsors.

Key points

Supplier threshold (Q1)

We believe that newly obligated suppliers could pay a levy that could be put toward the cost of ECO, perhaps even an element similar to the Warm Home Discount Industry Initiatives. We would suggest that threshold should be 150,000. This will ensure competition for customers from the smaller suppliers but still provide support to fuel poor households.

Affordable Warmth Obligation (Q7)

With such limited funding available we believe that all of ECO should be focussed on the fuel poor.

Rural sub-obligation (Q8)

We have no objection to a rural sub-obligation but recognise that some English regions, such as the East, London and the South East, are consistently underfunded through ECO relative to both their population and number of fuel poor households. Since BEIS has concluded that there is an argument for a distinct allocation to Scotland we propose that each English region and Wales receives an allocation of ECO at least on the same basis. We propose that 80% of the ECO for England and Wales is allocated in this manner, with an additional 20% available to areas that can go beyond their allocation.

Disability benefits and income thresholds (Qs9-11)

Since a considerable number of those in fuel poverty have a long term illness or disability so we welcome the extension of the criteria to cover those in receipt of the disability benefits listed. We disagree with a single income threshold for all of Great Britain being used for Child Benefit, Universal Credit and Tax Credits. Living costs for families with children are 21-25% higher in London than the rest of the UK. We therefore propose that London has distinct income thresholds.

Social housing eligibility (Q13)

We agree with social housing properties rated E to G being included but we would like to see a clear signal from government that EPC Band D properties in social housing will be included in ECO after 2022. Given constraints on local authority and social landlord funding it is likely to be challenging to reach even a target of EPC Band C by 2030 and such a signal would be useful in guiding asset management strategies.

The eligibility of social housing E, F, and G-rated properties for first time central heating could lead to the unintended consequence of a large proportion of the ECO being used to replace storage heaters in this sector so there may be a case for setting a cap on this measure.

Flexible eligibility (Q15)

We welcome the proposal to increase the proportion of ECO that can be delivered through flexible eligibility to 25%. Whilst latest government figures on flexible eligibility are low we would highlight that local authority participation in the scheme has increased slowly but steadily and a further 3.5 years would provide local authorities with greater assurance that this is a long-term programme.

There are examples of where ECO Flex has already proven effective. The Greater London Authority has mirrored ECO eligibility in its own Warmer Homes scheme¹, including the flexible eligibility element, launched in January 2018. In the first two months of the scheme 28.5% of applications were processed through the flexible eligibility route therefore 25% would be a reasonable allocation, considering the proposed broadening of the criteria.

Local authorities have a vital role to play in addressing fuel poverty. Whilst we have seen enthusiastic participation in ECO Flex by some energy suppliers, we do not believe that the current voluntary arrangement for supplier participation is sufficient. A significant number of local authorities no longer have a dedicated officer resource for tackling fuel poverty. A guaranteed allocation of £160 million annually would encourage greater participation from local authorities at a time when resources are dwindling.

We welcome the proposed amendment to add the Greater London Authority to the list of local authorities able to operate an ECO Flex scheme as this would bring consistency with the combined authorities in England.

Heating systems (Qs16-18)

We appreciate that the Clean Growth Strategy requires that old fuelled heating systems should no longer be supported under ECO but we are concerned about the running costs of other heating systems for rural households in particular. In the event that full funding is available for heat pumps or LPG boilers then these technologies would still involve

¹ www.london.gov.uk/warmerhomes

considerably higher running costs for households and may in effect increase their fuel poverty gap. Whilst we understand the need for withdrawal from coal and oil heating (for carbon budget reasons), the lack of any repair or replacement capital programme will impose significant financial stress on some of the poorest people in our communities where national infrastructure does not exist. We would however accept that coal fuelled heating systems should no longer be supported.

We support the broadening of the criteria to support the replacement of inefficient or broken electric storage heating and indeed already fund this through our own Warmer Homes programme.

We agree there should be a cap on new heating systems to ensure there is greater focus on insulation, district heating and renewable heat.

Solid wall insulation (Qs20-22)

We agree with having a minimum number but we disagree with reducing the ambition from 21,000 to 17,000. The minimum level is set extremely low, and the proposed sub-target for England and Wales of 12,000 homes even lower. The government's own statistics suggest that there are 1,087,000 fuel poor households in England with solid walls². Assuming a proportionate split in the sub-target for England and Wales³ it would take approximately 96 years to insulate all fuel poor homes in England with solid walls.

In terms of substituting SWI as a measure for other measures, there is a wide range of possible measures that might be technically suitable depending on the property type that could achieve the same savings as calculated through the deemed scores methodology. We have concerns about the deemed scores methodology, with suppliers likely to employ the simplest and cheapest method of hitting the solid wall properties target. We are also concerned that this approach will lead to the funding of measures that do not go beyond business as usual.

Given the stated policy intent of fabric-first insulation and the disproportionate number of fuel poor households living in solid walled homes we believe the minimum number should be ring fenced to SWI installations.

Renewable Heat Incentive (Q27)

We think funding from the Energy Company Obligation and Renewable Heat Incentive should be able to be combined in some circumstances to pay for associated costs and infrastructure that might not be fully covered by the RHI and would be required to implement schemes that would help tackle fuel poverty. The new communal heat pump system in Enfield for example is replacing inefficient electric resistive heating with individual heat pumps, connected to a communal borehole and has been made possible through a combination of both RHI and ECO funding.

Some ECO funding might also be used to help cover the upfront capital costs associated with renewable heat systems to widen access. The householders who would most benefit from combined ECO funding and RHI for a renewable heating source are fuel poor homes in the private sector.

² Fuel poverty detailed tables 2017, BEIS <https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2017>

³ Household numbers taken from Total number of households by region and country of the UK, 1996 to 2017, ONS <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/adhocs/005374totalnumberofhouseholdsbyregionandcountryoftheuk1996to2015>

Private sector fuel poor homes are very unlikely to be able to afford a new renewable heating system without ECO support as the RHI would not currently cover the cost of a new system in most cases. There would be a significant upfront cost that these homes are unlikely to be able to afford.

Innovation (Qs 31-33)

We do not support giving obligated suppliers the option of delivering a proportion of their obligation through innovative products, technologies and processes. Whilst not opposing innovation we did not believe that it is the place of ECO to fund such measures on the basis that £640 million is already inadequate to deliver on the national fuel poverty strategy. Innovation should be instead be supported through other means such as Warm Home Discount Industry Initiatives.

General comments (Q42)

We do not believe that the Energy Company Obligation is an effective means of addressing fuel poverty and constitutes a regressive tax on low income households, many of whom cannot benefit. We agree with Ofgem that “the time has come to reconsider the role of energy suppliers as the primary route in funding and delivering the range of low-carbon support mechanisms, including ECO”, and that suppliers are incentivised to “minimise the cost of meeting obligations rather than deliver best value”. Unlike Ofgem we would however agree with Energy UK that “the fairest and most progressive method of funding such support is through general taxation”.⁴

Yours faithfully,

John Kolm-Murray
National Chair, Association of Local Energy Officers



ALEO is sponsored by A&M Energy Solutions

⁴ Both were responding to the BEIS consultation on Building a market for energy efficiency: call for evidence that ran between October 2017 and January 2018