

The Insulated Render and Cladding Association (INCA) response to the “ECO: Help to Heat – Transitioning to a New Fuel Poverty Focussed Obligation” Consultation

Executive Summary

The Insulated Render and Cladding Association (INCA) is the recognised trade association for the external wall insulation (EWI) sector of the solid wall insulation (SWI) industry. INCA has just under 100 member companies representing the major system designers, a nationwide network of specialist installers and the key component suppliers. A full list of INCA members is available at www.inca-ltd.org.uk/membership.

INCA represents around 70% of the industry by volume and is at the forefront of transforming the energy efficiency of homes and businesses in the UK.

On behalf of its membership, INCA welcomes the opportunity to respond to the Department for Business, Energy & Industrial Strategy (BEIS) consultation on the proposed changes to the Energy Company Obligation (ECO) during the Help to Heat transition period.

Prior to providing our answers to the specific questions contained in the consultation document, we would first like to make a number of important high-level points in relation to the proposals.

INCA believes that:

- the proposed ECO transition period arrangements have several positive features
- fuel poverty cannot be effectively tackled without a strong focus on solid wall insulation
- it is essential to maintain an ambitious SWI minimum, and the proposed target is wholly insufficient
- key assumptions used by BEIS in relation to the cost of ECO SWI support are highly questionable and have led BEIS to set an unnecessarily low target
- the broader ECO cost assumptions used by BEIS require further scrutiny as they have overestimated cost and reduced the scope for SWI funding
- the SWI minimum should be set at the current industry run rate of 33,000 measures, ring-fenced for delivery within the transition period itself.

These arguments are laid out in more detail below.

The proposed ECO transition period arrangements have several very positive features

INCA supports the direction of travel indicated by these proposals in a number of important respects:

1. Better targeting of the support onto those who need it most: The reduction in size of CERO, a significant increase in the more targeted Affordable Warmth (AW) and the inclusion of E and below rated social housing are important positives in improving the targeting on those with the greatest need.
2. A cap on the number of all heating measures, including boilers being installed under ECO: BEIS highlighted that its current policy has resulted in too many boiler installations being undertaken in AW and therefore a focus on insulation measures is a more appropriate use of ECO.
3. An expanded role for Local Authorities under Flexible Eligibility: Many of our members co-operate with Local Authorities on area-based schemes across the

country and believe that Local Authorities can add a lot of value. If BEIS can set appropriate ground-rules for Flexible Eligibility, and in particular avoid creating too much complexity, we believe it has the potential to deliver some very positive outcomes.

4. Insulation Minimum in AW and reduction in complexity: The move to deemed scores and likely removal of the EPC/Chartered Surveyor’s Report will reduce cost drag in the scheme. This along with the introduction of an “insulation minimum” under AW will mean that more money is focussed onto the most important insulation measures.

Fuel poverty cannot be effectively tackled without a strong focus on solid wall insulation

There are more than 8 million solid walled homes in Britain, a third of all of our housing. Nearly half of those in fuel poverty live in solid walled houses. Uninsulated solid wall properties are highly inefficient, typically leaking twice as much heat as cavity walls, resulting in extremely high fuel bills for their occupants. SWI therefore delivers huge benefits for those living in solid wall homes (average annual savings of £490 per annum compared to £140 for cavity wall insulation), benefits that have not been delivered at any scale under successive supplier obligations, despite these households contributing hugely to the cost of those schemes. Moreover, owners (particularly social landlords and private householders) have been willing to make significant contributions to the cost of SWI works, keeping the cost to all energy bill payers down.

SWI results in significant job creation, delivers huge benefits to the exchequer (multiplier effect), whilst providing significant social and housing regeneration benefits. These benefits have been verified and quantified in a report by the Institute for Public Policy Research and Ricardo-AEA¹.

Therefore, whilst INCA welcomes the proposal that ECO support is focused on those most in need, we note that unless there is a greater level of support for SWI through ECO, a huge section of those most in need of support will continue to be overlooked.

It is essential to maintain an ambitious SWI minimum, and the proposed target is wholly insufficient

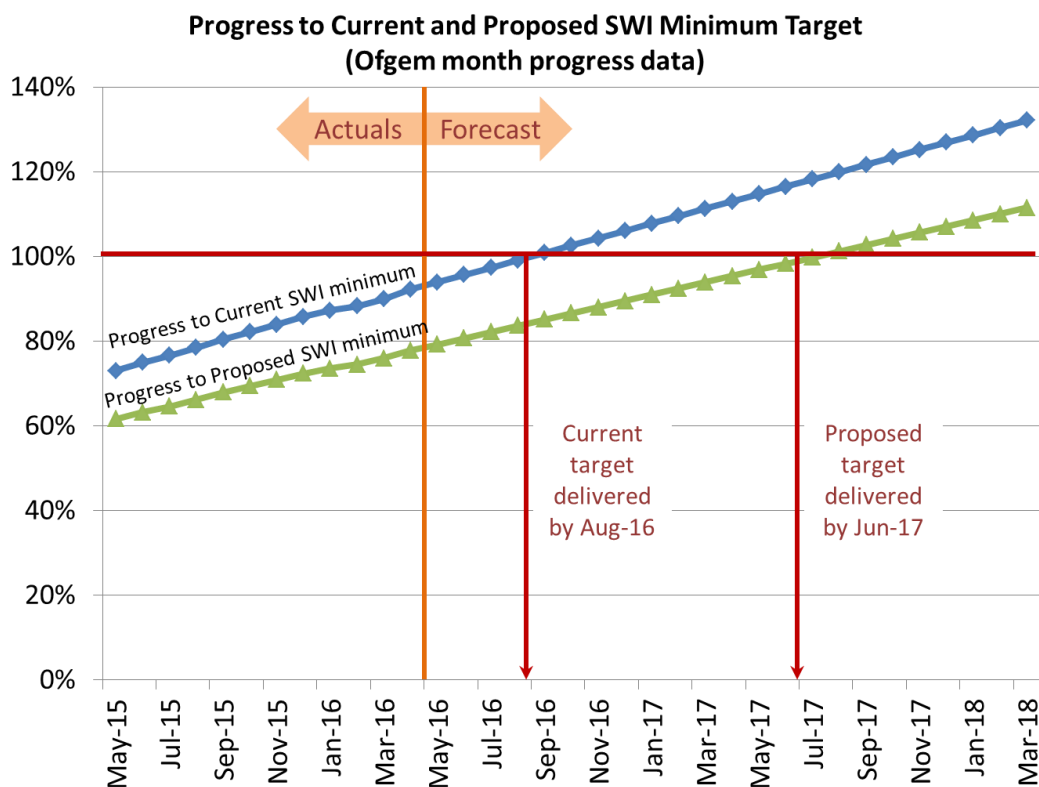
It is important to remember why the SWI minimum was introduced in the first place... “*To protect investment in SWI, and to continue efforts to support the development of the SWI supply chain, Government will set a minimum floor for delivery of insulation to solid walled properties in the period 2013 to 2017*”. Government also continues to recognise the key role that SWI plays in eradicating fuel poverty as nearly half of the fuel poor live in solid wall properties.

The proposed SWI minimum of 17,000 properties in the extension period 1st April 2017 to 31st March 2018, is a significant (50%) reduction on the current industry run rate of 33,000 per annum. At the end of May 2016, about 94% of the current SWI minimum had been delivered². Some companies have already built significant levels of carry-over, making any extension irrelevant, and with 10 months until the next obligation period, it is very likely,

¹IPPR and Ricardo AEA (2014) *Evaluating the benefits of solid wall insulation*, http://www.ippr.org/images/media/files/project_update/2014/03/projects-solidwallinsulation-interim-140311.pdf

²Ofgem ECO public reports and data as at 9th August 2016

given the current run rate of 33,000 SWI measures³, that the whole of the SWI minimum for the transition period will be delivered before the transition period even begins, and at a much lower cost than assumed in the Impact Assessment. Evidence from INCA members indicates that SWI deployment in the current year 2016-17 will match 2015-16. This makes the SWI minimum all but redundant in the period 2016-17. This will deprive thousands of fuel poor households the opportunity to receive much needed improvements to their property. It will also create a huge drop off of work for installers, creating a hiatus in the industry, which will result in the loss of delivery capacity for future years. The inadequacy of the proposed SWI minimum is illustrated in the following chart:



This chart demonstrates that, at present run rates, which have remained constant over the last year, the proposed SWI minimum will be 94% delivered before the transition period even begins and 100% delivered two months into the period.

Key assumptions used by BEIS in relation to the cost of ECO SWI support are highly questionable and have led BEIS to set an unnecessarily low target

The BEIS Impact Assessment suggests that SWI measures will require subsidy of £60/tCO₂ (for 14,000 CERO measures), alongside 4,000 fully funded AW SWI measures. We believe this hugely overestimates the likely cost of the SWI minimum for a number of key reasons:

- As mentioned earlier and illustrated in the chart above the majority of the proposed SWI minimum will be delivered in the current ECO period, at current ECO funding rates. In contrast BEIS has assumed in its modelling for the Impact Assessment that 100% of measures are delivered in the extension year, with prices vastly inflated on today’s current rates, which is clearly incorrect.

³ BEIS Household Energy Efficiency Household Statistics 21st July 2016

- In meetings between INCA and BEIS officials, one of BEIS’s justifications for such high subsidy levels for SWI is a lack of evidence that other sources of “matched funding” will be forthcoming, with the forthcoming closure of Green Deal Communities and uncertainty on the future of regional schemes such as the Home Energy Efficiency Programmes for Scotland (HEEPS). However, given the above analysis that the extended SWI minimum will be delivered very quickly, the final phases of delivery of Green Deal Communities and the existing regional funding in the current year will suffice. We also note that when INCA met with Scottish Government officials on 10th August, they indicated that the Scottish Government has every intention of continuing with further rounds of funding under HEEPS/SEEP and that there will be a significant focus on SWI.
- Schemes such as Green Deal Communities and GDHIF provide strong evidence of homeowners and private landlords making substantial contributions to the cost of SWI works, largely due to the aesthetic improvements that SWI provides to run-down properties. Evidence from INCA members is provided in the Analytical Annex.
- The proposed inclusion of social housing properties with an EPC rating of E or below will drive further matched funding as typically these will be part funded by social landlords, making a significant contribution to the cost, again evidenced in the Analytical Annex.

What this demonstrates is that whilst SWI will inevitably require some degree of higher funding than “easy to treat” measures, it no longer requires disproportionately higher rates of funding. So SWI should not be considered to be an ‘expensive measure’ as is so often quoted in government papers. Whilst for ECO it offers excellent value for money, has an established highly trained supply chain, customers, such as social landlords, willing to invest significant amounts of money, and targets the very people, the fuel poor, that ECO is seeking to help.

On 10th August, INCA undertook a survey of its members to understand the impact of the ECO changes and the levels of funding offers being received. The average price being offered by energy companies to purchase SWI ECO credits during 2015 and 16 have remained remarkably consistent: 2015: £24, 2016 H1: £23, 2016H2: £23. During this period members have seen a 19% reduction in total SWI volumes as the market continues to adjust following numerous policy changes impacting this sector. Members also reported that 19% of ECO eligible measures were not funded. The common complaint from members is that costs associated with the current complex compliance rules outweigh or make it not commercially viable to apply for ECO funding. Quotes from members on the state of the market include: *“Solid Wall is the biggest carbon/ fuel poverty challenge we face as a nation and requires sustainable, consistent policies to fulfil its potential”*. See INCA Member Survey Annex for more information.

The broader ECO cost assumptions used by BEIS require further scrutiny as they have overestimated cost and reduced the scope for SWI funding

INCA believes, based on in-depth discussions with BEIS analysts on the assumptions underlying the Impact Assessment, that there are a number of assumptions made that are overly conservative and, if corrected, would enable a higher target for SWI minimum to be set, which would help to avoid the supply chain hiatus discussed above. Three key areas which INCA believes should be revisited are:

- The cost of “hard to treat” (HTT) cavity wall insulation is assumed to be £920 under both AW and CERO (excluding the additional costs of customer acquisition and guarantees). INCA members believe this number is far too high, and there is also

ample evidence of funding levels under the previous HTT funding regime. A reduction to a more realistic £600 per measure reduces the obligation cost by £30m.

- The IA modelling suggests a massive 30% of the overall obligation cost, and 45% of the cost of AW, comes from “economic rent”, whereby a single “clearing price” for different types of measures results in easy to treat measures costing energy suppliers the same as more expensive measures. However, in reality, under previous obligations, where there were “sub-obligations” with their own caps or floors and scarce supply, each sub-obligation found its own market price. We believe that the same will happen under the ECO transition period, whereby the SWI minimum, the boiler maximum and the insulation minimum will result in a separate “clearing price” for each type of measure. For example, under the current AW scheme, boiler installations typically attract funding of £0.10 or less, with ample supply. Faced with a firm cap and an ample supply, energy suppliers will clearly only pay at current rates or lower for boiler measures during the transition year. This will result in a significant reduction in economic rent.
- The IA assumes that Supplier Costs in relation to ECO compliance will remain relatively static at £80m (currently £82m), despite the major steps being taken in the transition period to reduce complexity, and in particular the introduction of deemed scores and the removal of the EPC/Chartered Surveyor report. These changes alone will result in a significant reduction in the administrative costs for suppliers. Although large companies are sometimes slow in taking out costs as a result of business change, we are also aware that many of the companies are now reducing administrative costs as a result of the previous ECO changes and that a number of the order of £80m is already too high. It is also worth noting that publicising an assumption that the supplier costs will be a “business as usual” £80m sends the wrong message to the industry, who should be taking steps to reduce cost as a result of lower volumes and lower complexity.
- The impact of carry-over is likely to have a significant impact on the cost assumptions used by BEIS. As mentioned previously, the proposed SWI target is likely to be mostly delivered before the transition period. A similar position is expected with boilers. And with the perception within the industry that deemed scores will reduce carbon/LTS per measure, there will be added impetus from suppliers to build carry-over at the current advantageous low rate for carbon/LTS.

We therefore recommend that the SWI minimum is set at the current industry run rate of 33,000 measures, ring-fenced for delivery within the transition period itself

The combination of the factors discussed above suggest that BEIS may have overestimated the cost of the obligation by £200m or more in relation to SWI, qualifying boilers, hard-to-treat cavities, economic rent and supplier costs. This creates huge headroom to increase the SWI minimum, without which (as set out above) will result in a huge hiatus in the SWI industry and a loss of capacity for future years. We therefore propose that:

- a) The SWI target is approximately doubled to from 0.78 to 1.48mTCO₂ (equivalent to 33,000 homes insulated); and**
- b) the proposed target is ring-fenced for delivery within the transitional period (2017-18) – i.e. whilst carbon credits for SWI measures prior to the transition period should be carried forward into the transition period, these measures should not count towards a supplier’s SWI minimum.**

The chart above demonstrates that this level of target can be accommodated with only a very modest increase on current run-rates.

For reasons set out above, INCA firmly believes this will not increase the expenditure on ECO beyond the £640m Spending Review target. We are confident a target, double that proposed by BEIS, is both deliverable and realistic within these constraints.

The Analytical Annex sets out the calculations which underpin these arguments.

QUESTIONS IN THE OFGEM CONSULTATION:

In this section we provide INCA’s response to the key questions that impact the SWI industry.

Q1. Do you agree with our proposal to extend the current ECO by one year, whilst making improvements that transition to a longer-term fuel poverty focused obligation?

Response: Yes

Ideally we would have liked to have seen the obligation extended for a much longer period. However, we understand the rationale for testing the market prior to the launch of a 4 year programme running from 2018-2022.

With almost 50% of the Fuel Poor living in solid wall properties it is essential we maintain a focus on this group. It is crucial this transition period and any future obligation puts SWI at the heart of its policy. With traditional insulation measures reaching saturation point and Government’s commitment to insulate 1 million households, there will need to be a continued focus on SWI throughout the obligation period. Maintaining a strong supply chain will be essential. This requires clear, consistent policies from Government.

We are pleased the principle of a solid wall minimum, established in ECO2, has been maintained in this transitional period. However, we are very disappointed the level of ambition for SWI has been constrained as a result of inaccurate and incorrect cost projections (see Q24). This should be addressed by increasing the target to 33,000 measures.

Q2. Do you agree with the proposal to re-balance the obligations for 2017-18; by increasing the Affordable Warmth obligation by £1.84bn notional lifetime bill savings (provisional figure), increasing the Carbon Emission Reduction Obligation by 3.0 MtCO2 (provisional figure), and not increasing the Carbon Saving Community Obligation?

Response: No

We agree that ECO should be re-balanced in favour of the Fuel Poor. However, we believe the targets are not reflective of the proposed £640m cost. From our analysis (see Analytical Annex), costs have been over-estimated by at least £200m. As a result the target should be more ambitious, including the Solid Wall Minimum.

The membership of INCA is divided on the proposal to remove CSCO from this transitional period. Such a radical move may have unintended consequences. Whilst CSCO is not an ideal proxy for targeting the Fuel Poor, it is more cost efficient as search/compliance costs are significantly lower. The proposal to re-focus solely on the AW obligation as a means of tackling the Fuel Poor, even with the concessions proposed, such as the inclusion of ‘E or below rated social housing’ will come at a significantly higher cost than maintaining all/part of the CSCO element in ECO.

Q3. Do you agree that the CSCO deadline should remain at 31 March 2017?

We have no comment on this question

Q4. Do you agree that there should be no rural sub-obligation from April 2017?

We have no comment on this question

Q5. Do you agree with our proposals to introduce income thresholds for 2017-18 which take account of household composition for Tax Credits and Universal Credit?

We have no comment on this question

Q6. Do you agree with our proposal to adopt ten household composition types with relative income thresholds based on whether the household consists of a single person or a couple and whether they have one, two, three or four or more dependent children?

We have no comment on this question

Q7. Do you agree with our proposals to allow recipients of other eligible benefits (Income Support, Income-based Jobseeker’s Allowance and Income-related Employment and Support Allowance) to continue to be eligible and to remove the additional sub-criteria in 2017?

We have no comment on this question

Q8. Do you think we should amend the eligibility requirements so that those in receipt of Guarantee Credit in Pension Credit continue to be eligible under Affordable Warmth but those only in receipt of Savings Credit should only qualify through CERO or if they meet the ‘flexible eligibility’ proposal?

We have no comment on this question

Q9. Do you agree with the proposal to extend eligibility to social tenure households with an EPC rating of E, F or G for their home, and for no additional benefits criteria or income thresholds to be required?

Response: Yes

We believe this proposal is an essential ingredient to ensure the cost of AW compliance remains at a sensible level. By including this option, fuel poor households in some of the poorest social housing estates will continue to benefit from ECO support. Many of these households have contributed, via their energy bills, to previous obligations, but have yet to receive any of the benefit.

We also believe that social landlord contributions will ensure measures delivered under this facility will be very cost effective compared to private household retrofits. From our knowledge of the social market we believe there is a significant pipeline of SWI projects that would qualify for support under this proposal in the transition year.

Q10. Do you agree an EPC would be an appropriate way of proving the efficiency banding of social housing, or whether alternative ways of evidencing may be sufficient in certain cases? Do you think any additional assurance should be required? If so, please provide details.

Response: Yes

The EPC is a well recognised and understood methodology for calculating the rating of a building. It is used throughout the ECO supply chain, therefore this familiarity makes it the most sensible option for this purpose. Existing practices such as ‘cloning’ should be used, where allowed within the DCLG guidelines. This will ensure that costs associated with the production of an EPC are sensible when assessing tower blocks or other multiple occupancy properties.

Q11. Do you agree that measures delivered in new build homes should not be eligible under ECO from 1 April 2017?

We have no comment on this question

Q12. Do you agree with the proposal to allow flexible eligibility? If so, what proportion of the 2017-18 Affordable Warmth obligation do you believe that suppliers should be able to deliver using this flexible eligibility route?

- a) 10%
- b) 20%
- c) Other

Response: Yes

It is important to create greater flexibility within the obligation, thereby allowing more FP homes to receive the benefits of ECO. Under the current inflexible benefits criteria, fuel poor households will inevitably be overlooked. Local Authorities have a very useful role to play in identifying the areas and residents that could benefit from energy efficiency improvements, and in helping create schemes that recognise local needs and circumstances.

It is of course important such a mechanism is not abused and it is therefore important to have a mechanism for assuring that the right homes and residents are targeted for support. The counter side of this is that the mechanism should be easily accessible and administratively simple, otherwise it will not be used. Therefore we suggest the following process:

- a) We do not believe it is necessary for Local Authority schemes to be pre-approved by either Ofgem or energy suppliers. Given the short time period for this transition period, such an approach is likely to deter prospective participants.
- b) Instead we would like to see clear guidelines issued by Ofgem. This should list the types of evidence that Local Authorities should produce in order for a scheme to be viewed as viable and the kind of evidence that should be gathered and maintained during the life of each scheme, as well as make it clear that it is the role of the Local Authority to “sign off” that each scheme is compliant with the guidance.
- c) Local Authorities should be mandated to retain this data and make it available to Ofgem for audit.
- d) Ofgem should audit a percentage of schemes to ensure they are compliant with the policy.

Through this simple mechanism, with Local Authorities having responsibility for signing off that their scheme complies with the Ofgem guidance, and then being subject to potential future audit, we believe that Local Authorities can be trusted to act in accordance with the guidance.

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| <p>With sensible governance rules we see no reason why the cap shouldn't be set at least at 20%.</p> |
| <p>Q13. Do you consider that solid wall insulation for non-fuel poor private tenure homes should be included under flexible eligibility, as described above? Please provide reasons, including views on whether this should be allowed for measure types other than solid wall insulation.</p> <p>Response: Yes</p> <p>Yes, unless this flexibility exists it will be almost impossible to tackle multi property projects such as tower blocks, rows of terraced properties and that would be a wasted opportunity. Our members encounter many solid wall insulation schemes into social housing blocks and estates that have difficulties in delivering to the owner occupiers, therefore allowing these solid wall dwellings to qualify under flexible eligibility will help.</p> |
| <p>Q14. Do you agree with the proposal to allow local authorities to determine whether some households are eligible through 'local authority declarations' in the way proposed?</p> <p>Response: Yes</p> <p>Yes, same rationale as Q12</p> |
| <p>Q15. Do you consider that schemes involving other intermediaries should be allowed, as described above, in addition to local authority declarations? Please provide reasons, including whether there are any viable alternatives that meet the policy intent.</p> <p>Response: No</p> <p>During the initial year of this initiative we believe it would be sensible to limit participation to Local Authorities only. There is a genuine risk this facility could be abused. Therefore we propose that once processes and controls are bedded in, this would be an appropriate time to consider involving other intermediaries.</p> |
| <p>Q16. Do you agree with the proposal aimed at limiting the delivery of qualifying gas boiler replacements (and not limiting other types of heating measure)? Please provide reasons and describe any preferred alternative proposal, if applicable.</p> <p>Response: YES, qualifying boiler replacements and other types of heating measures should be limited</p> <p>The unintended consequence of the current ECO phase is that AW has become a boiler replacement programme. Boilers account for approximately 90% of this obligation. There is much anecdotal evidence of inappropriate boiler replacements taking place under AW. Previous DECC evidence that Fuel Poor households will ultimately replace a broken boiler without government support adds further weight to the argument for limiting boiler replacement.</p> <p>INCA members are very concerned that without a blanket limit on <u>all</u> heating measures (including first-time central heating, non-qualifying boilers and heating controls) this will potentially leave a 'back door' open for these measures to flood the AW obligation. History has proven that unless controls are adopted quite often the policy intent and eventual outcome are not aligned. A very simple way to prevent this is to restrict all heating measures.</p> <p>Without a limit on all heating measures we believe there is a strong possibility the ambition to deliver 200,000 insulation measures in this phase of the obligation will not be met.</p> <p>Insulation is both cheaper and a more effective means of tackling Fuel Poverty and should be encouraged in preference to boiler replacement and other heating measures.</p> |
| <p>Q17. Do you agree that only measures installed after a specified date should count towards the Affordable Warmth minimum, and that date should be 1 July 2016? Please provide reasons and describe any preferred alternative proposal, if applicable.</p> <p>Response: Yes</p> <p>This is critical. Without this safety break the transitional phase will be flooded with measures from earlier phases of ECO. It is important the supply chain has access to sufficient ECO funding throughout the transition period. Therefore, by introducing a cut-off date for new measures to count towards the AW minimum this will provide sufficient safeguards.</p> |
| <p>Q18. Do you agree with the proposal to in effect limit the delivery of qualifying gas boiler replacements at a level equivalent to 25,000 boilers under the ECO extension? Please provide reasons and describe any preferred alternative proposal, if applicable.</p> <p>Response: Yes</p> |

[See response to question 16](#)

Q19. Do you agree with our proposal not to impose new limits on the level of installation of the following measures?

- a) Heating controls
- b) First time central heating
- c) Non-gas qualifying boilers
- d) Non-qualifying boilers
- e) Electric storage heaters
- f) Renewable heating
- g) Heat networks

Response: No

[See response to Q16](#)

Q20. Do you have views on whether Government should take action to prevent shifting the balance of measures delivered and the potential for energy suppliers to receive disproportionate benefit under ECO from renewable heating supported by RHI payments? If so, what action should be taken?

[We have no comment on this question](#)

Q21. Do you consider that heat network schemes funded or part funded by the supplier obligation should be required to include arrangements for consumer protection?

Please state your views, including suggestions for appropriate consumer protection arrangements.

[We have no comment on this question](#)

Q22. Do you agree with the proposal to allow insulation but not to allow boiler or other heating system replacements or repairs (of any fuel type) in social tenure properties, with the exception of first time central heating (including district heating) and renewable heat?

[We have no comment on this question](#)

Q23. Do you agree that we should retain a solid wall minimum within the scheme?

Response: Yes

With nearly half of all fuel poor households living in solid walled properties it is inconceivable this group would be overlooked by this, or any future ECO obligation. The case for creating a solid wall minimum was as follows: *‘To protect investment in SWI, and to continue efforts to support the development of the SWI supply chain’*. What has happened since this policy was introduced has been encouraging. Firstly, it has provided a floor in the level of ECO funded SWI measures, crucial for maintaining some degree of confidence in the supply chain. Secondly, it has resulted in a significant reduction in ECO subsidy to levels that are much more palatable for energy bill payers and comparable to other insulation measures.

Building and maintaining confidence in what is still, by measure numbers, a relatively minor part of the ECO obligation is critical. SWI accounts for 6.5% of all measures installed to date for the ECO obligation (*Source: BEIS Household Energy Efficiency Household Statistics 21st July 2016*). As more traditional insulation measures such as cavity wall and loft become more expensive and difficult to find, SWI will become an ever increasing and important measure in ECO. The solid wall minimum has helped to create stability in the supply chain and without this unquestionably we would have seen further job losses and more firms seeking administration.

Recent ECO policy changes have seen the subsidies being offered for SWI reduce dramatically. We have records of prices of up to £140/tCO₂ being paid by energy suppliers in the early stages of ECO, now this is more typically around £23/tCO₂ (see INCA Member Survey Annex). Yet despite this significant funding reduction the annual run rate has only fallen from a high of 56,000 per annum in the first year of ECO (2013/14) to 33,000 in the last year 2015/16 (*Source: BEIS Household Energy Efficiency Household Statistics 21st July 2016*). This is due to high levels of matched funding from social landlords, private householders, devolved nations’ energy efficiency schemes and until recently Green Deal. What this demonstrates is that SWI no longer requires disproportionately higher rates of ECO funding. In fact the average SWI ECO measure is now receiving in the order of £500. So SWI should not be considered to be an ‘expensive measure’ as is so often quoted in government papers. For ECO it offers excellent value for money, has an established highly trained supply chain, customers, such as social landlords willing to invest significant amounts of money, and targets the very people, the Fuel Poor, that ECO is seeking to help.

The proposed SWI minimum of 17,000 properties in the extension period 1st April 2017 to 31st March 2018, is a significant (32%) reduction on the current ambition of 25,000 per annum. At the end of May 2016, 93.88% of

the SWI minimum had been delivered (*Source: Ofgem ECO public reports and data as at 9th August 2016*). Some energy companies have already built significant levels of carry-over, making any extension irrelevant, and with 10 months until the next obligation period, it is very likely, given the current annual ECO run rate of 33,000 SWI measures, that the SWI minimum will be delivered in full before this transition period and at a much lower cost that assumed in the Impact Assessment. This makes the SWI minimum all but redundant in the period 2016-17. This will deprive thousands of fuel poor households the opportunity to receive much needed improvements to their property.

It is essential the SWI minimum is retained throughout the ECO period.

Q24. Do you agree that the solid wall minimum is set at the right level?
Please provide reasons and, if applicable, any alternative preferred proposals. (Where you provide alternative proposals, please include the level you recommend and what else you would change as a consequence, noting the need to stay within the overall spending envelope.)

Response: No

INCA is pleased that Government recognises the need to maintain a SWI minimum. However, the assumption that maintaining the SWI at current levels (25,000) will increase the cost of the programme is incorrect and misleading. As mentioned earlier, the majority, if not all of the proposed SWI minimum will be delivered in the current year. Therefore with match funding available from Green Deal Communities, until end September 2016 and Scottish HEEPS and Welsh Government schemes until at least March 2016, there are ample opportunities for energy companies to deliver significant volume of low cost SWI during this period. This will reduce cost and complexity of delivery during the transition period. When INCA representatives recently met with Scottish Government officials, they made it clear that they have every intention to continue with HEEPS beyond the current year.

Evidence from INCA members indicates that ECO subsidy rates are around £23/tCO₂. This contrasts markedly with the £60/tCO₂ (assumed for 14,000 CERO measures) and almost fully funded cost of 4,000 AW measures. In contrast BEIS has assumed in its modelling for the Impact Assessment that 100% of measures are delivered in the extension year, with prices vastly inflated on today’s current rates, which is clearly incorrect for the reasons stated above.

It is interesting to note that only 10 SWI measures have been delivered in AW/AW during the ECO period. The proposed inclusion of Social Housing properties with an EPC rating of E or below will increase the potential for SWI in AW and has the potential to bring down costs significantly. Typically these will be part-funded by social landlords, making a significant contribution to the cost.

INCA proposes that:

- a) The SWI target is approximately doubled to from 0.78 to 1.48mTCO₂ (equivalent to 33,000 homes insulated); and
- b) the proposed target is ring-fenced for delivery within the transitional period (2017-18) – i.e. whilst carbon credits for SWI measures prior to the transition period should be carried forward into the transition period, these measures should not count towards a supplier’s SWI minimum.

Q25. Do you agree that an in-use factor of 15% should be applied to party wall insulation measures delivered under CERO after 31 March 2017?

We have no comment on this question

Q26. Do you agree that party wall insulation measures installed after 31 March 2017 should support secondary measures?

We have no comment on this question

Q27. Do you agree that the requirement for measures to be recommended on either a GDAR or a CSR should be removed from 1 April 2017?

Response: This question requires further consideration.

INCA agrees that if deemed scores are implemented, which we believe is the right option moving forward for ECO, then it should not be necessary for a DEA visit to take place in order to validate the inputs to the carbon scoring. We also understand that the suggestion to remove the DEA visit has been made for sound reasons of cost reduction; however, we believe there are several other implications which must be considered.

We would like to highlight whether BEIS, in undertaking its impact assessment in relation to the removal of the EPC and DEA visit, fully took into account the wider benefits of the DEA visit in improving the quality of the ECO programme and reducing the scope for fraud and bad practice, through:

- a) the assurance on appropriateness and quality that comes from a measure having to be recommended on an EPC, undertaken by an assessor who is fully independent of the supply chain;
- b) the extra information on other appropriate measures and behaviour change that is provided to the household through the EPC;
- c) the benefit of the face-to-face advice and support that is often provided by the DEA during the EPC visit; and
- d) the feedback that would be provided to Government in the accuracy of the deemed scores at the end of the ECO transition year, particularly given that installers may find a “lowest common denominator approach”, for example selecting smaller properties where the actual carbon score would be lower than that assumed in the Impact Assessment.

This is even more pertinent in light of the Bonfield Review and the focus on consumer protection. Only 5% of properties will now be visited at the technical monitoring stage. Currently 100% of properties are visited at some stage. This does feel like a backward step and maybe a step too far.

Q28. Do you have views on whether any alternative requirements should be introduced in order to provide consumer advice, or ensure technical suitability of a measure prior to its installation? If so, what are they?

Response: Yes

Alongside considering whether the DEA visit should be maintained in some form going forward because of the other benefits listed in Q27, we propose the following additional protections as a minimum:

- a) some DEA visits being retained, perhaps on a random sampling approach across all ECO measures. We suggest this applies to a random sample of 10% of all measures installed under this phase of the ECO programme. This will create a number of benefits:
 - significant cost saving on current ECO compliance (90% of properties no longer requiring DEA visits during the next phase of ECO is a saving of £12.5m)
 - provide a quality check and early identification of fraud on a statistically relevant sample of properties enable deemed scores to be evaluated after the first year.
- b) a much stronger role for technical monitoring to ensure the quality and integrity of the ECO programme:
 - An increase in the percentage sample of jobs to be technically monitored to 10%, to compensate in part for the removal of the DEA visit
 - some key components of the pre survey visit currently undertaken by the DEA to be incorporated into the final TM visit, to ensure that the measure is recommended and that the property details that determine the deemed score are accurately recorded by the installer.
- c) consider pre approval by a recognised expert prior to works commencing
 - There are good examples where pre-approval is used effectively. For instance; in Scotland fabric building works such as external wall insulation require a ‘building warrant’ issued by Local Authority Building Control prior to work commencing. This ensures the solutions being proposed are appropriate for the existing building with evidence such as specification, BBA certificate, u-value calculations, wind load calculations, photographs and plans, pull out tests etc.

Q29. Do you agree that from 1 April 2017 we should move to a system of deemed scoring, as described above, rather than the current bespoke RdSAP or SAP based property by property assessments? Please provide reasons, including details of any alternative proposals you would support, if applicable.

Response: Yes - with the option to use rdSAP or SAP to calculate SWI carbon scores

It has been recognised that district heating requires different treatment rather than relying on deemed scores. To quote the Ofgem consultation: “We have also not developed deemed scores for district heating connections. These measures are complex and highly variable in their nature and size, and so we consider that the current approach of producing bespoke scores using SAP or RdSAP is more appropriate.” We believe that many of these arguments also apply to SWI.

As such we believe it would be right for SWI to have the option (but not the obligation) to move to an rdSAP or SAP calculation of carbon scores for the following reasons:

- The solid wall housing stock is extremely diverse and there are highly varying starting U-Values between different property types: tower blocks, BISF, Wimpey no fines, Cornish, other system built, stone, etc.
- For bigger SWI jobs, like blocks of flats, actual rdSAP or SAP calculations will provide a far more accurate score than deemed scores
- SWI is an expensive measure (in some cases similar to communal heating) and therefore the additional cost of performing accurate calculations will be justified
- Age is less of a determinant of U-value for solid walled properties than cavity walled properties and therefore assuming that post-1966 properties have much lower starting U-values will not always be correct
- However, retaining the option to use deemed scores will be important, for example in single installations where the cost of full rdSAP/SAP calculations would be prohibitive.

Q30. Do you agree that savings for district heating system measures should be calculated based on bespoke SAP or RdSAP assessments, rather than deemed scores?

Response: Yes – and the option to use rdSAP or SAP to calculate carbon scores should also be extended to SWI

Please see answer to Q29 for rationale

Q31. Do you agree that up to 5% of each supplier’s measures should be granted automatic extensions for up to three months?

We have no comment on this question

Q32. Do you agree with removing the restriction on extensions where it is due to supplier administrative oversight?

We have no comment on this question

Q33. Do you agree that we should introduce a mechanism for the trading of obligations between licensed suppliers?

We have no comment on this question

Q34. Do you agree that Ofgem E-Serve should approve trades, to ensure that energy suppliers can bear the consequences of non-compliance? Please provide reasons and, explain any alternative suggestions, if applicable?

We have no comment on this question

Q35. Do you agree that the version of PAS 2030 cited in the ECO regulations should be updated to refer to the most recent version, following the anticipated updates to PAS 2030? Please provide reasons.

Response: Yes

INCA is committed to upholding the highest quality standards in the delivery of ECO measures and its members have been at the forefront of driving for higher quality standards. We are supportive of raising the bar through an update to the PAS2030 standard and will therefore review this and any other recommendations from the Bonfield Review in a positive light.

Q36. Do you agree that installation companies delivering measures which are referenced in PAS 2030 under the extension to ECO should be certified against the requirements set out in PAS 2030? Please provide reasons.

Response: Yes

Please see answer to Q35

Q37. Do you think there is value in collecting and publishing more information on ECO costs in the future? If you do, what information do you think should be collected and how should it be obtained?

| |
|---|
| <p>Response: Yes</p> <p>The level of administrative overhead reported by the energy companies (£80m/annum) is very high and we believe this requires more scrutiny. With the planned changes to reduce complexity of the obligation, coupled with lower volume of activity, this figure should be much lower. Typically, Government subsidised schemes, e.g. Green Deal Communities, specify a maximum administration cost of 10% of the total costs. We see no reason why a similar level shouldn't be applied to energy supplier's costs and capped at this level if necessary.</p> <p>We would also like to see more transparency of the prices energy companies are paying for carbon and LTS. This should differentiate between the prices paid to third parties and those using internal delivery capability. This would provide greater transparency of the costs of these obligations and inform the next stage of ECO.</p> |
| <p>Q38. Do you agree that, with the exception of the Affordable Warmth minimum, the new scheme rules being proposed should be introduced for measures installed from 1 April 2017? Please provide reasons, including details of any particular rules that should be introduced earlier or later, if applicable.</p> <p>Response: No</p> <p>We believe it would be in all participants favour to enact these changes at the earliest possible opportunity. This will afford energy companies and the supply chain they rely so heavily on, the opportunity to utilise the proposed changes at the earliest date. This will allow for a more manageable transition and reduce potential for unintended consequences should the changes not deliver the policy intent.</p> |
| <p>Q39. Government invites views on whether we should introduce any additional rules to incentivise greater delivery to areas with higher delivery costs? If so, please set out how this should work.</p> <p>We have no comment on this question</p> |
| <p>Q40. Should a brokerage mechanism be continued? Please provide reasons and, if responded 'yes', what value do you think a brokerage mechanism could add in the future?</p> <p>We have no comment on this question</p> |
| <p>Q41. If a brokerage mechanism continued in the future, what eligibility criteria and due diligence checks should be carried out to enable access to a range of organisations?</p> <p>We have no comment on this question</p> |
| <p>Q42. In addition, should access for an individual organisation be reviewed for any reason (eg at certain intervals or for certain behaviours)? If 'yes', what should be considered as part of the review?</p> <p>We have no comment on this question</p> |
| <p>Q43. Is brokerage a barrier to local delivery? Please provide reasons and, if 'yes', explain how it is a barrier and your recommendations (if applicable) for how we could remove the barrier(s) to improve local delivery under brokerage?</p> <p>We have no comment on this question</p> |
| <p>Q44. Does the current performance rating system provide the assurance of quality and delivery needed? Please justify your response and, if 'no', what changes would you recommend?</p> <p>We have no comment on this question</p> |
| <p>Q45. If brokerage continued, would you recommend any substantial changes to its design to better reflect the future fuel poverty focus? Please explain your view.</p> <p>We have no comment on this question</p> |
| <p>Q46. The Government invites views on the aspects of the future supplier obligation (eg measures, scoring, objectives) where a Scottish scheme could diverge from the GB-wide scheme without increasing the administration or policy costs unreasonably.</p> <p>We have no comment on this question</p> |
| <p>Q47. When would you consider that differences between an English and Welsh scheme and a Scottish scheme could be detrimental to the operation and competition of the United Kingdom-wide energy market?</p> <p>We have no comment on this question</p> |
| <p>Q48. Do you believe there is any justification for changing the customer number threshold in the future obligation (2018 onwards)?</p> <p>Please provide specific reasons and evidence and, if you responded 'yes', describe any actions you recommend in relation to addressing the proportionally higher fixed costs that may be borne by smaller obligated suppliers.</p> <p>We have no comment on this question</p> |
| <p>Q49. Do you believe there is any justification for changing the taper for newly obligated suppliers in the future</p> |

obligation (2018 onwards)?

Please provide specific reasons and evidence and, if you responded ‘yes’, describe how you recommend amending the taper.

[We have no comment on this question](#)

Q50. Under current and previous supplier obligations, are there barriers in scheme design inhibiting innovation in delivery models and technologies? If so, how should we design the scheme in order to overcome these barriers and incentivise the delivery of innovative products, technologies and delivery models in a future supplier obligation?

[We have no comment on this question](#)

Q51. The Government invites views on what specific improvements could be made to the design of the ECO scheme to facilitate administration and delivery.

[We have no comment on this question](#)

Analytical Annex: Calculations supporting INCA’s Help to Heat consultation response

INCA’s consultation response has been underpinned by detailed modelling using public data sources such as Ofgem’s updates on Supplier Compliance, BEIS’s monthly and quarterly ECO and Green Deal statistics and data from brokerage auctions. This has been supplemented by data from INCA members, covering funding rates being offered in the market, volume forecasts, etc, which was provided in response to an INCA questionnaire. This annex summarises the findings. More detailed modelling can be provided upon request.

A main thrust of INCA’s response to the Help to Heat consultation is that the cost assumptions in the Impact Assessment relating to SWI, boilers, hard-to-treat cavities, economic rent and supplier costs have been overstated, and that these factors combined result in an overestimate in the cost of the obligation during the transition period of £200m or greater. This annex sets out more detail behind each of these areas. The data used here is assembled in some parts from the Impact Assessment, in others from discussions with BEIS analysts, and in others still from our own deductions based on the above. Therefore some of the numbers may be approximate or incorrect. We are more than happy to discuss this analysis with the BEIS team.

1. Cost of the SWI Minimum

The Impact Assessment assumes approximately 14,000 EWI measures installed under CERO, with an average carbon score of £60/tCO₂ and 4,000 fully funded measures installed under AW, split roughly equally between social and private housing, with an average installed cost of just under £10,000. This results in an overall cost of the SWI component of ECO transition period as follows:

| SWI | | | |
|------------|---------------|-----------|------------|
| Obligation | Installations | £/measure | Total £ |
| CERO | 14,000 | 2,400* | 33,600,000 |
| AW | 4,000 | 9,775 | 39,100,000 |
| Total: | 18,000 | 12,175 | 72,700,000 |

* Assuming 40 tonnes of CO₂ at a price of £60/tonne.

Including search and guarantee costs, the total assumed cost of the SWI minimum is of the order of £76m.

However, as detailed in this consultation response, we believe that with the target set as low as 17,000 installations, these will be substantially delivered before the transition period begins. Based on the feedback from INCA members in the INCA Member Survey Annex, the average funding rate for jobs delivered in the final year of the current period of (which are the ones that will be carried forward) and assuming 40 tonnes/measure as per the BEIS impact analysis, the more realistic cost for these measures will be $18,000 \times 40 \times £23 = £16.6m$. Therefore, we estimate the IA overestimates the cost of the SWI Minimum by £60 million.

2. Separation of Affordable Warmth Boiler Pricing

The Impact Assessment assumes that all measures installed under AW (with the exception of SWI measures) will have a single “market clearing price”, resulting in a substantial element of economic

rent. However, INCA believes that, for a combination of two reasons, boilers delivered under AW will be priced separately:

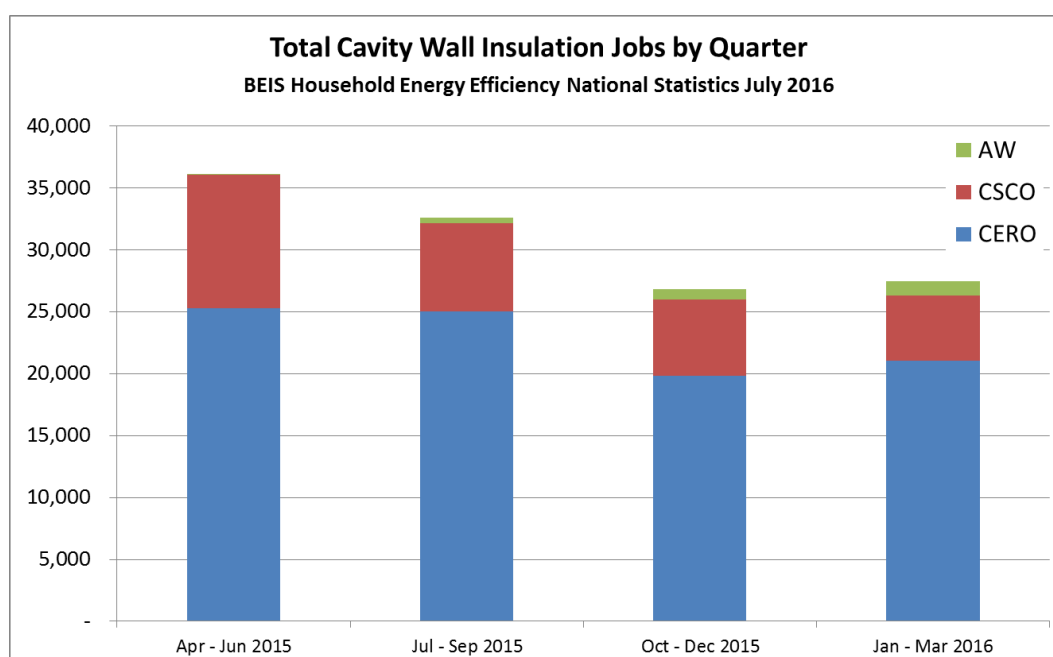
- The current two-year phase of AW under ECO2, of which boilers represent more than 90% of measures installed, was 70% completed by May 2016, and at current run rates will be 120% complete by the start of the ECO transition period. Therefore, it is highly likely that the “boiler cap”, equivalent to 25,000 boilers, will be fully delivered before the transition period begins.
- For any further AW credits being purchased by energy companies, in an oversupplied market with limited demand, they will pay a different market price than for non-boiler measures.

Current prices being paid by energy companies are of the order of £0.09/ £LTS. Our understanding is that the IA assumes approximately £500m of LTS from boilers at a price of £0.22/£LTS. Therefore we believe that the cost of the qualifying boiler component of AW is overestimated by £500,000,000 * (0.22-0.09) = **£65 million**.

3. Overestimate of the cost of Hard-to-Treat Cavity

Based on the experience of INCA member companies and on our discussions with other industry trade associations, we believe that the BEIS assumption of £920 installation cost for hard-to-treat, excluding the cost of customer acquisition and of guarantees, is highly overstated. Our view is that the likely cost of these installations is of the order of £600 per measure.

It is also important to note that in reality there is no firm delineation between “easy to treat” and “hard to treat” insulation. In reality there is a spectrum of property types, each with their own challenges and opportunities. As the graph below demonstrates, across the CERO, CSCO and AW categories, after a drop-off resulting from energy suppliers reducing funding levels due to the advanced stage of delivery of their obligations, cavity wall insulation volumes have levelled off at ~27,000 measures per quarter (108,000 on an annualised basis), all being delivered at very low funding rates. There is no reason to assume that this supply of cavity walls to insulate will drop off sharply in coming quarters. Admittedly the market will need to adjust, sourcing a greater number of AW measures. However, this is reflected in the high ‘Search Costs’ in the BEIS modelling. 100,000 cavity wall insulation measures already accounts for two thirds of the cavity wall insulation volume in the impact assessment.



Therefore we believe that the cost of the hard-to-treat cavity component (spread across AW and CERO) is **£30 million**.

4. Affordable Warmth Economic Rent

Our analysis, which was confirmed by BEIS analysts as being approximately correct, suggests that the BEIS model shows an “economic rent” of the order of £170m, representing a huge 45% of the cost of the AW obligation. It would appear that the reason the number is so large is that there are a small number of very expensive measures (most likely first-time central heating) setting a price for all other measures. BEIS has confirmed that the marginal cost assumption is of the order of £0.22/£LTS. The large amount of economic rent would therefore result from the fact that other measures (boilers, cavity wall insulation, loft insulation etc.) being delivered at about half of this cost – which is, in our view, roughly correct. However, we do not believe that there is any reason why the market would turn to such expensive measures with an ample supply of cheaper measures available, including (as explained elsewhere in this document) part-funded external wall insulation in social housing and measures part-funded by other schemes such as HEEPS, Green Deal Communities and Central Heating Fund. We have therefore assumed a more realistic £0.14/£LTS, which reduces the economic rent by **£55 million**.

5. Cost to Suppliers

As explained above, we believe that obligated energy companies are already cutting costs in relation to the previous reductions in the size of ECO, and that it is important to set a cost target that incentivises energy companies to manage their costs carefully. Furthermore the significant reduction in complexity resulting from a move to deemed scores and removal of the EPC, combined with an overall reduction in volume of work in this new obligation provides ample scope for cost reduction.

We have therefore assumed a more realistic but still generous allocation of 10% of the overall cost of the scheme to administration, which is in line with BEIS administrative cost assumption in other energy efficiency schemes. This results in a reduction in the assumed administrative cost of **£16 million**.

6. SUMMARY

The table below summarises the overall difference between the projections forecast by BEIS and our views on the anticipated outturn based on our industry knowledge and experience. In summary, in our view the above factors combined result in a **£225 million (more than 40%)** overstatement of cost.

| Differences in Cost Assumptions | BEIS | INCA | Difference |
|------------------------------------|---------------------|---------------------|---------------------|
| SWI Funding | £76,300,000 | £16,880,000 | £59,420,000 |
| Separation of Boiler AW Pricing | £110,000,000 | £45,000,000 | £65,000,000 |
| Overestimate of Cost of HTT Cavity | £85,560,000 | £55,800,000 | £29,760,000 |
| AW Economic Rent | £167,111,000 | £111,631,000 | £55,480,000 |
| Administrative Cost to Suppliers | £80,000,000 | £64,000,000 | £16,000,000 |
| Total: | £518,971,000 | £293,311,000 | £225,660,000 |

INCA Member Survey Annex

The following summarises the responses received to a survey sent to INCA members following the publication of the consultation process, and provides insight on the current market conditions being experienced by member companies:

INCA Membership ECO3 Consultation Response to Questions - Consolidated

| Question | 2015 | Q1-2 2016 | Q3-4 2016 | 2017 |
|--|------|-----------|-----------|------|
| What is the average ECO subsidy received/expected by your company during the period – (£ per tonne carbon) | £24 | £23 | £23 | ? |

| | | | | |
|---|------|------|------|---|
| What is the average ECO subsidy received/expected by your company during the period – (£ per measure) as Q4, but we estimate it to be the following | £542 | £525 | £520 | ? |
|---|------|------|------|---|

| Question | % Landlord |
|--|------------|
| Please indicate the % contribution made by clients towards the cost of SWI | 85% |
| Please indicate the % contribution you expect clients to make during the next phase of ECO 17-18 | 80% |

| Question | % |
|---|------|
| Please indicate the % difference (+/-) of the SWI volume your business has installed/supplied materials for in 2016 vs. 2015 | -19% |
| Please indicate the % difference (+/-) of the SWI volume your business expects to install/supply materials for in 2017 vs. 2016 | -14% |
| Please indicate the % of works undertaken in the last 12 months that was eligible for ECO funding but was not funded? | 21% |

INCA Member Market Data

INCA Contractor Members installed **1.97 million m²** of EWI in 2015, which is a decrease of 33% from 2014 (2.95 million m²) (*source: INCA Market Data 2015*). The fall in volumes can be attributed almost entirely to the reduction in ECO demand, following the policy changes introduced in 2014 and the demise of the Green Deal Home Improvement Fund. ECO funded measures have fallen by approximately 36% from the first year of ECO to 2015/16, see table below:

| | 2013/14 | 2014/15 | 2015/16 |
|--------------------------|---------|---------|---------|
| ECO Funded Measures (No) | 50,846 | 32,159 | 33,052 |

Source: BEIS Household Energy Efficiency Household Statistics 21st July 2016

