

Gregory Barker MP

Minister of State

Department of Energy & Climate Change

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The Rt. Hon Andrew Mitchell MP,
Chief Whip,
House of Commons

5 September 2012

Dear Andrew,

ENERGY COMPANY OBLIGATION

I wanted to write to you in respect of the Order setting out the new Energy Company Obligation (ECO), which was debated in both Houses in June. The ECO will be an important step in putting in place the new Green Deal landscape for energy efficiency delivery in Great Britain.

We had intended that this Order should come into force by the end of August. However, I wish to highlight to you an issue albeit rather technical, that has come to light since the Parliamentary debates, which provides a reason to think that the Order may need revision in one specific respect, namely the way in which “in use” factors are incorporated within the legal framework of the Green Deal and ECO. I should explain that in-use factors are an additional step used in the calculations to reduce the “theoretical” assessment of the amount of energy saved by a particular measure, in order to reflect that measure’s likely real-world performance.

As you will know, a key focus of the Green Deal and ECO consultation was the question of the appropriate size of ECO, and the outputs it should deliver in terms of carbon saving and support for those at risk of fuel poverty. The Government was conscious of the need to balance ambition in terms of the targets set and outputs generated on the one hand, and the implications for consumer bills of imposing these requirements on the obligated companies on the other.

In the light of the consultation responses, the Government concluded that ECO should be set at a level which was likely to generate around 84 MtCO₂ of non-traded, lifetime carbon savings and support approximately 230,000 low income households each year of the scheme. We also made specific decisions, in the light of consultation, on the appropriate

balance between the various ECO elements (Carbon Reduction target, Carbon Saving Communities target, and the Affordable Warmth target).

In modelling the expected outputs, and setting the legal targets, the inclusion of “in-use” factors was assumed in the analysis across several elements of the ECO, just as for the Green Deal more generally. Their use was therefore implicit in the targets which Parliament approved as appropriate for the scheme. However, it has now come to light that the secondary legislation giving effect to the Green Deal and ECO policies does not in every relevant instance incorporate the provisions necessary to ensure that in use factors are applied.

As this clearly created uncertainty for parties such as those who are obligated under the scheme, DECC launched a short consultation on 30 August with a view to correcting this anomaly and providing the clarity that is needed. Stakeholders were informed before the consultation launched and have agreed to submit their responses by 14 September.

We do not expect this to make much, if any, practical difference on the ground. Households will continue to benefit from energy efficiency and heating measures delivered under existing schemes such as Warm Front and CERT. Further, to ensure that any company who wants to deliver ECO in October can still do so, we have included a proposal that they should be allowed to carry forward activity delivered from 1 October onwards to their ECO targets.

DECC proposes to bring a revised Order back to the House at the earliest opportunity, subject to the outcome of consultation.

I am copying this letter to all interested Members of the House of Commons and House of Lords and placing a copy in the House libraries.

Yours ever,

A handwritten signature in black ink, appearing to read 'Gregory Barker', with a horizontal line underneath.

GREGORY BARKER