

## HHIC response to the Energy Company Obligation: ECO3, 2018 to 2022

### **About HHIC**

The Heating and Hotwater Industry Council (HHIC) are the leading representative body for the UK domestic heating and hot water industry, worth £3-4 billion per year. HHIC's membership base covers approximately 94 per cent of heating and hot water solutions available in the UK. HHIC are a division of the Energy and Utilities Alliance (EUA).

### **Full Response**

Question one: Do you agree with the current supplier obligation threshold?

HHIC advocates an extrapolation of the current supplier obligation threshold to include smaller suppliers. Excluding small suppliers from the Energy Company Obligation not only serves to penalise bigger suppliers, allowing smaller ones to undercut them, but, given the market share of the biggest suppliers has diminished in recent years, the responsibility to support measures to provide affordable warmth should be shared. Ultimately, ECO contributions remain proportional to the size of a business. Given the fact Government are actively encouraging people to switch, there has been a recent proliferation of smaller energy suppliers; this could lead to a shortfall of funds due to many newer suppliers falling under the threshold. At present, only 15 suppliers are obligated under ECO and, given the market had changed significantly since the threshold was set, it makes sense to adjust the obligation accordingly. With independent companies owning more than 13.5% of the market share, and millions of people moving away from the big six, it is important that there is a uniformity in terms of the Energy Company Obligation so that more people can benefit from measures.

Question four: Do you agree with our planned approach to early delivery during a potential gap between schemes?

HHIC believes that funding should be available as soon as possible so that no gap exists in between ECOT2 and ECO3. Given that spring and summer mark a slightly quieter period for gas safe registered installers, having the funding available for first time central heating and boilers as soon as possible to allow early delivery, as suggested in proposals, is a logical move. Furthermore, the ever increasing rates of fuel poverty, demonstrated within the impact assessment, show that a gap between schemes is not advisable, and would potentially prove

problematic for local authorities trying to implement flexible eligibility. Ultimately, the reduction of any gap between schemes mitigates potential impacts on the supply chains.

**Question seven: Do you agree with the proposal to increase the Affordable Warmth obligation so that it represents 100% of the future scheme?**

HHIC agrees with the proposal to increase the Affordable Warmth Obligation so that it represents 100% of the future scheme as fuel poverty is an extensive issue in England, and schemes that attempt to amalgamate decarbonisation and fuel poverty reduction aims have not been effective in the past. Whilst strategies to decarbonise heat are needed, the two must not be conflated as this undermines their effectiveness; dual aim policies tend to fail in achieving both of their aims. Furthermore, for some households in fuel poverty there is the need for technologies that may not necessarily reduce their domestic heating emissions - some transitional technologies may help keep household heating costs low yet may not reduce carbon emissions.

Given the morbidity and mortality associated with living in cold homes, it is imperative that fuel poverty is tackled as soon as possible, so we support this scheme becoming the first scheme entirely dedicated to the provision of affordable warmth. Further, the by-product of measures introduced under ECO is that households should use less energy, eliciting carbon savings therefore there may be an environmental benefit to this scheme becoming entirely based on fuel poverty. In addition, the installation of new boilers and first time connections can all lead themselves to green gas in the future.

Once we have tackled fuel poverty, then the scheme could be reframed to include CERO elements again, but for the time being it is important that it focuses solely on affordable warmth.

**Question eight: Do you agree with our proposal to include a rural sub obligation representing 15% of the total obligation?**

Given the pervasive, wide spread fuel poverty in rural areas, and the nature of the housing stock in these places, HHIC welcomes recognition that funding must be set aside to aid these areas. Research by National Energy Action and the Campaign to Protect Rural England shows that rural areas are five years behind urban areas in terms of the energy efficiency of homes and are paying nearly 55% more for their fuel as a result. Chronic levels of fuel poverty in rural areas are illustrated by the fact that the fuel poverty gap (the extra money that people need to spend to heat their home properly) is £726 for rural homes compared with £303 in urban areas. Additionally, figures reveal that, whilst 17.6% of the population currently live in rural areas, this is projected to increase by 6% by 2025, therefore this demographic must have funding allocated to them, else the instances of fuel poverty in rural places will grow considerably.

Further, the removal of oil boilers, proposed under the Clean Growth Strategy, leaves many off grid (rural) households exposed (there are currently 860,000 oil boilers in England), therefore

funds must be allocated to lessen the impact of this policy proposal, else households be left without an affordable source of heat.

In addition, there are concerns regarding BEIS' definition of rural, which currently covers any settlements of less than 10,000 people. This has allowed obligated suppliers to hit their rural targets without having to leave urban areas. The definition is, subsequently, not sufficient and may result in funds being allocated to places that are not particularly vulnerable or susceptible to fuel poverty. The most problematic areas that fall under the rural definition have far fewer than 10,000 inhabitants and tend to be off grid. Nevertheless, for suppliers, on grid areas of under 10,000 people are easier and most cost effective to treat under eco therefore offer an 'easy win.' As a result of this, we believe there should be a sub, sub obligation that ensures that, of the 'rural' households off grid properties are prioritised – this is particularly important given the aforementioned point regarding oil boilers. Further, we encourage BEIS to reconsider their definition, narrow it to off grid and reduce the number of inhabitants or add other criteria to determine whether or not an area constitutes as rural.

**Question thirteen: 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?**

HHIC agrees that ECO eligibility needs to be retained for those living in social housing as, despite the fact that this tenure type tends to experience lower rates of fuel poverty than those living in the private rented sector, there are still issues with the energy efficiency of some social housing that need to be addressed. Further, if the landlord contribution cap (as proposed in February 2018) is enacted, this will render the private rented sector more regulated, meaning it is vital that social housing doesn't get left behind. Whilst ECO funding should focus on ameliorating the energy efficiency of houses in EPC bands E, F and G, with the aim of bringing them up to C where possible, it is vital that there is a degree of flexibility here. For instance, if vulnerable householders are living in a property that is rated above a band E but still finding their heating costs too high they may exhibit behaviours that become detrimental to their health and wellbeing such as self-disconnection - this is where data and ECO flex can be used to target support. Ultimately, the focus should be on social housing rated EPC bands E, F & G but housing that finds itself rated above these bands should not be entirely neglected. Further, given the fact that EPC ratings are valid for ten years, it is feasible that a property may have been granted an EPC rating of D or above at some point and has since deteriorated, therefore intervention and support may be needed.

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

HHIC supports up to 25% of ECO being delivered through flexible eligibility as this allows for better targeting of funding to help fuel poor households. Here, local knowledge can be utilised to best support people in need.

The fact that currently only 2% of ECO is delivered under Flex, could be attributed to the complexity of the process of producing a Statement of Intent, and resourcing issues amongst local authorities. Therefore, if the Government were to extend flexible eligible, it is important that they assess current feasibility and local authorities' capacity to deliver ECO.

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

HHIC does not agree with proposals to exclude the repair of oil and coal fuelled heating systems from ECO3 as this may leave vulnerable households with no heating, which would be gravely concerning, especially during cold spells. Ultimately, we are concerned that this caveat could be utilised as a way to introduce expensive technologies into rural, off grid areas, such as heat pumps. As a result, rural areas may become testing grounds for innovation, which is not fair on the inhabitants and could result in heat supply issues and increases in bills. Alternatively, another likely outcome would be that rural properties are excluded completely like they were during the first ECO (hence the importance of the sub obligation outlined in question 8).

Whilst the phasing out of coal and oil is a means to facilitate the achievement of our environmental targets, there must be the appropriate safeguards in place to ensure that those who utilise these fuels for heat are not left without a sufficient, and efficient, heating system.

We understand the obligation under the Clean Growth Strategy to remove oil heating, yet we recognise that oil provides a cheaper way to fuel homes, and if ECO is solely focused on affordable warmth, it seems contradictory that a measure that could end up driving people into fuel poverty. Oil serves a cheap fuel for the 1.1 million homes that utilise it – the average price of oil in P/KwH is 3.46 compared with 14.37 for Electricity, 4 for solid fuel and 6.01 for LPG.<sup>1</sup> As a result, it would be concerning if homes which use oil were not able to access ECO funding as this would no doubt worsen fuel poverty rates, especially in rural, off grid, areas. Further, this may result in other solutions being fitted, such as air source heat pumps and LPG boilers, which are more expensive to run, costing 60% and 48%<sup>2</sup> respectively more each year to heat an

---

<sup>1</sup> <http://www.energysavingtrust.org.uk/about-us/our-calculations>

<sup>2</sup> Sutherland Tables Cost of Heating Comparisons, January 2018

average 3-bedroom house compared to a high efficiency oil boiler, based on independent data. Again, these measures could actually drive more people into fuel poverty.

Moreover, the possibilities offered by bio oil mean that outright removal of oil heating could be premature, given that this method of heating can be greened.

**Question seventeen: Do you agree with the broadening of the criteria for the installation of FTCH?**

Whilst we recognise that efficient heating systems can serve as a means to reduce fuel poverty, we disagree with the semantic choice here as HHIC does not consider some of the technologies proposed, such as storage heaters, to constitute effective first time central heating systems. The average yearly running cost of a storage heater is £960.20, compared with £471.20 for a gas boilers. Clearly, gas boilers have proven to be the most effective measure in reducing the likelihood of fuel poverty, thus the criteria should not be extrapolated beyond these.

**Question eighteen: 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?**

Whilst proposals to limit the replacement of all broken heating systems to the equivalent of 35,000 per year mark a step in the right direction in comparison to the 18,000 cap implemented under ECOT2, the HHIC recognises that there are around 9 million 'zombie boilers' in the UK that require replacement. Replacing these inefficient boilers is key to reducing the number of households living in fuel poverty. The cap under ECOT2 resulted in a monthly decrease of 83% in terms of new boilers being fitted, so anything that helps counter this reduction is welcome. Our statistics reveal that the installation of a new condensing boiler can cut energy bills by around a third, and with the fuel poverty gap around the £300 mark, the savings a new boiler could elicit can lift households out of fuel poverty. Given inefficient boilers end up costing consumers more and emitting higher levels of CO<sub>2</sub>, the ECO scheme should consider lifting the cap on new boiler installations entirely in order to combat fuel poverty (an elicit environmental benefits as a bonus).

**Question nineteen: Do you agree with our proposal to allow certain heating system upgrades where they are delivered alongside certain insulation measures?**

HHIC approves of proposals regarding primary and secondary measures as it ensures more households can have multi energy efficiency measures installed, and have access to efficient heating systems. It also serves as a means to effectively future proof the housing stock, and

offers the opportunity for houses to move up the EPC band ratings beyond minimum requirements.

**Question twenty seven: Do you agree that any measures which receive the RHI should not be eligible for ECO?**

HHIC agrees that measures which receive the RHI should not be eligible for ECO as not only are these measures already funded, but it is also very unlikely that those receiving RHI will be in fuel poverty.

**Question thirty one: 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, with caveats.**

HHIC agrees that obligated suppliers should have the option of delivering a proportion of their obligation through innovative products, yet this maximum should sit closer to the 10% mark, and should be implemented with caution, and reviewed frequently to ensure that any technologies are resulting in low cost heating and energy efficient housing for vulnerable households. There are concerns that channelling ECO funds into innovation could result in fuel poor households being used as 'guinea pigs' for new technologies, with certain products being thrust upon them without them being fully informed of how the technology works, or without any awareness surrounding the longevity of the product. To safeguard against this, suppliers should build a case for each innovative entity utilised under ECO to explain and justify its usage, and only technologies that have provided beneficial based on real world testing should be considered. Further, annual reviews should be conducted to work out the savings elicited through innovation – as the scheme is set to be entirely about Affordable Warmth, this should be the focus of any products introduced into households. Proposals need to be thoroughly assessed in line with GDPR – there must be robust means in place to target fuel poor households, and also assess the effectiveness of innovative technologies, whilst not flouting data protection regulations.

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

One many in which ECO3 can support innovation is through providing a clearer route for products to be granted a deemed score. We have received the following response from one of our members, Recoup Waste Water Heat Recovery, with regards to providing a route to supporting innovation:

*We believe under this section the government should also be looking at the actual route and mechanism faced by suppliers of technology not currently listed under ECO to gain a deemed*

*score. Recoup Energy have been engaged with OFGEM and two obligated suppliers of ECO measures for the past 12 months to develop a deemed score under ECO. Despite the technology having official test data through a recognised test house (KIWA), being listed on the Products Characteristics Database (PCDB) for inclusion in SAP and RdSAP calculations (First included in SAP appendix Q for the 2009 release) and recognised on the Green Deal scheme, the process of obtaining a deemed score for ECO appears to be very difficult, and is required to be presented to OFGEM by an obligated supplier.*

*The current process only allows the technology to achieve a deemed score, via a new calculation methodology with the backing of an obligated supplier. We believe that this process should at least in part be controlled directly by the government or an independent body (Like BRE does for SAP), so that technology, such as WWHRS, that has proven test data can acquire a deemed score that then allows an energy supplier to determine if they wish to use that technology to meet their obligation.*

**Question thirty seven: Once the quality mark requirements are fully established, functional and enforced, do you agree that in order for installers to deliver ECO measures under the quality mark, they should be quality mark approved and compliant with quality mark requirements ?**

HHIC has grave concerns about the quality mark requirements, and their inclusion within this consultation and ECO more generally. By placing additional red tape, installers (who are already highly accredited through other schemes) may be dissuaded from working under the Energy Company Obligation – something which would slow down the process of having measured installed under ECO. Further, industry was previously assured that quality mark would be voluntary in the heating sector, yet it's conflation with ECO infers it will be mandatory in all but name, despite serious reservations held by many industry bodies. Further, industry has yet to be properly included or consulted on the Each Home Counts plans, and far greater inclusion will be needed before it can even begin to be seen as an industry led scheme – this process will take time.

In addition to the fact that Each Home Counts has not been properly consulted on, there are increasing concerns about the rushed nature of this framework, and the fact it may not be ready to be implemented at the start of ECO3. If BEIS do decide to go ahead with quality mark then it must be phased in as Each Home Counts looks unlikely to be ready in time.

**Question thirty eight: Do you agree that once the quality mark is established and functional, and where we are satisfied with the guarantee principles enforced through the quality mark, all solid wall, cavity wall, park home and room in roof insulation delivered under the scheme should be**

accompanied by a quality mark approved guarantee in order to receive the standard applicable lifetime?

See the answer to question thirty seven regarding HHIC's stance vis a vis quality mark and its inclusion in this consultation on ECO3. With regards to the specificities of this question, there would need to be clarity over who would be held accountable if the product were to fail under its guarantee – would the installer registered under the quality mark be accountable or would the product itself be held to account? The lack of clarity in the recent quality mark consultation makes it difficult for industry to provide accurate assessment and insight.

**Question forty one: Do you consider that heat networks installed under ECO, or connections to heat networks should require specific consumer protection standards?**

HHIC advocates specific consumer protection standards being applied to any heat networks installed, or any connections to heat networks made, under ECO. This is largely due to the fact that we are concerned about the appropriateness of heat networks, especially for fuel poor households, given that they offer consumers no choice, effectively locking them in to one supplier for a substantial period of time. There is nothing to say that suppliers to heat networks can't increase prices, and safeguards need to be put in place regarding this. Further, given the fact that wide scale outages can occur on heat networks, there needs to be a backup or alternative to ensure householders are not left without heat, especially during cold spells. BEIS must draw up some consumer protection standards, to be consulted on, and then included under ECO3.