

# ECO+

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The energy industry's proposal  
for powering up the domestic  
energy efficiency market

# Introduction

## **ECO+ will provide a long-term solution to lower energy bills**

Energy efficiency is at the heart of the energy trilemma, and there has never been a more important time to help consumers with the soaring cost-of-living, decarbonise our buildings and improve the UK's energy security.

Energy suppliers are at the forefront of helping struggling consumers with their energy bills. To this end, we welcome the Government's support packages, including the Energy Price Guarantee for domestic customers. However, against the backdrop of the need for the Guarantee, it is clear that more must be done in the medium to long term to help reduce consumer demand (in turn reducing the significant cost to Government of this vital support package) and ensure that consumers do not face a cliff edge in terms of their energy bills when support is eventually withdrawn.

ECO+ is a proposal for a new energy efficiency scheme that would provide partial subsidies for building fabric energy efficiency measures to owner-occupier households in council tax bands A to D. Consumers will access this funding via energy suppliers that voluntarily choose to participate in the scheme, and the subsidies will be funded through Government spending.

## **ECO+ must be a long-term scheme**

The objective of ECO+ is to support consumers in reducing their energy consumption and fuel bills while stimulating the creation of a commercial market for energy efficiency measures that is sustainable and independent of Government subsidies. Energy suppliers are well placed to develop a holistic and attractive consumer journey for retrofit, however the boom-bust nature of successive Government schemes has left the installer supply chain risk-averse and with limited capacity. In its assessment of the Green Homes Grant Scheme, the National Audit Office found that just 1,008 installers registered to participate during the scheme and recommended that in designing future policy, the Department for Business, Energy and Industrial Strategy should 'base its planning on a realistic assessment of how long it will take the market to mobilise the skills and capacity to meet demand'.<sup>1</sup>

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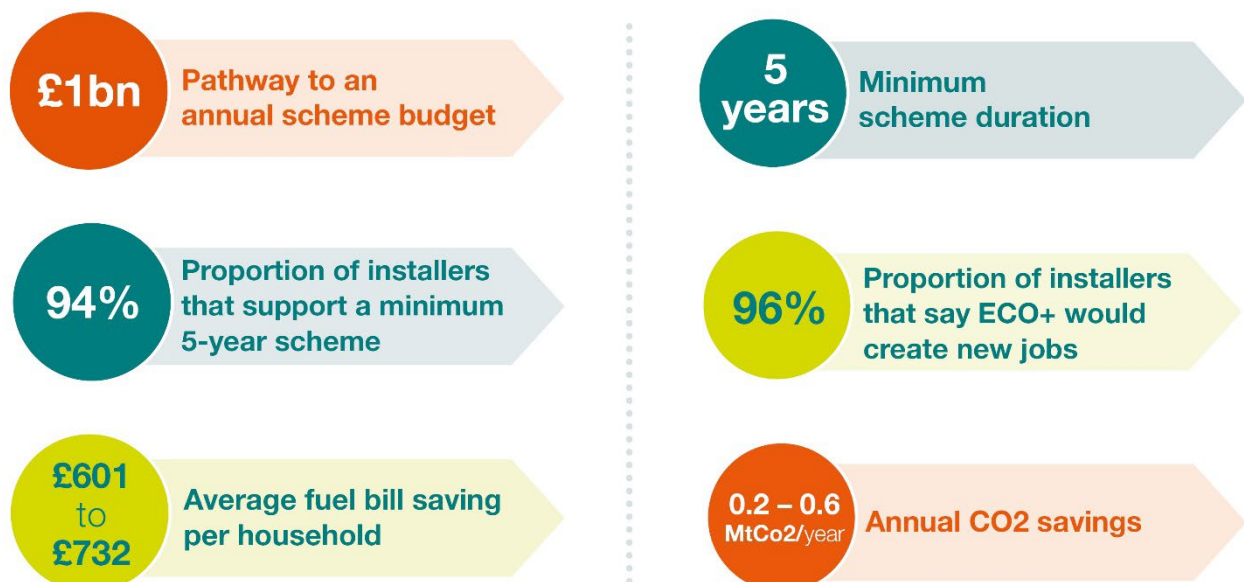
<sup>1</sup> National Audit Office, Green Homes Grant Voucher Scheme, 2021, available via: <https://www.nao.org.uk/wp-content/uploads/2021/09/Green-Homes-Grant-Voucher-Scheme.pdf>

## ECO+ will place energy suppliers at the heart of building a market for energy efficiency

The Energy Company Obligation (ECO) has been running since April 2013 and in each iteration has consistently met or even exceeded its targets.<sup>2</sup> Throughout its duration, ECO has delivered almost 2.7 million measures to households, including insulation and heating. ECO4, commencing this year, will reach 450,000 hard-to-treat homes over four years. ECO+ is intended to build on these successful supply chain partnerships and borrow from ECO4's administrative and competency framework, enabling the scheme to be implemented quickly.

In contrast to ECO, which is an obligation on energy suppliers, ECO+ is envisioned as a voluntary scheme that can unlock a market-led approach to energy efficiency improvements by driving private finance into the refurbishment of homes. This model, combining partial subsidies with consumer contributions, is sustainable in the long-term and creates opportunities to leverage green finance products and unlock the significant investment that will be needed to decarbonise Britain's buildings.

### In figures



<sup>2</sup> House of Commons, Energy Company Obligation (ECO) Briefing Paper, 2020, available via: <https://researchbriefings.files.parliament.uk/documents/CBP-8964/CBP-8964.pdf>

## Key facts

- The volume of energy efficiency projects should scale-up from 150,000 installs per year in 2021, to 500,000 in 2025 and one million per year by 2030 in order for the Government to achieve its decarbonisation targets.<sup>3</sup>
- Around £250 billion is needed to invest in UK home upgrades by 2050, highlighting the significant role that green finance will play in achieving Net Zero.<sup>4</sup>
- Decarbonising buildings will see around 350,000 new jobs created in the construction industry by 2028, across a range of trades and professions.<sup>5</sup>
- New analysis by IPPR, in a report produced in partnership with the Federation of Master Builders, found that the constituencies with the highest demand for installers were likely to be current or former industrial centres and coastal communities, including Doncaster North, Sheffield Hallam, Clacton and North Norfolk.<sup>6</sup>
- Data from the Department for Business, Energy and Industrial Strategy showed that in May 2022, 26% of adults were considering making changes in their home to improve its energy efficiency, of which 42% were considering how they can improve its insulation.<sup>7</sup>
- Data from the ONS also indicates that households typically saved 24% of their income in Q2 2022, meaning some households will still have residual savings that can be invested into improving the value and efficiency of their homes.<sup>8</sup>

Energy UK convened a series of workshops to discuss the details of ECO+, originally proposed by EDF. This report publishes the findings and recommendations resulting from these discussions.

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<sup>3</sup> Climate Change Committee, Progress Report to Parliament 2022, available via: <https://www.theccc.org.uk/wp-content/uploads/2022/06/Progress-in-reducing-emissions-2022-Report-to-Parliament.pdf>

<sup>4</sup> Green Finance Institute, Unlocking the potential of the UK's green mortgage market, 2021, available via: <https://www.greenfinanceinstitute.co.uk/news-and-insights/unlocking-the-potential-of-the-uks-green-mortgage-market/>

<sup>5</sup> CITB, Building Skills for Net Zero, 2021, available via: <https://www.citb.co.uk/about-citb/construction-industry-research-reports/search-our-construction-industry-research-reports/building-skills-for-net-zero/>

<sup>6</sup> Available via: [www.fmb.org.uk](http://www.fmb.org.uk)

<sup>7</sup> Office for National Statistics, Public opinions and social trends, Great Britain: 11 to 22 May 2022, available via: <https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/publicopinionsandsocialtrendsgreatbritain/11to22may2022#attitudes-towards-improving-energy-efficiency-of-homes>

<sup>8</sup> Office for National Statistics, Economic modelling of forced saving during the coronavirus (COVID-19) pandemic, 2022, available via:

[https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicmodellingofforcedsavingduringthecoronaviruscovid19pandemic/2022-06-06#:~:text=1.-,Main%20points,\(Apr%20to%20June\)%202020.](https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicmodellingofforcedsavingduringthecoronaviruscovid19pandemic/2022-06-06#:~:text=1.-,Main%20points,(Apr%20to%20June)%202020.)

# Overarching design and budget

## The size of the scheme

The scheme budget must be ambitious to support delivery over the long-term, and to achieve the volume of retrofits that are needed. However, existing supply chain capacity is limited and so the volume of homes that will be upgraded in scheme year one will be considerably smaller than those reached in scheme year five. A scaling budget with a pathway to a £1bn annual scheme budget would match the ECO4 spending envelope while respecting the time needed for the supply chain to grow.

Indeed, the supply chain needs time to plan and invest in upskilling and training to build capacity while ensuring compliance with PAS 2035 - the necessary quality framework for this scheme. Installers who responded to a survey conducted by Gemserv on behalf of EDF, E.ON, OVO Energy and ScottishPower, said that on average, they could increase their capacity by up to 66% after six months and 120% after one year if a £1bn scheme was to be brought forward, with long-term commitments to funding.<sup>9</sup>

## Customer Contributions

Building a long-term, commercial market for energy efficiency measures is an important objective of this scheme, and fundamentally depends on ECO+ being adopted as a voluntary scheme for energy suppliers to participate in. This is because a voluntary scheme opens the door to part subsidising the delivery of measures. Unlocking private investment through customer contributions will significantly increase the impact and return on investment of publicly-funded subsidies. It will also create opportunities for innovative green finance products. The UK Infrastructure Bank could play an important role in improving the affordability of any customer contributions as per its strategy and target areas for investment, for example.<sup>10</sup>

Conversely it is not advisable to require and or assume customer contributions in an obligation model as it creates significant unmanageable delivery risk for obligated parties, driving up the cost of the obligation and limiting the number of households reached.

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<sup>9</sup> Gemserv, ECO Plus Supply Chain Market Research, 2022, available via: [https://gemserv.com/wp-content/uploads/2022/07/ECO-supply-chain-market-research\\_report\\_010722\\_final.pdf](https://gemserv.com/wp-content/uploads/2022/07/ECO-supply-chain-market-research_report_010722_final.pdf)

<sup>10</sup> UK Infrastructure Bank, Strategic Plan, 2022, available via: <https://www.ukib.org.uk/>

## How the budget can be distributed fairly

A budget allocation methodology where suppliers receive a proportion of the obligation relative to their market share on an annual basis, as currently used in ECO, is one option. However, there are several other approaches that could be adopted, for example where suppliers bid for a proportion of the funding, or where they draw down finance following the lodgement of each project. Given the advantages and disadvantages of the possible options, it is recommended that further scoping is needed of the most suitable pathway before a final decision is made.

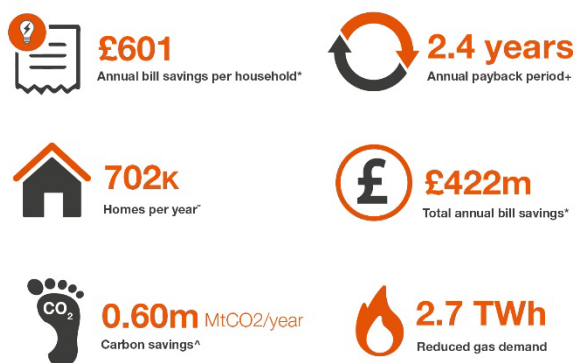
Under a voluntary model, opening up the scheme to wider market participants beyond obligated energy suppliers could help to ensure maximum delivery. This must be accompanied by a review of the associated risks, for example, ensuring that all scheme participants compete on a level playing field and satisfy a minimum quality and standards framework before accessing funding and providing services to consumers. This should also include checks on participants' ability to identify and deliver works to participating households.

## Impact

The impact and reach of ECO+ will depend on a number of factors, such as scheme budget, subsidy level and the customer offer. Based on an annual scheme budget of £1bn, average customer contributions of 50% of the total cost, and the October 2022 price cap of £3,549, ECO+ could generate significant savings on the actual rate of fuel bills, which will be subsidised by the Government for the next two years.

### Where focused on low-cost measures

For example, 70% cavity wall insulation and 30% loft insulation.



### Where focused on mid-cost measures

For example, 50% solid wall insulation, 40% cavity wall insulation and 10% loft.

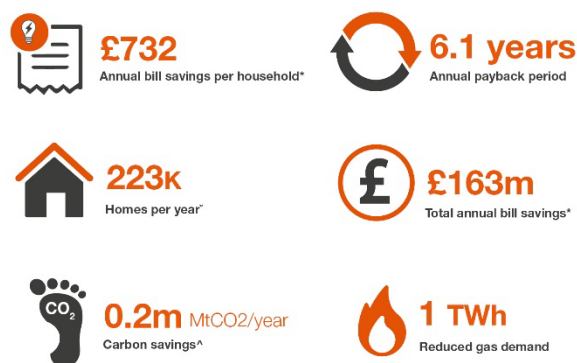


Figure 1 Illustrative impact of ECO+. Figures provided by EDF. \*Annual bill savings based on data provided by the Energy Saving Trust for gas-heated semi-detached properties. + Based on the following conservative measure costs from available ECO industry data: loft insulation £2,500; cavity wall insulation £3,000; solid wall insulation £15,000. †Assumes single measures installed in individual properties with a 50% customer contribution towards the cost and an annual scheme budget of £1bn. ^Carbon savings based on data provided by the Energy Saving Trust for single measures installed in a gas-heated semi-detached property.

## How ECO+ works

### The level of subsidy

In a voluntary scheme, unlike an obligation, the level that the subsidy is set at could be determined accordingly to several methodologies.

One such option could be a dynamic subsidy model whereby the proportion of available subsidy for each energy efficiency measure is adjusted on a regular basis to account for external factors such as demand, budget expenditure and supply chain capacity. This approach has the potential to effectively optimise subsidy levels and manage the scheme budget.

Another perhaps more straightforward approach would be a market transformation subsidy whereby the subsidies are set at their highest in scheme year one to incentivise early adopters, and then taper off through each subsequent scheme year. The initial demand for energy efficiency measures would help bring down costs, making retrofits more affordable independent of Government stimulus.

Finally, the subsidy could also be set as a proportion of the total value of the works needed doing, capped at a certain amount. In a similar approach to the Green Homes Grant scheme where the Government's contribution covered up to two-thirds of the total project cost, capped at £5,000 per household.

Given the advantages and disadvantages of these three options, further scoping of the most suitable methodology is needed before a final decision is made. In all eventualities, the methodology must be transparent and predictable so that suppliers and consumers can plan ahead.

Under each pathway we envision the variable customer contributions will be paid to the energy supplier co-ordinating the works.

## Measures in scope

ECO+ should support fabric measures only, such as loft, cavity wall and solid wall insulation. In their 2022 Progress Report, the Climate Change Committee estimates that under their balanced pathway, 1.5 million loft insulation measures, almost 2 million cavity wall measures, and almost 2.5 million solid wall insulations are needed per year by 2028.<sup>11</sup>

Heating measures should not be eligible under ECO+, as funding is already available for households to upgrade to low-carbon heating technologies (for example the Boiler Upgrade Scheme), and competition between Government schemes should be avoided. It is also important that funding for ECO+ is not diverted from other Government energy efficiency and decarbonisation schemes. With energy suppliers at the heart of ECO+, it presents an opportunity for them to develop holistic offers for consumers by packaging together fabric and heating upgrades, and smart meter installations, simplifying the complex consumer journey by becoming a go-to provider for household decarbonisation and energy bill savings.

Under ECO+, single measures will be eligible. Energy suppliers will arrange a whole house assessment, as required by PAS 2035, and then consumers will choose which measures they would like to proceed with according to what they can afford and the level of disruption they are prepared for. This could consist of single measures, which will be installed according to the PAS 2030 framework.

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<sup>11</sup> Climate Change Committee, Progress in Reducing Emissions, 2022 Report to Parliament, available via: <https://www.theccc.org.uk/wp-content/uploads/2022/06/Progress-in-reducing-emissions-2022-Report-to-Parliament.pdf>



## Eligibility

ECO+ should be available to households in Council Tax bands A to D as a proxy for lower-income households who may not be in scope of ECO4, but are still struggling to pay their energy bills and manage their household finances.

A proportion of the total budget could be ringfenced so that low-income households receive energy efficiency measures that are fully subsidised. There are various ways in which this could be managed, for example suppliers that volunteer to participate in the scheme could be required to deliver a certain proportion of their total interventions to low-income households.

It is, however, essential that any risk posed to ECO4 delivery by ECO+ is minimised, including increased costs of delivery. This can be achieved by firstly ensuring that the measures in scope for ECO+ align with ECO4, and secondly by encouraging households eligible for ECO4 to make use of this funding stream in the first instance. Misalignment between ECO+ and ECO4 measures in scope will mean that installers have less incentive to invest in upskilling to treat more complex households with EPC ratings E, F and G, which are targeted under ECO4. A recent survey by the CITB and the BEIS found that just one third of self-employed tradespeople and two fifths of businesses had the required skills to install external solid wall insulation, showing that additional capacity is needed for suppliers to deliver the target of 90,000 solid wall measures under ECO4.<sup>12</sup>

This risk could be further mitigated by ensuring that only obligated energy suppliers are able to access Government funding under ECO+ while ECO4 is in operation. This would allow suppliers to effectively manage the volume of ECO4 and ECO+ delivery available to the supply chain to help ensure that both schemes are delivered within budget. This could also help ensure that the consumer journey is as simple as possible, because there will be a clear point of entry to the scheme via suppliers.

There will be a range of potential mechanisms by which fully subsidised measures are delivered to households, and another approach could see connected delivery through ECO4.

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<sup>12</sup> CITB, Building Skills for Net Zero, 2021, available via: [https://www.citb.co.uk/media/kkpkwc42/building\\_skills\\_net\\_zero\\_full\\_report.pdf](https://www.citb.co.uk/media/kkpkwc42/building_skills_net_zero_full_report.pdf)

## The scheme administrator

It is recommended that Ofgem becomes the scheme administrator, building on its role in ECO, but additional resources would be needed to ensure that Ofgem can deliver an additional scheme efficiently and effectively. It is also recommended that a simplified version of the administration process under ECO is borrowed to deliver ECO+, meaning fewer additional operations and processes will need to be established to get ECO+ underway.

Simplification can be achieved by reducing the checks and balances required under ECO+. For example, the number of data items required as part of the monthly and annual reporting from energy suppliers to the scheme administrator could be reduced to: (1) address, (2) TrustMark reference number, (3) measure type, (4) measure cost, and (5) customer contribution.

## Payment process

The process for releasing subsidy payments to suppliers must be simple and timely to ensure that all parties are paid for their work as quickly as possible and avoid cashflow issues in the installer supply chain which, like retail suppliers, operates on tight margins.

A proposed process for payments to suppliers would comprise four stages and borrow substantially from the model in ECO (Figure 2). Indicative guidelines around the timetable for the completing matching and checks referenced in box three could be included in this policy, as this would help suppliers and supply chain partners to build a pipeline of delivery. It may be that a payment body is needed to facilitate the transfer of payments from Government to energy suppliers.



Figure 2 – Process for payment to participating suppliers.

The flow of money between suppliers, installers and customers would be managed by each individual supplier. This could incorporate additional financial products provided by third parties.

# The supply chain

## Scaling up delivery

During the initial phases of the ECO+ scheme, suppliers will likely work with their existing supply chain partners to deliver measures. However, as the volume of households treated under the scheme ramps up over time, so too will demand for installers. It is essential, therefore, that the scheme size ramps up at a pace that allows sufficient time for the supply chain to invest in training and recruitment, and for new entrants to meet the requirements of PAS 2035.

## Impact on the supply chain

On behalf of EDF, E.ON, OVO Energy and ScottishPower, Gemserv conducted research amongst the energy efficiency supply chain between 14 and 28 June 2022 to gather installer views on a high level proposal for ECO+. Gemserv collected data on business's ability to scale-up their capacity and their views on the proposed ECO+ scheme via 137 anonymous responses to an online survey and through six in-depth interviews. The final report is available online and is cited widely throughout this document.<sup>13</sup>

This research found that the introduction of ECO+ would have a significantly positive impact on business growth, employment, and investment in innovation within the installer supply chain. 61% of respondents to the survey said that ECO+ would have a positive impact on current ECO scheme activity. Where concerns were raised, these related primarily to the impact on material and labour costs and availability, but fewer than one third of respondents shared this concern.

The main challenge identified by the supply chain when considering how they would respond to this scheme, was the availability of a qualified workforce. In addition to a qualified workforce, respondents identified PAS 2035 requirements as the second biggest challenge to delivering ECO+. Support would therefore be needed for the supply chain to attract new talent and invest in training and accreditation. Indeed, aside from a long-term policy (supported by 83% of respondents), training (57%) was the second most popular solution to removing barriers to the implementation of ECO+.

Finally, the research found that 82% of respondents would support the current ECO delivery mechanisms as an effective basis for building ECO+.

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<sup>13</sup> Gemserv, ECO Plus Supply Chain Market Research, 2022, available via: [https://gemserv.com/wp-content/uploads/2022/07/ECO-supply-chain-market-research\\_report\\_010722\\_final.pdf](https://gemserv.com/wp-content/uploads/2022/07/ECO-supply-chain-market-research_report_010722_final.pdf)

## Engaging a wider group of stakeholders

In developing ECO+ beyond the framework set out in this paper, engagement with manufacturers will be important for successful delivery, in terms of testing end-to-end scalability within the supply chain.

Lenders and the UK Infrastructure Bank will also play an important role in supporting installers to scale-up their activities, as well as providing affordable finance to consumers, and should be consulted in the development of a new scheme.

Finally, the policy development process would also benefit from input by a sample of consumers to ensure that the scheme is being designed in a way that is simple to engage with and inspires confidence. Energy suppliers should also be continuously consulted throughout this process in order to ensure that the scheme remains deliverable and attractive.



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