EXPLANATORY MEMORANDUM TO

THE ELECTRICITY AND GAS (ENERGY COMPANIES OBLIGATION) (DETERMINATION OF SAVINGS) (AMENDMENT) ORDER 2014

2014 No. 2897

1. This explanatory memorandum has been prepared by the Department of Energy and Climate Change and is laid before Parliament by Command of her Majesty.

2. Purpose of the instrument

2.1 This Order makes amendments to the Electricity and Gas (Energy Companies Obligation) Order 2012 ("the 2012 ECO Order"), which requires large gas or electricity suppliers to achieve carbon and home heating cost reduction targets by promoting the installation of energy efficiency measures at domestic properties. The ECO Order imposes obligations on energy suppliers for the period from 1 January 2013 to 31 March 2015.

2.2 This Order deals with changes to the Standard Assessment Procedure (SAP) and the Reduced Data Standard Assessment Procedure (RdSAP), which are used by energy suppliers to calculate the cost savings and carbon targets under the ECO Order. In addition to this, on 22nd July, the Government laid in draft the Gas and Electricity (Energy Companies Obligation) (Amendment) (No. 2) Order 2014, which will make further amendments to the 2012 ECO Order and is subject to the affirmative procedure.

2.3 This negative Order in particular (i) allows suppliers to calculate cost savings and carbon savings using the 2012 versions of the SAP and the RdSAP methodologies, as well as the 2009 versions of these methodologies, which are already provided for in the ECO Order, (ii) provides a conversion factor to convert carbon dioxide equivalent (CO_2e) savings calculated by SAP/RdSAP 2012 into carbon dioxide (CO_2) savings to ensure that obligated parties are able to calculate and report the carbon savings against their ECO carbon targets, which are set in carbon dioxide only, and (iii) provides that the Authority may only approve an alternative methodology for the determination of carbon or cost savings for a particular action if none of the 2009 or 2012 versions of SAP or RdSAP contain a methodology for determining those savings.

3. Matters of Special Interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 This Order is to be made in exercise of the powers conferred by sections 33BC and 33BD of the Gas Act 1986 and sections 41A and 41B of the Electricity Act 1989.

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 Under the 2012 ECO Order, obligated energy suppliers must notify the Administrator (Ofgem) of the carbon or cost savings that they achieve by installing energy efficiency measures. To calculate these savings, suppliers must use SAP, RdSAP or an appropriate methodology approved by the Authority.

7.2 SAP and RdSAP are national assessment methodologies used by Government to assess and compare the energy and environmental performance of dwellings. They underpin several energy and environmental policy initiatives. SAP and RdSAP methodologies are periodically updated.

7.3 The 2012 ECO Order currently requires that carbon and cost savings are calculated using SAP 2009 (version 9.90) and RdSAP 2009 (version 9.91). These calculate emissions in terms of carbon dioxide (CO_2). The latest versions of SAP and RdSAP produce estimates of emissions in terms of carbon dioxide equivalent (CO_2e), which factor in the global warming potential of methane (CH_4) and nitrous oxide (N_2O), as well as CO_2. In addition, they include upstream emissions, which account for fugitive emissions, such as natural gas leakage and emissions arising from fuel and electricity used during the production and distribution process. There is an industry-wide IT switchover planned in early December for the new versions of SAP and RdSAP in England and Wales, and for RdSAP only for Scotland, after which it is likely to be impractical for obligated suppliers and the Administrator to calculate savings using the older versions.

7.4 As ECO sets two of its targets, the carbon emissions reduction obligation ("CERO") and the carbon saving community obligation ("CSCO"), in tonnes of CO_2, the CO_2e savings calculated using the SAP/RdSAP 2012 versions will need to be converted into CO_2 savings, so obligated parties can use these versions of SAP/RdSAP to calculate carbon savings for CERO and CSCO. In addition to removing the contribution of these other greenhouse gases, the conversion factor removes the contribution of upstream CO_2 emissions. This will ensure that the calculation of CO_2 savings remains consistent, as far as is practicable, with carbon savings calculated using the 2009 versions of SAP and RdSAP. This amendment Order therefore requires the CO_2e saving produced by the new versions of SAP and RdSAP to be multiplied by a conversion factor of 0.925 to produce a carbon saving.

7.5 The exact date of the industry-wide switchover is not certain, and it is unlikely to be practical for suppliers to use the new versions before it takes place. This Order therefore permits obligated energy companies to utilise either the old or new versions of SAP/RdSAP when calculating savings for measures notified to the Administrator under the 2012 ECO Order after 1st December 2014, the date this Order comes into force.

Consolidation

7.6 No consolidation is proposed at present.

8. Consultation outcome

8.1 In July 2013, DECC consulted on the principle of amending the 2012 ECO Order to refer to the most up-to-date versions of SAP and RdSAP. This proposal was widely supported. The consultation document and the Government response are available at: https://www.gov.uk/government/consultations/updates-to-the-electricity-and-gas-energy-companies-obligation-order-2012.

8.2 In August 2014, Government published a discussion paper including details on how the proposal should be implemented in practice. The discussion paper was published on the DECC website: https://www.gov.uk/government/groups/energy-company-obligation-eco-steering-group. DECC has engaged with key ECO stakeholders, including Ofgem, Energy Companies, the British Research Establishment (the organisation which develops and updates SAP and RdSAP for Government), SAP/RdSAP accreditation bodies, and ECO scoring tool providers, and also invited stakeholder views on introducing a conversion factor to convert SAP/RdSAP 2012 CO2e emissions into CO2 emissions. Discussions on the issues were also had with stakeholders in both individual and collective meetings. We received nine written responses, of which six responses were from obligated energy companies, two from non-governmental organisations and one from Ofgem.

8.3The majority of respondents supported the government's proposals to enable obligated parties to use the new versions of SAP/RdSAP, and to introduce a conversion factor to convert carbon dioxide equivalent (CO_2e) savings calculated by SAP/RdSAP 2012 into carbon dioxide (CO_2) savings.

8.4 The discussion paper proposed two different conversion factors. One was calculated using a weighted average of the historical mix of fuel types for which ECO measures have been delivered so far (Option 1 - conversion factor of 0.925), whilst the other was fully weighted on delivery in gas heated properties only, which represent the majority of properties treated under ECO to date (Option 2 - conversion factor of 0.917). The majority of stakeholders confirmed that neither option would have a significant impact on costs, or the pattern of delivery. The majority of stakeholders preferred Option 1, as it was likely to have a smaller impact on delivery, costs and the impact on savings for properties not connected to the gas grid. Government agreed with these stakeholders and has therefore decided to implement Option 1. A number of respondents suggested having a fuel specific conversion factor however this was not technically feasible.

8.5 Some stakeholders expressed concern about the government's proposal to allow both versions of SAP/RdSAP to be used until 31st March 2015. However, in practice this is unlikely to be an issue as, once the new version of these methodologies are launched, the old versions will no longer be available to use on approved software.

8.4The Government has published a response to the discussion paper on converting SAP/RdSAP 2012 CO_2e to SAP/RdSAP 2009 CO_2 emissions, which is available on the Gov.uk website at the following address:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359744/Government_Response_on_ECO_Conversion_Factor.pdf

9. Guidance

9.1 An updated version of the non-statutory guidance for obligated suppliers will be published by the Energy Company Obligation Administrator, Ofgem, to reflect the changes made by this Order. It is anticipated that this guidance will also reflect the changes resulting from the affirmative Electricity and Gas (Energy Companies Obligation) (Amendment) (No. 2) Order 2014, which was laid in Parliament in draft on 22 July 2014 – subject to that Order being approved by Parliament.

9.2 Copies of the published guidance will be circulated to all energy suppliers and other key stakeholders. The guidance will be available free of charge from the website of the Administrator.

10. Impact

10.1 Due to the minor and technical nature of these changes, no significant impact on business, charities or voluntary bodies is foreseen. Please refer to the "Future of the Energy Company Obligation: Final Impact Assessment", published on 27th October 2014 alongside the draft Electricity and Gas (Energy Company Obligation) Order 2014, for an assessment of the overall impact of the ECO policy, at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/335098/20140721_The_Future_of_ECO_consultation_Final_IA.pdf.

10.2 There is no significant impact on the public sector. The administrator, Ofgem (a public body), will need to update its guidance.

11 Regulating small business

11.1 This amendment Order has no impact on the regulation of small business.

12. Monitoring and review

12.1 Monitoring of ECO is being undertaken throughout the duration of the scheme. The Administrator submits monthly reports to the Secretary of State setting out the progress energy suppliers are making towards meeting their obligations.

13. Contact

13.1 Carolina Valsecchi at the Department of Energy and Climate Change can answer any queries regarding the instrument, Tel: 0300 068 6737 or email: carolina.valsecchi@decc.gsi.gov.uk.