



Department
of Energy &
Climate Change

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Dermot Nolan
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Office of Gas and Electricity Markets
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9th February 2015

Dear Dermot,

I am writing with a direction to the Gas and Electricity Markets Authority ("the Authority") in relation to the carrying out of its functions under the Electricity and Gas (Energy Companies Obligation) Order 2012 (as amended) (the "ECO 1 Order") and the Electricity and Gas (Energy Company Obligation) Order 2014 (the "ECO 2 Order") which came into force on 5th December 2014). As you know, these schemes are commonly referred to by Government and industry as "ECO", and both the ECO 1 Order and the draft ECO 2 Order provide that ECO is administered by the Authority.

This direction is issued under sections 41A(9B) and 41B(5) of the Electricity Act 1989 and sections 33BC(9B) and 33BD(5) of the Gas Act 1986 and concerns the Authority's performance of its functions of: –

- (a) determining the savings that are to be attributed to ECO measures,
- (b) seeking information or evidence from suppliers to demonstrate that they are complying with their obligations under ECO, and
- (c) determining whether a supplier has met its obligations.

Article 7 of Directive 2012/27/EU of the European Parliament and the Council on energy efficiency (the "Energy Efficiency Directive") requires the UK Government to achieve an energy savings target by the end of 2020, by means of an energy efficiency obligation scheme and/or other policy measures. The Government's current energy efficiency obligation scheme for the UK is the Energy Companies Obligation for the period January 2013 to March 2015 (established under the "ECO 1 Order"), which will be replaced by the Energy Company Obligation for the period April 2015 to March 2017 (established under the "ECO 2 Order").

Article 7(6) of the Energy Efficiency Directive requires Member States to put in place measurement, control and verification systems for energy efficiency obligation schemes under which at least a statistically significant proportion and representative sample of the energy efficiency improvement measures put in place by the obligated parties is verified.

Article 7(6) further requires that this measurement, control and verification shall be conducted independently of the obligated parties.

I recognise, of course, that the Authority has always subjected energy efficiency measures installed under ECO to technical monitoring and audit requirements, on the basis set out in Chapter 8 and Chapter 15 of Ofgem's "Energy Companies Obligation (ECO): Guidance for Suppliers" (the "Supplier Guidance"), the latest version of which is version 1.2, published on 5 November 2014, and which is publicly available on Ofgem's website at <https://www.ofgem.gov.uk/publications-and-updates/energy-companies-obligation-eco-guidance-suppliers>.

As a consequence of article 7(6) of the Energy Efficiency Directive, however, I am now writing

to formally direct the Authority, in the carrying out of its functions, to continue, for the remainder of the current obligation period (which finishes at the end of March 2015) with technical monitoring, audit and fraud prevention requirements on the basis set out in Chapters 8 and 15 of the Supplier Guidance. In particular, I require that the measurement, control and verification of measures which is carried out under those requirements continues to provide for:-

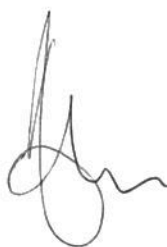
(a) monitoring and audit which is carried out independently of obligated suppliers (either by or on behalf of Ofgem itself or by independent, suitably qualified monitoring agents commissioned by suppliers); and

(b) at least a statistically significant proportion and representative sample of ECO measures to be verified.

I am conscious that it may be appropriate to revise aspects of the detailed monitoring requirements for ECO from time to time, and that you are currently consulting on proposals to make small amendments to the technical monitoring processes for the next ECO obligation period (from April 2015 to March 2017). This may lead to our organisations agreeing that some changes from the processes currently described in Chapters 8 and 15 of the Supplier Guidance are desirable. If appropriate in light of your consultation, I will be happy to issue a direction for the next ECO obligation period, which reflects any such improvements that we agree with you. Any such proposed changes will of course need to provide for a monitoring system which continues to comply with article 7(6) of the Energy Efficiency Directive.

I would like to take this opportunity to thank you and your ECO team for your continued hard work and support in delivering the ECO scheme.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Amber Rudd', written in a cursive style.

AMBER RUDD