

Energy suppliers and other
interested parties

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Energy Companies Obligation (ECO): Consultation on how to account for the percentage of measure installed when calculating ECO scores

ECO is a statutory scheme established by the Electricity and Gas (Energy Companies Obligation) Order 2012 ('the Order'). Under ECO, certain electricity and gas licence holders ('energy supplier', or 'supplier' in this letter) are required to deliver energy efficiency measures to domestic households. Further information about ECO is available on the Ofgem website¹.

The Order names the Gas and Electricity Markets Authority as the Administrator of ECO. Ofgem ('we', 'our', or 'us' in this letter) administer ECO on behalf of the Authority.

On 15 March 2013 we published Guidance for Suppliers. In Chapter 8 of the Guidance we discuss how to score measures under ECO. In particular, at paragraph 8.13 of the Guidance we set out the formulas for calculating carbon savings and cost savings. These formulas include an element identified as 'P'.

This consultation sets out reasons for removing 'P' from the formula for scoring measures under ECO, and instead requiring suppliers to calculate the percentage of measure installed within Standard Assessment Procedure (SAP) or Reduced Data Standard Assessment Procedure (RdSAP). We are seeking views on this proposal.

The deadline for responses to this consultation is **Thursday 20 June 2013**. Responses may be submitted by email at eco.consultation@ofgem.gov.uk, or by post to Will Broad, Head of ECO Centre of Excellence, ECO Team, 9 Millbank, SW1P 3GE.

Background to the Consultation

For each measure installed under ECO, a supplier must calculate the carbon or cost saving associated with that measure². The carbon or cost saving will form part of the supplier's notification of that measure to Ofgem³.

Where possible, scores for measures installed under ECO must be calculated by using SAP or RdSAP. To generate an 'ECO score' the SAP/RdSAP calculation is then multiplied by various factors (for example, the lifetime of the measure).

¹ <http://www.ofgem.gov.uk/Sustainability/Environment/ECO/Pages/index.aspx>

² Further information on scoring ECO measures can be found in Chapter 8 of the Guidance. Article 16(6) and (7) of the ECO Order make provision for calculation of carbon savings and cost savings.

³ Further information on notification of measures under ECO can be found in Chapter 9 of the Guidance.

An ECO score must account for the percentage of the measure installed. For example, if two walls are insulated in a four-walled property, the calculation must take into account that only two walls were insulated. This ensures that the score accurately reflects the savings realised by the installation of that measure.

SAP and RdSAP can take account of the actual extent of a measure installed. However, this can be complex, in particular for wall insulation where there is more than one wall type. In these cases the assessor is required to account for alternative walls and extensions within the SAP/RdSAP calculation to accurately model the achieved savings.

During consultation we received analysis which identified an alternative method for calculating the percentage of measure installed: calculate a SAP/RdSAP score based on 100% of the measure being installed, and then multiply the score by the percentage actually installed. The analysis showed that this method would achieve a similar level of accuracy to performing the calculations entirely within SAP/RdSAP. We therefore judged that it was appropriate to permit the use of this alternative method in those cases where the difficulty (explained above) arose.

This alternative method is referred to as 'P' and its use in calculating carbon and cost savings is explained in the box below (replicated on page 68 of the Guidance):

$$S \times P \times L \times (100 \% - IUF) = \text{carbon saving (tCO}_2\text{)}$$

$$S \times P \times L = \text{cost saving (£)}$$

Where:

S is the annual carbon saving, or cost saving, calculated in accordance with SAP or RdSAP;

P is the percentage of the 'total assumed installation'* actually carried out;

L is the lifetime of the measure (in years); and

IUF is the in-use factor of the measure (by percentage).

** the 'total assumed installation' means the extent of the installation that the SAP or RdSAP calculation assumes has been carried out*

Since publication of the Guidance we have received analysis which shows that, depending on the measure type, using 'P' can lead to unacceptable levels of inaccuracy. The analysis involved using SAP to calculate carbon savings for external, internal and cavity wall insulation measures for standard dwelling archetypes. The calculations were conducted for three scenarios: i) 25%, ii) 50% and iii) 75% of the measure being installed. For each scenario, the carbon savings were calculated using two separate methods: a) by accounting for the percentage of measure installed within SAP, and b) by accounting for the percentage of measure installed using 'P'.

The results showed that using 'P' rather than accounting for the percentage of measure installed within SAP resulted in the following levels of inaccuracy:

- For cavity wall insulation up to 3%.
- For external wall insulation up to 10%. Inaccuracy levels were higher for properties heated with focal point heaters rather than central heating, and where 'P' was a low percentage.
- For internal wall insulation up to 19%. As with external wall insulation inaccuracy levels were higher for properties heated with focal point heaters rather than central heating.

Based on this analysis, we have concluded the potential levels of inaccuracy produced by use of 'P' are unjustifiably high. As a consequence we propose that we remove 'P' from the formula for calculating savings. We are seeking views on this proposal.

Submitting Responses to the Consultation

Responses to this consultation should be submitted by Thursday 20 June 2013. Any responses received after this date will only be considered under exceptional circumstances.

All consultation responses will be published on our website. If you prefer your response to be treated as confidential, please state so clearly (in writing) when you submit your response. It would be helpful if you could include an explanation of why you regard the information you provided as confidential.

Responses should be submitted to eco.consultation@ofgem.gov.uk. Alternatively you can post responses to the following address:

Will Broad
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9 Millbank
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Following Consultation

If we change the policy that is the subject of this consultation it may be necessary to amend the Guidance to reflect the change. If amendment is required, it is likely that we will also take that opportunity to amend some typographical errors in the Guidance and add clarification of some policy.

If you have any queries in relation to this consultation, please contact Will Broad at eco@ofgem.gov.uk.

Yours sincerely,

Charles Hargreaves
Associate Director, Environmental Programmes