

Obligated ECO suppliers and
other interested parties

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Date: 27 August 2013

Dear stakeholder

Energy Companies Obligation (ECO): Consultation on requirements for demonstrating characteristics of hard-to-treat cavities

An energy supplier may achieve its Carbon Emissions Reduction Obligation (CERO) by installing insulation to hard-to-treat cavity (HTTC) walls¹. A large number of HTTC measures have been installed under ECO and notified to Ofgem. When we are notified of a measure, we assess whether it is eligible for savings against the elected ECO obligation. If it is, we attribute savings to the measure. Suppliers are responsible for ensuring that the notifications to Ofgem are accurate.

We have information suggesting that a significant number of HTTC measures have been installed to cavity walls that do not meet the statutory definition of 'hard to treat cavity'². A HTTC measure cannot be attributed savings under CERO unless the insulation was installed to a cavity that meets this statutory definition.

The information before us has produced a significant degree of doubt about the accuracy of notifications of HTTC measures. We are currently undertaking additional checks on the HTTC measures notified to date. We believe it would not be reasonable to attribute savings to these measures without first obtaining assurance that the measure was in fact installed to a HTTC. Following the additional checks, we will determine the approach we will take to assessing the accuracy of notifications of HTTC measures completed before 1 October 2013 and any other action we propose to take.

This consultation sets out the requirements which we believe will enable us to process hard-to-treat cavity measures installed from 1 October 2013 in accordance with our standard procedures, which are described on page four of this letter.

The deadline for responses to this consultation is **1pm on Tuesday 24 September 2013**.

You can respond by email to eco.consultation@ofgem.gov.uk, or by post to Will Broad, Head of ECO, Environmental Programmes, Ofgem, 9 Millbank, SW1P 3GE.

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.

¹ See article 12(4)(a) The Electricity and Gas (Energy Companies Obligation) Order 2012 (ECO Order).

² The term 'hard to treat cavity' is defined at article 2 of the ECO Order.

Proposed requirements for demonstrating cavity characteristics: to apply for measures installed from 1 October 2013

The following proposals are not alternatives. Rather we propose to implement all three requirements described below.

1. 100% verification of narrow HTTC measures

This proposal relates to HTTC measures installed to a cavity wall which is less than 50mm ('narrow HTTC measure'). For information about narrow HTTC measures see the ECO Guidance for Suppliers 5.14(4).

We propose that prior to the notification of a narrow HTTC measure a *Narrow HTTC Declaration Form* (Appendix 1) must be completed by a person with appropriate skills and experience who is:

- an employee of the supplier; or
- independent of the supply chain (this includes independence from the installer, third party agents, surveyors, social housing providers etc, but does not require independence from the supplier).

The person who signs the declaration must personally assess the site that is the subject of the declaration. We recommend that the assessment take place before installation of the measure is complete so that additional drilling is not required.

A supplier can use an equivalent declaration form as long as it contains all the information within the *Narrow HTTC Declaration Form* at Appendix 1. The supplier must retain the declaration and make it available upon request by Ofgem. (Ofgem may also request the other documents and data listed in the ECO Guidance Appendix 1.)

2. Increased requirements on HTTC measures that require a chartered surveyor's report

This proposal relates to the following sub-categories of HTTC measure:

- Non-standard insulation materials and techniques - ECO Guidance 5.14(2)
- Substantial remedial works - ECO Guidance 5.14(3)
- Uneven cavity in natural stone walls - ECO Guidance 5.14(6)

With respect to each of these sub-categories, existing legislation and policy requires that there be a chartered surveyor's report stating the characteristics of the cavity wall. Our proposal supplements this requirement by specifying requirements relating to the timing of the report, the content of the report and the expertise of the chartered surveyor.

We propose that the chartered surveyor's report must be:

- dated before installation of the measure; and
- prepared using the revised Ofgem chartered surveyor's report template (Appendix 2). A supplier can use an equivalent declaration form, provided (i) it includes all of the content in the template in Appendix 2, and (ii) it is submitted to Ofgem for approval before first use.

The chartered surveyor who writes this report must:

- be either a chartered building surveyor or a chartered surveyor who has qualified through the residential survey or valuation pathway.
- be independent of the supply chain (this includes independence from the installer, third party agents, surveyors, social housing providers etc, but does not require independence from the supplier);
- personally assess the site on which s/he is reporting.

3. Increased technical monitoring

This proposal relates to:

- Narrow HTTC measures;
- HTTC measures requiring remedial works;
- HTTC measures with non-standard materials or techniques.

We refer to these measures as 'relevant HTTC measures'.

The existing policy for technical monitoring of ECO measures is contained in the ECO Guidance paragraphs 13.7 to 13.39 and the Technical Monitoring Questions are available at: <https://www.ofgem.gov.uk/publications-and-updates/energy-company-obligation-technical-monitoring-questions>. This proposal involves a modification of that existing policy for relevant HTTC measures.

We propose that:

- the size of the initial sample for technical monitoring of relevant HTTC measures increase from 5% to 10%;
- with respect to the extra 5% sample, the ratio of pre:mid:post installation inspections be adjusted to 0:100:0 (i.e. mid-installation inspections be conducted for all monitored relevant HTTC measures);
- with respect to the existing 5% sample, the ratio of pre:mid:post installation inspections be maintained at 0:60:40;
- suppliers report on the technical monitoring on a quarterly basis, in line with the current reporting process; and
- suppliers submit monthly interim reports on the total 10% technical monitoring conducted on relevant HTTC measures, showing the number of passes and fails for each measure type.

The quarterly and interim reports must also include results for any measures which were monitored but were not notified to Ofgem.

The purpose of increasing the technical monitoring requirements for relevant HTTC measures relates to our responsibilities under the ECO Order. As the Administrator of ECO, we have an obligation to attribute savings to completed qualifying actions. Technical and documentary audits undertaken to date have suggested there have been widespread errors in notification of relevant HTTC measures. Due to the extent of the errors identified to date, we require additional assurance that the relevant HTTC measures are as notified before we can approve them as qualifying actions and attribute savings.

The proposal to increase mid-installation monitoring requirements for relevant HTTC measures is expected to:

- deter installation of relevant HTTC measures in properties where the statutory definition of HTTC is not met;
- provide us with a clearer and more representative picture of the types of errors and issues which are occurring in the recommendation and installation of relevant HTTC measures, and the scale at which they are occurring, in order to inform decisions on how best to address these issues;
- provide greater assurance that information being recorded in the reports described under proposals 1. and 2. above is accurate; and
- provide greater assurance that relevant HTTC measures are as notified, in order to enable us to continue to approve these measures as qualifying actions and attribute savings.

If this proposal is confirmed, then following the submission of the first report containing the results of increased technical monitoring (i.e. following 01 Jan 2014) we will review those

results and consider whether it is appropriate to remove, reduce or increase the requirements described above.

Adoption of this proposal: Outcome for measure approval process

The adoption of this proposal would enable us to process all relevant HTTC measures installed from 1 October 2013 in accordance with our standard procedures. Under our standard procedures, we do not wait for the results of technical monitoring or auditing before deciding to attribute savings to measures. Rather we assess measures, applying our standard compliance checks, and approve or refuse savings as necessary. If technical monitoring or auditing later confirms that an approved measure should not have been approved we will revoke our earlier decision to attribute savings.

General information about this consultation

In this consultation we are seeking feedback on the proposal detailed above and the content of the forms in Appendix 1 and 2.

We propose that the requirements listed under the three sub-headings above come into effect for measures completed from 01 October 2013.

Suppliers may wish to implement the practices described above before this date. If so, we will consider applying our standard procedure described above for such measures. However suppliers should note that the practices described above are proposed requirements. We will consider all submissions relating to those proposals and we may modify or abandon the proposals as a consequence of that consideration.

Any new requirements that result from this consultation exercise will supplement, and may modify, the policy set out in the ECO Guidance for Suppliers. The extent of any modification will be clearly explained when the new requirements (if any) are published. The new requirements (if any) will be added to the ECO Guidance when it is next republished.

We are aware of our responsibility to give consultees adequate time to make submissions. We believe it is appropriate to allow 20 working days for submissions to the present consultation exercise. The proposals described above represent minor changes to existing policy, and we consider there is an urgent need to give suppliers certainty on our requirements for demonstrating the characteristics of a cavity to which a HTTC measure has been installed.

Yours sincerely,

Will Broad

Head of ECO