

Email: eco@ofgem.gov.uk

Date: 31 October 2013

Dear ECO Supplier

Energy Companies Obligation (ECO): Hard-to-treat cavity measures installed before 1 January 2014; request for further information

Background

Since the commencement of ECO, suppliers have notified a number of hard-to-treat cavity (HTTC) measures to Ofgem. These notifications have included information about the characteristics of the cavity. This information is used by us to decide whether the measure is a qualifying action for the purpose of the Carbon Emissions Reduction Obligation (CERO).

We have conducted an internal review on a sample of HTTC measure documents across a number of suppliers and commissioned a sample of technical site audits. The results of the document review showed that 35% of the measures had sufficient documentation to support the classification of HTTC. However, the remaining measures did not have sufficient evidence and/or the reported sub-classification of HTTC was incorrect (49%) or did not match any of the HTTC sub-categories (16%). The technical site audits found that, in the majority of cases, the measures inspected did not meet the statutory definition of HTTC. This included some of those measures which had passed the documentation review.

Given these results we are unable to attribute savings to a HTTC measure without first obtaining assurance that the notified information about the cavity is accurate. This is to ensure that consumers are not subsidising measures ineligible for delivery under ECO.

Some of the main issues identified, across suppliers, which caused this uncertainty include:

- measures being notified as a narrow (sub-50mm) HTTC when the evidence suggests that they are 50mm or more;
- conflicting information recorded across documentation, raising concerns that notified measures do not meet the definition of any HTTC sub categories, and confusion regarding which sub category of HTTC a measure was intended to be notified against; and
- incomplete information recorded so that the HTTC sub category cannot be determined/evidenced.

As you are aware, we have consulted on requirements for obtaining this assurance with respect to certain HTTC measures that are installed in future. In this letter we explain our requirements with respect to HTTC measures installed before the date of effect of those requirements, which we have decided should be 1 January 2014¹.

Requirements for measures installed before the date of effect

Our enquiries involved a desk-based document review and a number of site audits. The results of these checks raised a significant degree of doubt about notified HTTC measures and in a number of cases the results of the document review did not correlate with the results of the site audit. This issue has led to the development of the staged requirements detailed below.

The requirements involve:

- a *document review* of all HTTC measures (with an option for more targeted review of measures installed from 1 July 2013) and
- an *independent audit* of a sample of measures which pass this review and
- *site audits* of a small sample of narrow HTTC measures that pass your document review.

The results of your review and independent audit will need to be shared with us to allow us to complete our assessment of these measures and attribute savings as appropriate. More detail on each component is provided later in this letter. We appreciate that this is a significant exercise and we will be happy to answer any questions you have about the best way to go about this.

As a starting point to support you delivering this we will provide guidance on this process and are inviting you to a training session for all suppliers and their auditors at our Millbank offices on 15 November 2013.

Rather than propose a deadline now, we invite you to inform us how long you will need to carry out these requirements. Please inform us by 15 November 2013.

The requirements in this letter apply **only** to measures which are suspended up to the date of effect of the new requirements, and which fall into the categories listed below of HTTC ('relevant HTTCs'). Other types of HTTC measures that are suspended will not be subject to the three stages of review detailed in this letter.

Relevant HTTCs:

- Narrow cavity (see ECO Guidance paragraph 5.14.4);
- Cavities requiring non-standard materials or techniques (see ECO Guidance paragraph 5.14.2);
- Cavities requiring remedial works (see ECO Guidance paragraph 5.14.3).

¹ Where a supplier has adopted additional processes prior to 1 January 2014, then the requirements of this letter apply up until the date the additional processes were adopted.

Document Review

We require you to review the supporting documents for each relevant HTTC measure, for the purpose of verifying that the cavity is as notified to us.

You may conduct this review across:

- 100% of all relevant HTTC measures installed before the date of effect of the new requirements, or
- 100% of all relevant HTTC measures installed before 1 July 2013. We will then review your results from this period, identify areas of risk (if any) and request you to conduct a targeted review of measures installed between 1 July 2013 and the date of effect of the new requirements. The criteria that would be considered for a targeted review may include: installers, month of installation and sub-category of HTTC measure.

This document review may be conducted by you. If you choose to outsource this review we will want an assurance that the reviewer is independent of the supplier, installer and any party involved in the installation or recommendation of the measure.

The document review should be conducted by completing the *HTTC document review spreadsheet* for each measure reviewed. We will provide guidance and training on using the template on 15 November 2013.

The template will automatically generate the 'outcome of review'. The outcome may be expressed as either 'pass', 'reclassify' or 'fail'.

You must send the results of the document review to ECO@ofgem.gov.uk once your review has been completed. Please provide the results broken down by the month in which the measures were installed. At this point there may be some measures that have conditions attached to them via the template. After we have reviewed this, suppliers may continue with satisfying the conditions associated to certain measures. After these conditions have been met then the results should again be submitted to us for review.

Independent audit of document review

Where the document review is conducted by you then you will be required to appoint an independent party to conduct an audit of 10% of all measures for which the outcome of the document review was 'pass' or 'reclassify'. Where the document review has been carried out by an independent party this 10% audit will not be required.

The auditors must be independent from any party involved in the installation or recommendation of the measure. The sample must be representative of the whole population of 'pass' and 'reclassify' measures and this sample will be selected by Ofgem. Auditors should use the *HTTC document review spreadsheet* to conduct their audit. Results of this independent audit must be sent to ECO@ofgem.gov.uk at the same time as they are issued to you by your audit contractor.

We will accept that the results of this independent audit support the results of the document review if less than 5% of measures fail the audit. Based on the results, Ofgem will advise as to whether further auditing of documents is required, or if you may proceed to the site audit stage of this process.

Site audit of narrow HTTC measures

We use the term 'narrow HTTC measure' to describe a measure installed to a cavity which is less than 50mm wide.

Following completion of the full document review and independent verification of your assessment, we require you to commission a site audit of 1% of the narrow HTTC measures that pass the document review. We recognise that a 1% sample is of lower statistical significance than we would usually use. However, we also understand that post-installation site audits are potentially disruptive for the customers concerned and we therefore want to minimise them. It is the responsibility of the relevant supplier to ensure any site audits are conducted with the minimum of inconvenience to customers and appropriate mitigating actions are taken.

The 1% sample should be selected by the independent auditors who will conduct the site audits and be representative of all of the narrow HTTC measures that passed the document review and independent audit of the document review. The sampling methodology must include the range of installers, region in which the measures have been installed, month of installation and sub-category of HTTC.

Please submit the details of the independent auditors to us before any site audits are undertaken. The auditors must have appropriate skills and expertise and be independent of the supplier, installer and any party involved in the installation or recommendation of the measure. The same auditors may conduct the audit on the document review and site audits if they meet these requirements.

This stage of audit will involve site visits to properties to measure the width of the cavity. The cavity may be measured by drilling and measuring or by another appropriate method. The methodology of the sampling basis and the measurement of the cavity width during site audits must be agreed with us before any site visits are conducted. We will review each methodology to ensure that the degree of accuracy is consistent across suppliers. A template for recording the results of the site audits will also be provided at this stage. You should ensure that the method of measuring a cavity does not invalidate any guarantees for the property.

If the results of an initial site audit support the results of the document review and both show that the measure has passed then we will use the outcomes of the document review to continue our assessment of all HTTC measures installed before the date of effect of the new requirements from that supplier². We will accept that the results of site audit support the results of a document review if less than 5% of measures fail the audit. Results of this site audit must be sent to ECO@ofgem.gov.uk at the same time as they are issued to suppliers.

If the results of these site audits do not support the document review, you will then have the option of proceeding in one of three ways:

- Extrapolating the failure rate from the initial site audit;
- Increasing the number of site audits; or
- Increasing the number of site audits and extrapolation of the failure rate.

Information about each of these options is set out below.

Extrapolating the 'failure rate'

For measures where extrapolation of the failure rate is chosen, the process of applying this is illustrated by the following hypothetical case:

- A supplier notifies a group of 1,000 narrow HTTC measures;
- All 1,000 pass the document review;

² But where the initial technical audit verifies that a cavity is not a narrow cavity, we will use that result to assess that measure.

- The supplier completes a site audit on 1% - which is ten measures;
- The maximum allowable failure rate is 5%. Four of the ten measures fail – which is a failure rate of 40%;
- We will attribute savings to the six measures that passed, and reject the four measures that failed;
- We will reduce the total savings attributable to the remaining 990 measures by 40%.

Increasing the number of site audits

Under this option the supplier will commission further site audits across the group of narrow HTTC measures and, depending on the results of each round of additional audits, increase the sample size progressively. A supplier will increase the sample size where the failure rate across the overall sample is 5% or more.

At the end of this process, a supplier may have commissioned site audits for all or part of the group of narrow HTTC measures that passed the document review.

Where the site audits have covered all measures within a group, we will use the results of the site audit alone to assess whether a notified measure meets the statutory definition for hard-to-treat cavity.

Where following escalation of site audits, less than 5% of measures in the overall sample fail the site audit, we will accept that the results of the site audits support the results of the document review³. The failure rate will be the overall failure rate identified across all of the sites audited.

Increasing the number of site audits and extrapolation of the failure rate

Where suppliers choose to commission increased site audits they will be able to take the failure rate from a larger sample and either:

- extrapolate the results across the remaining measures (using the approach to extrapolation described above); or
- introduce targeted extrapolation.

Targeted extrapolation becomes available to a supplier once site audits reach a statistically significant sample where trends could be identified such as across particular installers or time periods. If during assessment of this larger sample it could be identified that measures associated with certain installers or time periods were above the 5% failure threshold (and no other significant causes of failure existed) then the failure rate would be extrapolated across those measures. For example:

- A statistically significant sample of audits was conducted across installers;
- Installer X passed 98% of site audits;
- Installer Y passed 80% site audits;
- The supplier would therefore only extrapolate the failure rate of 20% across measures installed by installer Y. The supplier would not extrapolate the failure rate of 2% across supplier X.

Protection of personal data

When completing the document review and site audits, suppliers should remain alert to the extent to which they are processing personal data and to the principles set out in the Data Protection Act 1998.

³ But where the initial technical audit verifies that a cavity is not a narrow cavity, we will use that result to assess that measure.

Ofgem audit

We may ourselves commission an audit of your document review exercise or a technical audit at any time. Should we decide to do so you must be able to produce the following information to our auditors:

- The documents reviewed for the purpose of a document review;
- The results of the independent audit of the document review;
- HTTC document review spreadsheet;
- Details of site audits.

If our audits show that the results of a document review or site audit are unreliable, we may decide that we are unable to rely on those results for the purpose of assessing measures. Where we still have doubts over the accuracy of the information provided we will be unable to attribute savings to these measures.

Further steps

Please note that the final decision on whether or not to attribute savings to these measures will be made in accordance with our standard compliance checks in light of all relevant information including the information we are requesting under this letter.

It is the responsibility of each supplier to ensure that the information contained in all notifications is accurate⁴ and to manage any third parties involved in delivery. Errors in the notification of completed measures may result in the savings for that measure not being attributed towards a supplier's obligation. We will consider whether enforcement action is appropriate in this case once we have received results of the requirements detailed in this letter.

Please contact Cassie Sutherland (Head of ECO Technical Team) if you have any questions.

Yours sincerely,

Martin Crouch
Deputy Managing Director, E-Serve

⁴ Errors in notification contravene the reporting requirements under articles 16(13) and 23(1) ECO Order.