



Response to ECO 1.2 Guidance for Suppliers consultation

September 2014

Summary

The Combined Heat and Power Association (CHPA) welcomes the opportunity to respond to Ofgem's proposed changes to the ECO 1.2 Guidance for Suppliers. The CHPA is the leading advocate of an integrated approach to delivering energy services using combined heat and power and district heating and cooling.

We broadly support Ofgem's approach that buildings connecting to district heating schemes should meet minimum insulation requirements.

However, Ofgem's approach does not capture the Government's intention to require an economic test for when cost-ineffective insulation would prevent heat network investments from occurring. There is a risk that Ofgem's proposals undermine the entire reason for the policy change: to open up the primary measures to more options.

A key reason for the addition of district heating as a primary measure was that insulation alone may not be the best solution to reducing energy costs and carbon emissions.

In the absence of a cost-benefit analysis for insulation, there is a potential for unlimited costs to achieve a level of insulation before cost-effective district heating measures could be applied. If insulation were required, even in situations where it was unpractical, it would result in neither the insulation measure nor the district heating system being installed. This approach directly contradicts the Government's policy announcement in its response to the 5 March 2014 consultation *The future of the Energy Company Obligation*.

This is particularly relevant in the case of tower blocks with solid walls or hard to treat cavities, where the cost of providing the insulation would often prevent heat network investments from occurring. As a result, an opportunity to cut heat emissions cost effectively may be missed against Government intentions.

We therefore recommend that Ofgem consider economic viability, as determined by a cost-benefit analysis hurdle, as an option when assessing the appropriate level of insulation in dwellings.

Question 1. New CERO primary measures.

The CHPA has no comment.

Question 2. Connections to a district heating system.

Q2a. Do you agree with the reasons we are proposing for judging why any of the roof-space or exterior-facing wall area cannot be insulated?

Ofgem has identified some reasons why insulation measures cannot be taken forward. However, it has excluded the potential for unreasonably high-costs of particular insulation measures which make the subsequent installation of cost-effective heat networks impossible.

This exclusion is despite the fact that the Government's intent was to address economic feasibility, as stated in its response to the 5 March 2014 consultation *The future of the Energy Company Obligation*.

The Government's response to the consultation states:

"Based on responses to the consultation and discussions with industry during the consultation period, requiring the installation of SWI along with retrofitting a heat network could mean that installation of heat networks in many tower blocks would result in the project being no longer cost effective. ***In these instances, this requirement could be considered inappropriate. Consequently, we are considering with the Administrator a test to ensure that installation of SWI is not required in such cases.***"

In such cases where the costs of the insulation would prevent the heat network from occurring, the policy should be implemented through a cost-benefit test. For comparison, a cost-benefit analysis is required under Building Regulations Part L (L1A and L1B) where the feasibility of an insulation measure is tested against a 15 years payback period¹.

The Government's consultation on the proposed energy efficiency regulations under the Energy Act 2011 for the domestic private rented sector also proposes that a minimum payback will be required before the measure becomes mandatory.

Government intention to include economic feasibility as a test

With respect to the modifying ECO regulation, it does not preclude poor economics as a sufficient reason for not insulating a property. The order simply allows that properties do not have to be insulated where premises "cannot be insulated"².

It is our view, therefore, that the practical economic feasibility of a measure falls within the scope of the ECO order within the decision framework and is exactly in line with the Government's intentions, as announced in their March 2014 consultation response.

Without a cost-benefit test to determine economic feasibility, there is an unlimited cost potential for insulation before cost-effective district heating primary measures could be applied. In such cases suppliers will look for more cost effective insulation opportunities elsewhere and the carbon savings from cost-effective district heating solutions will be lost. The result risks higher carbon emissions and higher costs for CERO.

Prohibitive costs for owners/occupiers

Where energy companies may be unwilling to fund insulation measures before installing a district heating system, the prohibitive cost of insulating the property may instead fall on the building's owner before they can take advantage of the lower carbon opportunities provided by a district heating scheme. It is arguably impossible to ignore economic consideration where high cost insulation measures such as external wall insulation measures are involved.

Ofgem's proposal to investigate consent issues except for the ones which are related to financial benefits is overlooking the economic constraints faced by most occupants and owners.

¹ The Building Regulations 2010 and Amendments, Conservation of Fuel and Power

² Draft Statutory Instrument, the Electricity and Gas (ECO) (Amendment) (No.2) Order 2014

Proposed Decision Framework

Therefore, in a budget-constrained environment, we have provided a possible framework for the reasons which should be considered when assessing whether an insulation measure should be required before district heating can be installed as a primary measure:

- Economic feasibility:
 - There are likely significant amounts of building stock which can theoretically receive insulation installations, but the prohibitive costs effectively prevent any action being taken.
 - If funded by Suppliers, onerous insulation work would ultimately be passed on by energy companies to consumers through their bills – so Ofgem is unclear on whether the carbon savings achieved within the scope of its new guidance would be sufficient to offset the impact of insulation works on customers' bills.
 - The Government's response to the March 2014 ECO consultation stated explicitly that insulation should not be required when the requirement would prevent heat network investments from occurring.
 - The Explanatory Memorandum to the Order states that the Government's objective in reviewing the scheme was to ensure that it remains as cost-effective as possible, particularly the CERO element³.
 - To receive an exemption, a cost-benefit analysis would show that the insulation would not be cost effective and would therefore prevent a district heating investment from moving forward.
- Technical:
 - Lack of space, both for outside wall insulation and interior wall insulation; and,
 - Due to the structure of a building (timber framed building).
- Legal in relation with planning consent issues for:
 - Listed buildings which have both internal and external restrictions; and,
 - Buildings located in Conservation Area; and,
 - Property housing a protected species that would be affected by insulation.
- Environmental:
 - Examples include local environmental conditions, such as regular exposure to driving rain.
- Social:
 - Works cause disruption and it may be challenging if dwellings need to relocate during the works; and,
 - Costs and logistical challenges incurred by the need to move large equipment such as boilers or washing machines.

³ Explanatory Memorandum to the Electricity and Gas (ECO) (Amendment) (No.2) Order 2014

Difficulty achieving consents

We would also note that in the proposed requirements, Ofgem does not seem to have fully reflected the current difficulty of securing consents to insulate homes. We develop this argument further in our response to Question Q2f .

Q2b. Are there any other scenarios where the exterior-facing wall area of a premises being connected to a DHS cannot be insulated?

Please see our 'proposed decision framework' provided in response to Question Q2a.

Q2c. How can suppliers demonstrate for compliance purposes that the exterior-facing wall area cannot be insulated?

We would recommend that Ofgem adopts a more pragmatic approach to gathering evidence that premises cannot be insulated.

In general, we would recommend keeping the level of evidence required simple. Consideration could be given to a declaration, signed by the appropriate person, that would mark the main barrier faced (economic/technical/legal/environmental/social). Ofgem may want to consider providing sample declarations.

Therefore, if the barrier is legal, a licensed solicitor would be sufficient. If the barrier is social, a declaration from the owner or occupier would be sufficient. If the barrier is technical, a declaration from an appropriately recognised professional surveyor would be sufficient.

Where planning or environmental legislation criteria are marked by the appropriate person, a letter from the planning authority stating that works are unlikely to be given consent should be sufficient evidence.

Where the economic feasibility is cited (see response to Question Q2a) among the reasons for insulation works not to go ahead in relation with unpractical insulation costs, we would recommend requiring standardised cost-benefit analysis to test this assumption. The cost-benefit analysis could be based on similar requirements already in place for Building Regulations Part L.

Q2d. Are there any other scenarios where the roof-space area of a premises being connected to a DHS cannot be insulated?

Please see our response to Question Q2a.

Q2e. How can suppliers demonstrate for compliance purposes that the roof space area cannot be insulated?

Please see our response to Question Q2c.

Q2f. Are there any additional factors that can affect the decision on whether or not to insulate premises?

Yes. We would like to provide further evidence here on the depth of consent issues that are likely to be found in leasehold properties.

The consent chain in a leasehold building can be complex and involve multiple leaseholders. In addition, leases typically make little provision for improvement works in a building.

The landlord/freeholder relationship works in both ways. Tenants/Lessees cannot typically make improvements without landlord/freeholder consent. A landlord/freeholder might be concerned about future maintenance costs to the building fabric arising from interior wall insulation and could reasonably refuse such works.

These consent challenges should be fully considered and reflected in Ofgem's guidance.

We support your proposal to recognise that tenants who need to move large equipment such as boilers or washing machines should be able to refuse insulation works, as doing so can incur significant costs and logistical challenges. However, it is unclear how a qualitative standard can be set for the level of disruption which would be accepted as a reasonable objection from the occupant.

Q2g. Do you agree that, where the roof-space area or total exterior-facing wall area of the premises are insulated to less than 100% but more than a specified minimum level, a DHS connection should be eligible where the remaining area cannot be insulated?

Yes.

Q2h. Do you agree that this minimum level should be set at 50%?

No. District heating measures are already "primary" measures under the Carbon Saving Community element of the ECO, with installed insulation requirement levels similar to those proposed by Ofgem in this consultation.

Under the existing regulations, very little insulation has been installed, with only 2% of the rural sub-obligation of CSCO carried-out⁴ so far.

The lack of insulation installed under CSCO are reasonable grounds to argue that the requirements are too high to support the delivery of insulation alongside district heating and that more realistic minimum insulation levels are necessary.

Question 3. Compliance with building regulations.

The CHPA has no comment.

Question 4. General comments on the Guidance.

Ofgem has provided a wide definition of a new connection to a district heating scheme. In addition to new connections, these also include:

- Upgrade of existing connections where substantial replacement work is carried out to the plant and/or pipework; and,
- Fuel switching where work is also carried out to the system machinery; and,
- Upgrading a connection to a DH system by installation of heat meters.

The intent of the legislation is to ensure that any home being connected to district heating, defined as installing the heat network infrastructure into the home for the first time, would receive a minimum insulation level.

⁴ The Green Deal: watching brief part 2, Energy and Climate Change Committee, 9 September 2014

When buildings connected to district heating schemes are being improved as a result of a change of energy technology (such as an upgrade to an existing CHP plant, or a change from gas to biomass boiler), the pre-conditions should not be set out in the same way.

It would not be appropriate to require substantial investments in insulation in order to carry forward improvements in metering or generation efficiency. The result would be to prevent incremental improvements to district heating schemes, and subsequently to the heating costs of occupants.

Therefore the requirement to insulate would be appropriate only when a household is making an initial connection to a district heating scheme.

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