Ofgem's consultation on the Energy Companies Obligation: changes to the guidance for suppliers – British Gas' response

19th September 2014

Executive summary

British Gas welcomes the opportunity to respond to Ofgem's consultation on the changes to the Energy Company Obligation (ECO) guidance for suppliers. We also welcome Ofgem's desire to improve the way in which ECO is administered overall. The workshops that Ofgem held during the consultation period were very helpful and informative, and we would like Ofgem to continue to engage stakeholders in the same way going forward. In particular, we believe that allowing contribution from a wide range of stakeholders through group discussion can be very effective in identifying how ECO administration can be simplified. We are also very pleased that Ofgem provided a change marked version of the ECO guidance, which really helped us with communicating the changes to the supply chain.

Despite these positive steps, we have three major concerns with the proposals:

- **The proposed de minimis threshold to wall and roof insulation coverage may lead to additional administrative burden for little added value.** We do not believe that de minimis thresholds are necessary because energy suppliers have strong economic incentives to insulate the maximum area they can, whether or not doing so supports a secondary measure. Further, there is evidence to demonstrate that we rarely support insulation of less than 50% of the wall or roof area. We are concerned that introducing such a requirement would increase additional administrative burden. If Ofgem choose to introduce such thresholds we ask that existing documents for demonstrating compliance be adopted. For more information please refer to our response to Questions 1a) to 1d).
- **There is no provision for using cost-effectiveness and safety as reasons for not insulating premises, or for assessing district heating schemes for compliance on a case by case basis.** District heating schemes are diverse and highly bespoke and Ofgem should not set prescriptive compliance rules up front. Both safety and cost-effectiveness should be valid considerations for judging whether premises are required to be insulated to support a district heating scheme. This is discussed in more detail in our response to Questions 2a) to 2h).
- **The proposal to require direct evidence of compliance with Building Regulations is unnecessary and unworkable**. We believe that compliance with Building Regulations is already evidenced in a number of ways. Ofgem's proposed requirement would lead to a large volume of requests to local building control offices, adding significant further pressure on already strained local authorities. This change would also prevent suppliers from meeting notification deadlines. Self-certification through a competent person scheme could be a way forward in the medium term, but we believe that the long term solution to improving quality of workmanship lies with improving reliability of the Publically Available Specification (PAS). We provide more detail on this in our response to Questions 3a) to 3d).

We believe that the technical monitoring regime can be simplified such that it has realistic targets reflective of the nature of measures and scoring required under ECO. As compliance with relevant standards is already evidenced in a number of ways, we also believe there is merit in assessing whether there is any duplication between existing forms of evidencing compliance and technical monitoring questions. We would be happy to engage with Ofgem in the coming weeks on the scope of technical monitoring and the ways in which it could be simplified.

Question 1
Question 1a): Do you agree that insulation of a cavity wall must be installed to at least 50% of the total exterior-facing wall area of the premises in order to support a secondary measure?
Question 1b): Please give reasons for your answer (including any alternative suggestions for an acceptable minimum level).

De minimis thresholds can be a helpful guide of where to set a benchmark. They are particularly effective if there is a demonstrable need to improve standards or to guard against low performance levels.

Taking account of all installations where de minimis restrictions do not apply (i.e. insulation measures other than solid wall insulation and hard-to-treat cavity wall insulation pre 1st April 2014), our data shows that 0.4% of insulation measures British Gas delivered under ECO to date were installed to less than 50% of the wall or roof area; this demonstrates that even without restrictions the likelihood of us supporting partial measures in general is very low. We believe that a similar proportion of insulation measures installed to less than 50% of the wall or roof area will be found across the industry.

This is driven by the economics of ECO delivery – search and assessment costs are significant, and by the time an opportunity to install a measure has been secured the marginal costs of insulating a larger area are relatively low. ECO scores increase with the area insulated, and cost-effectiveness is heavily driven by the area that is insulated.

We would question what value setting a de minimis threshold adds if the scenario that Ofgem wish to guard against is highly unlikely to happen anyway.

We are concerned that a de minimis area requirement would increase the administrative burden on ECO with little gain. If Ofgem decide to proceed with such a requirement, we ask that the burden is minimised, and that existing documents such as the Declaration of Conformity and Completed Installation Form are used to evidence compliance.

Question 1c): Do you agree that roof-space insulation must be installed to at least 50% of the total roof-space area of the premises in order to support a secondary measure?
Question 1d): Please give reasons for your answer (including any alternative suggestions for an acceptable minimum level).

See our response to Questions 1a) and 1b)

Question 2
We ask Ofgem to consider district heating schemes on a case by case basis and to set out a framework for assessing schemes for compliance. This framework should indicate what types of information Ofgem would require to assess compliance of proposed district heating schemes and the timelines within which Ofgem would conduct the assessment.

Question 2a): 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?

We generally agree with the proposed reasons for judging whether a roof or exterior-facing wall area cannot be insulated but would like to seek clarity on the following:

a) what constitutes reasonable grounds for the occupier to refuse consent; and
b) what criteria Ofgem will use to judge whether the grounds for refusing consent are reasonable. We are concerned that without a clear set of criteria there may be circumstances where Ofgem and the occupier's view of what is reasonable differ.

Question 2b): Are there any other scenarios where the exterior-facing wall area of a premises being connected to a DHS cannot be insulated?

In addition to what Ofgem set out in their guidance consultation, we consider that the following should be added as reasons for judging whether a roof or external-facing wall area cannot be insulated:

1. a risk to the health and safety of an installer that cannot be acceptably managed – which could be supported by a local authority declaration
2. where it is not cost-effective to do so – which could be supported by calculations

Question 2c): How can suppliers demonstrate for compliance purposes that the exterior-facing wall area cannot be insulated?

In terms of evidencing, we consider that where the occupier has not given consent to installing insulation, a written confirmation from that person stating the reason for refusing consent should be sufficient. We would suggest that the Declaration of Conformity and Completed Installation Form is used for that purpose. A charted surveyor report could be used to evidence that there are technical reasons preventing installation. Where insulation requires planning permission (e.g. because a building is listed), a local authority letter could be used to evidence that planning permission has not been given.

Question 2d): Are there any other scenarios where the roof-space area of a premises being connected to a DHS cannot be insulated?

See our response to Question 2b)

Question 2e): How can suppliers demonstrate for compliance purposes that the roof space area cannot be insulated?

See our response to Question 2c)

Question 2f): Are there any additional factors that can affect the decision on whether or not to insulate a premises?

We believe that cost-effectiveness should be a factor as there are likely to be potential future schemes that may not proceed if the rule around minimum insulation levels is introduced, particularly in relation to wall insulation. This is because local authority financial constraints may mean that they could not afford the insulation measures at that point in time, and from a carbon saving perspective it would not be cost-effective for an energy supplier to support such installations under ECO. We believe that in the circumstances where a local authority or housing provider is unable to support external wall insulation before or at the same time as a district heating scheme, it should be for the local authority or housing provider to determine whether such a district heating scheme would still be beneficial to their residents in terms of bill reduction and

improved comfort, and on that basis judge whether the scheme without insulation should go ahead. We are of the view that local authorities or housing providers are best placed to make an assessment of whether and how the scheme would benefit their residents.

Below we provide an example of a district heating scheme where it has not been possible for a local authority to support external wall insulation, and where the measure fails a supplier cost-effectiveness test.

This example shows that added carbon saving from external wall insulation is 63,990 - 63,180 = **810tCO_2**. Therefore the marginal cost of carbon from external wall insulation is over £3,700/tCO_2 on the basis of external wall insulation costing £5k per flat (i.e. £3m across the scheme). A less extreme picture would be seen with gas district heating, where following the same calculations as below the marginal cost of carbon for external wall insulation would be £360/tCO_2. While lower, this is still considerably more than delivering the district heating scheme in question without external wall insulation at around £105/tCO_2.

Example – biomass district heating on 600 high rise flats replacing electric heating (where the flats do not have insulation)	
No external wall insulation District heating ECO score Typical heat load and carbon per flat before – 8MWh/yr; 4.1tCO_2/yr Typical heat load and carbon per flat after – 7.2MWh/yr; 0.2tCO_2/yr ECO Lifetime Carbon Saving = (4.1 – 0.2)*30*0.9 (IUF) x 600 flats = **63,180tCO_2**	External wall insulation installed before district heating Insulation ECO score Typical heat load and carbon per flat before – 8MWh/yr, 4.1tCO_2/yr Typical heat load and carbon per flat after – 5.8MWh/yr, 3.0tCO_2/yr ECO Lifetime Carbon Saving from insulation = (4.1 – 3.0)*36*0.75 (IUF) x 600 flats = **17,820tCO_2** District heating ECO score Typical heat load and carbon per flat before – 5.8MWh/yr, 3.0tCO_2/yr Typical heat load and carbon per flat after – 5.3MWh/yr; 0.15tCO_2/yr ECO Lifetime Carbon Saving = (3.0 – 0.15)*30*0.9 (IUF) x 600 flats = **46,170tCO_2** Total ECO Lifetime Carbon Saving = **63,990tCO_2**

One way of setting a cost-effectiveness test would be to include a monetary ceiling for the cost of carbon. This could be based on the marginal cost of abating a tonne of carbon from offshore wind, currently set at 8.9p/kWh. The advantage of this approach is that the marginal cost of abating a

tonne of carbon would be set by DECC and be consistent with how RHI tariffs are set. We could then undertake this calculation and apply to Ofgem for exemption from the insulation requirement if insulation fails that cost-effectiveness test.

We suggest that any such test would be effective from 1st April 2015, which is in line with government's view expressed in their response to the Future of ECO consultation[1], and that Ofgem should consult on what that cost-effectiveness test should be either in parallel to this consultation or as part of its ECO 2 guidance consultation.

For premises, not including those within a multi-storey building which is not located on the top floor
Question 2g): 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?

We agree that buildings where less than 100% of the wall or roof area has been insulated should be eligible to receive district heating under ECO. This is because there are many valid reasons why a roof space or wall area cannot be insulated, many of which cannot be foreseen and only become apparent once scheme details are known.

We ask that Ofgem adopt a case by case approach to assessing compliance of district heating schemes. This would mean that instead of setting specific rules about acceptable insulation levels and defining reasons for not insulating a wall or roof area, Ofgem could determine during an ex ante assessment whether insulation levels should be increased before a district heating installation can go ahead.

Question 2h): Do you agree that this minimum level should be set at 50%?

As discussed in our response to Question 1, we would question the necessity of having a de minimis threshold for insulation. In our response to Question 1, we explained why energy suppliers have every reason to support insulation of an entire wall or roof area where it is cost-effective to do so.

Question 3
Question 3a): Do you agree with our proposal to require evidence that the installation of a measure complies with Building Regulations? Please give reasons for your answer.

We do not agree with Ofgem's proposal to require direct evidence of compliance with Building Regulations as we believe that there is already sufficient assurance that measures such as cavity wall insulation, solid wall insulation, boilers and glazing are installed in compliance with Building Regulations. This is already a requirement for installers operating under PAS2030. Furthermore installers operating under Gas Safe or through a competent person scheme already self-certify compliance. Insulation measures such as cavity wall insulation and solid wall insulation are required to be supported by an appropriate guarantee. Obtaining a guarantee like CIGA or SWIGA is conditional upon an installation being inspected and deemed compliant with Building Regulations.

1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/342178/The_Future_of_the_Energy_Company_Obligation_Government_Response.pdf

It is important that our ECO customers enjoy a positive experience and benefit from good quality installations. Based on technical monitoring results to date we agree that there is some room for improvement, and this would benefit our ECO customers. However we would like to point out that there is no correlation between technical monitoring questions and demonstrating that an installation complies with Building Regulations. The technical monitoring questions do not relate to compliance with Building Regulations and technical monitoring failures are not equal to non-compliance with Building Regulations. We would therefore question whether focusing on compliance with Building Regulations and asking for another declaration would really solve the challenges highlighted through the technical monitoring results.

We are concerned that this proposal would introduce further inconvenience of another site visit to customers' homes.

We are also concerned that Ofgem's proposal to require a building control certificate is unlikely to align with one month notification deadlines, and may potentially deem thousands of measures non-compliant if the certificate cannot be produced at notification. Our experience suggests that it can take several months to gain a building control certificate, and that timings for obtaining one varies between local authorities. We are of the view that this requirement would place further burden on local building control offices as we are aware that many local authorities already struggle with the current workload. Given the impact of this proposal on local authorities, we are concerned that they have not been sufficiently exposed to this consultation to express their views on whether and how this would work in practice.

Question 3b): If this requirement was introduced, how could compliance be demonstrated?

Where Ofgem believe that there is a gap in evidencing compliance with Building Regulations for specific measures, we think that the only workable medium term solution would be for energy suppliers to evidence that installers self-certified an installation under a competent person scheme. This is because such schemes were originally created to relieve pressure on local building control offices and should be considered fit for purpose. While this solution could work in England and Wales, we would question how this requirement would work in Scotland where such schemes do not exist.

Question 3c): Are you aware of any other means of evidencing compliance with building regulations other than those listed (for either the installation or the product and system, or both)? If so, please provide details.

No

Question 3d): Do you think we should introduce this requirement from the date version 1.2 of the guidance takes effect or for the next ECO obligation period (2015-2017)? Please give reasons for your answer.

We believe that rather than introducing additional requirements the only long term solution to improving quality of workmanship lies with improving reliability of PAS. While self-certification under a competent person scheme can play a role in the medium term there is a risk that those installing non-compliant measures will continue to do so and self-certify compliance. The problem of poor workmanship needs to be addressed at its core - with the accreditation body and installer community. ECO is only one element of the industry, and addressing the problem more broadly would ensure that all customers, not just those receiving measures through ECO, benefit from it. We suggest both Government and Ofgem should liaise with the accreditation body, installers and their trade associations to understand what immediate steps can be taken to address quality of workmanship, and develop a joined up action plan for improvement.

One way of improving reliability of PAS would be to improve the scheme such that if installers are found not to comply with Building Regulations, they are stripped of accreditation. We are currently unclear on recourse taken against installers found to be non-compliant.

Question 4:
Question 4a): Please provide any further comments on the changes to our DRAFT guidance document (version 1.2).

The ECO guidance is a useful tool in helping energy suppliers to interpret the ECO legislation. Over the past few years the ECO guidance has evolved and no longer seems to differentiate between legislative requirements and Ofgem's interpretation of those requirements. It would therefore be helpful if the ECO guidance clearly stated which requirements are legal requirements and which ones have been developed by Ofgem to help energy suppliers with the interpretation of the ECO Order.

In light of Ofgem's proposal discussed in Question 3, we ask Ofgem to consider the role of technical monitoring, in particular:

- whether it is the right tool to demonstrate whether measures have been installed in accordance with relevant standards
- how it aligns with the requirements of the ECO Order
- to what extent it overlaps with any other evidence that energy suppliers are required to submit to Ofgem
- whether it has realistic targets reflective of the nature of measures and scoring required under ECO

We ask Ofgem that the scope of technical monitoring and its rates are reviewed as part of Ofgem's consultation on ECO 2 guidance. We would be happy to engage with Ofgem in the coming weeks on how the scope of technical monitoring could better reflect the nature of measures and how they are scored under ECO, and on how technical monitoring could be simplified in general.

We would also like to seek clarity on the following:

a) when the latest list of CSCO, CSCO Rural and CSCO Adjoining Postcodes will be available
b) the exact process for converting ECO scores calculated using SAP/RdSAP v9.92 to CO_2 savings