
ECO2 Appropriate Methodologies
Department for Business, Energy & Industrial Strategy -
Ofgem
RPC rating: validated

Description of the measure

Ofgem has produced a number of guidance documents to assist energy suppliers in complying with the requirements of the ECO scheme. Each of these documents provides useful information on how to “notify” Ofgem correctly about measures taken under the ECO scheme. The term “notify” as used in this context means to submit information that Ofgem needs in order *“to assess the measure’s eligibility and, if approved, for it to count towards a supplier achieving their obligation”*.

The guidance on Appropriate Methodologies provides a brief list of methodologies used to calculate carbon savings that have been approved by Ofgem. Details of the methodologies are set out elsewhere.

Impacts of the measure

The BIT assessments state that 12 energy suppliers would have to read the guidance.

Ofgem states that costs of compliance with the ECO scheme were calculated by the Department for Business, Energy and Industrial Strategy (BEIS) in a separate impact assessment (IA). Therefore, all assessments focus on familiarisation cost only.

The familiarisation cost of this 1 page guidance was estimated at £33.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of zero. This will be a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

The regulator has provided clear and proportionate assessments of the impacts of the guidance.

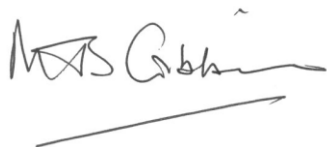
To improve the assessments, the regulator could have provided a slightly more detailed discussion on the benefits of the guidance documents.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	Zero
Business net present value	Zero

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	Zero
Business Impact Target (BIT) Score ¹	Zero



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Code Governance Review (Phase 3) final proposals

Department for Business, Energy and Industrial Strategy - Ofgem

RPC rating: **validated**

Description of proposal

The Code Governance Review (CGR) final proposals introduced a number of reforms to the governance of industry codes. Their purpose was to make sure that they worked in the best interests of consumers. They included measures in the following areas:

Self-governance process – requiring Code Administrator Bodies (CABs) to work together to produce guidance that can be applied across codes to help industry to assess whether a proposal should follow a self governance route.

Code administration – includes a requirement for CABs to develop a forward work plan to enable CABs to manage change at a strategic level (e.g. significant changes which impact on the gas and electricity industries such as smart metering or faster switching).

Code metrics – setting out that the Code Administration Code of Practice (CACoP) quantitative metrics needed to improve and to have greater visibility, in particular that the code administrators will report on a series of qualitative and quantitative metrics.

Impacts of proposal

The proposal will affect six industry CABs, 11 industry code governance panels and industry participants in the gas and electricity markets (62 electricity suppliers, 148 electricity generators and 248 gas shippers).

Using wage data from the ONS (with adjustments for non-wage labour costs) and data on average reading speeds, the assessment monetises familiarisation costs to these affected bodies. Overall, this amounts to around £11,000, mainly in respect of 'self-governance process'.

The regulator has monetised on-going cost of under £1,000 to CABs of providing data for the code metrics. The assessment explains that it does not hold data to

estimate on-going costs associated with the other measures and considers it disproportionate to carry out a survey to obtain it.

Quality of submission

Given the very low expected cost of the proposal, the regulator has provided just sufficient information for the RPC to be able to validate an EANDCB of £0.0 million. The assessment would have benefited from providing at least a more detailed qualitative assessment of the likely scale of the non-monetised costs, such as the development of the forward work plan under 'code administration'. The RPC does not accept that the regulator has demonstrated that the cost of producing the guidance document under 'self-governance process' will be "*offset by the long-run benefits it generates in the form of facilitating the self-governance process onwards*". However, on balance, the RPC accepts that these costs are unlikely to affect the validated EANDCB in this case.

The assessment includes a reference to "*network companies are monopolies and therefore excluded from the BIT scope under the administrative exclusion F Pro-Competition*". This statement has not been substantiated, although it does not appear that the regulator has actually excluded any such costs from the assessment. Any future submissions that claim exclusion under pro-competition grounds will need to demonstrate either that the BRFM tests have been applied or that the measure implements a CMA order addressing an adverse effect on competition.

Departmental assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£0.0million
Business net present value	£0.0 million

RPC assessment

Classification	Qualifying regulatory provisions
EANDCB – RPC validated ¹	£0.0 million
Business Impact Target (BIT) Score ¹	£0.0 million

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.



Martin Traynor OBE, FIH, committee member

To avoid any potential/perceived conflict of interest, committee chairman Michael Gibbons did not participate in the scrutiny of this case.

ECO2 guidance documents: Determining domestic premises and ‘room in roof insulation’

**Department for Business, Energy and Industrial Strategy -
Ofgem**

RPC rating: validated

Description of proposal

This validation statement covers two business impact target (BIT) assessments produced by Ofgem on guidance documents relating to the Energy Company Obligation (ECO) scheme. These are (RPC case reference numbers in parentheses):

- i) Determining domestic premises (*RPC-3784(1)-DECC-Ofgem*).
- ii) Room in roof insulation measures under ECO (*RPC-3786(1)-DECC-Ofgem*).

The first guidance note is to help suppliers to determine whether a site falls in the category of domestic premises, as defined by the ECO scheme legislation. One of the energy efficiency measures that suppliers can install and notify under ECO is ‘room and roof insulation’. The guidance under ii) provides suppliers, for example, with information to identify exactly the parts of the roof that have to be insulated for the measure to be correctly notified as 100 per cent installed.

The guidance documents appear to update existing guidance to take account of any changes associated with the replacement of ECO1 with ECO2. They are only four and three pages long, respectively.

Impacts of proposal

The assessments consider that the only impact will be familiarisation costs to 12 obligated suppliers. This cost is monetised using evidence from a study on reading speeds and ONS data on wage rates of managers and professionals. This results in aggregate estimates of £259 and £194, respectively.

Quality of submission

As initially submitted, Ofgem’s assessments were not considered to be fit for purpose. This was on the basis that the assessments stated that installers and managing agents also would have to read the guidance but did not monetise this cost, or provide evidence that these costs had already been taken account of in

departmental IAs. The regulator's revised assessments include extracts from two departmental IAs on ECO and argue that costs to installers and managing agents of reading the guidance have already been accounted for in departmental IAs.

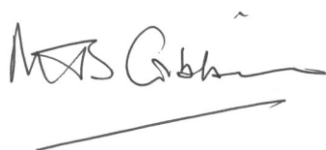
The regulator's assessments are now just sufficient. Familiarisation costs to installers and managing agents appear likely to have been addressed in the recurring administrative costs of the ECO1 scheme, as indicated by the first IA extract, or under supplier delivery costs, as indicated by the second IA extract. Given the brevity of the guidance documents, costs to installers and managing agents are likely to be very small. The regulator's assessments would benefit significantly from providing reference to the scope of familiarisation costs in the ECO2 IA.

Departmental assessment of both guidance documents

Classification	Qualifying regulatory provisions
Equivalent annual net cost to business (EANCB)	£0.0million
Business net present value	£0.0 million

RPC assessment¹ of both guidance documents

Classification	Qualifying regulatory provisions
EANCB – RPC validated	£0.0 million
Business impact target score	£0.0 million
RPC rating (of initial submission)	Not fit for purpose



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

ECO2 data dictionary and notification template

Department for Business, Energy and Industrial Strategy - Ofgem

RPC rating: validated

Description of proposal

The Energy Company Obligation (ECO) scheme requires larger suppliers to deliver a certain amount, depending on market share, of energy efficiency measures to households across Great Britain. The data dictionary provides information to assist suppliers when they complete their monthly notifications of energy efficiency measures under ECO2. The notification template is what suppliers need to use for this. These documents were published in line with the start of ECO2 in April 2015 but have updated and re-published in order to ensure suppliers had early sight and understanding of how they should notify measures during the ECO2t extension year (31 March 2017 – 30 September 2018).

Impacts of proposal

Energy suppliers obligated under the ECO scheme, i.e. those serving more than 250,000 domestic customers and providing more than 400 gigawatt hours of electricity or more than 2,000 gigawatt hours of gas, will be affected. This applies to 12 energy suppliers. The regulator considers that the only cost will be familiarisation. Using evidence from a study on reading speeds and ONS data on wage rates of managers and professionals, this results in a one-off cost of £1,361. The assessment describes qualitatively the benefits of the guidance.

Quality of submission

The regulator's assessments appear to be proportionate given the very low expected cost. The estimates seem reasonable as the new guidance documents update previous documents to incorporate the changes to ECO2t.

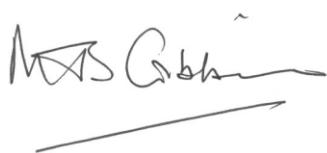
Departmental assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£0.0million

Business net present value	£0.0 million
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RPC assessment

Classification	Qualifying regulatory provision
EANDCB – RPC validated ¹	£0.0 million
Business Impact Target (BIT) Score ¹	£0.0 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Supplier guaranteed and overall standards of performance reforms

Department for Business, Energy and Industrial Strategy - Ofgem

RPC rating: validated

Description of proposal

The Guaranteed Standards (GS) and Overall Standards of Performance (OS) required energy suppliers to meet specified standards when they had certain interactions with customers. The proposal replaces this with a single revised GS regime providing performance standards on: making and keeping appointments (in relation to domestic and microbusiness customers); fixing faulty meters and faulty prepayment meters (in relation to domestic customers); reconnection after disconnection for unpaid charges (in relation to domestic customers). It also increases compensation payments from £22 to £30 for each failure to comply with the GS and requires suppliers to publicise on their website how they perform against the GS.

Impacts of proposal

The proposal affects all (48) domestic suppliers and (16) suppliers to microbusiness customers.

Costs. Using wage data from the ONS (with adjustments for non-wage labour costs) and data on average reading speeds, the assessment monetises familiarisation costs of £676. More significantly, the reporting requirement is estimated to cost £58,800 each year. This is based upon this taking two person days each quarter across the total number of suppliers (minus the 'big six' that are already required to do this).

Benefits. GS and OS being replaced by a single revised GS is expected to result in savings to the 'big six' energy suppliers in reporting costs. Based upon an assumed halving of the time taken, the savings are estimated at £6,000 each year.

Overall, the regulator, therefore, reports an EANDCB of £0.05 million.

Quality of submission

The regulator has provided sufficient information for the RPC to be able to validate a (rounded) EANDCB of £0.1 million. The assessment could be improved in a number of areas, outlined below, but the RPC accepts that these are unlikely to affect the validated EANDCB figure. (The presently monetised net cost would need to triple to round to a higher EANDCB).

The assessment acknowledges that suppliers may have to hire more engineers to meet requirements of having to visit consumers to restore supply, or take other action that will allow them to restore supply, within 3 hours on a working day (and 4 hours on a non-working day). However, it states that suppliers have not provided any information that would enable Ofgem to estimate this. Nevertheless, the assessment would benefit from some further discussion of the likelihood of suppliers needing to do this and the likely overall scale of cost.

The aggregate impact of the increase in compensation payments is not assessed. Although this cost is arguably borne by non-compliant businesses, the assessment would benefit from some analysis of this impact.

The assessment would benefit generally from setting out the evidence base for its assumptions, such as the basis for the estimate of how long it currently takes the 'big six' to comply with reporting requirements.

Departmental assessment

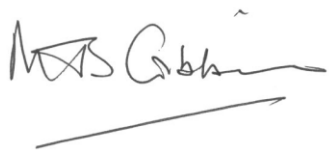
Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£0.05 million
Business net present value	-£0.27 million

RPC assessment

Classification	Qualifying regulatory provision
EANDCB – RPC validated ¹	£0.1 million
Business Impact Target (BIT) Score ¹	- £0.5 million

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: domestic
RPC reference number:RPC-3787(1)-DECC-Ofgem
Date of implementation: 1 January 2016



Michael Gibbons CBE, Chairman

Smart meters observations on roll out

Department for Business, Energy & Industrial Strategy - Ofgem

RPC rating: validated

Description of proposal

Energy suppliers are required to take “all reasonable steps” to ensure that smart meters are rolled out, by 2020, to all their customers. In response to feedback from suppliers and to Ofgem’s own experience of an earlier similar roll-out, Ofgem has issued open letters setting out difficulties experienced by some suppliers and suggesting approaches to managing those difficulties. The intention of the letters is to allow suppliers to reflect on the experiences of others and improve their approach to delivery of the roll-out throughout the period.

Impacts of proposal

Using standard assumptions about reading speeds and professional salaries, Ofgem estimates the total one-off familiarisation costs, associated with reading the letters and understanding their implications, at £852. It argues that the costs of improving individual suppliers’ delivery approaches can be neglected for the purposes of this assessment because:

- (a) They are consistent with earlier messaging and guidance on the approach which suppliers should take to the roll-out, and have already been costed within Defra’s analysis of the costs and benefits of the smart meters scheme.
- (b) The letters themselves are, in any case, permissive – suppliers will only take action where they consider that the benefit of mitigating the risk of failing to meet their regulatory obligation exceeds the cost.

Quality of submission

As originally submitted, the impact assessment was not fit for purpose because it did not explain clearly why it was not appropriate to include the costs of improving individual suppliers’ delivery approaches. The RPC was, therefore, unable to verify that all the costs to business had been properly taken into account. The regulator has now set out clearly how each provision in the letters relates to earlier guidance and requirements and has also drawn attention to the elements of Defra’s analysis

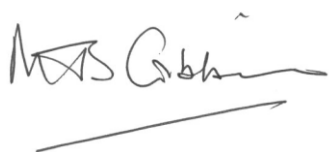
that encompass any activity undertaken as a result of the letters. On this basis, the RPC is able to validate the proposed EANDCB of zero.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	£0.0 million
Business net present value	£0.0 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	£0.0 million
Business Impact Target (BIT) Score ¹	£0.0 million
Small and micro business assessment	Not required



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

ECO2 transition guidance documents: boiler assessment checklist; electric storage heater assessment checklist; delivery and administration; help to heat

**Department for Business, Energy and Industrial Strategy -
Ofgem**

RPC rating: validated

Description of proposal

This validation statement covers four business impact target (BIT) assessments produced by Ofgem on guidance documents relating to the Energy Company Obligation (ECO) 2 transition scheme. These are (RPC case reference numbers in parentheses):

- i) Boiler assessment checklist (*RPC-DECC-Ofgem-4059(1)*).
- ii) Electric storage heater assessment checklist (*RPC-DECC-Ofgem-4060(1)*).
- iii) Help to heat guidance note (*RPC-DECC-Ofgem-4062(1)*).
- iv) Guidance: delivery and administration (*RPC-DECC-Ofgem-4061(1)*).

Guidance documents (i), (ii) and (iii) relate to the Home Heating Cost Reduction Obligation (HHCRO) of ECO. The first two are checklists to help operatives assess whether a boiler or an electric storage heater should be repaired or replaced as a qualifying boiler or heater under HHCRO. Guidance document (iii) is a note to help suppliers establish evidence for 'help to heat group' eligibility under HHCRO. Item (iv) consists of two guidance documents. One explains to suppliers how to deliver energy efficiency measures that are eligible to contribute towards the ECO targets. The other provides information on how the ECO team administers the scheme and the processes used for verification of information.

Impacts of proposal

The assessments monetise the familiarisation costs to the 15 obligated energy suppliers under the ECO scheme. The estimates are calculated using ONS Annual Survey of Hours and Earnings wage data and data on average reading speeds. Across the 15 suppliers, they range from around £300 (for measure (i)) to just over £3,000 (for measure (iii)). These figures round to zero for BIT purposes.

The regulator's assessments note that businesses down the supply chain, such as installers and managing agents, are also likely to have to familiarise themselves with the documents. The assessments provide references to BEIS/DECC impact assessments (IAs) relating to the ECO scheme overall where they consider that these costs have been captured.

Quality of submission

The regulator's assessments are sufficient. The insertion of appropriate references to departmental IAs is consistent with Ofgem's corrections to previous BIT assessments. Familiarisation costs to installers and managing agents appear likely to have been addressed in the recurring administrative costs of the ECO1 scheme, as indicated by the first IA extract, or under supplier delivery costs, as indicated by the second IA extract. The BIT assessments would, however, benefit from providing reference to the scope of familiarisation costs in the ECO2 IA.

The BIT assessment for 'Guidance: Delivery and Administration' includes an adjustment to the hourly wage figure to allow for non-wage labour costs. This adjustment should be applied in the other three assessments, although its absence does not affect the rounded EANDCB figures.

Departmental assessment

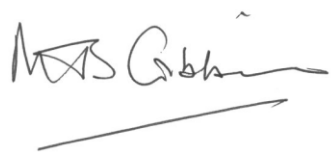
Classification	All qualifying regulatory provisions
Equivalent annual net direct cost to business (EANDCB)	All £0.0million
Business net present value	All £0.0 million

RPC assessment¹

Classification	All qualifying regulatory provisions
EANDCB – RPC validated	All £0.0 million
Business impact target score	All £0.0 million

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: domestic
RPC reference number:RPC-4059(1) to 4062(1)-DECC-Ofg...
Date of implementation: 1 April 2017



Michael Gibbons CBE, Chairman

Transferring responsibility for approving meter installers under the Supply Point Administration Agreement

Department for Business, Energy & Industrial Strategy - Ofgem

RPC rating: validated

Description of proposal

Gas suppliers are required to ensure that any meter installed or subsequently inspected is installed or inspected by a person approved as being competent for that task. The approval of such persons has, historically, been carried out by a service provider hired by Ofgem. The contract for the current service provider is up for renewal, and Ofgem has chosen to transfer the responsibility for procuring and managing the service provider to SPAA Ltd, an industry body supported, collectively, by the gas suppliers. This aims to ensure robust governance of the agreements between gas suppliers and Ofgem.

Impacts of proposal

199 gas suppliers will be affected by the decision; they will collectively incur the costs of procuring and managing the service provider, together with some familiarisation costs associated with reading the guidance document setting out the change. Ofgem argues that suppliers should also receive some efficiency gains, as a result of managing the service provider alongside other activities with which it has some overlaps.

The regulator estimates the total one-off costs of familiarisation with the new arrangements at £2,587, using standard assumptions about reading speeds and appropriately uprated ASHE salary data. Based on its own experiences, it estimates the total costs of procuring and managing the contract at around £335 per annum, though it notes that the costs experienced by SPAA may be different if the body's approach to procurement and contract management differs.

Quality of submission

As originally submitted, the impact assessment was not fit for purpose, as it did not consider the costs of procuring and managing the contract. Ofgem has now estimated these costs, based on its own experience of managing this contract. It properly notes that SPAA may experience different costs if it takes a different

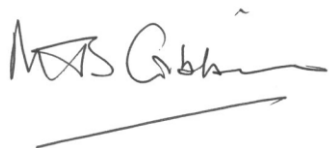
approach to project management, but such costs would have to vary very considerably to alter the EANDCB. For this reason, the RPC is now able to validate the (zero) EANDCB presented. The assessment is otherwise clear, concise and proportionate.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	£0.0 million
Business net present value	£0.0 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	£0.0 million
Business Impact Target (BIT) Score ¹	£0.0 million
Small and micro business assessment	Not required



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Changes to Capacity Market rules 2015; changes to Capacity Market rules 2016;

Ofgem

RPC rating: validated

Description of proposal

The Capacity Market is one of the Government's key mechanisms to ensure security of electricity supply. Participants in the scheme receive payments to take on 'capacity agreements'. These agreements require them to generate electricity, or reduce their demand for electricity, when required. The Capacity Market Rules set out how participation in the Market works.

This Opinion covers two sets of changes to the Capacity Market Rules, each of which has a small but non-zero EANDCB. Each covers a large number of amendments made in response to proposals from industry, as part of a regular consultation process. The 2015 set includes 37 individual changes and the 2016 set includes 28 individual changes.

Impacts of proposal

Currently 173 businesses are in scope of the 2015 set and 210 businesses are in scope of the 2016 set. Ofgem notes that the number of market participants may change in future years, but does not have sufficient information to support a trend analysis or predict the direction of change at this stage. The regulator does not describe the changes in detail, but argues that all of the proposals selected have costs and benefits which fall into two broad categories:

- familiarisation costs; and
- additional costs of compliance and offsetting business efficiency savings.

Ofgem also offers some examples of specific changes to illustrate these costs and benefits, such as requiring applicants to provide legal evidence of a right to use

affected land, or streamlining the application process by requiring applicants to provide fewer documents.

For the 2015 set, familiarisation costs total £6,625; Ofgem estimates annual compliance costs at £121,163 and efficiency benefits at £185,782.

For the 2016 set, familiarisation costs total £8,770; Ofgem estimates annual compliance costs at £94,715 and efficiency benefits at £389,329.

Quality of submission

The assessments are concise and clearly set out the broad thrust of the changes. They do not describe the individual measures or calculate costs and benefits in detail, but would benefit from a summary table setting out each change and the scale of costs and benefits.

The assessment assigns each measure to a high, medium, or low impact category for both costs and benefits, and uses a single unit cost to estimate each category, which is scaled by the number of applications affected by the change. This seems proportionate to the scale of the overall impact, but again, the IA would be much improved by a brief summary of the evidence underpinning the estimates applied to each category.

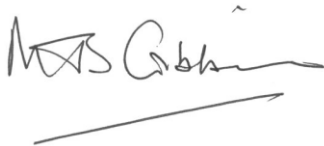
Departmental assessment

Classification	All Qualifying regulatory provisions
Equivalent annual net direct cost to business (EANDCB)	‑£0.1 million (2015); ‑£0.3 million (2016)
Business net present value	£0.3 million (2015); £1.39 million (2016)

RPC assessment

Opinion: EANDCB validation
 Origin: domestic
 RPC reference number: RPC17-DECC-OFGEM-3876 3877
 Date of implementation: see table

Classification	All Qualifying Regulatory Provisions
EANDCB – RPC validated ¹	-£0.1 million (2015); -£0.3 million (2016)
Business Impact Target (BIT) Score ¹	-£0.5 million (2015); -£1.5 million (2016)



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

Decision to make modifications to the gas and electricity supply licences to reform the switching process for indebted prepayment meter customers using the Debt Assignment Protocol

**Department for Business, Energy & Industrial Strategy -
Ofgem**

RPC rating: validated

Description of proposal

The Debt Assignment Protocol (DAP) allows customers of energy companies using pre-payment meters (PPM) to switch suppliers when they are in debt with their current supplier. Under the current arrangement, suppliers cannot prevent customers with a debt level of under £200 from switching. The new measure would increase this threshold to £500.

The objective of the change is to make switching easier for indebted customers.

In addition, Ofgem has published new guidance on Social Obligation Reporting (SOR), which simplified reporting requirements related to the number of PPM customers in debt.

Impacts of proposal

The BIT assessment states that 22 energy suppliers would be affected by the changes to SOR guidance. Only 16 of those would be affected by the increase in the DAP threshold, as 6 major energy companies voluntarily adopted the higher threshold in November 2012.

Costs identified by the Regulator included:

- transitional costs related to updating internal processes
- familiarisation costs
- recurring costs related to handling greater numbers of customers switching accounts.

Based on the number of switches between the 6 major companies adopting the new threshold voluntarily in 2012 and 2013, Ofgem estimates that, as a result of the policy, an additional 125 switches per company every year will occur. As this number

applies to large companies it is multiplied by 13% (reflecting the market share of these companies) and then by 16 (the number of companies affected by the change); this gives, as a consequence of the increase, 260 additional switches.

The assessment does not provide an estimate for the cost of switching as it claims that calculating this would not have been possible. Ofgem assumes that it would be minimal as the additional 260 switches per year constitute a marginal fraction (0.004%) of all switches handled by energy suppliers every year (6.3 million); this assumption appears reasonable.

The BIT assessment does not monetise the transitional costs related to making adjustments to internal processes; it is assumed that they would be negligible as they are only likely to involve minor adjustments to databases and internal and external documents.

Total costs of familiarisation with “*the Decision document*” (which includes the amendments to the revised guidance) are estimated at £605. This is based on the assumption that it takes 20 minutes to read this document, that it will be read three times for understanding and that the weekly wage of a “senior regulatory official” is £700-£800 (excluding non-wage cost uplift).

Using data on the savings from switching to customers on dual tariffs (£300 per customer per year), the BIT assessment gives an indicative estimate of the benefit of the measure. On a conservative assumption of 366 switches a year (for gas customers only) the annual total benefit to consumers is estimated at £38,000.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of zero. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

The analysis presented in the BIT assessment is clear and concise. The methodological approach and assumptions are presented in an accessible way. The approach taken to preparing the assessment appears proportionate.

The assessment would have benefited from a more detailed discussion of the number of switches likely to take place each year. The estimate of the number of customers deciding to switch every year is based on only two years of historical data, which make this estimate relatively uncertain. This uncertainty should have been addressed in the assessment.

A more detailed explanation of the difficulties in estimating the cost to suppliers of handling new customers would also have improved the assessment. The same

applies to the treatment of transitional costs which are only briefly discussed in the assessment.

The assessment correctly identifies benefits that this measure could bring to customers. The analysis should, however, have discussed any related loss of profit to energy suppliers. It should also have considered whether benefits to customers and costs to companies could be classified as indirect impacts. Based on the estimates presented in the assessment, additional cost, if included, would have been unlikely to change the EANDCB materially – so, in this instance, we are still able to validate the BIT score. However, the assessment should have analysed the conditions under which the total annual cost would increase to over £50,000.

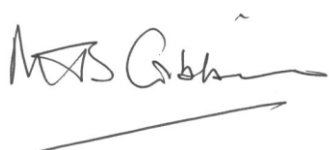
In addition, Ofgem might have considered whether this measure can be classified as a pro-competitive non-qualifying regulatory provision.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	Zero
Business net present value	Zero

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	Zero
Business Impact Target (BIT) Score ¹	Zero
Small and micro business assessment	Not required



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: domestic
RPC reference number: RPC-3665(1)-DECC-OFGEM
Date of implementation: 01 July 2015

Treatment of white label providers in the domestic retail market

Department for Business, Energy & Industrial Strategy - Ofgem

RPC rating: **validated**

Description of proposal

A white label energy provider is an organisation that does not hold a supply licence but instead partners with a licensed supplier to offer gas and electricity using its own brand. Temporary arrangements regulating the functioning of white labels were due to expire in 2015. The assessment states that this *“would reduce incentives for suppliers to partner with white labels and consequently may reduce the scope for new white labels to enter the market.”*

This measure extends existing regulatory arrangements. It also introduces new provisions requiring licensed suppliers to inform their consumers of white label tariffs.

Impacts of proposal

The assessment states that 40 domestic licensed suppliers and 4 white labels would be affected by the change.

Ofgem estimates that it would take businesses 71 minutes each to familiarise themselves with a 5328 word long document explaining the change. Using an hourly wage rate of £13.30 and including a 20% uplift to adjust for non-wage cost, the assessment calculates total familiarisation costs of £753.

The assessment assumes that it would take the 3 suppliers, currently partnered with white labels, 40 hours each to implement changes to their internal billing system in accordance with the new requirement on information provision; this has been estimated to result in a cost of £1915.

As this is an extension of a measure that was in place before the start of the Business Impact Target reporting period, only provisions going beyond the original requirement are classified as regulatory provisions.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of zero. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

The assessment presents an appropriate level of analysis, provides a clear description of the policy, and presents sufficient evidence in support of the estimates. Given the small impact of the measure, the level of detail included is considered to be proportionate.

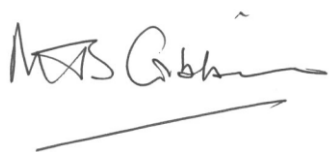
The quality of the assessment would have been improved if the changes introduced by the measure had been discussed in a bit more detail. The document would also have benefitted from greater clarity around sources of data – especially on average weekly earnings used in the assessment.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	Zero
Business net present value	Zero

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	Zero
Business Impact Target (BIT) Score ¹	Zero
Small and micro business assessment	Not required (low-cost regulation)
RPC rating (of initial submission)	Not fit for purpose



¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: domestic
RPC reference number: RPC-3666(1)-DECC-OFGEM
Date of implementation: 03 June 2015

Michael Gibbons CBE, Chairman

Directions issued by the Authority pursuant to paragraph 3 of Standard Licence Condition 32 (Reporting on Performance) of the electricity supply licence and of the gas supply licence

**Department for Business, Energy & Industrial Strategy -
Ofgem**

RPC rating: validated

Description of the measure

Standard Licence Condition 32 (SLC 32) requires energy and gas suppliers to provide Ofgem with information on their overall performance (e.g. data on the total amount owed by all customers). Ofgem updated a guidance document that specifies what information must be provided by suppliers, how this information should be submitted and how to ensure its accuracy and consistency.

The measure revised this document, extending the list of required data types and simplifying parts of the guidance.

The objective of the change is to allow Ofgem to gather information on customers using smart prepayment meters (PPMs).

Impacts of the measure

The BIT assessment states that 48 suppliers would have to read the guidance but that only 24 would be affected by new requirement on data reporting related to smart PPMs.

Total costs of familiarisation with the revised guidance are estimated at £3,422. This is based on the assumption that it takes 155 minutes to read this document and that the weekly wage for “managers, directors and senior officials” is £700-£800 (excluding non-wage cost uplift).

The assessment does not estimate the recurring cost related to the supply of new information, but it does demonstrate that it would be unlikely that this cost would exceed £50,000 per annum. Ofgem shows that each company would need to incur an additional cost of £388 per year (translating into extra 19 hours annually) for the total cost of the measure to be material. The assessment explains that it is unlikely that companies would devote more than 19 hours per year as most new data points

involve simple “yes or no” answers and as most companies already have data gathering processes in place.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of zero. This will be a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

The analysis presented in the BIT assessment is clear and concise. The approach taken to preparing the assessment appears proportionate.

The calculation of transitional cost related to revised reporting requirements incorrectly assumes that the total cost of the measure (rather than the EANDCB) cannot exceed £50,000 in order for the BIT score to round to zero. In effect the real regulatory burden would need to increase by £1941 per annum (92 hours) in order to make the total cost of the measure significant for the purposes of the BIT score. This makes it even less likely that the total impact of this measure would be materially different from zero.

The assessment would have benefited from a slightly more detailed discussion of the benefits of the measure. The claim that energy companies already have data gathering processes in place could also have been better justified and linked clearly to the specific data required by the measure. The assessment should have shown more clearly that the new data points could be easily incorporated into the existing reporting and data gathering processes. Consultation evidence could have been used for this purpose.

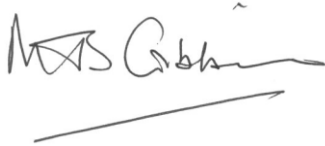
Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	Zero
Business net present value	Zero

RPC assessment

Classification	Qualifying regulatory provision (IN)
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EANCB – RPC validated ¹	Zero
Business Impact Target (BIT) Score ¹	Zero



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

ECO2 Guidance Documents

Department for Business, Energy & Industrial Strategy - Ofgem

RPC rating: **validated**

This opinion covers eight small measures; for each, a brief description of the change and its impacts (as set out in the IA) is provided. All eight have an Equivalent Annual Net Direct Cost to Business (EANDCB) which rounds to zero.

Ofgem states that costs directly related to compliance with the ECO scheme had been calculated by the Department for Business, Energy and Industrial Strategy (BEIS) in a separate impact assessment (IA). Therefore, all assessments focus on familiarisation cost only.

Measure	Description	Impact (one-off familiarisation cost)
RPC-3746(1)-DECC- OFGEM - ECO2 Monitoring guidance	The documents provide information to suppliers to inform them how they should complete monitoring on sites where they have notified measures for approval to the ECO scheme, including the evidence they should send in when it is requested.	£1694

<p>RPC-3747(1)-DECC- OFGEM - Measure specific eligibility requirements: ECO2 Appropriate Guarantees</p>	<p>The 'ECO2 Appropriate Guarantees' is an online guidance document that was published to provide the obligated suppliers with information as to rules that must be followed when installing and notifying energy efficiency measures; suppliers must ensure installations of measures are covered by an appropriate guarantee for their lifetime and quality.</p>	<p>£587</p>
<p>RPC-3749(1)-DECC- OFGEM - Measure specific eligibility requirements: ECO2 Appropriate Guarantees Feb2017</p>	<p>The 'ECO2 Appropriate Guarantees' is an online guidance document that was published to provide the obligated suppliers with information as to rules that must be followed when installing and notifying energy efficiency measures; suppliers must ensure installations of measures are covered by an appropriate guarantee for their lifetime and quality.</p> <p>This is a revision of the measure listed above.</p>	<p>£587</p>
<p>RPC-3748(1)-DECC- OFGEM - ECO2 Guidance: Delivery and Administration</p>	<p>The ECO2 Guidance: Delivery document explains to suppliers and industry how they should install energy efficiency measures in order for them to be eligible for approval under the scheme regulations.</p>	<p>£6745</p>
<p>RPC-3751(1)-DECC- OFGEM - ECO2 Measures</p>	<p>The ECO measures table contains the information on specific eligible measures that suppliers can have installed to achieve their ECO obligation. Suppliers can only install the measures listed in this table for approval under ECO legislation.</p>	<p>£65</p>

Opinion: EANDCB validation
 Origin: domestic
 RPC reference number:
 Date of implementation: see table

Table		
RPC-3753(1)-DECC- OFGEM - ECO2 Measures table (Feb2017)	<p>The ECO measures table contains the information on specific eligible measures that suppliers can have installed to achieve their ECO obligation. Suppliers can only install the measures listed in this table for approval under ECO legislation.</p> <p>This is a revision of the measure listed above.</p>	£65
RPC-3752(1)-DECC- OFGEM - U-Values Consultation, Response, Checklist and subsequent Audit	<p>This is an online checklist created for installers and subsequently suppliers to ensure they correctly install and notify energy efficiency measures that relate to the installation of cavity wall insulation (CWI).</p>	£1,499
RPC-3884(1)-DECC- OFGEM ECO2t Pre- existing loft insulation declaration template	<p>The ECO2t loft insulation declaration was published to provide suppliers with a means to comply with technical monitoring requirements and to declare that the insulation in the property was in fact “virgin loft insulation”. This declaration could then be presented if requested as part of compliance checks to ensure correct approval of a notified measure.</p>	£98

Quality of submission

As initially submitted, Ofgem's assessments were not considered to be fit for purpose. This was on the basis that the assessments stated that installers and managing agents would also have to read the guidance but did not monetise this cost, or provide evidence that these costs had already been taken account of in departmental IAs. The regulator's revised assessments include extracts from two departmental IAs on ECO and argue that the costs to installers and managing agents, of reading the guidance, have already been accounted for in departmental IAs.

The regulator's assessments are now just sufficient. Familiarisation costs to installers and managing agents appear likely to have been addressed in the recurring administrative costs of the ECO1 scheme, as indicated by the first IA extract, or under supplier delivery costs, as indicated by the second IA extract. Given the brevity of the guidance documents, costs to installers and managing agents are likely to be very small. The regulator's assessments would benefit significantly from providing reference to the scope of familiarisation costs in the ECO2 IA.

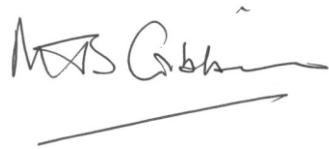
Departmental assessment

Classification	All Qualifying regulatory provisions
Equivalent annual net cost to business (EANCB)	All £0.0 million
Business net present value	All £0.0 million

RPC assessment

Opinion: EANDCB validation
Origin: domestic
RPC reference number:
Date of implementation: see table

Classification	All Qualifying Regulatory Provisions
EANCB – RPC validated ¹	All £0.0 million
Business Impact Target (BIT) Score ¹	All £0.0 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

Sharing best practice and competition law; removing two-yearly meter inspection obligation; approach to Carbon Saving Communities obligation (CSCO) closedown; notification of decision to refuse or revoke approval of a measure

Ofgem

RPC rating: validated

This Opinion covers four small measures; for each, a brief description of the change, its impacts (as set out in the IA) and the quality of the submission is given in the table below. All four have an Equivalent Annual Net Direct Cost to Business (EANDCB) which rounds to zero.

Opinion: EANDCB validation
 Origin: domestic
 RPC reference number: 3879, 3880, 3882, 3883
 Date of implementation: see table

Measure	Description	Impact	Quality of submission
Sharing best practice and competition law (May 2016)	Under existing competition law, suppliers may share information and best practice only under certain limited circumstances. In order to facilitate the sharing of best practice around the Smart Meter rollout, Ofgem has issued a letter offering advice and examples of when it might be appropriate to share information in this context.	62 suppliers will be affected. Ofgem argues that the letter offers advice and takes a permissive approach, rather than setting out specific regulatory requirements, so suppliers will only change behaviour when their perceived benefits outweigh costs. Ofgem expects both costs and benefits to be relatively small; the letter is designed to reduce risk aversion at the margin rather than to change behaviour significantly. Ofgem estimates familiarisation costs totalling £160, based on data from ASHE and standard assumptions about reading speeds.	The assessment is clear and concise; the argument that the approach is broadly permissive and low-impact is proportionately evidenced. The assessment of familiarisation costs is likely to be an underestimate, as the ASHE data used provide a poor proxy for the salaries of the most senior managers in the energy industry. Nevertheless, given the length of the document and the small number of companies affected, the EANDCB is likely to round to zero on any reasonable set of assumptions. For this reason, the RPC is able to validate an EANDCB of zero.

Opinion: EANDCB validation
 Origin: domestic
 RPC reference number: 3879, 3880, 3882, 3883
 Date of implementation: see table

Measure	Description	Impact	Quality of submission
Removing two-yearly meter inspection obligation (April 2016)	Formerly, energy suppliers (except for British Gas, which had a specific derogation) were required to inspect customers' meters at least once every two years. The advent of smart meters reduces the value of such inspections. In addition, the Competition and Markets Authority (CMA) has suggested that the derogation for British Gas is anti-competitive. Hence, Ofgem has removed the requirement altogether.	90 suppliers and 25 holders of gas transporter licences are affected. The major impacts arise from changes to suppliers' business practice as a result of not making two-yearly inspections, but these were already assessed and scored for the BIT in the smart meter rollout Impact Assessment. As a result, the only costs assessed here are familiarisation costs relating to Ofgem's publication of its decision and associated guidance.	The assessment is clear, concise and proportionate to the very small costs not already assessed elsewhere. Although not required for confirmation of the EANDCB, it would have been helpful had the assessment included some sense of the wider societal impacts of this measure and of the regulator's approach to risk management in this context – especially during the transitional phase before smart meters are rolled out fully.

Opinion: EANDCB validation
 Origin: domestic
 RPC reference number: 3879, 3880, 3882, 3883
 Date of implementation: see table

Measure	Description	Impact	Quality of submission
Approach to Carbon Saving Communities Obligation (CSCO) closedown (implementation date not given)	Under the Energy Companies Obligation (ECO) Scheme as originally defined, the CSCO element of the scheme required energy companies to promote insulation measures and connections to district heating systems in low income areas. The latest version removes this obligation; Ofgem is obliged to offer clear guidance on the process, including deadlines by which measures must be installed and information submitted in order to qualify for the existing scheme.	12 major suppliers are affected by the change. The direct impacts of the change on business practices and the costs and benefits of these were already assessed and scored by BEIS as part of its impact assessment for the ECO schemes. As a result, the only costs assessed here are familiarisation costs relating to Ofgem's publication of the relevant guidance.	The assessment is clear, concise and proportionate to the very small costs not already assessed elsewhere. The regulator notes that businesses will need to revisit the letter from time to time and to promulgate some elements of the guidance to staff. However, given the length of the document and the small number of suppliers affected the EANDCB is likely to round to zero on any reasonable assumptions. For this reason, the RPC is able to validate an EANDCB of zero.

Opinion: EANDCB validation
 Origin: domestic
 RPC reference number: 3879, 3880, 3882, 3883
 Date of implementation: see table

Measure	Description	Impact	Quality of submission
Notification of decision to refuse or revoke approval of a measure (implementation date not given)	In order to receive credit for installation of an energy-saving measure under the ECO schemes, an energy supplier must submit information on that measure to Ofgem, which may then approve the measure and allow the credit, or refuse approval. In some cases (for example where it later becomes clear that the information provided is incorrect or the measure installed poorly), Ofgem may also revoke an approval. The regulator has issued guidance clarifying when it may refuse or revoke approval, and setting out what will happen next.	12 major suppliers are affected by the change. The direct impacts of the installing and reporting measures were already assessed and scored by BEIS as part of its impact assessment for the ECO schemes. Any impacts of refusal or revocation will fall only on non-compliant suppliers. Thus the only costs assessed here are familiarisation costs relating to Ofgem's publication of the relevant guidance.	The assessment is concise, but should be clearer about what happens when approval is refused or revoked. The regulator notes that businesses will need to revisit the guidance from time to time and to promulgate some elements of the guidance to staff. However, given the length of the document, the small number of suppliers affected, and the fact that most additional costs are likely to fall on non-compliant businesses, the EANDCB is likely to round to zero on any reasonable assumptions. For this reason, the RPC is able to validate an EANDCB of zero.

Departmental assessment

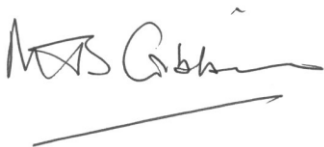
Classification	All Qualifying regulatory provisions
Equivalent annual net cost to business	All £0.0 million

Opinion: EANDCB validation
Origin: domestic
RPC reference number: 3879, 3880, 3882, 3883
Date of implementation: see table

(EANCB)	
Business net present value	All £0.0 million

RPC assessment

Classification	All Qualifying Regulatory Provisions
EANCB – RPC validated ¹	All £0.0 million
Business Impact Target (BIT) Score ¹	All £0.0 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

Decision to modify gas and electricity supply, electricity distribution and gas transporter licences for Priority Services Register arrangements

Ofgem

RPC rating: validated

Description of proposal

The measures introduced a number of reforms to the Priority Services Register (PSR) arrangements. The PSR requires energy suppliers to provide additional non-financial services to consumers who experience problems in relation to safety, access and communication. The measures aim to improve the current PSR system and make sure it works in the best interests of consumers, as the current arrangements do not allow companies to be flexible to tailor services for customers. They include measures in the following areas:

- *Eligibility and identifying customers* – requiring energy suppliers and network operators to take all reasonable steps to identify eligible customers.
- *Services* – requiring suppliers to focus on delivering positive consumer outcomes.
- *Data recording and sharing* – requiring suppliers to take all reasonable and legal steps to record and share relevant data about the customers with identified vulnerability needs.
- *Awareness of priority services* – requiring suppliers to take all reasonable steps to promote the PSR.

Impacts of proposal

The measures mainly affect gas and electricity suppliers, of which there are 48. These suppliers are expected to incur costs as a result of providing support teams for customers, gas safety checks and quarterly meter readings.

In 2014 the regulator (*Ofgem*) consulted 26 energy suppliers about the impact of the proposals. Eight suppliers responded, including all of the six largest suppliers in the market. The responses covered more than 97 per cent of all PSR customers. The regulator therefore considers that they are representative of the totality of industry views in this area, which seems appropriate.

Based on these responses, the estimated total costs of complying with the revised PSR arrangements (including both existing and new requirements) amount to £7.9 million per annum. This includes the cost of meeting existing requirements, which the regulator estimates at £6.1 million (page 4). This estimate comes from cost data provided by suppliers. The difference, £1.8 million, is the estimated total additional cost of the new measures to gas and electricity providers.

The regulator estimates that the new PSR arrangements will also involve a one-off additional cost of £1.8 million to the eight gas distribution networks (GDNs). This arises as a result of a requirement on them to implement new data capture systems. The regulator does not, however, include this in the calculation of equivalent annual net direct cost to business (EANDCB) on the basis that the “...costs are related to the effective network and systems operation and coordination of monopoly providers, which do not qualify under the BIT” (page 7).

The EANDCB of the measure for business impact target purposes is, therefore, estimated at £1.77 million.

On wider impacts, the regulator expects that the measures will mean that the PSR will cover more vulnerable customers and increase their safety. The regulator does not, however, quantify the benefits because of insufficient data.

Quality of submission

As initially submitted to the RPC, the regulator’s assessment did not include sufficient information for the RPC to see how the EANDCB figure had been arrived at. The regulator stated that it was unable to include a breakdown of the cost estimates provided by suppliers because it was illegal (under section 105 of the Utilities Act 2000) to do so without approval from suppliers. Following extensive and lengthy correspondence between the RPC, Ofgem and BEIS, Ofgem has approached the suppliers and obtained their approval to supply this information to the RPC. With this breakdown of the cost estimates, the regulator has provided sufficient information for the RPC to be able to validate an EANDCB figure.

The regulator has not provided sufficient information for the RPC to assess whether its treatment of the cost to GDNs falling under the ‘monopoly providers’ business impact target (BIT) exclusion is appropriate. It is only on the basis that the inclusion of this one-off cost would increase the EANDCB only marginally, that the RPC is able to validate the regulator’s (rounded) EANDCB of £1.8 million on proportionality grounds. This validation must not, therefore, be taken as setting a precedent for the application of the ‘monopoly providers’ BIT exclusion.

The assessment could be improved by further discussion and explanation in a number of areas, outlined below.

- i) Potential impacts on small and medium energy suppliers. This would provide additional assurance that the estimate is fully representative of the whole industry, particularly in view of the apparent increase in the number of small suppliers since the consultation in 2014.
- ii) How distribution network operators, independent distribution network operators and independent gas transporters are affected by the measure and why there are no significant costs to these businesses.
- iii) Since some suppliers used slightly different cost headings, it would be helpful if Ofgem provided additional explanation around the aggregation of these estimates, either in the BIT assessment or in a separate note.
- iv) The nature of the costs to the GDN and a clear and full justification of why Ofgem considers it appropriate to treat them as falling under the 'monopoly providers' exclusion from the BIT.

The assessment would be enhanced by some further discussion of wider impacts, notably the benefits to vulnerable customers.

Departmental assessment

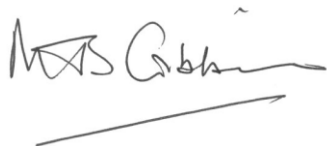
Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£1.77 million
Business net present value	-£8.55 million

RPC assessment¹

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated	£1.8 million
Business impact target score	£9.0 million

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: domestic
RPC reference number: RPC17-4183(2)-Ofgem
Date of implementation: 1 January 2017



Michael Gibbons CBE, Chairman