



Joe Draisey
Ofgem
10 South Colonnade
London
E14 4PU

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Sent by email to: eco.consultation@ofgem.gov.uk

Omer.Hamid@sse.com

20 August 2018

Dear Joe,

SSE's response to Ofgem's Energy Company Obligation (ECO3) Consultation

We welcome the publication of the consultation on Ofgem's proposed administration of the incoming ECO3 scheme and the opportunity to provide input for Ofgem's consideration on this important topic.

SSE fully recognises the merits of the ECO scheme in helping to reduce customer's energy bills, making homes more energy efficient and saving carbon. With regard to the incoming ECO3 scheme, we look forward to working with Ofgem on improving low income and vulnerable households and helping to meet the Government's fuel poverty commitments.

Given that the ECO3 scheme is due to commence on or after 01 October, we would like to highlight to Ofgem that any delay to the ECO3 guidance will increase risk and uncertainty, which could disrupt the supply chain and risk a Supplier's ability to achieve their obligation by March 2022.

Amongst the key issues in our response, we have requested:

- Concise definitions to be provided in the guidance to avoid uncertainty in interpretation;
- Early scheduling of audits to be conducted on measure eligibility in high risk areas; and



- Clear expectations to be given to Suppliers with regard to evidencing declarations and any additional evidence to support the eligibility of measures in the event of an audit.

We are primarily concerned with ensuring the best outcome for our customers, and that a clear understanding of ECO requirements from the start of the scheme avoids costly misinterpretation issues, which ultimately increases the cost of delivering the scheme, paid for by our customers.

Should you have any questions or would like to discuss, please do not hesitate to get in touch.

Yours sincerely

Omer Hamid
Regulation Analyst

Annex 1

Q1. Do you agree with Ofgem's administration of carry-over?

We agree with Ofgem's administrative approach to carry-over; however, we ask Ofgem to provide clarity on boiler measures which would be counted against the broken heating cap. For example, in the instance where a qualifying boiler and exterior wall insulation measure from the same property are used as carry-over would the boiler measure be exempt from the cap if they were originally notified within 6 months of each other?

Alternatively, where a primary insulation measure is carried over we request Ofgem to advise if this effectively resets the notification date for the measure to the date we notify the Surplus Action and, does this therefore, allow for a broken boiler measure installed within a further 6 months to be exempt from the cap?

We would also like clarity on the ECO3 Rural postcodes as soon as possible as Suppliers are delivering surplus actions for ECO3, these postcodes are also required by Suppliers and the ECO supply chain to ensure ECO3 systems are ready for early delivery.

Q2. Do you agree with Ofgem's administration of early delivery?

We recognise the gap between ECO2 and ECO3 is out with the control of Ofgem, nevertheless, we are concerned that Suppliers are being set a legally enforceable obligation, to be delivered by a set date, and must choose between the risk of early delivery being rejected by Ofgem or risk the continuation of our supply chain.

Ofgem's proposed arrangements for early delivery are preferable to stopping delivery in the gap between ECO2 and ECO3. We therefore urge Ofgem to release guidance for this period before it commences on 1st October, including key documents such as the Boiler Assessment Checklist. Any delay to the confirmation of the ECO3 guidance will increase risk and uncertainty, which may risk a Supplier's ability to achieve its obligation by March 2022.

Q3. Do you agree with our proposal that child benefit should only be used as evidence of eligibility where it is the only available route to eligibility?

We agree that any other qualifying benefit should take precedence and the DWP Matching Service should be used to evidence eligibility where possible, and we will be happy to promote this within our supply chain.

However, we do not believe that Suppliers should be responsible for proving that a measure does not meet any other means of meeting the eligibility if a self-declaration is provided.

The proposed approach risks creating a significant evidence and administration burden, for measures which are ultimately eligible within the scheme legislation. Given the introduction of GDPR this is particularly concerning for us and the ECO supply chain.

Q4. Do you have any suggestions for verifiable means of evidencing household income & Child Benefit, or other means of evidencing the new Ministry of Defence benefits?

For the purposes of improving administration, we would suggest Ofgem make it mandatory for a child benefit award notice to be retained in support of any measures claimed utilising the child benefit route, as we consider this the most robust approach to evidence the number of qualifying children living at the address of the householder. Mandating evidence for the scheme helps with compliance against GDPR requirements.

We do not believe there is a robust and reasonably administrable method for evidencing household income, other than obtaining a self-declaration from the householder. Therefore, we consider it essential that Ofgem accept these self-declarations on face value if provided in support of a measure if they can be accompanied by a valid child benefit award notice.

As Ofgem have stated there is likely to be an audit to confirm accuracy of the declaration and, given the lack of a reasonable means of reliably obtaining other evidence which confirms household income, we would welcome Ofgem or BEIS providing assurances, like those given by BEIS under LA Flex, that Suppliers would not be held responsible for innocently administering false declarations and that the measures installed would not be at risk.

Ultimately, we believe that if Ofgem has concerns regarding the use of self-declarations then this could be reviewed early in the scheme. If the review highlights areas of concern then this information should inform future policy (as BEIS set out in respect of LA Flex), without impacting measures already submitted.

We can confirm that we have yet to see examples of the MOD benefit evidence as outlined in paragraphs 4.18 and 4.19 in Ofgem's consultation document, as such we can't confirm any concerns with the proposal. We request Ofgem incorporate examples into the ECO3 HTHG Guidance note, as has been done for ECO2t eligible benefit letters, to ensure all the required elements are present.

Q5. Do you agree with our administration of the new PRS rules?

Given the additional requirement of an EPC for all PRS properties we have determined there will be a requirement to evidence if a property is privately rented. In some cases, we will be able to match the owner to the Land Registry to confirm they are not a tenant, however, this is not universally the case. As Ofgem have suggested that a declaration from the occupier is

required to confirm tenure, we would therefore require confirmation that this could solely be relied on at audit.

We would also request clarification on the definition of '*latest EPC*' as we believe this should be the latest lodged EPC prior to handover. Otherwise if an EPC is lodged after the install to capture the improved EPC rating, this would then become the latest EPC so we would like assurance this would not then invalidate the measure.

In respects to evidencing EPC bandings, we would request that Ofgem provides a clear indication of what would be expected in the event of an audit. We would expect that in the event of an audit Ofgem will be satisfied with receipt of the most recent lodged EPC, although, we would be concerned if Ofgem expect that additional evidence is required to support the EPC data. If Ofgem ask for additional data beyond the EPC itself, which it should be noted are required to be produced by qualified DEAs, this could create a scenario where new EPCs become required within the Supply Chain as a means to ensure such data is readily available. Suppliers are not SAP experts and should not be expected to be able to audit the data that underpins a lodged EPC. We are concerned that any such expectation would infer a responsibility on Suppliers to police an industry which already has its own governance structure.

Finally, we would appreciate clarity on whether SWI equivalent measures and secondary measures can be installed to F & G PRS properties.

Q6. Do you agree with our proposal that where measures that provide equivalent savings to solid wall insulation are installed, all relevant measures would need to be installed within a six-month period to count towards the SWMR?

We support encouraging groups of SWI equivalent measures to be installed in a timely manner. However, we note that the legislation does not reference a time limit on this mechanism. We do not believe that Ofgem should in administering the regulations create additional limitations, which could ultimately restrict the ability of a Supplier to achieve its SWMR, where such limitations could have been included in the legislation if government deemed it necessary. Therefore, we think it would be appropriate for Suppliers to be able to utilise this route even if additional measures are installed later at the same property.

Q7. Do you agree with the other elements of our administration of SWMR?

In regards to the requirement that at least 50% of the property must be solid wall and uninsulated but that the equivalent measures must meet the score as if 100% of the property was solid wall, we appreciate that this is to make cost score validation simpler, however, this means in some cases the equivalent measures must far exceed the actual Solid Wall Savings which could be achieved at a property.

Therefore, as per the legislation, we consider that measures should count against the solid wall minimum obligation provided they would generate savings at least equivalent to the savings that could be achieved by installing the appropriate amount of solid wall insulation to the property (providing it's 95% of the available solid wall area, as per the legislation). Furthermore, to make this process easier, we ask for Ofgem to consider making the Age Band, Country and Wall Type mandatory as deemed scores data for all measures to allow Suppliers to more easily identify measures which could qualify and count against the SWMR. Perhaps this could be simplified further so that the wall type will only be required to meet the default solid wall scores based on the age and country of the property, for example, just solid wall or cavity, rather than the more granular detail of timber, stone, system build. We believe this will ease administration for the supply chain to identify and therefore provide the additional information for all measures.

Q8. Do you agree with our proposal that transferring in-fill measures would not be possible until all connected measures are approved?

We can confirm that we agree with Ofgem's proposal that transferring in-fill measures would not be possible until all connected measures are approved.

Q9. Do you agree with the other elements of our administration of in-fill for SWI and DHS?

We request clarity on whether EWI or IWI applied to a cavity could be considered for in-fill. Previously, these measure types have caused uncertainty in the ECO supply chain.

We believe that an in-fill SWI measure can support a boiler upgrade or make a broken boiler exempt from the cap as it would be insulation, but would appreciate clarity on this point.

During the recent ECO3 consultation workshop held by Ofgem, a comment was provided by Ofgem that the method for notifying these measures may require the linking of in-fill measures in groups of 3 (2 eligible to 1 in-fill), however we believe this will create a significant amount of unnecessary complexity. We believe Ofgem should allow all measures from an in-fill scheme, such as a block of flats or a row of houses, to be notified with a single unique reference number to link them together and enable checks to be completed to confirm if less than 66% of the measures are eligible. This would avoid a scenario where measure amendments would be required to 're-allocate' in-fill measures to alternative eligible measures, should eligible measures be removed from the scheme but the 66% requirement is still able to be achieved.

Q10. Do you agree that we should continue to use the same criteria for determining if a heating system is broken as we currently use?

We can confirm that we agree with Ofgem's current definition of whether a boiler is broken. Although, we would request Ofgem to provide guidance on faults that would not be considered sufficient to constitute a broken heating system. This will help to ensure heating systems are not replaced when they could be more economically repaired.

Q11. Do you agree with our proposal to continue to use the definitions and tables in the boiler assessment checklist and electric storage heater checklist to determine if broken heating systems can be economically repaired?

To help mitigate against potential replacement of boilers that could be repaired rather than replaced, we ask Ofgem to give clear guidance on what evidence is expected to be retained to support that a boiler cannot be economically repaired. It is vital that there is a consistent approach within the industry.

We ask Ofgem to consider providing a more concise definition of a '*Good, Standard or Poor*' condition of a boiler to avoid any uncertainty and subjectivity. Furthermore, it is critical that Ofgem confirm at the start of the scheme what additional evidence may be called upon to verify Broken Heating Systems in the event of an audit so Suppliers can choose to gather this evidence up front. We urge Ofgem to consider the timing of any proposed audits to limit the potential impact on the supply chain of placing large volumes of measures at risk before evidentiary requirements are fully understood.

Q12. Do you know of any heating systems (other than boilers or electric storage heaters) for which we would need to develop a definition for inefficient?

We would welcome Ofgem's guidance on how fixed room heaters and portable room heaters fit within the scheme mechanisms such as FTCH, Boiler Upgrades or Broken Boilers, either where they are the sole means of heating a property or in combination with other heating sources.

Within this section of the consultation Ofgem suggest more than one primary measure can support the 50% minimum requirement to support a Boiler Upgrade. In this scenario, we would expect the 6-month requirement to start from the point the last primary measure is installed, can Ofgem include clear guidance on this scenario.

Q13. Do you agree with our proposal to use a declaration to evidence first time central heating?

We agree with Ofgem's proposal to use a declaration. As per our response to Question 4, we feel that this declaration should be the sole means of evidencing FTCH in the event of an audit. If Ofgem expect to require additional supporting evidence this should be made clear in

guidance at the beginning of the scheme so Suppliers can choose to collect this from the outset.

Q14. Do you have any suggestions for our administration of demonstration actions?

&

Q15. Do you have any suggestions for our administration of innovation measures?

Our main concern in relation to the demonstration and innovation actions is the length of time that might be required to plan, implement and report on them. Therefore, we ask Ofgem to provide careful consideration to the approval process to ensure it is efficient and quick so that once approved, we have time to complete the actions.

Additionally, we are concerned that the formation of an expert panel that meets quarterly to advise Ofgem could introduce significant delays to the process. To avoid this happening we think it is important that Ofgem are continuously engaging with Suppliers and the expert panel throughout the approval process with the aim of ensuring innovation proposals are at an appropriate state to be reviewed at the quarterly panel meeting. We are keen to mitigate the circumstance where Ofgem may be operating as a quarterly messenger between Suppliers and experts, with each round of questions resulting in a further 3-month delay. If Ofgem could provide to Suppliers, the Terms of Reference for the panel alongside SLA's for timelines and a worked example of this process it would greatly help.

We would request that Ofgem give some consideration and explanation as to how the innovation process will operate should multiple Suppliers submit applications for similar innovation measure types or a similar demonstration action around the same time.

Q16. Do you have any suggestions for our administration of in-situ monitoring?

We would welcome for Ofgem to set a benchmark for what is expected, or provide further guidance as experience is gained. However, Suppliers would be unable to retrospectively gather increased monitoring data, so the expectation on what should be monitored will need to be set from the beginning of the scheme. Otherwise there is a risk that Suppliers who are amongst the first to start a project could invest in monitoring which could be wasted. While we understand that Suppliers operate in a competitive environment, we would expect Ofgem's monitoring requirements are consistently applied to all monitoring projects completed by all Suppliers, irrespective of when in ECO3 the monitoring projects are commenced.

Q17. Do you agree with our administration of the uplift?

We agree with Ofgem's proposed administrative approach. However, as detailed in our answer to Question 5, we request for Ofgem to give clear guidance regarding any additional

evidence which may be expected to support the EPC rating of the property as we strongly believe that Ofgem should be satisfied with being provided a copy of the most recent EPC lodged prior to installation.

Q18. Do you agree with our proposal that measures installed in accordance with PAS 2030: 2017 Edition 1 must be notified to an organisation (such as a certification body) accredited to EN 45011 or EN ISO/IEC 17065:2012?

We agree with Ofgem's proposed principle of all measures being reported to certification bodies and we have lobbied for this requirement to be introduced in PAS 2030:2019. However, we are concerned that by introducing this into the Ofgem guidance it would result in energy Suppliers having to monitor and provide evidence to support this.

In addition, we have experience of some certification bodies taking a long time to respond to requests. Therefore, this may result in some circumstances where it will be difficult for measures to be notified or difficult to provide evidence that this has been undertaken, which could lead to measures failing to meet the ECO3 requirements.

It would be appropriate for Suppliers to encourage all measures to be notified to certification bodies, in preparation for the introduction of PAS 2030: 2019 at which point it would be the responsibility for the PAS certification bodies to audit that their members are compliant.

Q19. Do you agree with our proposal that, where a Supplier does not wish to register a DHS project with Heat Trust, they must arrange an audit by a third party and the result of the audit must confirm that the arrangements are equivalent to the requirements under Heat Trust?

We agree in principle that there should be alternative routes other than registering a DHS project with the Heat Trust. However, we are concerned that arranging an audit by a third party could be overly onerous and costly in circumstances where other reputable organisations can provide an equivalent service to Heat Trust that can be accepted by Ofgem. Ofgem should provide for this outcome in its guidance.

Q20. Do you agree with our administration of the new definition of 'cost saving'?

We agree with Ofgem's new definition of 'cost saving'. However, we would ask further guidance from Ofgem on how to score heating systems which do not heat water. In ECO2t such a scenario would result in the POPT being reduced by 20% due to the 20% score bandings. Therefore, we ask Ofgem to confirm if this will remain in ECO3 or if the >67% POPT requirement negates this.

Furthermore, can Ofgem clarify if this will also apply in the instance where the boiler has an actual POPT of 70%, or whether this must be reduced by a set amount if the hot water is not heated. In relation to this, we propose to Ofgem that most boilers tend to heat around 100% of a property and that the hot water reduction is no longer necessary, especially given that deemed scores are based on averages.

Q21. Do you agree with our revised interpretation of ‘domestic premises’?

We agree with Ofgem’s revised interpretation of ‘domestic premises’.

Q22. Are there any areas where you think further guidance would be useful?

We understand that since publication of the consultation, Ofgem and BEIS have confirmed that 20% of ECO2 CERO can be carried into ECO3, providing they are ECO2t measures. We’re anticipating that the final guidance will reflect this.

We would welcome further guidance when using an independent third party to confirm the number of children living at a property and confirmation that Suppliers are not under a duty to then validate who this third party is. For example, how are Ofgem expecting a Supplier to demonstrate that a third party has known the child for at least three years and are not related? We are concerned that this could lead to additional personal data being gathered and ask that Ofgem consider the potential GDPR implications of their requirements.

We have identified some areas where technical clarification would be helpful and have summarised these below:

- clarification on where a landlord with a long term leasehold of a flat can approve Cavity Wall Insulation to be installed to the external fabric of the building in the instance the landlord does not own the freehold, we would deem that the landlord should be able to provide their approval in this scenario but look forward to receiving confirmation of this in the guidance.
- clarity on whether DHS measures are allowable in private rental F&G properties as we are uncertain if this is only allowable when a renewable DHS system is being installed or whether all DHS are to be considered high cost measures and thus eligible.
- clarity on ‘partial fill’ cavity walls and when it is suitable for these properties to receive a score if topped-up with CWI. Specifically regarding any applicable cut-off point for the age of the property or the performance of the existing insulation.

- guidance on what constitutes ‘adequate heating’ for both boilers and ESH. Currently the ECO2t definition differs slightly from RdSAP. We would like guidance on what evidence should be retained to support these measures, as for ESH there tends to be calculators for installers to use, but this is difficult for boilers, particularly when there are rooms which do not have a radiator present. Similarly, evidence clarity would be helpful for properties where a single ESH provides heat to more than one room due to “drift heat”.
- guidance from Ofgem for when POMI should be reduced as we are aware this is an area with frequent inconsistencies. For example, where the measure is CWI and there is an extension which is already insulated, should the POMI be recorded as 100% because that area is filled or should the POMI be reduced to account for the area which is unable to be filled. Similarly, confirmation if the POMI needs to be reduced where a customer refuses to have an additional radiator installed.

Q23. Do you have any further comments on our proposed administration for ECO3?

We note that Ofgem are planning to conduct audits to check measure eligibility in high risk areas. We strongly urge Ofgem to schedule these early in the scheme to limit the potential number of measures impacted. Where Ofgem would be looking for additional evidence to support the eligibility of measures, we request that Ofgem outline these evidence requirements to Suppliers at the start of the scheme, so Suppliers can choose to gather this evidence at the time they receive measures from the supply chain. It can be difficult to obtain evidence retrospective due to changes in households and/or the supply chain between notification and the timing of Ofgem’s audits.

Where audit findings indicate a lack of clarity in the guidance, we think it unacceptable that Suppliers and the ECO Supply Chain should suffer from retrospective action, as such where this is identified as the root cause for audit failures, the results should be used to inform future guidance without affecting existing measures in the scheme.

We appreciate this consultation is not related to the deemed scores however we would like to bring to Ofgem’s attention some elements which relate to the administration of deemed scores. Firstly, we are grateful for the improved format of the deemed scores, however for EWI or IWI measures we consider it will be of value to add in the default thicknesses when selecting a deemed score. By only having the u-values it will make it difficult for installers to select the correct score when using default SWI measures. As the methodology tables have been shared for enhanced products we request these either to have an additional column added for Standard Insulation to match to the correct banding; or the deemed scores themselves could have a default thickness column added.

Another significant issue for Suppliers and the ECO supply chain is the use of proxies within deemed scores. This creates considerable confusion and generates an administration burden when having to match the correct proxies. Furthermore, the Ofgem ECO Register requires workarounds to allow some of these measures to be notified. Therefore, although it will increase the length of the deemed scores spreadsheet, we believe it would offer a significant benefit to all parties if proxies could be removed and instead have the scores added to the deemed score spreadsheet, even if they have the same score which they currently match to.

We would like to propose to Ofgem that POMI should no longer be recorded or notified as a percentage and instead be changed to a 'Yes/No' field to confirm whether 100% of a measure has been installed. We consider this would help to avoid confusion amongst the supply chain between POMI and POPT. As POMI is purely an eligibility criterion, it is our view that the actual percentage offers no benefit.

We note that Technical and Score Monitoring are not covered under this consultation, we hope to have ample opportunity to feed into any proposed changes in this area as soon as possible. We feel it is critical, given the changes to POPT, that consideration is given to the expectations for Score Monitoring Agents to validate POPT so as not to create a significant additional administration burden on the ECO Supply Chain. We strongly believe it would be appropriate for monitoring to confirm if the recorded POPT is 'reasonable' to within a 10% margin of error.

At the recent Birmingham consultation event, it was confirmed by BEIS that both HHCRO in-fill and LA in-fill could be used under a single Solid Wall or DHS scheme, we feel it would be beneficial for Ofgem to reference this scenario in guidance.

Finally, we have identified some fraud risk areas which we will provide to Ofgem separately.

Q24. Did you use our online response tool?

In this instance, we have chosen to not make use of Ofgem's online response tool. We have found this facility to be not entirely user friendly when circulating our response for internal review and approval.