

# Energy Company Obligation (ECO)

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[www.ofgem.gov.uk/eco](http://www.ofgem.gov.uk/eco)

## ECO2 guidance note

### Pathways to compliance with the requirements for monitoring

#### Introduction

All suppliers are required to carry out technical and score monitoring on a sample of measures notified and report the results of this monitoring to us quarterly. Chapter 9 of the ECO2 Guidance: Delivery provides information on the technical and score monitoring process, our requirements and how we will respond to poor performance.<sup>1</sup>

This document provides further information on our response to poor performance, outlining the actions we will take where:

- a supplier fails to meet the monitoring requirement (the percentage of measures that must be monitored), and
- a supplier's failure rates are unsatisfactory.

**Suppliers are responsible for ensuring that they meet our requirements and any areas of poor performance should be addressed as quickly as possible. Sharing our decision making process will enable suppliers to understand what actions we will take and when we will take them. This transparency is intended to help suppliers anticipate our approach to poor performance, and work to resolve any issues within the timescales we outline in this document.**

#### Pathways to compliance with the requirements for monitoring

Here we outline the different pathways to compliance we will follow in response to poor performance and how we will determine which pathway to follow. Our response to non-compliance with the monitoring requirement and reporting unsatisfactory failure rates are dealt with separately. Within each we will consider results for both individual and consecutive quarters.

We expect to follow these pathways in the majority of cases; however, where there are exceptional circumstances we will take this into account.

We will follow these pathways in situations where the monitoring requirement and/or target failure rates are not achieved. The exact pathway followed will depend on the scale of the poor performance, which we have described in terms of our level of concern, eg 'low concern',

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<sup>1</sup> Chapter 9 ECO Guidance: Delivery: *Technical monitoring, score monitoring, audit and fraud prevention.*

'medium concern' and 'high concern.' The level of concern will, in the first instance, depend on the degree to which a target is missed. We will also consider the population size of that subset of measures and any instances of non-access in deciding whether to take action.

### Monitoring requirement

The monitoring requirement is the level of monitoring a supplier must report to us each quarter. There are two components, which are considered separately:

- 5% monitoring per measure type ('measure type rate'), and
- 3% monitoring per installer ('installer rate').

A pathway to compliance will be followed where the measure type rate or installer rate is not achieved by a supplier. These pathways will be followed for both score and technical monitoring, but with the results of each considered independently.

#### *Failure to meet the monitoring requirement for a specific quarter*

Where a supplier fails to meet either component of the monitoring requirement by the reporting deadline we will begin to take action. Each measure type and installer will be considered separately.

We will notify suppliers of our determination regarding their monitoring results for a quarter within the month following the submission deadline. However, we expect suppliers to have a good sense of the monitoring rates they have achieved, and as such should begin work to address any non-compliance with the monitoring requirement as soon as possible.

The pathways to compliance are intended to encourage the supplier to meet the monitoring requirement as quickly as possible. The supplier will have to continue to conduct monitoring on the measures notified for that quarter until it meets the monitoring requirement.

The flowchart in **Figure 1** details our approach where a supplier fails to comply with the monitoring requirement for a specific quarter. **Table 1** shows how we determine which pathway to take (A, B or C), if any, depending on the measure type rate and installer rate achieved by a supplier in a specific quarter.

**Table 2** details the actions and timelines for each of the three pathways.

Where a supplier fails to achieve the monitoring requirement by the submission deadline we will follow the appropriate pathway(s) to compliance in relation to each subset of measures that does not have sufficient monitoring. A subset of measures relates to:

1. all measures installed by a particular installer for a particular supplier<sup>2</sup>
2. all measures of a particular measure type notified by a particular supplier, or
3. all measures of a particular type installed by a particular installer for a particular supplier.

<sup>2</sup> The installer is the company or individual that carried out the installation of the measure at the premises. This will not be the management agent, unless the management agent itself carried out the installation.

In some cases we will consider subsets of measures 'at risk'. 'At risk' refers to measures that are subject to further scrutiny. Where suppliers do not take the appropriate action to address poor performance, the approval of these measures is at risk of being refused or revoked. However, putting a measure at risk does not remove any existing approval for that measure.

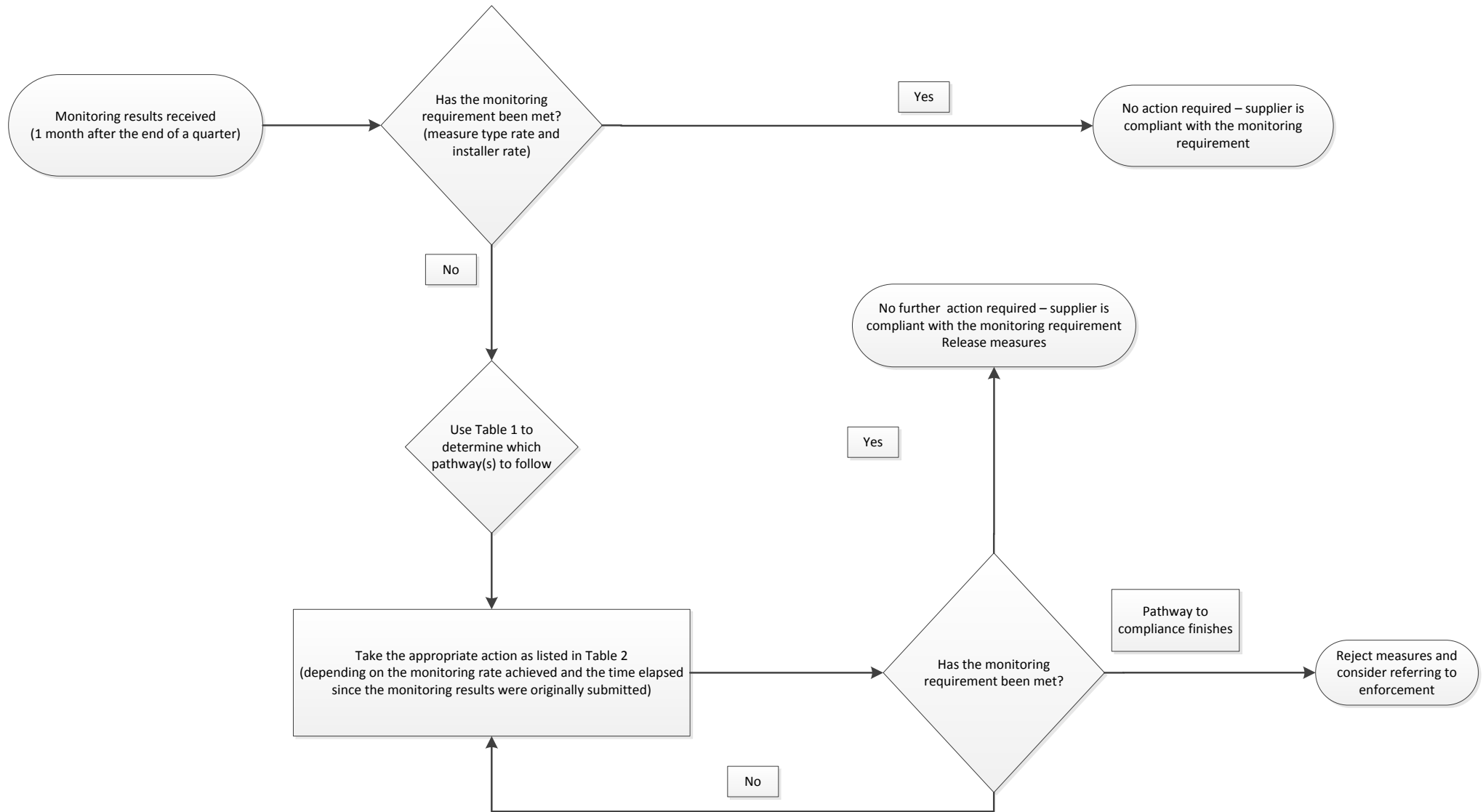
Until the monitoring requirement is achieved, the action we take (within that pathway) will increase in severity as time passes until we send a supplier a minded to reject/ revoke approval notice for the relevant measures.

Where suppliers are required to conduct further monitoring to meet the monitoring requirement, Ofgem will expect to receive the results of this additional monitoring towards the end of every month following the submission deadline or when the monitoring requirement is met, if sooner.

Once a supplier achieves the monitoring requirement for measures notified in a quarter, the pathway(s) to compliance will stop and the supplier will be deemed compliant with the monitoring requirement for that quarter. Where a supplier has multiple subsets of measures 'at risk', these measures will no longer be considered at risk as compliance is achieved for each subset.

Where a supplier does less than 3% monitoring overall for measures in a quarter (ie across all measure types and installers), **all** measures for that quarter will be considered 'at risk' until 5% is reached. Within this, where particular subsets of measures do not meet the monitoring requirement, these will continue to be subject to the appropriate pathway(s) to compliance.

**Figure 1** Flowchart detailing our approach where a supplier fails to comply with the monitoring requirement for a specific quarter



**Table 1** How we determine which pathway(s), if any, to follow based on the monitoring rate per measure type and per installer achieved by a supplier in a specific quarter

Monitoring rate achieved	Pathway to compliance	
	Per measure type	Per installer
High concern	A	A
Medium concern	B	B
Low concern	C	n/a
Required rate achieved	No action	No action

**Table 2** Details of the actions we will take related to each pathway to compliance. The time indicates when further action will be triggered, which will continue until the supplier has conducted sufficient technical/score monitoring to meet the monitoring requirement for that quarter

Time	Pathway to compliance		
	A	B	C
<b>Monitoring results submitted (+0 months)</b>	Measure types/installers for which monitoring requirement was missed, in that quarter, considered at risk	Measure types/installers for which monitoring requirement was missed, in that quarter, considered at risk	No action taken by us
<b>+2 months</b>	Send minded to refuse or revoke approval notice for measures considered at risk Reject measures* (+2 weeks) <sup>3</sup> Consider referring to enforcement	Measure types/installers for which monitoring requirement was missed, in that quarter, considered at risk	Measure types/installers for which monitoring requirement was missed, in that quarter, considered at risk
<b>+5 months</b>	-	Send minded to refuse or revoke approval notice for measures considered at risk Reject measures* (+2 weeks) <sup>3</sup> Consider referring to enforcement	Measure types/installers for which monitoring requirement was missed, in that quarter, considered at risk
<b>+ 8 months</b>	-	-	Send minded to refuse or revoke approval notice for measures considered at risk Reject measures* (+2 weeks) <sup>3</sup> Consider referring to enforcement

\* If no representations are made

<sup>3</sup> Further information on our rejections process can be found on our website. See: <https://www.ofgem.gov.uk/publications-and-updates/eco2-notice-minded-decisions-refuse-or-revoke-approval-certain-measures>.

### *Exceptions for installers responsible for fewer than 100 measures*

As per our guidance, where an installer is responsible for fewer than 100 measures in a quarter, for one supplier, at least one measure must be monitored. Where this is not achieved *for two consecutive quarters*, the action we will take is determined by the number of measures notified by a supplier for that installer. Where **no measures** are monitored for that installer the following thresholds will be used to determine which pathway to compliance we will follow:

- *51-99 measures notified – pathway A*
- *21-50 measures notified – pathway B*
- *<20 measures notified – pathway C*

Where a pathway is triggered, action will only be taken in respect of the most recent quarter's measures and not both quarters.

Where monitoring inspections cannot be conducted for smaller installers (those responsible for fewer than 100 measures) because of non-access issues, the monitoring agent should hold evidence that they were unable to gain access. We will monitor trends of non-access for smaller installers across multiple quarters of monitoring. Non-access will not be accepted as sufficient reason for non-compliance against the monitoring rate for larger installers or for a supplier as a whole.

### *Failure to meet the measure type rate for consecutive quarters*

Where the measure type rate for a supplier is:

- of high concern for two consecutive quarters
- of high or medium concern for three consecutive quarters, or
- of low, medium or high concern for four consecutive quarters

we will suspend approval of all measures of that subset notified by that supplier until it can give us confidence that there are sufficient processes in place to meet the monitoring requirement going forward. For example, this might include sharing details of a monitoring strategy or other internal processes aimed at achieving compliance with the monitoring requirement. Suppliers should aim to do this before any monitoring starts for the next quarter's notifications. This action is in addition to the actions we will take in relation to each specific quarter (as per **Table 2**).

Where a supplier fails to achieve the measure type rate for consecutive quarters, we will consider the population size of that subset of measures and any instances of non-access in deciding whether to take action.

### *Satisfactory failure rates*

Monitoring is designed to ensure that measures are installed to a high standard (technical monitoring) and are scored accurately (score monitoring).

A technical monitoring failure rate of more than 10% per installer will trigger further action. For score monitoring we have initially set the trigger failure rate at more than 20% per installer. However, given the changes introduced for ECO2 score monitoring we will continue to review the appropriateness of this trigger rate based on the results we receive. If the trigger

rate for score monitoring is changed over the course of ECO2, suppliers will be given sufficient time to make any necessary changes to their policies and processes.

### *Failure to achieve satisfactory failure rates in a specific quarter*

In all instances, where the trigger failure rate is met for technical or score monitoring (more than 10% and more than 20% respectively) we will first require the supplier to conduct additional monitoring on that subset of measures (eg boilers installed by installer X) until we have confidence that the failure rate is representative. We will determine the number of measures to be monitored to give us additional assurance depending on the total number of measures in that subset notified for that quarter and the severity of the non-compliance.

Any monitoring inspections conducted above the required monitoring rate (3% per installer, or 1 inspection for subsets of fewer than 100 measures) are considered additional monitoring. Additional inspections, whether to meet the monitoring requirement or to confirm the failure rate, must be conducted on measures from the same quarter that the monitoring results relate to.

Where further monitoring shows the reported failure rate to be representative, suppliers will need to give us confidence that the remaining measures in that subset would pass technical/score monitoring inspections. This should give us confidence about the quality and/or accuracy of measures that were not monitored and that poor performance will not be repeated going forward. The severity of the failure rate and the size of the subset of measures in question will determine the action we will require a supplier to undertake. For example, this might involve a supplier doing 100% monitoring on those measures, or undertaking its own quality assurance checks.

As detailed in **Table 4** and **Table 5** the failure rate will determine the pathway(s) to compliance we will follow, and the time suppliers will have to give us confidence in the remaining measures in that subset.

### **Subsets of 100 measures or more**

**Table 3** illustrates the types of assurance we expect to receive from suppliers where our trigger failure rates are met for either technical or score monitoring for larger installers, ie those installing 100 measures or more in a quarter for that supplier. The table is not exhaustive; if a supplier would prefer to take a different approach then it should contact us for confirmation that its proposed activities will be sufficient.

Where we refer to levels of concern, this is to describe the difference between what we perceive to be a systemic problem as opposed to a one-off issue. However, we expect all measures to be installed to the appropriate standards and to be scored accurately.

**Table 3** Types of assurance we expect where the trigger failure rates are met for either technical or score monitoring

Failure rate		Level of concern	Expected assurance activities
TM	SM		
>10 -15%	>20-30%	Low	<ul style="list-style-type: none"> <li>• <b>Improvement plan</b> – put in place a plan to ensure that future measures of this subset have a failure rate below the trigger rate.</li> <li>• <b>Communication from senior management</b> – a letter from a supplier’s senior management recognising that our requirements for monitoring have not been met and that suitable corrective/preventative actions are being taken.</li> </ul>
>15-30%	>30-50%	Medium	<ul style="list-style-type: none"> <li>• <b>Improvement plan</b> – put in place a plan to ensure that future measures of this subset have a failure rate below the trigger rate.</li> <li>• <b>Root cause analysis</b> – identify, where possible, a cause for the high failure rate. For instance, where poor performance can be attributed to a specific operative, measure type or monitoring question.</li> <li>• <b>Revisit measures</b> - all measures affected by the root cause to be visited and corrected where necessary. This includes measures not part of the original monitoring sample that may be affected by the root cause. We may require more monitoring inspections if no root cause is identified.</li> <li>• <b>Communication from senior management</b> – a letter from a supplier’s senior management recognising that our requirements for monitoring have not been met and that suitable corrective/preventative actions are being taken.</li> </ul>
>30%	>50%	High	<ul style="list-style-type: none"> <li>• <b>Bespoke solution</b> – given the high level of concern, suppliers should contact us to discuss the best approach based on the failure rate and the size of the subset of measures. As a minimum we would expect at least the actions described for medium concern to be taken.</li> </ul>

**Subsets of fewer than 100 measures**

We recognise that for an installer responsible for fewer than 100 measures in a quarter it might be impractical to conduct enough inspections to reduce its failure rate below 10%.

Instead, for subsets of fewer than 100 measures, we require that the majority of measures are of sufficient quality and/or accuracy. This is achieved by recording at least two passed inspections for every one failed inspection for measures in that subset. Where additional monitoring achieves the required ratio, measures will be taken off the pathways to compliance. Where additional monitoring continues to identify failed measures, suppliers can choose to either continue to monitor measures until the required ratio has been met or provide us with



additional assurance in the quality and or accuracy of those measures. Examples of assurance activities can be found in **Table 3**.

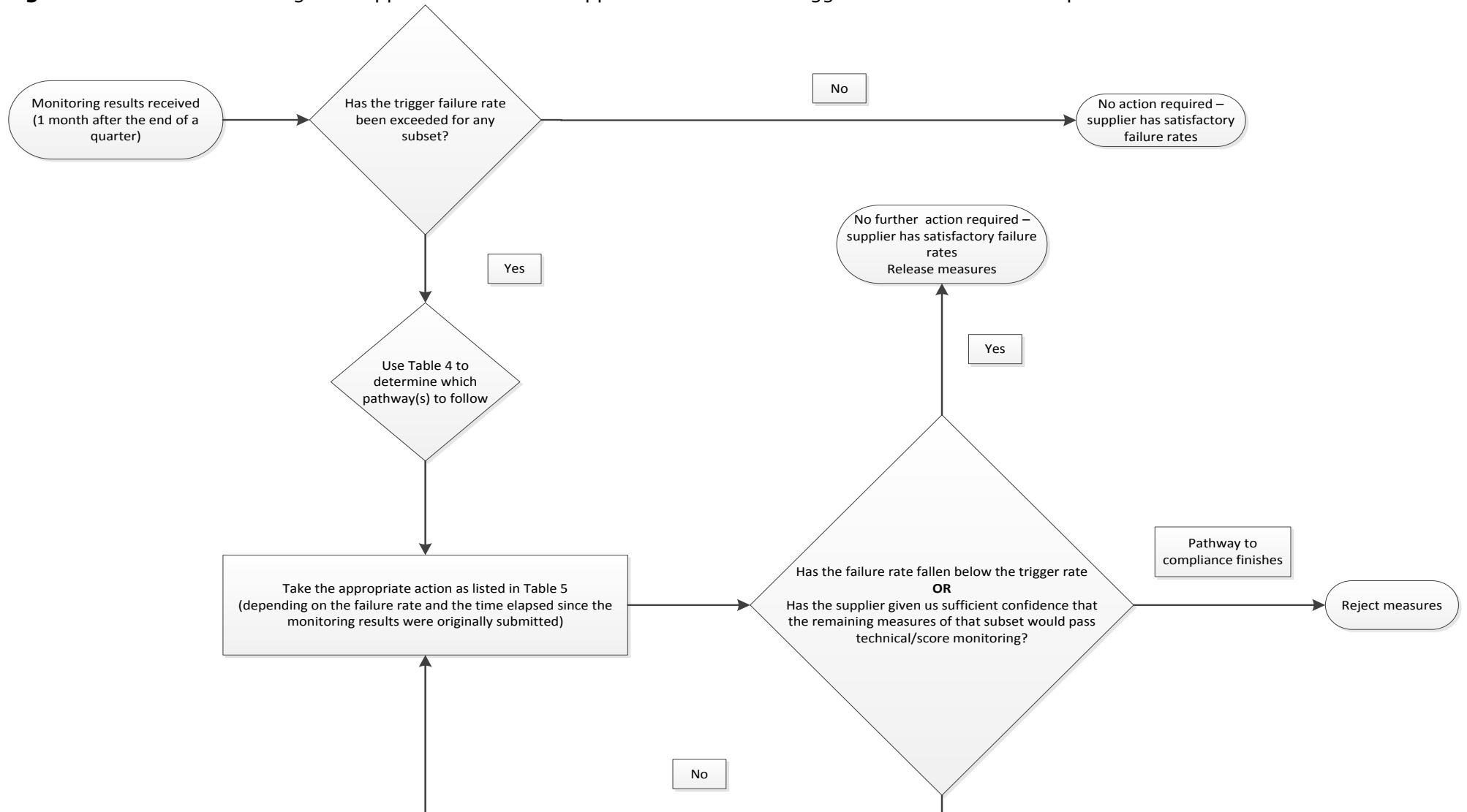
For example, Installer A installed 58 measures in a quarter, of which four were inspected. Three of the measures inspected failed. To cancel out these fails we require a further five passed inspections for Installer A, ie a total of three failed and six passed inspections.

The flowchart in **Figure 2** details our approach where a supplier reports unsatisfactory failure rates for a specific quarter. **Table 4** shows how we determine which pathway to take (A or B), if any, depending on the technical or score monitoring failure rate in a specific quarter.

**Table 5** details the actions and timelines for each of the pathways.

For score monitoring, we will only consider the failure rate and not the magnitude of the scoring error when determining which pathway, if any, we will follow. Our score verification process will focus on scoring errors where scores are shown to be considerably higher or lower than we would normally expect.

**Figure 2** Flowchart detailing our approach where a supplier exceeds the trigger failure rate for a specific subset of measures



**Table 4** Matrix showing how we determine which pathway to follow where a supplier exceeds the trigger failure rate for technical or score monitoring for a specific quarter

Pathway compliance	to	Technical monitoring failure rate per installer/ per measure type per installer	Score monitoring failure rate per installer
No action taken		10%	20%
B		Medium concern	Medium concern
A		High concern	High concern

**Table 5** Details of the actions we will take related to each pathway to compliance. The time indicates when further action will be triggered, which will continue until the supplier is able to give us confidence that the remaining measures of the same subset would pass technical/ score monitoring inspections

Time	Pathway to compliance	
	A	B
<b>Monitoring results submitted (+0 months)</b>	All of an installer's measures/ a measure type per installer that exceed trigger rate, in that quarter, considered at risk	All of an installer's measures/ a measure type per installer that exceed trigger rate, in that quarter, considered at risk
<b>+2 months</b>	Send minded to refuse or revoke approval notice for measures considered at risk Reject measures* (+2 weeks) <sup>4</sup>	All of an installer's measures/ a measure type per installer that exceed trigger rate, in that quarter, considered at risk
<b>+5 months</b>	-	Send minded to refuse or revoke approval notice for measures considered at risk Reject measures* (+2 weeks) <sup>4</sup>

\* **If no representations are made** and excluding any measure(s) that passed monitoring inspections and meet all other eligibility requirements.

<sup>4</sup> Further information on our rejections process can be found on our website. See: <https://www.ofgem.gov.uk/publications-and-updates/eco2-notice-minded-decisions-refuse-or-revoke-approval-certain-measures>.

## *Failure to achieve satisfactory failure rates for consecutive quarters*

**Table 6** details the actions we will take where the relevant trigger failure rates (10% for technical monitoring and 20% for score monitoring) are exceeded for consecutive quarters. These actions are in addition to the actions we will take in relation to each specific quarter (as per **Table 4**).

Where a particular installer, or a measure type installed by a particular installer, is subject to additional monitoring, in accordance with the actions set out in **Table 6** below, the monitoring rate will only return to the baseline rate of 5% once the failure rate for that subset of measures falls below 10% (technical monitoring) or 20% (score monitoring) for any one subsequent quarter.

Where we have concerns about the quality of a particular subset of measures, even where the trigger failure rate is not met, we may consider one or more of the actions listed in paragraph 9.52 of the ECO2 Guidance: Delivery. This could relate to notifications for one supplier or notifications across suppliers. For example, this may apply where an installer has an unsatisfactory failure rate for mid-installation external wall insulation (EWI) inspections, but its overall failure rate for EWI inspections is less than 10%.

**Table 6** Details of the actions we will take where a supplier meets the trigger failure rate for technical or score monitoring for consecutive quarters

<b>Quarter</b>	<b>Action</b>
<b>Second consecutive quarter</b>	Increase monitoring rate to 10% for that subset of measures in the quarter following submission of monitoring results
<b>Third consecutive quarter</b>	Increase monitoring rate to 15% for that subset of measures in the quarter following submission of monitoring results