

Will Broad  
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Environmental Programmes  
Ofgem  
9 Millbank  
SW1P 3GE

24 September 2013

Dear Will,

**Requirements for demonstrating characteristics of ECO hard-to-treat cavities**

We are pleased to respond to the above consultation which sets out the requirements which Ofgem believes will enable it to process Hard to Treat Cavity (HTTC) measures in accordance with its standard procedures.

We strongly support the objective of providing greater clarity to licensees and the wider supply chain as to the level of evidence and validation that Ofgem will require in respect of HTTC measures, and we welcome any changes that will allow Ofgem to follow its standard approval procedures – provided such changes are proportionate.

We have concerns that the current proposals will impose very substantial cost and disruption (both to customers and to the supply chain) which are not proportionate to the problems identified. We believe there are alternative approaches which could achieve the necessary improvement in assurance at far less cost and disruption, and would urge Ofgem to consider them. In particular:

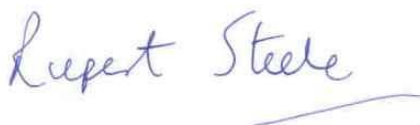
- **Effective date:** The proposed effective date of 1 October 2013 is unachievable given the level of change required within the supply chain, and will lead to a hiatus in delivery. In fact, such is our concern in this area that we would urge Ofgem to give urgent consideration to this element of all consultation responses and to communicate a proposed alternative date as soon as practically possible upon review of responses. A number of our delivery partners have already stopped all HTT activity until more detail is understood. We believe a date of 1 December 2013 would be more appropriate, with suppliers able to start earlier than this if they wish.
- **Narrow HTTC:** A requirement for independent assessors to check cavity widths in 100% of properties will substantially increase the logistic complexity of delivery, adding to cost and customer inconvenience, and creating significant disruption in the supply chain. We think the independence requirement should be relaxed so that the Narrow HTTC Declaration Form can be signed by an external firm of assessors under contract to the installer, subject to appropriate safeguards.

- Non-standard/remedial/uneven HTTC: A requirement for a chartered surveyor to visit 100% of properties in person will add very significantly to costs and to customer inconvenience. Even if there are sufficient chartered surveyors to do this, we estimate the cost of a HTTC installation could increase by as much as 25-30% (£300 - £350 on an average £1,200 job). If as we expect, availability of chartered surveyors becomes a limiting factor, the associated scarcity premium may push up prices further, possibly also impacting prices for other sub-obligations as installers look to recoup losses that had not been forecast as part of their original ECO delivery plans. As an alternative, we would support new requirements to improve the standard of evidence that the chartered surveyor has available (eg GPS-tagged photographs); we also think Ofgem could consider requiring that chartered surveyors operate under terms of engagement which stipulate that the chartered surveyor is expected to make a site visit in cases where he or she considers it necessary in his/her professional judgement (and to be paid for so doing).
- Technical monitoring: We accept that there may be a need to increase the level of technical monitoring, but would suggest two detailed changes: first that the pre:mid:post split for the second tranche of 5% should be the same as the first tranche; and second that if an installer achieves better than 95% pass rate for three successive months, the sample size should reduce back to 5%.

We look forward to our continued engagement with you on this issue, as we seek to find a sensible and enduring solution that provides the assurance that we all want and need, but which can be practically implemented in a cost effective manner.

Should you wish to discuss any of the points contained in this response, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal line.

**Rupert Steele**  
Director of Regulation

**REQUIREMENTS FOR DEMONSTRATING CHARACTERISTICS OF ECO HARD-TO-TREAT CAVITIES - SCOTTISHPOWER CONSULTATION RESPONSE**

**1. Introduction**

We strongly support the objective of providing greater clarity to licensees and the wider supply chain as to the level of evidence and validation that Ofgem will require in respect of HTTC measures, and we welcome any changes that will allow Ofgem to follow its standard approval procedures – provided such changes are proportionate.

A key consideration in this entire ECO process must be the end customer. Whilst seeking assurance of compliant delivery of measures we must reach a sensible solution that is no more intrusive to the customer than the current process is already perceived to be. Under Ofgem's current proposals it is conceivable that 5 to 6 separate visits could be made to the customer before a measure is installed, and the increased logistic complexity will mean a greater risk of missed appointments. If this means the customer has to take significant time off work ahead of installation, or perhaps just creates the perception of additional intrusive interference with his/her property, this will create a real barrier to delivery and reduce customer satisfaction. Our experience to date suggests that, from lead generation to installation, the customer fall-out rate can be as high as 48%, for which we think the number of appointments is a key factor. We must seek to minimise any further potential for customer generated cancellation.

We are also concerned that Ofgem's proposals are likely to have a damaging impact on supply chain capacity and thereby each supplier's ability to achieve the CERO target. (We are already aware that many members of our own supply chain have ceased all HTT installations beyond 30 September and are trying hard to absorb the costs of doing so, although it is unlikely that they can sustain their current staffing levels and that of any sub contractors beyond 30 September. Wider industry reports suggest that the proposals have already resulted in job losses across the supply chain.) Those suppliers who are able to secure compliant HTTC installation capacity will be faced with significant unforeseen costs in order to comply with the revised guidance and those who cannot secure this capacity will be forced to install higher levels of the alternative Solid Wall Insulation (to the extent that the market potential exists) to meet their obligation. Either way, all suppliers will see the cost to comply with CERO rise significantly over current projected levels. These are all costs that have not been accounted for within DECC's Impact Assessment and which will ultimately be faced by energy bill payers. By way of practical example, we believe that an increased HTTC cost may be in the region of 25-30% and replacement Solid Wall Insulation will be c.120% more expensive than original HTTC cost projections.

Finally, we do not doubt that there have been significant weaknesses in suppliers' and installers' performance to date, and we fully accept that Ofgem needs to further take steps to increase its level of assurance. However, based on our own experience as an obligated party, we believe that many of the problems which have arisen to date can be characterised as teething problems exacerbated by the one month reporting deadline, and we believe that suppliers and installers have made very significant improvements in recent months. We would encourage Ofgem to seek a pragmatic solution which strikes an appropriate balance between cost, customer and supply chain disruption and improved levels of assurance.

We set out in the sections below how we think Ofgem's current proposals can be improved.

## 2. Effective date

Ofgem is proposing that the new arrangements for HTTC will take effect from 1 October 2013. While we acknowledge that this date would allow a line to be drawn on retrospective work, the materiality of the proposed changes and their resulting impact on current processes and indeed the entire HTTC supply chain structure, means that this timeframe is impossible for the industry to meet:

- Ofgem is proposing to publish its final decision and amended guidance three days after the consultation closes on 24 September. This will allow suppliers only 3 days to alter existing processes and establish new commercial arrangements. This is operationally unachievable. Given the radical nature of Ofgem's proposals and level of industry concern, it is not practical for suppliers to start changing commercial arrangements ahead of the final decision.
- Suppliers will need to procure the services of independent assessors (to measure narrow cavities) and independent chartered surveyors. ScottishPower has none of this skill set in house and therefore has no option but to source it externally. We envisage that it would take a minimum of 4 to 6 weeks to conclude such an exercise. We would then need further time for training, induction and establishing new processes.
- Given the nature of the ECO marketplace and associated supply chain, it will be difficult to appoint a company which meets all of Ofgem's criteria for independence. The additional enquiries that will need to be made, and the possibility that preferred suppliers may fail to meet the criteria, is likely to add further delays to appointing a suitable company.
- Even if the proposed processes could be put in place for 1 October, the installer would not be compliant for any narrow HTTC measure installed on 1 October as the pre-installation technical validations will have already taken place and there would be no opportunity to perform the independent verification pre installation.

Whilst we do not wish to introduce unnecessary delay, we believe it would be counter-productive to impose a start date any earlier than **1 December 2013**. An earlier date would result in the industry implementing structural and system changes that are insufficiently robust and likely to present us all with even greater problems in the coming months. Any measures installed prior to 1 December should be considered within the retrospective process unless the supplier is able to demonstrate that the agreed process has been adopted earlier than the implementation date.

**We believe Ofgem should reconsider the effective date of all its proposals, to ensure the necessary changes can be put in place in a timely and sustainable manner. Suppliers should be able to move to the new regime ahead of the effective date, should they wish, but on a voluntary basis.**

Finally, we would request that Ofgem confirms the effective date as soon as possible, to avoid continued uncertainty. As a result of the uncertainty, many HTTC installers have been forced to completely stop all HTTC activity that may have an installation date from 1 October onwards.

### 3. Narrow HTTC (Proposal 1)

#### Concerns with current proposal

Ofgem is proposing that a 'Narrow HTTC Declaration Form' must be completed by an assessor of 'appropriate skill and experience' who must personally visit the premises during (or prior to) installation to measure the width of the cavity. The assessor must either be an employee of the supplier or independent of the supply chain, which means that the assessor or the assessor's company must:

- have no financial interest in any entity involved in the installation of the measure (other than the supplier intending to claim the benefit of the measure under ECO); and
- not receive any remuneration from any entity involved in the installation of the measure (other than the supplier), relating to that measure.<sup>1</sup>

As noted above, our main concerns with this proposal are that it will substantially increase the logistic complexity of the process with adverse impacts on costs and customer inconvenience. There are already significant logistic challenges in coordinating all the necessary visits to a property so as to minimise the number of appointments with the householder. This complexity will increase if the assessor is not under the control of the installer but is instead employed by the supplier. In theory, the supplier could operate a contractual arrangement with the assessor such that the assessor reported to and was paid by the supplier, but delegated day to day tasking of the assessor to the installer. Although this might work in theory, we think there would be significant practical difficulties, not least because each supplier will deal with a number of different installers, each of which will have its own pool of qualified technical assessors. At the very least this proposal would involve significant restructuring of the supply chain (since firms of assessors would need to cancel contracts with installers and then compete for business with suppliers) – which will add to the lead time for implementation, and will probably also add to customer inconvenience and drop-out rates, which are already high.

Whilst we acknowledge that the BRE audit of narrow HTTC installations has caused Ofgem to question the accuracy of cavity measurements that have been made by installers to date, we believe there are alternative ways of achieving an appropriate level of assurance at far less cost and disruption to customers.

#### Alternative proposal

We believe that the accuracy issues detected by the BRE audit may in part relate to a lack of standardisation in the methodology used for making measurements. As the BRE reports highlight, the width of a cavity can vary significantly over the area of a wall, and the measurement can be sensitive to the number and location of drill holes. Ofgem's guidance now sets out a more detailed protocol and we believe this should lead to more accurate and repeatable measurements in future.

However, we also appreciate the need for Ofgem to gain greater assurance that the measurements have been properly made, and we think that this can best be achieved by introducing tighter controls over the individual making the measurement. We would propose that:

- The installer should be responsible for measuring all narrow HTTCs by employing a

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<sup>1</sup> See footnote 1 in draft Narrow HTTC Declaration Form

suitably qualified external company. The measurements would be conducted according to the methodology set out in Ofgem's guidance and recorded on a Narrow HTTC Declaration Form.

- The external company must be independent of the installer in the sense that it must:
  - have no financial interest in any entity involved in the installation of the measure (other than its contract with the installer);
  - not receive any remuneration relating to that measure from any entity involved in the installation of the measure with the exception of:
    - payment for measuring the width of the cavity in question;
    - payment for any other monitoring or technical validation services relating to that measure.
  - not be remunerated for measuring the width of the cavity in a way which creates any incentive for it to achieve a narrow classification.

Finally, in any regime where measurements are being checked or repeated, the question arises as to what degree of tolerance should be afforded before a second set of measurements invalidates the first. The BRE reports provide a useful review of the natural variability of cavity widths and the statistics underlying such measurements. We believe it would be helpful if Ofgem were to confirm in its guidance two key principles:

- That if the first set of measurements is conducted in accordance with Ofgem's guidance and a second set of measurements using the same holes gives the same result (within a tolerance appropriate to the uncertainties of the measurement process) this should be sufficient evidence of the cavity being narrow. Provided that re-measurement using the same holes gives an acceptable result, any further measurements using different holes should not be capable of invalidating it.
- That if, for some reason, it is not possible to replicate the original measurements, and a new set of holes is used to check the cavity width, the original measurement should be rejected only if the new measurement exceeds 50mm by an appropriate tolerance. This second tolerance would take into account not only the uncertainty of the measurement process but also the natural variability of the cavity (which BRE took to be normally distributed with a standard deviation of 2.5mm).

We do not believe these principles are particularly contentious, but it would be useful to have clarity on this matter in advance, particularly given the need to avoid drilling any more holes than are strictly necessary.

#### **4. Increased requirements on HTTC measures that require a chartered surveyor's report (Proposal 2)**

##### Concerns with current proposal

Ofgem is proposing to modify the rules for measures that require a chartered surveyor's report so that the chartered surveyor making the report must:

- a) be either a chartered building surveyor or a chartered surveyor who has qualified

through the residential survey or valuation pathway;

- b) be independent from the supply chain, which means that the surveyor (or his company) must:
- have no financial interest in any entity involved in the installation of the measure (other than the supplier intending to claim the benefit of the measure under ECO); and
  - not receive any remuneration from any entity involved in the installation of the measure (including the installer, third party agents, surveyors, social housing providers etc, but not the supplier), relating to that measure.
- c) personally assess the site on which he or she is reporting.

We are particularly concerned about (c) above, which we think goes well beyond what is necessary to address the problems identified by Ofgem and could add more than £300 to the cost of each measure when travel time is taken into account. If as we expect, availability of appropriately qualified chartered surveyors becomes a limiting factor, the associated scarcity premium may push up prices further, possibly also impacting prices for other sub-obligations as installers look to recoup losses that had not been forecast as part of their original ECO delivery plans. Provided the chartered surveyor has access to appropriate information about the site (including photographic evidence where relevant) we see no reason why he should not be able to form a reasonable judgement from his/her desk. In certain limited circumstances, it may not be possible to form a judgement without a site visit, and in such cases the surveyor should be expected to make such a visit.

We also have concerns about (b), which will cause disruption within the supply chain (eg where installers have hired chartered surveyors they may need to make them redundant) and load additional costs onto local authority and social housing landlords. In proposing such a change, we assume Ofgem has reason to question the quality of recommendations that have been made by chartered surveyors who are in the employment of installers or social housing providers. However we would ask Ofgem to consider whether the failings it has detected are necessarily due to a lack of professional independence or might alternatively be remedied by ensuring that chartered surveyors are provided with better quality supporting data. It is worth noting that in safety critical areas, such as MoT Tests and gas installations, it is considered acceptable for the regulated professional to be employed by the client.

#### Alternative proposal

In seeking to improve the level of assurance we believe Ofgem should acknowledge the professional standing of chartered surveyors and seek to ensure that they are able to exercise their professional judgement to the best of their ability. We would propose introducing the following two new requirements:

- That where the chartered surveyor does not visit in person, s/he must be provided with clear photographic evidence of the property to support his recommendation. A number of more sophisticated methods are emerging in the market that could potentially be included within such a requirement (eg photographic evidence with GPS data attached). However, it will take time for such technology to be purchased and implemented in the field, so this may need to be an element of the new HTT Guidance that comes into effect from 1 January 2014.

- That the terms of engagement for the chartered surveyor (or equivalent in the case of employees) must contain explicit provision that if, for any particular measure, the chartered surveyor considers he cannot make a reasonable judgement without inspecting the site in person, he or she will be expected to make such a visit (and be paid accordingly) or otherwise decline to make a recommendation.

If these two requirements are introduced, we see no need to require 100% site visits. Any incremental benefit that might be achieved would be disproportionate to the cost.

We are not persuaded that it is necessary for Ofgem to place restrictions on who can employ the chartered surveyor. However, if Ofgem continues to believe that this is an issue, we would suggest that an alternative less intrusive measure would be to require the employer and employee to sign a formal declaration that reaffirms both parties' commitment to the principle that the surveyor is exercising his/her independent judgement regardless of the employer's interests.

## **5. Increased technical monitoring (Proposal 3)**

### Concerns with current proposal

Ofgem is proposing to increase the size of the initial sample for technical monitoring of relevant HTTC measures from 5% to 10%, and to specify that for the extra 5% sample, the ratio of pre:mid:post installation inspections should be 0:100:0.

We accept in principle that the level of technical monitoring may need to be stepped up, but we think that a more flexible approach could achieve Ofgem's assurance objectives at lower cost.

### Alternative proposal

We would propose that:

- The initial sample size is increased to 10%, but maintaining the same 0:60:40 ratio split. The current 0:60:40 ratio is already logistically challenging and the proposed 0:100:0 ratio would introduce further complexities and costs with little obvious benefit in terms of increased assurance.
- If the pass rate exceeds 95% for 3 successive months, the sample size would be allowed to drop back down to 5% (but would increase back to 10% if in any month the pass rate drops below 95%). This ensures that where the supply chain is demonstrably performing to a high standard, we do not continue to incur an inefficiently high level of monitoring costs.
- Where an independent company is performing independent verification of narrow cavity widths, the same company should also be permitted to carry out the technical monitoring function in line with current Guidance; this will potentially lead to efficiency savings without any obvious loss of assurance.

ScottishPower  
24 September 2013