

Government response to: “Home insulation

A report on the Call for Evidence carried out by the OFT”

November 2012

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Foreword by The Minister of State

I welcome the report from the OFT¹ on the market for home insulation measures, which highlights a number of important issues with the home insulation market. It shows that consumers are not always being well served by the current setup. That is why I have ensured that consumers are at the very heart of the new Green Deal, which will enable people to save energy and money.

I am very pleased that the OFT recognises the efforts we are putting into the Green Deal to ensure it delivers the best deal for consumers. At the heart of our consideration in designing the Green Deal has been the concern to ensure that customers get the best possible experience. The Green Deal can only work, and deliver the benefits it is designed to, if customers have confidence that they will be provided with the right products, professionally installed to a high standard.

Customers will also be able to have confidence that a comprehensive range of protections sit behind the products and services they receive, and that, in the unlikely event things go wrong, they will be put right with the minimum of hassle or inconvenience.

I believe that the regime we will be putting in place for delivery of the Green Deal and the new Energy Company Obligation (ECO) will provide the required level of assurance. We will though be monitoring how delivery takes place. We will be on the lookout for any problems and DECC, Ofgem or the Oversight and Registration Body (ORB) will look to take actions wherever appropriate.

¹ **Home insulation**, A report on the Call for Evidence carried out by the OFT, August 2012, http://www.oft.gov.uk/shared_oft/markets-work/energy-efficiency/oft1433.pdf

DECC has been working closely with the OFT to respond to the points raised in its report and as a result of this we have identified further ways in which the consumer experience can be further improved under the Green Deal. Our detailed response to the recommendations for DECC, and what we propose to do in response, is set out below and I look forward to continuing to work with the OFT as the Green Deal is rolled out.

GREG BARKER MP

Summary

This response addresses the recommendations made and the findings contained in the OFT's report on the UK's home insulation industry

The Government welcomes the OFT report and the recognition in the report of the new, stronger protections for consumers being put in place under the Green Deal.

The range of consumer protections embedded in the Green Deal include:

- A new Green Deal quality mark to protect customers from rogue traders. Any Green Deal installer, provider or adviser will have to display this seal of approval to demonstrate they comply with the required standards;
- A new Green Deal Oversight Body, which will carry out spot checks on Green Deal participants, like site visits or mystery shopping, to ensure compliance to the right standards. It will have the power to recommend if a company should be stripped of its Green Deal seal of approval;
- A clear complaints procedure if anything goes wrong;
- Green Deal plans for householders will be limited to fixed interest rate deals only. This will ensure simplicity and allow customers to compare offers;
- Clear information so customers know what they are signing up to including two initial energy assessments, warranties and all permissions to be sought in writing before work is undertaken.

A similarly comprehensive range of protections will also apply in respect of ECO funded work. Where the Green Deal is combined with ECO funding then exactly the same protections will apply, as apply under the Green Deal. Where projects are entirely ECO funded then some different rules may apply, but the same standards of installation will still be expected and customers will enjoy a full range of protections. To carry out work under the Green Deal or ECO work all installers must meet the same standard and be certified to PAS 2030² by UKAS accredited certification bodies.

Our key concern in the design of ECO and the Green Deal has been to ensure that customers receive the best possible experience, as well as getting a home that is easier and cheaper to keep warm. We have taken the best elements of the experience under the current domestic energy efficiency schemes – the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme

² **PAS 2030:2012** - Improving the energy efficiency of existing buildings. Specification for installation process, process management and service provision, February 2012, BSI

(CESP) - and incorporated these. Where there may have been issues we have built on these to create a customer protection regime that is truly fit for purpose.

In undertaking their call for evidence the OFT did not identify any general structural or anti competitive issues in how the insulation market is operating, though they did identify an issue with price volatility as the current obligations, CERT and CESP, come to their conclusion. They also indicated that they would keep under review any evidence of anti competitive behaviour or agreements in the market.

The question of price volatility is one of the issues that DECC will bear in mind when considering the transition between ECO obligation periods and something that we will be looking at as part of our evaluation of CERT and CESP.

Clearly, with the move to the Green Deal and ECO the insulation market will need to undergo a transition of its own and it will be important to continue to understand how the market is operating and what the implications are for consumers. In recognition of this DECC will be supportive of the OFT in further monitoring as to whether the insulation market is operating in a way that best serves the consumer interest.

SUPPLY CHAIN ISSUES

1. In its report, the OFT identified access to energy efficiency product certification services as an issue. In particular, it noted that some respondents to the call for evidence criticised the British Board of Agreement (BBA) - the largest insulation certification body - as being slow, expensive and lacking effective competition. The OFT urged the Government to promote greater competition in this area. Government believes that access to a range of options for certification is important and in this context would note that there is already a choice of certification routes available to companies and that there is no requirement to use the BBA route. Indeed, the UK is unusual in Europe by virtue having more than one certification issuing body.

2. However, we believe that is important to raise awareness of the options that are available and will continue to take advantage of opportunities to do this. We also welcome the fact the BBA has made clear on their website that companies can have testing undertaken by other bodies for certification purposes.

OFT Recommendation	
i.	<p>Government should investigate further what practical steps could be taken to support the insulation industry in purchasing certification services, for example by providing guidance for the industry on alternative certification routes, or to explore what more can be done to encourage more certification bodies to enter the market.</p> <p>As previously mentioned, some respondents to the Call for Evidence argued that, even with CE markings, there may be still reasons for those in the market to want a different certificate. However, the CE marking, as a neutral label (the label certifying the level of performance is separate from the certification body), encourages competition and reduces the reliance on incumbent certification bodies. We would encourage the Government to consider ways of promoting competition and choice in certification—in particular within the Green Deal/ECO schemes</p>

3. We have set out in the Green Deal Frequently Asked Questions (to be published on the ORB website) what the various routes to certification are. In particular this makes clear that when certifying external wall, internal wall and cavity wall insulation “systems” manufacturers can use any UKAS accredited certification body or a body which is notified under the Construction Products Directive (89/106/EEC) and/or the Construction

Products Regulation (EU 305/2011) for the relevant activities in relation to the products and systems in question.

4. The Green Deal Code of Practice also makes clear that products can be tested by any UKAS accredited certification body or equivalent certification body with the relevant scope of accreditation for those products.
5. DECC has investigated whether government intervention is needed to encourage more certification bodies to enter the market. Our assessment is that the model in the UK compares well to other European Member States, in that in many other states there is only one certification body. In addition, the value of the thermal product certification and testing market is estimated by the BBA to be only 0.3% of the overall value of the insulation market, meaning the market is unlikely to be able to support a larger number of participants. However, DECC will encourage existing certification bodies to continue investing in increasing capacity and to provide the most efficient service possible.

OFT Recommendation	
ii.	The OFT intends to engage 'specifiers' and their associations to promote procurement practices that do not discriminate in favour of a specific certification body, but focus on neutral labels. We plan to write to both private sector associations (such as RIBA) and public sector associations (such as the Local Government Association). We have asked DCLG to engage with building control bodies on the same issues.

6. DECC supports moves to increase transparency on what certification options exist. That is why we have set out in the Green Deal Frequently Asked Questions what the various routes are for certification and what options are available. Ultimately though it is, rightly, down to individual companies to determine whether they wish to use any particular certification body.

OFT Recommendation	
iii.	In addition to the separation of certification label from the body applying that label, the OFT considers that competition would also benefit from a clear separation between certification and testing. A certificate requires different tests, and a manufacturer may prefer to have part of the testing carried out by bodies other than the one that issues the final certificate. Certification bodies should commit to accepting testing data from other suitably accredited laboratories. The OFT's understanding is that this principle already applies, but there may be steps that could be taken to raise awareness.

7. DECC has been assured by certification bodies that this separation already exists. The BBA for example only carries out both testing and certification for 50% of its work and will accept test data from other testing bodies. The BBA have recently updated their website³ to make clear that they can provide one or both services and clearly set out the basis on which they accept data from other testing bodies.

³ http://www.bbacerts.co.uk/media/108946/031_3_-_bba_acceptance_criteria_for_test_data.pdf

DEMAND FOR INSULATION AND THE IMPACT OF ENERGY SUPPLIER TARGETS

8. Government recognises the desirability of providing certainty about the level of future energy efficiency targets for obligated companies and other stakeholders and also of creating an environment in which allows delivery to take place efficiently and economically.
9. However, while DECC will do all it can to create a stable and so far as possible predictable framework for domestic energy efficiency schemes, much will also depend on individual companies' approach to delivery. The design of CERT and CESP, and now ECO, means that within the terms of the schemes companies are free to deliver in the manner that best suits them. This should help ensure that delivery is undertaken in the most cost effective manner available thus minimising impact on customer bills.
10. Under CERT and CESP, it appears that some companies may, for various reasons, have planned to deliver elements of their obligations late in the obligation period, which the OFT suggests may have affected cost by driving up demand towards the end of the obligations. Ultimately, we believe that the targets we have set under CERT, CESP and ECO are achievable and that it is in the best interests of consumers for energy companies to ensure that they meet them. We believe companies are best placed to decide on their own delivery strategies and that it is right that within the terms of the legislation companies should be able to plan delivery as they consider appropriate.
11. Government believes that it is important to ensure a stable framework exists for delivery of the obligation, which is key to providing the certainty stakeholder require to deliver effectively and efficiently. For this reason, we have said that we expect ECO to run until at least 2022. We will consult before 2015 on the targets and design of ECO beyond the current obligation period.

OFT Recommendation	
iv.	We consider that there should be greater incentives for energy companies to meet their obligations. One way to achieve this would be through increased transparency of the performance of the obligated energy companies. For example, Ofgem might be given the power to chart the performance of individual energy companies against their obligation under ECO for installing insulation and to publish this information. Under the ECO scheme,

	Ofgem will have a duty to report monthly to the Secretary of State for Energy and Climate Change. We would encourage Ofgem to publish these monthly reports under ECO in order to incentivise the energy companies to fulfil their obligations promptly.
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12. Under CERT and CESP, Ofgem publish regular reports on how the schemes are progressing, which provide a high degree of transparency on overall progress. We would expect at least the same degree of transparency to be provided under ECO.

13. Any further publication of monitoring information will be at the discretion of Ofgem as the independent administrator of ECO, though DECC may choose to publish information it receives from Ofgem and will consider how this can best be used to increase transparency under the scheme. The publication of any information in relation to the progress of individual suppliers towards their targets set under ECO will need to be considered in light of any commercial information which it may contain.

14. Companies will be required to provide much more information under ECO than is currently the case and will also, for the first time, be required to provide information on delivery costs and how these are passed through to consumers. Information on how companies are progressing individually against their targets will be published, as at present, on at least an annual basis and DECC, with Ofgem, will consider what form of more regular reports could also be provided.

15. Ofgem will set out in detail in the ECO scheme guidance the type and frequency of information they plan to collect from energy companies and how this should be reported, to help them administer the scheme and ensure energy company compliance. Companies will be required to provide a range of data on delivery under ECO and on the basis of this information DECC plans to publish quarterly statistical releases, which will provide a summary of ECO trends.

OFT Recommendation	
v.	Consideration might be given to overlapping target periods. This might involve winding down the original three year target at the same time as building up the subsequent three year

	<p>target. As an example, the first three year target could be wound down from December 2015 over a period of six months, ending in June 2016, while the subsequent target could start in December 2015 and gradually build up until it was fully introduced by June 2016. This would avoid the 'cliff edge' associated with moving from one set of targets to a different set of targets thus reducing the risk of building up capacity then having it tail off well in advance of the end of a scheme.</p>
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16. The first period of ECO will finish on 31 March 2015. As we said in the Green Deal and ECO consultation, Government will look to announce plans for the next phase of ECO ahead of this date. It should be noted that the government consulted on the CERT extension targets well in advance, and on the design of the new ECO scheme a year ahead of the obligation start date, which provided companies with a clear indication of what to expect. Similarly we would expect to consult on the future design of ECO in advance of the end of the current obligation.
17. The government recognises that managing the transition between schemes and obligation periods is a key issue and in moving from CERT and CESP to the new ECO we have sought ensure that the transition is as smooth as possible for energy companies and the insulation sector by implementing a number of measures:
- a. Obligated companies will be able to carry forward to ECO any over achievement against their CERT and CESP targets, where these measures would also qualify under ECO;
 - b. we are proposing that qualifying measures completed from 1st October this year will be able to count towards companies' ECO obligations, effectively this allows for a three month overlap between the old and new obligations;
 - c. in recognition of the challenges faced by the insulation industry as result of the transition we amended the ECO eligibility criteria to include hard to treat cavity wall measures in the Carbon Obligation, and all cavities in the Carbon Saving Communities obligation. This contributed to the estimated uptake of cavity wall insulation in 2013 being greater than was estimated at consultation stage;
 - d. there will be a £200m launch incentive for the Green Deal which will help drive demand in the early stages of the Green Deal;

e. we have provided funding for the retraining of people in the insulation industry, including £2 million for training in solid wall insulation and £1 million for training energy efficiency assessors; and

f. Ofgem have published an open letter on their approach to compliance under CERT and CESP. This should assist companies in how they plan their delivery in the final stages of CERT and CESP and how they address the issue of any potential under delivery against their obligations.

18. Taken together these represent a comprehensive range of measures to allow stakeholder to manage the transition between schemes. Looking to future obligations what measures the government may implement in terms of transition will depend upon the circumstances of the time. However, the intention would be to continue to adopt an approach that minimises the disruption in the transition between schemes.

OFT Recommendation	
vi.	Under the transition of CERT and CESP to ECO DECC has allowed obligated energy companies to over-recover qualifying measures in one scheme to be rolled into the following scheme. We understand that DECC are considering allowing this for targets within the ECO scheme, and would encourage that.

19. As noted above, Government recognises the importance of providing clear transitional arrangements from one obligation period to the next and has allowed the carryover of over achievement from CERT and CESP to ECO, in some circumstances. In planning for the next obligation period, a key consideration will certainly be what role there should be for carry over between schemes.

OFT Recommendation	
vii.	Announcing government targets in advance of (e.g. 12 months before) the start of the scheme. A number of installers mentioned that a lack of clarity over targets prevented them from fully committing to delivery until later than they would have liked. Greater forward commitment would allow energy companies and installers to plan their activity with certainty in advance of the start of a project and be ready to go when the scheme starts.

20. Government proposed targets for the ECO in the November 2011 consultation document, allowing plenty of time for suppliers and installers to have clarity over targets. The final targets were confirmed in the Government response to that consultation published in July 2012. As with ECO in the future we would though look to consult well in advance of the end of the current obligation period and provide reasonable notice of any major changes to the scheme.
21. In future target setting and scheme design, we would also expect to be assisted by the greater knowledge we will have of how ECO is delivered, relative to previous schemes. We also hope to share the knowledge as much as we can and this should provide for a much more informed debate and greater understanding of the issues that may need to be addressed in the next stage of ECO.

QUALITY OF INSULATION AND INSTALLATIONS

22. The Government believes that a key element to the success of both the Green Deal and ECO is that customers can have confidence that they are getting the right product and that it has been properly installed. We believe that the regime we are putting in place will ensure that this is the case.
23. The new quality assurance we have put in place for installers should help guarantee that work is done properly. Working with the ORB and Ofgem, we are also looking to put in place monitoring arrangements which can provide assurance that work is being undertaken to the required standard and that customers will not face problems in the future.
24. We are also considering what long term monitoring there should be to check that products are performing as expected and bringing the predicted benefits. However, fundamental to our approach is ensuring, as far as possible that the suppliers and installers do a high quality job the first time around. Learning from CERT and CESP, the type of targeted technical monitoring we will be putting in place under ECO and the Green Deal should pick up any problems at an early stage and make sure that they are properly addressed.

OFT Recommendation	
viii	In addition to the changes already being made through the Green Deal and ECO schemes, we believe that there are some additional ways in which the concerns identified above might be tackled. In particular DECC should ensure that there is an effective monitoring process going forward to check quality, with clear implications for installers who fail to maintain adequate quality.

25. DECC is in the process of developing detailed technical monitoring requirements for the Green Deal and ECO with Gemserv and Ofgem respectively. The goal of monitoring is to improve the quality of installations and products. We will announce the detailed framework before the first Green Deal plans can be undertaken in January 2013.
26. The new technical monitoring arrangements are being developed based on our experiences under the current schemes and will put in place an even stronger regime, which is both proportionate and targeted.

27. Ultimately, where there is evidence of poor performance a range of sanctions will potentially be available. For instance:

- a. it will be possible for a poorly performing installer to lose their PAS accreditation. Without this, they would not be able to take on any Green Deal or ECO work and so be effectively excluded from the insulation market. This should provide a strong incentive for companies to ensure they comply with the standards set;
- b. where a Green Deal provider fails to deal with problems it will ultimately be possible for them to lose their Green Deal licence, thus again excluding them from the market; and
- c. under ECO where a supplier fails to address problems which are identified they can ultimately face the sanction of losing the carbon score related to measures where an issue has been identified.

OFT Recommendation	
ix.	It is important that monitoring is seen to be independent of the companies involved in the installations, in order to avoid any possibility and perception of bias and also to allow sample sizes to be varied so as to be representative across different sub-groups of installations and across Green Deal Providers.

28. DECC supports this recommendation and will ensure it is included in the Green Deal monitoring framework.

29. Ofgem are responsible for ensuring energy suppliers' compliance with the requirements of ECO. DECC is working with Ofgem to ensure that an appropriate and effective level of monitoring is put in place.

OFT Recommendation	
x.	Ofgem (as the body responsible for monitoring ECO-funded installations) should liaise with the Green Deal Oversight Body (the body responsible for monitoring Green Deal-funded installations) over the monitoring methodology. This would be to ensure sampling was representative, for example of installations that are funded by ECO-subsidies only, and to avoid excessive and even duplicative sampling or gaps.

30. Ofgem, as the independent administrator of ECO, will be responsible for determining how they monitor installations of qualifying actions submitted by suppliers to complete their obligations under ECO. DECC will work with Ofgem to ensure that an appropriate level of monitoring is put in place.

31. Ofgem is already working with the ORB to ensure they adopt a coordinated approach to technical monitoring where appropriate. The two bodies will work together, and maintain regular contact, to develop a joined up approach to common issues, including technical monitoring.

OFT Recommendation	
xi.	Consideration might be given to more focussed sampling of installations. For instance, a smaller sample size than the nominal five per cent required by Ofgem under CERT might produce a statistically robust figure, in which case the savings made would allow Ofgem or the Green Deal oversight body to target a second layer of sampling on installers with a poor quality record.

32. Ofgem will be responsible for the sampling of installations under ECO, as they are under CERT, and therefore will decide the necessary sample size to test installations to satisfy their monitoring processes. DECC will work with Ofgem to ensure that an appropriate level of monitoring is put in place.

33. Ofgem are in the process of developing their approach to technical monitoring under ECO, but this will be informed by experience under CERT and will seek to build on this experience to put in place an even more effective monitoring regime. A key element of the new regime will be a focus on intelligent monitoring moving away from a blanket approach of 5% testing. This should enable more effective targeting of potential problem products or installers.

OFT Recommendation	
xii.	DECC should make sure that one body has clear responsibility for monitoring installations in the longer term, so as to ensure that structural issues are picked up - for example cavity wall insulation being installed in inappropriate properties, causing damp. A number of respondents to the Call for Evidence told us that damp might sometimes start appearing as much as 12-18 months after installation. We recognise that this would create additional monitoring cost, but this might be balanced by carrying out a smaller overall number of assessments (as noted above).

34. We have set out clear and robust standards for all Green Deal and ECO installations. All installers must be certified to PAS 2030 by UKAS accredited certification bodies in order to be authorised to carry out Green Deal and ECO work. Certification bodies, in turn, will monitor all those they certify to ensure they are complying with PAS 2030. In addition to this, we have appointed an Oversight and Registration Body (ORB) that will also ensure compliance with our standards and the Green Deal Code of Practice. It will be responsible for ensuring that UKAS, certification bodies and others have clear monitoring strategies in place to provide robust levels of assurance across the whole Green Deal process. This will include working with stakeholders such as Trading Standards and OFGEM, carrying out ‘mystery shopping’, identifying trends and issues, and carrying out risk, targeted and random based monitoring. The ORB will also develop a process for carrying out ex-post monitoring of installations to ensure the longer term quality of installations and that they are delivering the energy savings claimed.
35. The key to avoiding long term problems is ensuring the right product is used in the first instance and that it is properly installed. The robust technical monitoring arrangements being put in place under ECO and the Green Deal should help ensure this is the case, and the threat of losing their PAS accreditation should provide a strong incentive to companies to get things right.
36. There is inevitably a distinction between work funded under the Green Deal and work wholly funded under ECO, where the occupier makes no financial contribution. As the Green Deal involves a long term financial commitment by the occupier it is clearly right that there is warranty provision for the lifetime over which a measure is expected to provide a payback.
37. DECC is in discussion with the ORB about what form long term monitoring under the Green Deal might take, but the intention would be to particularly monitor how products perform over time against their specification.

OFT Recommendation	
xiii	The monitoring bodies could be given the powers to publish failure rates, both in aggregate and by Green Deal Provider, together with details of those failures. This information would help customers decide who to appoint as their Green Deal Provider, thereby promoting competition between GDPs in the quality of installations, and aid customers in monitoring workmanship.

38. Feedback to participants and the provision of information to the wider market will be essential to developing consumer confidence. The ORB will be setting up a number of fora, which will meet quarterly to discuss performance and key issues in relation to the Green Deal. These fora will comprise key delivery stakeholders and DECC officials and will cover the certification framework, installers, assessors, and the implementation of the Code of Practice. In addition, the ORB will produce a detailed annual report each year setting out the performance of the Green Deal.

39. Ofgem already publish information on failure rates as part of their annual reports on CERT and CESP, we would expect this approach to continue under ECO.

OFT Recommendation	
xiv	For the ECO scheme (where obligated energy companies will contract with Green Deal Providers to discharge their obligations) the relevant regulator or oversight body could be given powers to withhold the carbon saving credited to the energy companies in proportion to the number of these providers' measures that fail inspection. This would provide a clear incentive for energy companies to ensure that the Green Deal Providers install insulation to a high standard under the ECO scheme.

40. Ofgem, as the independent administrator of ECO, will be responsible, within the terms of the legislation, for determining under which circumstances, if any, they would withhold verifying carbon saving scores to energy companies in respect of completing their obligations under ECO.

41. There will be a range of incentives to ensure that installations carried out under ECO are of a high standard:

- a. as noted installers who perform poorly can ultimately lose their PAS accreditation, effectively excluding them from the ECO and Green Deal;
- b. Green Deal providers that consistently underperform can have their status removed;
- c. Ofgem has a range of sanctions available to it where suppliers breach their obligations under ECO. This can include withholding carbon scores as appropriate, but can also ultimately include imposing fines of

up to 10% of a company’s turnover. These are clearly serious sanctions which are taken very seriously by the obligated companies; and

d. customers can also pursue a complaint against an energy company via the independent energy ombudsman.

OFT Recommendation	
xv.	Finally, the government could ensure that protection on installations funded by ECO only should, where appropriate, be consistent with that on Green Deal installations (except where the protection provided under the Green Deal, i.e. for finance, is not relevant).

42. The ECO order requires that where installation standards are specified in the PAS that they are adhered to under ECO – this will provide comparable protections in installation standards. Installers that perform badly will ultimately face losing their accreditation.

43. Customers will also enjoy the standard guarantees and warranties that come with insulation products under ECO, as would be the case if the product were supplied under the Green Deal. Though as there is no financial contribution they will not receive any extension to warranties, as is provided for under the Green Deal, to cover the payback period of the product.

44. Where any problems arise, we would expect the installer to want to resolve these at an early stage, however in the event of a dispute then it will be open to the customer to raise the matter with Ofgem and/or the energy ombudsman.

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