ofgem e-serve

For Guidance

Title:	E-Serve Quarterly Report Q2 2013/14	Reference	
Purpose:	To highlight key issues associated with the activity of Ofgem E-Serve and with the Information Management & Technology department.	For attention of	Authority
Project:	Ofgem E-Serve and IM&T	Date of meeting	17/10/2013
Timing:	Immediate	Date of submission	10/10/2013
Project sponsor:	Robert Hull	Security level	Protect
Author and contact:	Tahir Shah	Security descriptor	Management
		Previous papers	

1 Background

The **E-Serve Quarterly Report** gives a summary of progress and key developments for each area of E-Serve activity. The report summarises developments during the second quarter of the 2013-14 financial year and is provided to the E-Serve Programmes Committee (EPC) and the Gas and Electricity Markets Authority (GEMA). Financial and performance data is provided up to the end of August to meet the EPC meeting deadline.

2 Recent Developments and Emerging Issues

The Schemes teams in E-Serve have grown significantly over the last couple of years and we have now started the evolution to our new management structure with [x] of the associate directors in place and [y] more coming through the recruitment process.

Memorandum of Understanding (MoU) - An internal (Ofgem) advisory group and joint DECC/Ofgem steering group have been established to oversee the implementation of the MoU and ensure that the relationship between DECC and Ofgem remains healthy and is improved where possible. Dialogue is taking place at both scheme and function level with increased levels of communication and engagement.

The Energy Company Obligation (ECO) DECC are currently consulting on legislative changes to ECO expected early 2014. Large volumes of hard-to-treat cavity wall insulation (HTTC) continue to be reported. We have a significant degree of doubt about the accuracy of these notifications. A two stage approach to handle HTTC measures is in development:

1. We are developing a process for **HTTC measures already notified** and currently set to 'internal query' (currently ~28,000 measures).
2. We are consulting on the requirements for **future HTTC measures.** We would look to implement changes, based on consultation responses, as soon as practical.

We are finalising Warm Home Discount (WHD) Scheme Year (SY) 2 End of Year (EoY) compliance reports for the obligated suppliers.

All suppliers succeeded in meeting their spending obligations. However, minor contraventions continued in SY2 and, in fact, increased from SY1. The WHD SY2 report is currently being drafted, and is due to be published mid October.

There is now an anticipated underspend of approximately £35m for Warm Home Discount Scheme Year 3 revised Core Group due to revised numbers from DWP. DECC is issuing a consultation to increase allowable banking from 1% to 33% to resolve this issue.

Mitigation activity has been undertaken by energy companies who did not achieve their compliance targets under **The Carbon Emissions Reduction Target (CERT) and Community Energy Saving Programme (CESP)** when the schemes closed in December 2013.

Renewable Heat Initiative (RHI) – Operations, have seen an uplift in the number of accreditations due to process improvement work and new appointments in the Glasgow office. A clear need to educate the industry on the quality of information they are providing has been identified to improve the number of 'right first time' applications. The **Domestic** scheme has moved into full implementation phase and is planned to go live 10 March 2014.

Initial interest in the **Northern Ireland RHI (NIRHI)** scheme remains low with 9 applications received. DETI are currently consulting on Phase 2 changes to the scheme.

The Feed in Tariffs (FITs) budget for 2013/14 has now been agreed with DECC. The number of installations accredited for the scheme is expected to reach 421,000 by 1 October 2013. In the last quarter 24 of the large scale installations have been audited by the FIT Audit team. The total levelisation fund for 2012-13 following annual Levelisation was £519m and we predict an approximate scheme value of £640m for 2013-14. FITs 2C development work has now been completed.

Fraud and Audit team have conducted 125 audits this quarter, with 6 new cases opened and 5 closed out of 25 active cases, one resulting in a £3m penalty for misreporting. They are continuing to monitor the work of the ECO Hard to Treat Cavities Working Group.

This quarter we have granted accreditation or preliminary accreditation under **the Renewables Obligation (RO)** to 540 generating stations, totalling over 850MW of accredited capacity. The deadline for licensed electricity suppliers to meet their annual RO obligation by presenting ROCs has now passed. A total of 44,773,499 ROCs were presented meeting 91.5% of the total obligation. A total of £165.1m of buyout payments due have been paid. The remaining amount will be paid in the late payment accounts by the 31 October 2013 deadline

RO development work is underway to make amendments for April 2014 to our systems and guidance to reflect DECC and Scottish government's policy changes and the consolidation of the RO orders.

The **Continuous improvement programme (CIP)** has built upon the PIP scheme and the focus to is to target 4 main areas in line with the balance score card and management objectives, which are; delivering outcomes, operational excellence stake holder confidence and capability improvement.

Offshore transmission tenders and regime development remains on track. 8 of the 13 projects in TR1 and TR2 have now had licences granted, and the Invitation to Tender stage for the West of Duddon Sands (WODS) commenced in September. Following the withdrawal of two new entrants for the WODS project we have focused on how to ensure we maintain competition and had a productive discussion with the Offshore Authority Committee on this in September.

We continue our work on Offshore policy and published a consultation on the implementation of the Energy Bill in August.

Certification - We are reviewing positions in relation to Barclays Infrastructure Fund (one of the JV owners of the four Blue Transmission OFTOs) as a result of takeover by 3i.

We are engaging with DECC in light of the internal guidance published by the European Commission and where possible we wish to ensure there are no unnecessary barriers to investment.

3 Summary Dashboard (sub Green ratings)

Activity/ Scheme	E-Serve Progress	Cost Variance	Comments
Feed In Tariffs (FITs)	**Green** →	**Green** ↑	The FITs budget for 2013/14 has now been agreed with DECC however there is no contingency
Warm Home Discount (WHD) Scheme	**Green** →	**Amber** →	WHD is currently under spent with spend to pick up in the second half of the year.

4 Offshore Transmission

Across TR1 and TR2 we have licensed eight OFTOs: Barrow, Robin Rigg, Gunfleet Sands, Ormonde, Sheringham Shoal, Walney I and Walney II and, as of 10 September, London Array (630MW, £459m). This takes total investment under the regime to over £1bn to date. Combined, the thirteen transmission projects that comprise TR1 and TR2 represent 3.9GW of offshore wind capacity and an investment value of £2.5 billion.

The Sheringham Shoal licence grant was completed in June. We currently expect to start the Greater Gabbard section 8A consultation in September. The process to close continues for Thanet, with recent interest from HMT who may be able to help with funding challenges through their infrastructure guarantee program.

There are three remaining projects in TR2:

- **Lincs (270 MW, £281.6m)** is in the transaction phase and negotiations are progressing between the Developer and Transmission Capital Partners. We expect to establish the FTV by September and had recent discussions on contentious items with the Developer.
- Balfour Beatty Equitix Consortium has been announced as Preferred Bidder for **Gwynt y Môr (576MW, £346m)** in July. Parties have now confirmed that the confirmatory due diligence is underway.
- The **West of Duddon Sands (389MW, £296.2m)** ITT stage commenced in early September with a decision on a preferred bidder due spring 2014.

Two other projects (Westermost Rough and Humber Gateway) can now seek qualification under the enduring regime (TR3). We expect the first qualifications under the enduring regime by winter 2013 with the tender commencing early 2014.

Future Tender and Regulatory Regime

Offshore coordination: We continue to develop a framework to support coordination between offshore projects and the wider network where, this would help the offshore transmission system, be developed in an economic and efficient way, in particular ensuring that the regime can support investment in advance of where this is needed. We published a policy statement in July confirming our proposals in several key areas and plan further consultation on other areas later in the year.

Our work on coordination interacts with several other areas of Ofgem policy. We are working closely with the Integrated Transmission Planning and Regulation project (ITPR) and the RIIO-T1 team.

Enduring regime: We published a policy statement on future generator build tenders in July, which set out the arrangements that will apply to TR3. Key changes are the introduction of a refinancing gain share mechanism and the opportunity for OFTOs to bid the proportion of their revenue to be indexed. In late August we published a consultation on measures to implement a clause in the current Energy Bill which will allow generators to lawfully commission offshore transmission assets prior to transfer to an OFTO under Generator build. We have reviewed responses to a recent open letter on Interest During Construction and are currently considering minded-to positions before a further publication next month.

Third Package certification: except for GyM, all existing and prospective OFTOs have been certified. We are monitoring and reviewing the continued certification basis of some of these due to change of circumstances. We have been seeking to engage DECC to undertake a review of possible amendments to existing legislation based on recent EC views on unbundling requirements. Such changes would help give greater clarity and confidence to investors in transmission and generation.

5 Carbon Emissions Reduction Target (CERT)

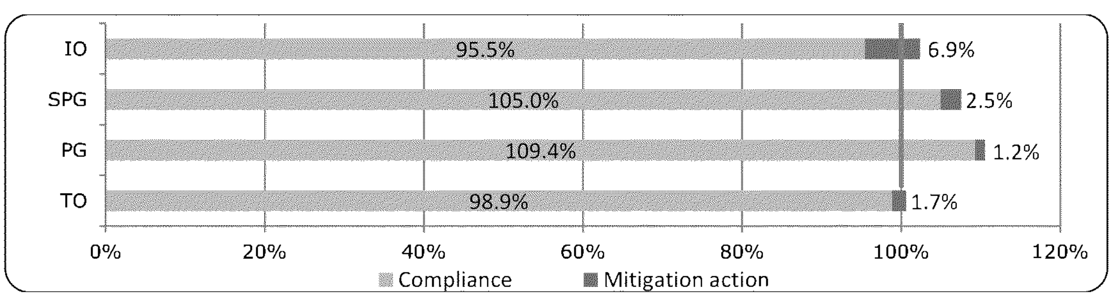
Following the publication and delivery of the CERT and CESP Annual Reports on 30th April 2013, those energy companies who had not achieved their compliance targets were given the opportunity of carrying out mitigation activity, as set out in a series of open letters from Ofgem.

Ofgem confirmed the launch of investigations examining evidence of non-compliance and considering whether there are grounds for exercising enforcement powers on all energy companies who did not achieve their compliance targets. Mitigation actions are one factor Ofgem may take into account with regards to using enforcement powers.

British Gas, the only energy company undertaking CERT mitigating actions, submitted 5 Mitigation Schemes, all of which were continuation schemes from previous CERT activity. They completed these schemes during March 2013. In doing so, British Gas met the requirement given in the Open Letters that, when considering mitigation actions Ofgem will give most weight to:

- measures delivered shortly after 31 December 2012; and
- measures identical to those delivered under CERT.

Final position of British Gas after mitigation action



Next steps: The workstream to take excess action measures from the CERT IT system into to the ECO register is now complete, and work is underway to prepare the data in a format that is compatible to the register.

We have processed SSE's late data and the results are now with the Enforcement team to decide whether or not to open a case against their non-compliance.

6 Community Energy Saving Programme (CESP)

Six energy companies and four independent generators were required to deliver measures under CESP.

Six energy companies failed to meet their CESP compliance targets: British Gas, SSE, Scottish Power, Drax Power, GDF Suez/IPM, and Intergen.

104 mitigation schemes were submitted by the energy companies and independent generators which were a combination of continuations and new schemes. As at 31st August 2013, both Scottish Power and GDF Suez/IPM had carried out all mitigation activity and had met the overall CESP targets set. It is anticipated that SSE had also fully mitigated at that date but an issue with duplicate measures claimed is delaying final sign off. British Gas continued to work on site and are expected to fully mitigate by October 2013. Intergen, which carried out mitigation activity, will not meet its overall CESP target. Drax did not carry out any mitigating activity.

Next Steps: Work has now started on carry out research into the schemes to assist Enforcement in its discussions with the energy companies and independent generators. A costing exercise, to determine the movements in prices per carbon tonne over the compliance and mitigation periods for both CERT and CESP, has also commenced.

7 Feed In Tariffs (FITs)

On the 22 August we introduced the last of the changes required to our systems and supporting operational procedures (to reflect changes to our enforcement powers). We have sent a revised guidance to suppliers for comment and will amend the guidance accordingly. These changes represent the end of the 2C change project and no further reviews of the scheme are being considered. As such, we have redeployed the dedicated development team and the final guidance update will be carried out by the operational team.

Operations

The number of registered FIT installations has continued to increase from 380,000 at the end of March 2013 to 421,000 by October 2013, see figure 2. **Including extensions 2.03GW of renewable capacity has been installed.**

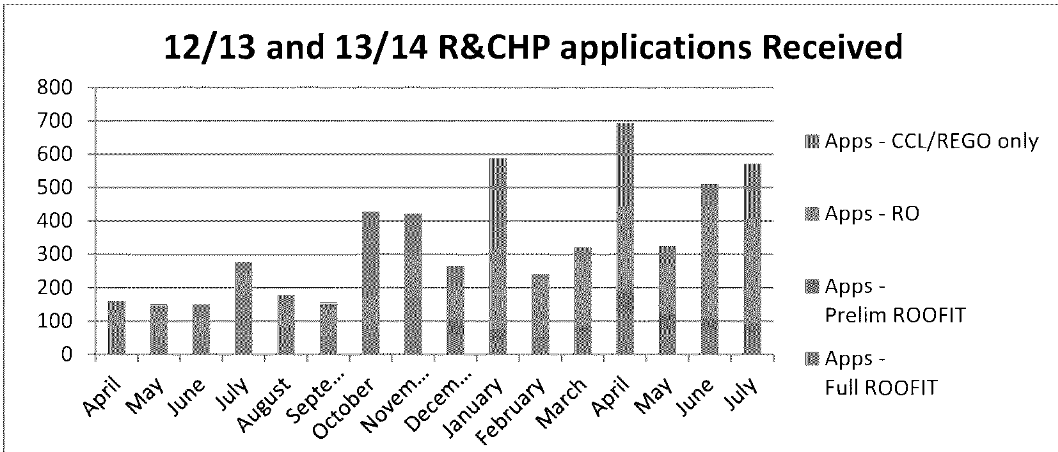
We have received 1,902 ROO-FIT applications, over 1,365 of which have been approved. Following the introduction of new requirements in December 2012, we have received **230 preliminary accreditation applications** of which 100 have been approved. We anticipate that all non-PV tariffs will be automatically degressed on 1 April 2014, in some cases by 20%. We expect a "surge" in the number of applications we will receive in December 2013, as applicants attempt to beat these tariff reductions. The full effects will be assessed in October as part of the overall review of the FITs Resourcing Plan."

We have received **44 registration applications for community energy/school installations** and **granted 17 pre-registrations.**

The eligibility issue of combining FIT support with a grant from public funds has been a feature of the last six months. We had encountered ~140 cases where installations are not eligible to receive FIT support without repaying the grant. Nearly 70 of the desk based audit installations have now been resolved, along with 8 of the National Lottery cases.

The first periodic levelisation for FIT year 4 was successfully completed and all suppliers complied. FIT Licensees reported a total of **£166 million in payments** due to generators. **The annual reconciliation process for FIT Year 3** is currently in progress and due for completion on 27 September 2013. The total amount of **FIT payments made to generators during FIT year 3 was £519 million and a total of 1,674.52 GWh of electricity was generated**.

8 Renewables and Combined Heat and Power (R&CHP)



Please note that this graph also applies to the FIT section (7)

This quarter we have granted accreditation or preliminary accreditation under **the Renewables Obligation (RO)** to 540 generating stations, totalling over 850MW of accredited capacity.

The deadline for licensed electricity suppliers to meet their annual RO obligation by presenting ROCs has now passed. A total of **44,773,499 ROCs were presented** meeting 91.5% of the total 2012/13 obligation. The remaining obligation will be met by means of buyout payments. So far £165.1 million, out of the £168.6 million due, has been paid. The remaining £3.5 million, due from 12 companies, will be paid into the late payment accounts, together with any interest accrued, before the final deadline on 31 October 2013.

RO development work is underway to make amendments for April 2014 to our systems and guidance to reflect:

- The consolidation of the RO
- the transition to Contracts for Difference (CfD) under EMR in 2017
- Amendments to the solid and gaseous Biomass sustainability reporting requirements.
- new offshore wind bands & 15MW wood biomass cap in Scotland

We are currently drafting scoping studies to set out options for reflecting these changes within our guidance and procedures ahead of the introduction of policy on 1 April 2014

Additionally we are working closely with Markets on the wider implications of EMR on the RO, and colleagues in RHI on the impact of the sustainability reporting changes

HMT schemes

The CHP LEC reconciliation process was completed within the corporate plan KPI. This is the last time we will need to undertake this activity due to a legislative change.

9 Warm Home Discount (WHD) Scheme

We are finalising the WHD Scheme Year 2 End of Year (EoY) compliance reports. Overall suppliers spent a total of £290.5m to the benefit of those customers who are fuel poor or in a fuel poor risk group. When taking into account the relevant Legacy Spending and Industry Initiative caps, the spend counted under WHD was £283.4m. A handful of suppliers have spent over their caps on Legacy Spend).

However, minor contraventions with respect to statutory requirements on payment timing and notification to the SoS have increased from SY1. This seems to indicate both success of Ofgem's enhanced audit regimen as well as supplier internal controls that lack robustness. We plan to write to the companies to highlight these contraventions.

All EoY Ofgem-led external audit reports are with suppliers for comment and management response. Thus far none has commented on early drafts.

DECC has advised that due to updated reporting of supplier Core Group customer numbers, there is an anticipated under spend for Core Group of approximately £35m in 2014-2015. DECC will be issuing a brief consultation on extending the banking feature of non-core spending from 1% to 33%, but allowing this over spend on Broader Group only (i.e. no extension of caps on Industry Initiatives or Legacy Spend).

This is to help suppliers manage an anticipated significantly increased Broader Group in SY4 as well as the exclusion of Legacy Spend in that year.

The new obligated supplier scheme entrant, First Utility, has submitted its Broader Group notification. They have hired an experienced contractor to manage their entire programme (ie more than just verification) and we are awaiting an updated timeline from them.

Industry Initiative notifications for Scheme Year 3 may still be submitted by suppliers. There have been a number of discussions with both DECC and suppliers (individually) about a possible joint or separate notification(s) to support Big Energy Saving Week. Ofgem has advised that we are open to any notifications and will use the same rigorous approach to evaluating all submissions.

The WHD SY2 Annual Report is due to be published in mid October.

The government has approved a spend of £320m for WHD in 2015/16. We anticipate a more extended consultation in spring 2014.

10 Renewable Heat Incentive (RHI)

RHI Operations (Great Britain Scheme)

Month on month we are have seen an improvement in the number of accreditations with 219 installations accredited and amended 6 in August (with a total of 2,202 installations accredited at the end of the month), and have accredited more applications in August than we received in July.

At the end of August 208 applications were in process with Ofgem, and 625 applications had been returned to applicants to provide further information. 68 applicants have confirmed they wish their applications to be withdrawn. The improvement in the number of applications processed is due to the improved knowledge of reviewers, uplift in staff numbers and availability of information.

At end of August, there has been good progress in accrediting 2,202installations representing 499 MW of capacity. Heat generated between July and August amounted to 104.6 GWh with £1.5m of payments made in August. At end of August we had paid £19m for 405.4 GWh of renewable heat since the scheme started in November 2011.

Key issues we are currently addressing include:

1. Bedding in of the D2 PIP changes and preparing for the delivery of PIP Management Information and Periodic Data efficiency and IT improvements.

2. Rapidly increasing numbers of periodic data submissions and payments
3. Significant non-compliance at audit
4. The need to make changes to policy to improve the performance of the scheme's administration.
5. Periodic data errors remain high but have reduced substantially

Other actions we are taking to address these issues are explained below:

1. As part of the PIP programme, we successfully integrated the RHI Register with a Customer Relationship Management (CRM) system at the end of July. We are engaging with DECC to identify underlying causes which lead to poor-quality applications and ongoing non-compliances. Some of these factors are being addressed through development work, process improvement and industry engagement.
2. A complete end-to-end review of the periodic data process is underway and we aim to implement the resulting changes by the end of the year.
3. The total non compliance rate has increased slightly (currently at a rate of 52%) when compared to 2012-13. The two most common non-compliances at audit continue to be incorrect metering arrangements and failure to keep fuel records. There has been a 16% reduction in the metering non compliance rates and a 5% reduction in the fuel records non compliance rate.

   The actions taken include; issuing a guidance note to assist participants with maintaining fuel records and a guide to submitting periodic data, this will raise awareness of the importance of complying with ongoing obligations. Further work is underway to improve our information material and web content, which will include dedicated pages for installers.
4. The scheme is complex, industry competence is low and forecast market size for non domestic RHI is low so drivers for industry to enhance their skills are relatively limited. Proposals for reducing the cost of administration, and improving the quality of installations will require changes in scheme design and industry competence development, which sits outside the remit of Ofgem alone to achieve, is being explored with DECC.

DECC is considering a changes to the Regulations, planned for the end of the year to allow lottery grant funding and the RHI to be compatible for community groups and schools. We have invited applicants in receipt of lottery grant to agree to their current application remaining unprocessed so that it could still be granted in due course following any amendments being made by DECC without these applicants needing to re-apply.

RHI (Great Britain) Development

Non-domestic RHI - Our IT systems and external guidance materials have been updated and finalised in accordance with the new degression regulations. Degression was not triggered for any tariff rate this quarter. The next batch of regulatory amendments (primarily to simplify metering arrangements and impose new air quality limits) was delayed slightly by DECC and is now expected to come into force on 24 September.

Revised guidance has been published for feedback and we are currently on track for delivering the revised IT systems and operating procedures needed to implement the proposed changes. Deloitte is providing Independent Assurance on all development work.

Feasibility work has also commenced on further regulatory amendments to the Non-domestic RHI anticipated for Spring 2014. This work is currently on track and should be finalised in late October/early November.

Northern Ireland Renewable Heat Incentive (NIRHI)

The Northern Ireland Renewable Heat Incentive accredited 9 installations in August 2013, the June and July totals were 6 and 10 respectively. The total number of accredited installations was 30 at the end of August. At that date we had

3 applications in process with Ofgem, with 10 incomplete applications returned to applicants to provide further information.

11 Energy Company Obligation (ECO)

ECO Operations

A total of 194,700 measures have been notified to the end of August 2013 with submissions from all 7 obligated suppliers.

Summary of submitted measures under ECO

Measure category	Cumulative Measures Received to Sept '13
Loft Insulation	77,875
Hard To Treat Cavity Wall Insulation*	45,040
Boiler	41,492
Cavity Wall Insulation	21,171
Solid Wall Insulation	6,912
Other Heating	1,845
Other Insulation	283
District Heating System	82
Micro-generation	-
Park Home External Wall Insulation	-
Total	194,700

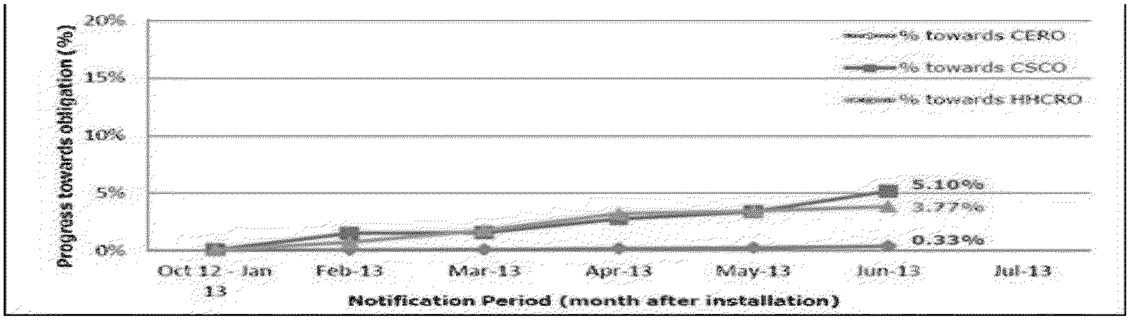
Hard To Treat Cavities (HTTC): Our audit programme has highlighted a number of errors with the reporting of HTTC.

A HTTC Working Group and Issues Board have been established as we look to reduce the large number of measures that are being held back from approval. In August we published a consultation letter on proposed additional processes for HTTC measures being notified going forward.

We have proposed in the consultation letter that the additional processes will come into effect for the relevant HTT measures installed *from* 1 October 2013. For measures notified prior to this date, a retrospective exercise will be conducted by suppliers and the results reported to Ofgem.

ECO Reporting: We continue to send the un-validated data, processed data (for previous cycle) and the energy company cost data to DECC on the second working day of each month and the monthly report for the SoS on the second Thursday of each month as set out in legislation.

In July the first external ECO report was published indicating consolidated supplier progress toward the overall ECO Obligation. This graph below shows progress towards obligation to June 2013 and excludes excess actions from CERT and CESP. The run rate will need to increase if suppliers are to meet their obligations.



This graph shows suppliers consolidated cumulative monthly progress towards phase 1 and 2 obligations (phase 1 & 2 cover the period 1 January to 31 March 2014)

ECO – Operational Development

ECO IT system. The release of Phase 2A IT partially resolved the resource intensive issue of manually processing of individual measures. Phase 2B is to be delivered in sub phases the first sub phase is planned to be delivered before Christmas 2013. This will greatly increase efficiency.

Excess Actions: In June energy companies reported 156,000 excess actions that they intended to carry forward to be considered against their ECO obligations. Five energy companies are carrying forward CERT excess actions, with three of these also carrying forward from CESP. Excess actions will result in a spike towards some energy companies' obligations when reported. We anticipate the majority of this work will be complete by November 2013. DECC's legislation, however, does not allow all suppliers to take full advantage of their excess actions. We are aware the suppliers affected are lobbying DECC.

ECO Inbox: The ECO Inbox was designed as a means for energy companies to communicate with the Operational Team. We received a total of 2,540 queries to the end of August 2013. Only 23% of the queries were from energy companies, the majority, 55% were from installers and the 'other' supply chain. The remainder were mainly from local authorities.

Carbon Score Validation: We have completed phase one of the procedure to validate particularly high or low carbon scores for certain measures submitted by energy companies. This has allowed us to 'approve' and report to DECC a significant number of measures that were being held on 'internal query'. Phase two to further improve this process is underway.

Request for higher score based on extended lifetime: A supplier has made an application for the use of an extended lifetime for a particular solid wall insulation product; this would result in higher savings being awarded for solid wall insulation measures, and would have significant financial impact for the manufacturer. We have sent letter to the supplier advising that more evidence is required to support their application. We are waiting for a response.

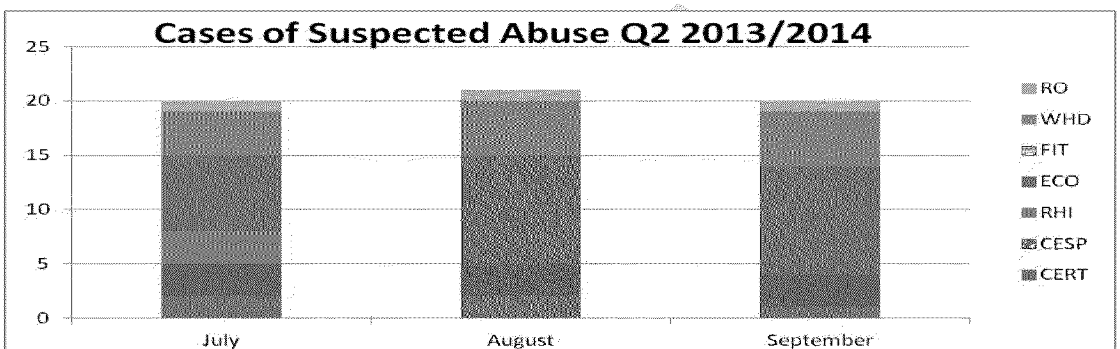
ECO Development

Policy: DECC are currently consulting on legislative changes to the ECO scheme – known as ECO 1.1. We are revising our Project Initiation Document (PID) for ECO 1.1, to set out expected changes to Ofgem ECO Guidance, operational procedures and IT systems. We are anticipating a second set of more detailed legislative changes, known as ECO 1.2, from DECC in early 2014 although timescales have not yet been confirmed.

12 Fraud Prevention and Audit

Suspected abuse, misuse and fraud prevention

During quarter two, we have been managing **twenty five cases** of suspected abuse, misuse, fraud or misreporting. **Six** of these cases were opened in the last quarter. We are also monitoring one external case which is being investigated by Northumbria Police. Please see the graph below for their distribution by scheme



Over the last quarter we have closed **five** cases with a satisfactory resolution. Four of the cases were closed with no resulting loss to the taxpayer. In the fifth case, a penalty of **£3,000,000** was imposed on the party in question for misreporting.

Scheme Audit Activities

Our external audit efforts in **Quarter 2** have involved:

- 6 ECO Supplier follow up Health Checks;
- ECO Technical Audits of 29 properties;
- 12 RO Supplier Audits;
- 24 Feed-in Tariff Generator audits; and
- 60 RHI technical audits (35 desk, 25 site);

In total, our contractors have undertaken **221 audits** so far in 2013-14.

The main findings are outlined below:

WHD – Scheme Year 2 end of year audit – Grant Thornton examined supplier activity related to the Core Group, Broader Group and some of the higher risk industry initiatives. Only one audited activity obtained a good rating, with the majority (five) receiving a satisfactory rating, and three receiving weak ratings.

ECO – The Building Research Establishment (BRE) undertook a technical audit of 29 narrow Hard to Treat Cavities (HHTC) reported by suppliers. 59% of the properties inspected had cavity widths above the tolerance level agreed and 14% of the properties had cavity widths that indicate that they do not meet British Standards. We have also followed up on six supplier ECO Health Checks carried out in Feb/March 2013. Findings are due in October.

Renewables Obligation (RO) – Pre-accreditation audits – All final audit reports have been issued to the audited parties. There may be a protected sum associated with this audit strand in relation to two of the audited parties. We are awaiting completion of this audit strand in order to quantify this potential sum.

RO – Supplier Audit Programme – Grant Thornton audited 12 selected suppliers in July. Of the six reports finalised so far, four received 'Satisfactory' ratings, one was rated 'Weak' and one 'Unsatisfactory'.

Feed-in Tariffs (FIT) – Black & Veatch have carried out a technical audit programme to ensure that ROOFIT installations have been accredited correctly and are not in breach of applicable legislation. Seven audits have been completed, and have highlighted a number of specific issues.

RHI Non-domestic– Site Audits: There has been an increase in the non compliance rate from 46% in 2012-13 to 52% by August 2013. There is a continuing trend in fewer non compliances due to metering issues for installations commissioned after RHI go-live. There are early indications that fewer participants are failing to maintain fuel records for biomass installations. Desk Audits: We carried out 15 audits of accredited installations identifying one installation that was non compliant. We are carrying out 35 desk audits on unaccredited installations to verify the accuracy of initial meter readings. There have been two installations that have identified initial meter reading.

Looking ahead to **Quarter 3**:

ECO – Hard to Treat Cavities (HTTC) will continue to be a focus for the team, and the working group will concentrate on mitigating the risks associated with this aspect of the scheme.

Warm Home Discount Year 3 mid year audit will be delivered by Grant Thornton. The focus will be on undertaking audits of specific requirements under the Core Group aspect of the scheme as well as following up on previous audits to ensure recommendations have/are going to be completed. In addition two suppliers will be audited on their Broader Group, including a new scheme entrant to provide assurance that effective operations and management controls are in place to ensure effective delivery. Finally there will be a supplier specific audit on one industry initiative to test its targeting with reference to demonstrating the initiative has adequately supported fuel poor/at risk individuals.

FITS Supplier Audit Programme – The audit programme will assess whether for each supplier audited: information that has been provided to Ofgem in the periodic and annual levelisation reports is accurate; that processes that the supplier has in place are robust and ensure as reasonably possible that FIT payments are calculated correctly.

On our **RO** scheme technical audits of Drax, Ironbridge and Tilbury will be completed by Black and Veatch in October 2013.

13 E-Serve Management Activity

We continue to contribute to wider Ofgem analysis of potential resourcing implications from the anticipated new **EMR** roles. This work is now moving into an implementation study phase.

The Fraud Management Group ('Group') remains actively engaged in reviewing suspected abuse, misuse and fraud, and misreporting and money laundering cases, and defining an overarching Fraud Strategy for E-Serve.

In addition, during the second quarter of this reporting year this Group has:

Considered a Feasibility Study on the implementation of a data analytics solution, and approved Qlikview as the preferred solution, subject to procurement requirements being satisfied;

- Examined the areas of highest risk on the Feed-in Tariff Scheme, along with controls that have been introduced to mitigate these risks;
- Promoted E-Serve Fraud Awareness Training, which consisted of five e-learning modules and an assessment. Of E-Serve staff members, over 75% completed the training, and 90% passed the assessment. FMG confirmed that the staff who had not

participated within agreed deadline must incorporate the training as part of their Personal Development Programme;

- Considered how information on suspected cases of abuse, misuse, fraud and misreporting should be shared with DECC, and have proposed a mechanism to DECC through MoU Steering Board;
- Endorsed the use of the National Intelligence Model for categorisation of new suspected cases of abuse, misuse, fraud or misreporting; and
- Monitored the work of the ECO Hard to Treat Cavities Working Group, and offered advice on actions and escalations.

14 Organisational Changes

We have now made significnt progress in moving to a new structure, whereby operations and development are brought together for the three main sets of existing schemes, as well as the newly established RHI domestic team, with a separate team looking at cross-cutting issues and new schemes. [x] of the five SCS level posts that will report to the post of Deputy MD, Schemes are now filled with [y] appointments to be made.

In light of Philip Cooper's retirement from his role as Associate Director, Project Management, **Clive Sparrow took over interim responsibility for line management of the Project Management Team from 1 August**, reporting to Robert Hull. Clive Sparrow is currently working as E-Serve's Process Improvement Programme (PIP) Director.

15 Continuous improvement Programme (CIP)

A set of management and organisational objectives have been agreed, which support our aim of delivery excellence. We are developing a continuous improvement programme that builds on these objectives and our PIP experience. The focus is on improvements in 4 areas, which align with our balanced scorecard:

1. Delivering outcomes
2. Operational excellence
3. Stakeholder confidence
4. Capability improvement.

We are planning individual improvement projects within the overall programme based on our new structure, whilst ensuring that we maximise cross-scheme synergies. There will be a small number of sharply focused projects tied in to the areas above where we aim to excel. The proposed projects fall under five headings:

- Scheme process improvements
- The MoU project that is already underway
- Embedding the E-Serve scorecard – reporting and report design
- Implementation of an IM&T scorecard
- HR / L&D - strengthening capability.

The first projects will start in October 2013.

16 Ofgem IT

RHI Domestics

Software development activity with our co source partner Thoughtworks has commenced utilising an Agile/iterative approach. We have showcased the early working software including an application form which will continue to be developed as the project evolves.

A co-sourcing (partnering) ITT was issued and a supplier chosen. The supplier has a pedigree of fast and effective online application delivery utilising a co-sourced model and will be working directly with IMT and business areas during the project.

Successful piloting of Lync unified **communications** including instant messaging, presence and desktop video conferencing. Policy on Lync usage will be presented at the next ISSG meeting (October).

Key areas for **Data and information security** continue to be:

Vulnerability Management: We successful deployed a security tool called Qualys which provides us with valuable information on the state of patching within the ICT environment.

Event Management: Deployment of a product called Splunk that collects indexes and harnesses all of the fast-moving machine data generated by our applications, servers and devices.

Network segregation: Currently Ofgem has an un-segregated shared access network. We are in the process of separating our network infrastructure into different zones (development, test, production etc.) and different 'impact zones' with security devices mediating access between them. This will make wholesale compromise of our network and resources much more difficult for a would-be malicious attacker or a privileged administrator.

Project	***Delivery date***
PIP Accreditation CRM	*25th July 2013*
ECO Phase 2A & Warranty Release	*15th August 2013*
FIT 2C	*22nd August 2013*
RHI Degression	*28th August 2013*