Department
of Energy &
Climate Change

ECO Steering Group Minutes
28 March 2014 | 10.00 am | 3 Whitehall Place

Actions from the previous meeting held on 21 February 2014

Action:

There were not outstanding actions. The Chair reminded the meeting that the consultation on the future of the Energy Company Obligation was now open for comments. DECC also particularly welcomed views on how it might design incentives and how they could be operated. DECC was examining who can access incentives but was keen that the Steering Group should look at delivery in the round.

Assessment of Impacts – assumptions and methodology

A short presentation was given. It was emphasised that all aspects had been modelled except for District Heating Schemes where as yet, there was insufficient data available. The modelling had generally used brokerage statistics for costs but there was recognition that it was not possible to perfectly model the mix of measures so some attempt had been made to do so mimicking delivery using history.

There were a number of uncertainties because DECC does not know delivery rates, but the overall conclusions were that the proposals would have a net beneficial effect with delivery costs 30-35% lower in the period to 31 March 2015 without change, but views were welcome on what industry itself was observing.

OFGEM update

Ofgem have published their initial response top the Future of the Energy Company Obligation on how they might interpret the obligation if the proposals remain unchanged; It was emphasised that the response should not be considered as being guidance.

It was likely that Ofgem would be submitting a full consultation response and will probably be holding a stakeholder event to support its own consultation exercise however, no date for this has yet been fixed.

ECO Brokerage

DECC gave a presentation providing a Trading Update over the period from the beginning of trading under ECO brokerage, up to the latest position. The presentation illustrated trading Levels by sub-obligation (CERO, CSCO and HHCRO), over 30 auctions.

Over time, the Steering Group observed that prices and trading levels had dipped compared to activity six months prior.

Trading level details and the possible reasons behind the prices and trading levels are available within the slides presented at Steering Group. Views were sought from Steering Group, on the reasons behind the price and trading dip.

Affordable Warmth,.

It is possible that an increased expectation of customer contributions may have led to a drop in the market price for Affordable Warmth such that all measures require a top up in the form of a customer contribution or other source of finance, in order make them competitive and economically viable. This could prevent the poorest households – those unable to contribute or secure private finance – from being able to access support through Affordable Warmth.

The Affordable Warmth market is incentivised to target households where they can achieve the highest amount of notional lifetime bill savings from their expenditure. In this way, the policy not only targets those on low income but also those with the highest energy bills, such as those in large houses, who are thus at highest risk of being in fuel poverty.

Outside of the Steering Group, DECC have asked some Providers how Affordable Warmth at 6p fits into their business models. DECC is keen to understand how Affordable Warmth is being delivered on the ground and whether there is a cause for concern. DECC recognises the importance of ensuring the quality of installations under Affordable Warmth, particularly in light of the potentially vulnerable nature of the Affordable Warmth customer group. Therefore as part of the ECO consultation we are asking for views around consumer protection and quality of measures.

Proposed changes to CERO, CSCO and Affordable Warmth eligibility rules and interaction with the brokerage off-take contract

The Steering Group observed the steep reduction in prices under CERO from £100 per carbon ton prior to 5 December, to £25 per carbon ton, to date. The Steering Group discussed possible reasons behind this and whether it may be possible that some Providers were selling CERO after 5 December with the expectation to delivery Easy to Treat measures. The Steering Group discussed the contract position and the proposed changes to ECO. The following points were discussed and noted at the Steering Group.

- The bi-lateral off-take contract is a bilateral matter between the parties concerned, and DECC cannot provide legal advice, but DECC would encourage parties to take their own independent legal advice.
- Where a court is called on to interpret implied terms of a contract – it would generally consider the intentions of the parties at the time the contract was entered into and what they could have reasonably foreseen or expected when they agreed to the express terms.
- As seemed to be indicated at the steering group, it may be reasonable to assume that since the 5 December announcement of the proposed changes to ECO, some Green Deal Providers may have entered into Off-take Contracts on

the basis and with the intention that they could deliver easy to treat measures under it to buyers/ CSCO rural measures in the newly defined areas.

- At the same time, several energy companies appeared to be keen only to contract to buy measures that are compliant and can be reported to Ofgem when entering into the contract because Ofgem will not formally accept notification of easy to treats measures (as primary measures under CERO or CSCO measures delivered in new geographical areas) until the law is changed in Autumn. This will therefore mean that Green Deal Providers will only be able to submit the completion notice to energy companies for measures that are compliant according to the law in force, at the date of delivery.

- It was suggested at the steering group that the two parties to the contract may want to discuss the delivery intentions bilaterally at an early stage, so that both parties are aware of each other's expectations before delivery commences.

To facilitate this, DECC is considering to amending the Bid Confirm Letter as early as possible, to allow the Provider to flfag what they are intending to deliver (easy to treat, or hard to treat under CERO).

Do Steering Group members have any concerns about this proposal?

- DECC would be interested in being kept abreast of outcomes (assuming both parties are content).

Splitting commodities under brokerage, and reviewing contract timescales

The Steering Group discussed splitting commodities under brokerage to enable parties to sell and buy specific measures, and price them accordingly. The Steering Group discussed the possibility of splitting the categories as follows: (Solid Wall Insulation (SWI), Hard to Treat Cavity (HTTC), Easy to Treat Cavity (ETTC). Under Solid Wall, the Steering Group agreed that the category should remain as carbon savings and not numbers of solid wall.

In addition, the Steering Group were keen to have contract timescales to reflect the obligations end date. The Steering Group generally felt that given the 2015 obligation ends in March 2015, it would make sense to remove the 12 months contract lots, and instead have a contract end date with the date of the obligation 2015, and the date of the obligation for 2017.

DECC are to consult separately with steering group & brokerage participants on its proposals on how best to split commodities and adjustments to contract lengths

Ratings

A round-table discussion took place on the frequency of brokerage platform ratings. It was agreed that these should continue to be updated on a monthly basis.

A discussion also took place on whether not delivering against the brokerage contract, equates to a delivery failure, if both parties agree to different delivery dates outside of the contract.

The Steering group discussed including these in the ratings, but agreed that it could result in a complex ratings calculation.

Other views from the steering group suggested that it may be better to exclude from the ratings system. Parties would need to ensure that this is flagged in the delivery reports, so that it is not included.

DECC is keen that any approach decided by parties is consistent across all parties and contracts to avoid rating anomalies based on different approaches. DECC therefore proposes to operate on the basis that, where both parties to a contract agree to "set aside" the original contract and operate according to a separate agreement (e.g. revised delivery date) that contract should be discounted for the purposes of brokerage (counted neither as a success nor a failure).

Action. Can energy companies confirm that they will be happy to highlight this information in their delivery reports

Action. Can GDPs confirm they are happy for DECC to adopt this approach**ECO**

Brokerage Bi-lateral off-take contract

DECC thanked parties for their input to the contract review, and participation in the final version line by line update in early March.

The brokerage contract has been finalised and has been circulated following the Steering Group meeting.

The contract will be reviewed again in the future, but not before the ECO legislation is in place.

Any other business

It was the view of the meeting that it would be helpful if a paper setting out a full communications plan could be put before the Steering Group setting out the work of the Data Reporting Group when its work is complete.

Date of next meeting

25 April 2014 in the DECC Conference Suite, 3 Whitehall Place.