



ECO Steering Group Minutes
27 Jun 2014, 10.30am, DECC, 3 Whitehall Place

Actions from the previous meeting held on 23 May 2014

None outstanding

GENERAL ECO UPDATE

(i) ECO Policy – DECC

DECC is currently working through the final questions of the ECO consultation government response and remains on track to publish the response before Summer, though it was likely that the regulations for the post 2015 phase of ECO would follow slightly later.

There was one question around capping carry forward – there was no support for an absolute numerical cap, but there was some support for activity being carried forward being applied to future rules.

(ii) Ofgem

Ofgem would aim to have a shortened (less than full 12 week) consultation on future guidance once the final legislation was available.

DECC is hoping to lay the amending legislation before summer recess. Ofgem intends to launch a 6 week consultation in early August. Only details affecting the current obligation period will be consulted on in August. Guidance on obligation period 2 will be consulted on in late 2014.

Supplier progress – taken from a report published in June showing measures notified to end of April and approved by the end of May – 776,369 notified, 573,755 approved. Ofgem are asking suppliers to provide a delivery plan as they are keen to understand likely delivery levels over the next few months, particularly in relation to delivery against their CSCO Rural Sub-obligation.

Some concerns were raised by stakeholders that early delivery of AW indicated that the overall target was too soft, and that consequently there was not enough support reaching the fuel poor. It was also felt that households in small properties were not supported by AW. Others felt that ECO was preferable to Warm Front in terms of speed and scale of delivery, and that early achievement of targets only demonstrated this.

ECO BROKERAGE

Trading Update

Members of the SG noted the broad spectrum of GDPs trading successfully under ECO brokerage. Brokerage has been an effective market tool that has allowed new and often SME players to enter and compete in the market. Future contracts traded under ECO brokerage has exceeded the £400m mark.

At auction 37 three rural lots were traded (two under current legislation and one under the future proposed rules).

Solid Wall Insulation was available as a separate commodity under brokerage, during auction 38 held on 1 July 2014. No trades were made under this commodity.

SG members were asked if the recent changes to commodities should warrant a restructure of the auctioning schedule. No preferences were noted. **DECC will consider how best to operate auctions and will inform stakeholders and intended changes before they are implemented in the future.**

SG considered whether the “3-month rural future contract option” should be removed from brokerage, because delivery would need to take place before the law changes, which could result in Energy Companies risking a non-compliant delivery. However, SG members felt that the option should remain and the decision to sell and buy should be up to the market if the market chooses to take the risk. **The 3-month rural future contract will remain as an option.**

Response to trading activity

Brokerage continues to trade intermittently and at low numbers. The reasons for this were discussed and noted in the minutes of the March 2014 SG. DECC has looked at a number of changes that could be made to help support delivery, although DECC acknowledges that these changes alone are not likely to boost trading considerably.

Commodities - Changes made includes splitting commodities as noted under the trading update above.

Brokerage platform - DECC is considering making enhancements to the IT platform to enable greater functionality and automation, dependent on costs/benefits of these changes.

Standard Brokerage contract - DECC will review the Standard Brokerage contract later in the year. However it will not be a full review of the entire contract. The review will:

1. Ensure the contract continues to be workable following changes to the ECO legislation.
2. Ensure the contract is workable for new types of brokerage members, including Local Authorities and Registered Social Housing Providers, and others that are eligible for access to brokerage.
3. Consider in the light of delivery evidence to date whether we have struck the right contractual balance between seller and buyer, and make changes as appropriate.

The detailed scope of the review will be circulated to SG for comment prior to the formal contract review.

Action – DECC to prepare and circulate a project initiation document for the contract review.

Lots and contract lengths – Steering group views were sought for making a provision for longer contract lengths up to the end of each obligation period, and capping of the amount of Lots that can be traded. Members of the SG felt that longer-contracts may be seen to be more risky, because the buyer doesn't have access to delivery profiles when they enter into contracts. There was no view on capping.

DECC will not make changes to the current contract lengths. Capping will be further considered if changes are made to the structure of the auction process.

Extending Access to Brokerage

DECC has been considering due diligence requirements for access to the Brokerage platform, when access is extended.

SG agreed that Local Authorities and Registered Social Housing Providers should have access to the Brokerage platform without enhanced due diligence checks, because due diligence is about reassurance of the credentials of an organisation, and fitness of an organisation to trade under a blind auction platform. As LAs and Registered SHPs are governed under their own legislative framework, this process would be unnecessary. However they would still need to complete access registration process.

SG agreed that due to the differing regulatory regimes governing each type of seller, sellers should be grouped so that the buyers can identify whether they are buying from a GDP, LA or Registered SHP, and make their own commercial buying decisions.

DECC will seek views from LAs and Registered SHP representatives, to identify whether the existing standard brokerage contract contains any clauses that clashes with their legislative framework that governs them. Clauses that clash will need to be identified and be **unique** to LAs and Registered SHPs. This is to ensure that the contract remains as standard as possible.

A concern was raised over new entrants and the complexity of the registration, trading and delivery process. Present members are still struggling and would have benefited from training before access was granted. DECC will consider this when access is extended to others across the energy efficiency industry.

Long-term Vision for the Brokerage Model / Platform

The SG noted that DECC should consider other policies within DECC and across Government that could trade under the platform, as well as ECO.

Date & location of next meeting – 25 July 2014, 1030 – 1230, 3 Whitehall Place