



Department
of Energy &
Climate Change

ECO Steering Group

ECO brokerage

28 March 2014

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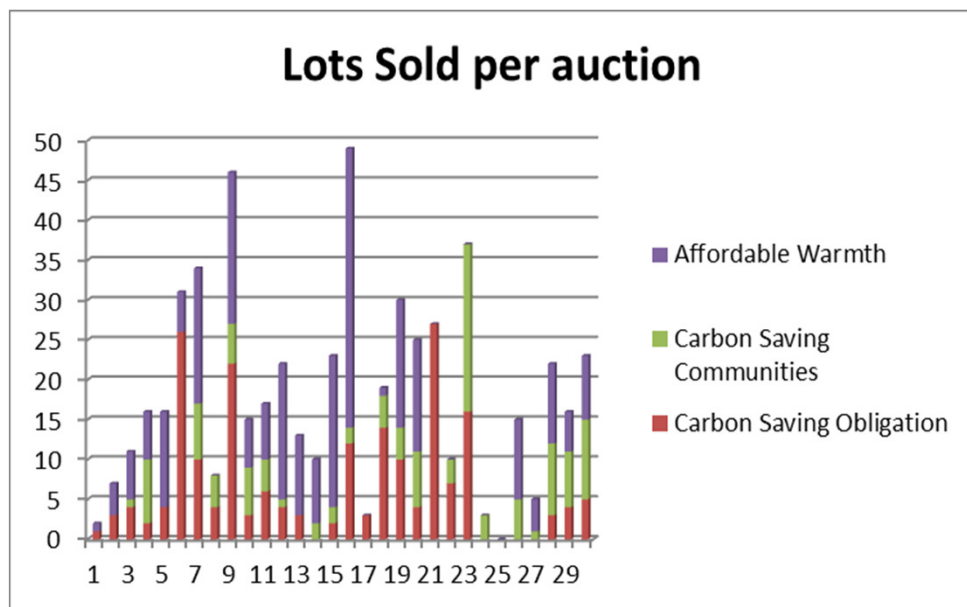


1. Trading update

Trading levels (prices and lots levels)

Progress reports

To date over £397 million has been traded via the platform through 30 auctions (as at 11 March) with 555 lots selling out of 7744 lots submitted.



Observation

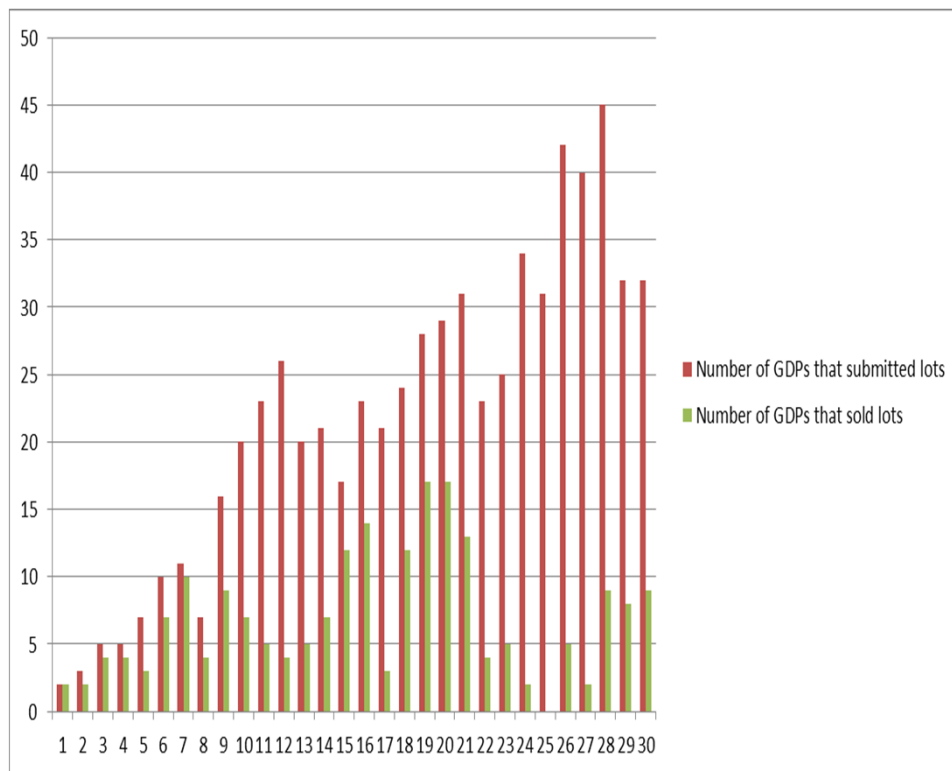
- No AW was traded over 5 auctions prior to the announced proposed changes on 5 Dec. Since then, trading levels for AW have been lower compared to the first half of the year.
- Trading levels for CERO have been lower, following the announced proposed reduction to CERO.
- Trading levels for CSCO have been slightly higher in the last few auctions. Selling above 5 lots in 3 consecutive auctions. Excluding auction 23, where more than 20 lots were sold, the number of lots sold over several auctions have previously been less than 5.

Possible reasons for these numbers will be discussed later.



1. Trading update

Trading levels (prices and lots levels)



Observation

Over time, there has been an increase in the number of Providers submitting lots, but there has been a reduction in the number of lots sold, particularly since November (auction 22).

The graph shows a spike in the number of Providers submitting lots, after the announcement.

Possible reasons behind these observations

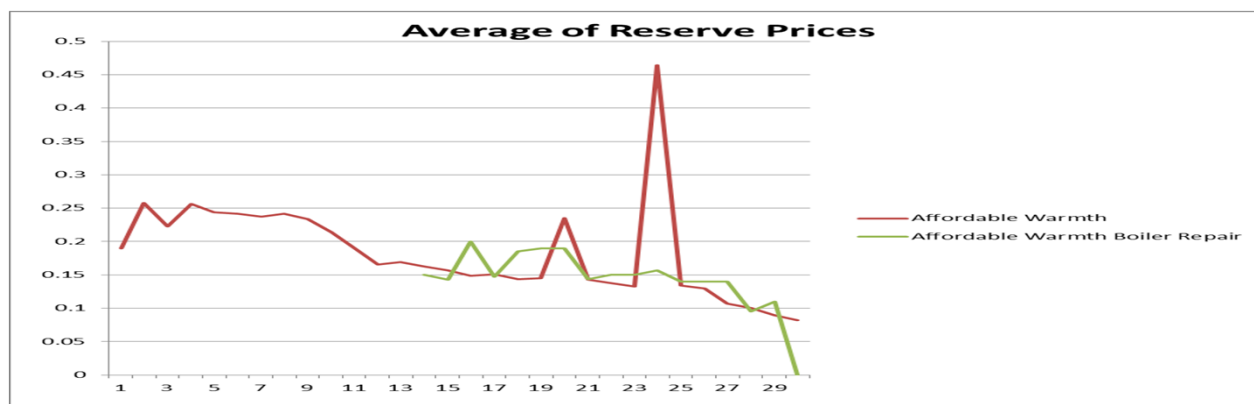
The increased number of Providers submitting lots may be as a result of greater certainty of the proposed extension to ECO to 2017.

The lower sales may be a symptom of lower demand in order to meet supplier obligations, or consultation uncertainty during the obligation period ending 2015.



1. Trading update

AW trading levels (reserve and clearing price)



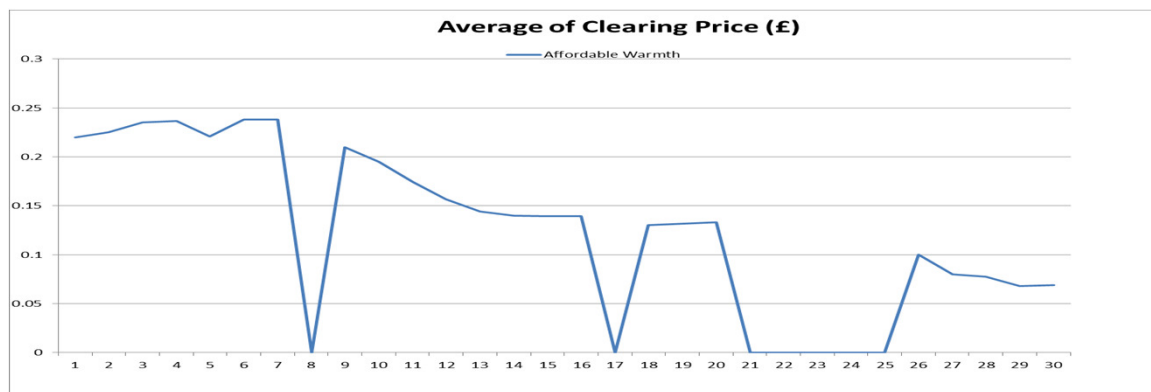
Following the announced changes to ECO, the average reserve price reduced from 14p across all auctions, to 7p across the last 3 auctions. This is interesting because the proposed changes to ECO, didn't change the AW obligation.

The steep spike in the average reserve price at week 24 is likely to be an anomaly. This was caused by 3 reserve prices submitted at £13, £14 and £15.

Prior to the proposed changes announcement, no AW trades took place for 5 consecutive auctions.

The average clearing prices have reduced over time. The lowest clearing levels are now around 6-8p.

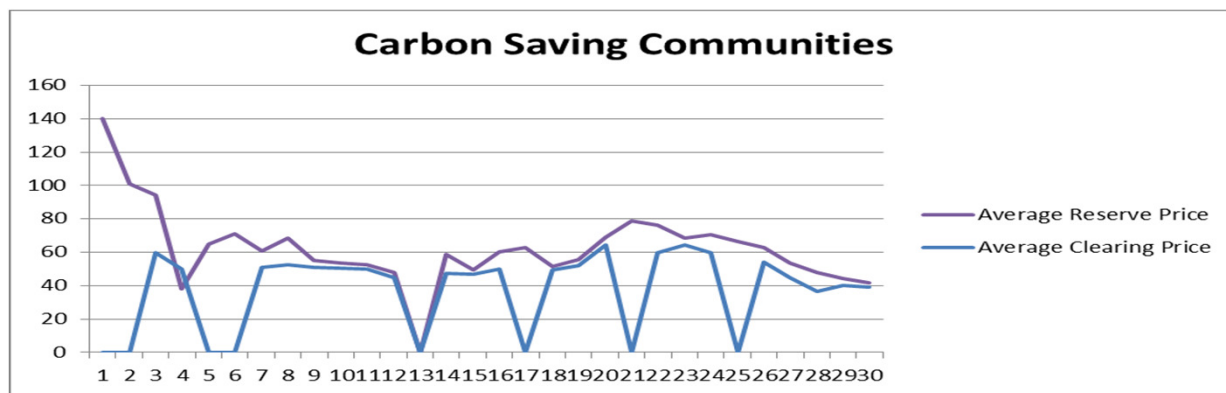
The reasons behind the prices will be discussed at the end of this section.





1. Trading update

CSCO & CERO trading levels (reserve and clearing price)



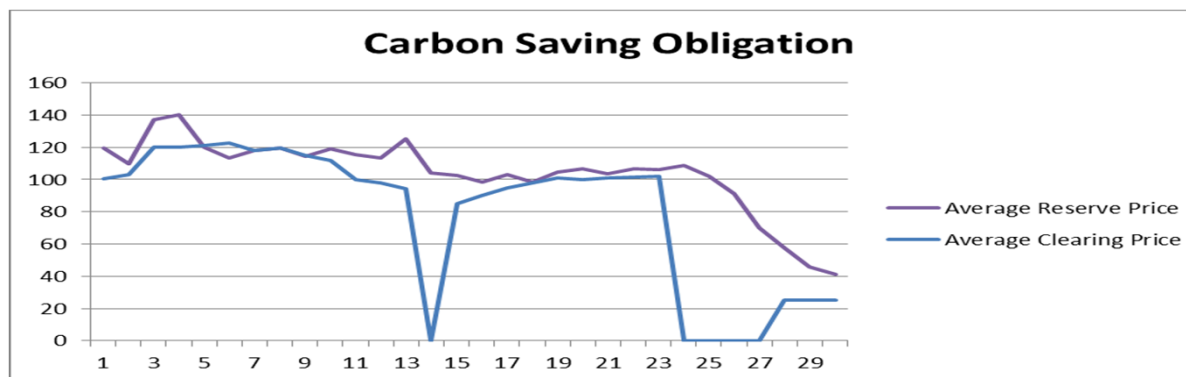
CSCO

Over the trading period, there have been instances of zero trades. Interestingly zero trading followed 3 auction cycles, consecutively. The reason for this is unclear.

Prices have reduced over time from around £50-£60, with the lowest clearing level now around £35. This will be discussed later.

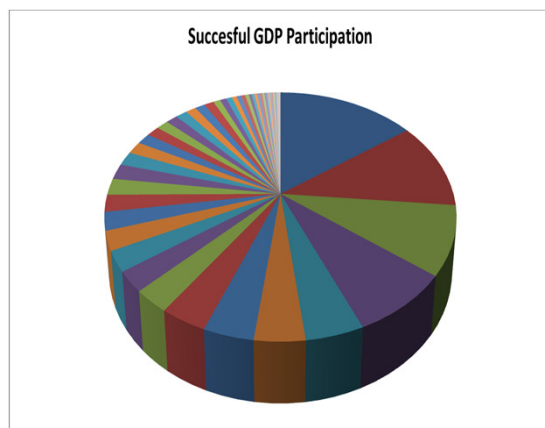
CERO reserve prices have plummeted, compared to trading levels of above £100 per ton. This follows zero trading around the 5 Dec announcement.

The lowest clearing level is now around £25. This may be as a result of the proposed reduction in obligation and allowing Easy to Treat measures. This will be discussed at the end of this section.



1. Trading update

Market participation – 30 auctions (up to 11 March)



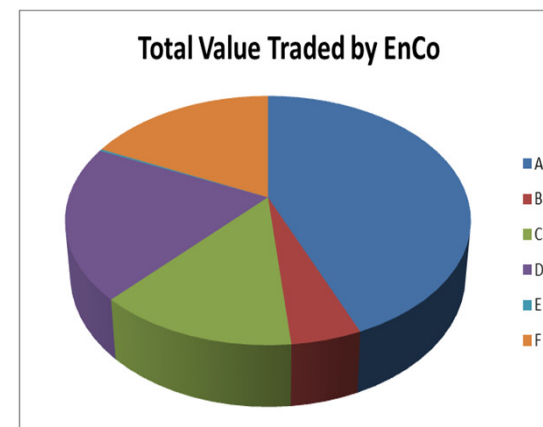
There isn't one organisation that vastly dominates successful trading on ECO brokerage.

Overall, the previous slides show that there are fewer Providers that are successful in selling lots now than compared to the success rate 4 months ago, but upon closer analysis, we've found that the successful Providers are not the same organisation at each auction.

This chart shows that energy companies are voluntarily participating on ECO brokerage.

There are differences between trading levels on ECO brokerage, but 3 energy companies have traded around similar values.

Regulation may be considered to increase participation by companies that have very little activity on brokerage and to continue participation on brokerage. Regulation will be discussed at the end of this section. .



1. Trading update

Why have prices and trading levels dipped over time?

These findings are based on our own analysis of data and we have sought views from some Providers over the last few weeks.

Market reaction to proposed changes to ECO.

We are not proposing to change the existing AW obligation, so it is interesting to see reduced trading levels under AW. The reason for the reduced trading of the carbon obligations may be that:

- Energy companies may have already met, or are near to meeting their obligation at phase 2 of their obligation. As covered in the graphs earlier, another reason could be uncertainty until the consultation outcome is known and legislation is in place.
- energy suppliers may be doing a lot of work in house or bilaterally.

Market Price

- The market may be evolving in a way that increasingly allows customer contribution including lending of private finance across both the carbon obligations and AW.
 - From DECC's perspective, keeping low the impact on all bill payers is a key objective for DECC - particularly under the two carbon obligations. We also welcome competition amongst suppliers offering ECO units on brokerage or through other delivery routes.

1. Trading update

Why have prices and trading levels dipped over time?

These findings are based on our own analysis of data and we have sought views from a number of Providers over the last few weeks.

...continued Market Price

Affordable Warmth

- If the prices drop to a level where all measures require a top up in the form of a customer contribution, then the most vulnerable of customers may be prevented from accessing AW support.
- The price may also be an indicator of quality issues. We are exploring the quality aspect as part of the current ECO consultation.

CERO

- Prices have reduced from over £100 per carbon ton, to £25, following announced proposed changes to include cavity wall and loft insulation as primary measures. The reduction may be as a result of lower market costs for delivering CERO. However, the costs reduced around the same time as the announcement and it may be that some companies have decided to deliver ETT from April, prior to legislation coming into force.

1. Trading update following 5 December

DISCUSSION / QUESTIONS

1. Are participants entering trading under brokerage with the intention to deliver easy to treat measures from 1 April under CERO, in anticipation of the consultation outcome to allow Easy to Treat measures?
2. The question of whether to regulate brokerage is included in the consultation. What are your views on how we could do this if regulation were to be implemented?
3. The lots available on brokerage are for delivery over 3,6, and 12 months. Given the proposed changes to the obligation period from April 2015, should the lots at 12 months remain, or should these now be made available as 9 months?

2. ECO brokerage Bi-lateral Off-take Contract

Thank you for your input into the contract review

Line by line update of the final contract was held on Friday 7 March.

At the meeting a number of questions were raised about Technical Monitoring (TM) requirements.

Main concerns in summary

- If sellers fails to provide TM at the required proportion, the Buyer can end up doing more TM to fill compliance gaps across measures and geographical area.
- It takes up to 2 months for the TM report to be processed, so the Buyer doesn't know what's been monitored by the seller until then – problem for monthly HTTC reporting requirements.
- Sellers would find it helpful to see the TM report to help understand their supply chain.

2. ECO brokerage Bi-lateral Off-take Contract

Proposals we've heard

- Consider including measures in the BCL – we are considering separating SWI and Rural – this will be discussed later.
- Consider including the percentage of TM required by the seller in the BCL
- Consider including a declaration at the point of Completion Notice submission by the Seller confirming which measures have been monitored. We heard that this will give Buyers an early indication of what has been monitored before they receive the TM report, to help plan for monitoring gaps. **(the contract requires the seller to notify the provider on measures that require pre delivery TM).**
- Agree that buyers allow sellers to see the TM report – this is now included in the contract.

There will be no further change to the contract at this point. In the future we may consider a further review of the contract. DECC will consider the BCL proposals.

Interaction between old and new contracts

The contract will be issued on 31 March – with changes coming into effect on 14 April.

Dec 2012 contract – governs trades agreed under that contract

March 2014 contract – governs trades agreed under that contract

Discussion/Questions

3. Separating Solid Wall and Rural on brokerage

Solid Wall

There will be a requirement to deliver a minimum level of SWI – proposal is set at 100,000, or a specific volume of CO₂ equivalent to that number of SWI installations. The proposed target would be delivered by 2017, across all companies and all elements of ECO.

This re-opens the argument of whether we should trade solid wall as a separate commodity on brokerage.

If we were to separate solid wall on brokerage we believe it should still be sold as tonnes of carbon not a number of solid walls and secondary measures for that property would be allowable in the lot being sold.

Discussion/ Questions: What are your thoughts on this?

Rural

Would it also be appropriate to separate rural safeguard at the same time?

We could separate rural at the same time as SWI, but if we did, we believe it would have to trade under the current rules of what can compliantly be delivered on brokerage. The expanded definition could only be traded once new legislation has been passed in the Autumn.

DECC propose that we separate rural at the same time as SWI to enable the market to identify the lots for rural, but caveat that the rules remain unchanged until change of legislation.

Discussion/ Questions: What are your thoughts on this?



4. Communicating Ratings information

Ratings

Ratings will be calculated once a month and will be up to the start of the preceding month i.e.: March auctions – ratings up to 31 Jan, April auctions – ratings up to 28 Feb and so on

Ratings will be based on energy company delivery reports, however these will be cross referenced with GDP delivery reports and any large anomalies investigated and ratings amended if necessary.

We will be transparent with each individual's rating. **We propose that it is communicated twice a year, or each month when DECC calculates ratings.**

Discussion/ Questions: What are your thoughts on this?

Ratings and bilateral delivery

We know that the brokerage contracts cannot be amended.

We also think that both parties may decide to agree different delivery dates.

If this happens do we think this is delivery failure, and should it have an impact on ratings?

We want to explore allowance of these types of delivery and whether this could be included in the Contract Quantity Delivery Report.

Discussion/ Questions: What are your thoughts on this?

5. Future access of ECO brokerage

Access to brokerage

- The original objective for restricting the brokerage platform to Green Deal Providers was to help kick start an emerging Green Deal market.
- Ministers have since agreed to extend access to brokerage. After over 1 year of trading, we think now is the right time to develop this.

We need to think about criteria and membership because:

- Green Deal authorisation is not required to deliver ECO measures bilaterally.
- Green Deal authorisation was designed to meet requirements under the Green Deal regulations, but never took into account ECO.

Findings over the year

133 Green Deal authorised Providers

92 Trading on the brokerage platform

23 Writing Green Deal Plans

5. Future access of ECO brokerage

What next?

We must now develop access requirements so that membership is more relevant to ECO brokerage.

What are the objectives of ECO brokerage now?

Transparency
Cost effectiveness
Competition

} These will remain important objectives of brokerage

Who are we extending access to?

Anyone that passes the due diligence checks against a membership criteria, which will be developed by DECC.

The criteria has to be relevant to ECO brokerage

What does this mean for existing Providers, and new Providers.

We don't expect the new criteria to be an additional burden to Providers.

If we find Providers already meet the ECO brokerage criteria as part of their Green Deal authorisation, we don't expect to duplicate the requirements as part of access to brokerage.



5. Future access of ECO brokerage

Current thinking on membership

Pre-Qualification Questionnaire

- Questions likely to include, name and company details, and a declaration of truthfulness and accuracy. It will also include key terms of membership to brokerage, with an early flag that the “standard contract” will govern trading activity.
- DECC propose that a short guide is issued to applicants, to help them understand the role of a seller under ECO brokerage. We think this could include:
 - ☐ Checklist of requirements before a participant may trade on ECO brokerage (qualifications, professional membership, due diligence process, what access means for an LA, or SHP)
 - ☐ Links to ECO information (Ofgem, Gov.UK)

Membership conditions

The membership to ECO brokerage will be completely separate to the Green Deal Provider authorisation. Having access to ECO brokerage will not mean automatic authorisation as a Green Deal Provider.

- If we find that additional requirements are needed, these additional requirements will apply to Green Deal Providers.
- We need to balance the needs under blind trading for standards, capability and capacity of the seller, against unduly restricted access to an open market.
- New members must agree to comply with the already agreed brokerage contract.



5. Future access of ECO brokerage

Current thinking on membership

Membership conditions

- Certain requirements or questions under the Green Deal Provider authorisation fitness test **do not** seem relevant to the auction platform. We think these are:
 - ☐ CCA licence, GD ORB membership, Green Deal Plan quotes and golden rule requirements, and the Green Deal regulatory framework including Civil Sanctions.
- Other requirements under the current Green Deal Provider authorisation fitness test **do seem** relevant. We think these are:
 - ☐ How the organisation plans to market and sell; Supply chain management
 - ☐ References; Complaints handling procedures
 - ☐ Data protection; Health and Safety
- We need to consider how the Regulatory framework that governs Local Authorities and their housing stock could interact with brokerage requirements.

Other areas being explored

- New requirements to administer membership of ECO brokerage and carry out the due diligence checks.
- It is currently possible to remove member access to ECO brokerage, if there was a material breach of the standard contract. It is also possible, if Green Deal Provider authorisation is no longer in place. We are exploring if there should be further reasons to remove access, if we extend access.
- We will also explore whether it would be appropriate and whether we can charge a membership fee to access ECO brokerage

5. Future access of ECO brokerage

DISCUSSION / QUESTIONS

1. Transparency, cost effectiveness and competition are key objectives of brokerage.
What are your views about the future objectives of brokerage?
2. What criteria should we set and what questions do you think we should ask applicants to ECO brokerage membership?
3. What should we look for as part of the due diligence checks?
4. Should we consider the reasons it would be appropriate to withdraw access to ECO brokerage.



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END