



Department  
of Energy &  
Climate Change

## Energy Companies Obligation Brokerage Mechanism Consultation: Government Response to the 12 December 2012 consultation

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# Executive Summary

Based on the responses from the November 2011 consultation on the Green Deal and Energy Companies Obligation (ECO), Government committed in its response, published in June 2012, to introducing a brokerage platform on a voluntary basis with the option of regulating energy suppliers to channel a proportion of their obligation through it. There was strong support from respondents in the November 2011 consultation for seeking a commitment from Energy Companies to fulfil a significant percentage of their ECO targets through brokerage as it would help ensure the benefit of ECO was felt across the supply chain and provide a clear price signal for the value of an ECO 'point' under each of the targets.

The ECO Brokerage Mechanism Consultation, published as an online consultation via the interactive DECC *Citizen Space* web portal, was created to source views and evidence to supplement our understanding of what volumes of ECO should ideally be traded on the platform and whether ECO obligated energy suppliers should be regulated to use it. We were also looking for evidence on the likely characteristics of the Green Deal and ECO market, and the extent to which the risks of market failures outlined in the Impact are likely to materialise.

## Conducting the consultation process

The consultation ran from 12 December 2012 with an extended response deadline of 15 April 2013, with all stakeholders – including Ofgem, Energy companies, Green Deal Providers, product manufacturers, Local Authorities and NGOs – given the opportunity to feed in views. We would like to thank all respondents who submitted a formal response.

We have now carefully considered all of the views expressed and this document sets out the Government's position on the proposals within the consultation.

## Responses by territory

We received 30 responses including 25 from England, 4 from Scotland, 1 from Wales and 0 from Northern Ireland.

## Options consulted on

The ECO brokerage consultation therefore considered:

- i. Whether Energy Companies' use of brokerage should be regulated, or whether we should continue with the current voluntary mechanism;
- ii. What volumes of each ECO obligation would ideally be traded through brokerage; and,

- iii. Suggestions for voluntary mechanism for encouraging Energy Companies to use the brokerage platform to deliver their ECO.

## Background

ECO helps improve the energy efficiency of people's homes while forming an integral part of the coalition government's programme to tackle fuel poverty.

ECO, working alongside the Green Deal, provides additional support for packages of energy efficiency measures including solid wall insulation and hard to treat cavity wall insulation which are socially cost effective, but unlikely to be fully financeable by Green Deal finance alone. ECO also provides insulation and heating measures to low-income and vulnerable households, as well as insulation measures to low income communities.

The government introduced a market-based mechanism to support an open and competitive market for the delivery of ECO which operates on a voluntary basis. The brokerage platform currently operates as a fortnightly internet based e-Auction, allowing delivery agents to sell 'lots' of future commitments of delivery of the ECO Obligation, and where ECO-obligated energy suppliers compete to purchase ECO units. The consultation sought views and evidence to supplement our understanding of what volumes of ECO should ideally be traded on the platform, and whether ECO-obligated energy suppliers should be regulated to use it.

The IA published alongside it considered arguments for and against a regulated approach to brokerage and assessed the costs and benefits of different volumes of ECO to be put through the brokerage platform. Government recognises the uncertainties associated with how the Green Deal and ECO market are operating and therefore sought evidence on the likely characteristics of the market, and the extent to which the risks of market failures outlined in the IA are likely to materialise. The IA did not present a preferred option as we were seeking additional evidence from consultees.

## Detailed Overview

In all, the consultation received 30 responses. Ultimately, it can be seen that positions had not changed substantially from the previous Energy Company Obligation and Green Deal Consultation in November 2011. There were also very few new arguments, or supporting evidence, provided to supplement responses.

A more detailed look at respondents shows 2 housing providers responded, 3 Trade Bodies, 4 members of the supply chain, 9 Green Deal Providers, 1 Green Deal Assessor, 8 Energy Companies, 2 Devolved Administrations, 1 Local Authority organisation.

- 63% of respondents **do not agree** with regulating proportions of ECO to be traded on brokerage.
- 34% **agree** with regulating the use of brokerage.
- 3% did not specifically answer.

### 1a. What proportion of ECO Carbon Saving Obligation (CSO) should be traded on brokerage?

Of the 30 responses received, 5 opted for high proportions, 6 for medium proportions, and 7 for Low proportions. A further 12 responses did not provide a specific response. The breakdown by stakeholder sector is as follows;

Stakeholder Sector	High	Medium	Low	N/A
Energy Company			1	7
GDA	1			
GDP	2	3	3	1
Housing		1	1	
Supply Chain	2	1	1	
Other Government Body			1	1
Local Authority				1
Trade Body		1		2

Total	5	6	7	12
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\*N/A – No specific answer

## 2b. What percentage do you suggest and why?

As with Question 1b (CSO), the majority of respondents stated it is too early to determine the ideal proportion of CSO that should be traded through the brokerage platform. A further 11 responses suggested percentages between 0% and 33%, averaging 30%. While a large number did not provide any reasoning for their suggestions, others believed this level should ensure that there will be sufficient brokered deals throughout the obligation period to ensure the current carbon price is always transparent. One of these respondents suggested 5-10%, the lowest suggestion made, because these characteristically large-scale partnership projects often involve multiple partners and may best be suited to bilateral partnerships.

4 responses provided suggestions bridging the broad groupings outlined above. These suggestions included 10-40%, 25-50%, 50-75% and 25-75%. All reasoning revolved around the need to ensure a mixed delivery portfolio, as well as the need to encourage competition and fair pricing which small proportions would be unlikely to achieve.

## 3a. What proportion of ECO Affordable Warmth (AW) should be traded via brokerage?

Of the 30 responses, 6 suggested high proportions, 7 suggested medium proportions and 4 suggested low proportions. A further 13 did not provide specific suggestions. The breakdown by stakeholder sector is as follows;

Stakeholder sector	High	Medium	Low	N/A
Energy Company		1		7
GDA	1			
GDP	2	3	3	1
Housing		1		1
Supply Chain	3	1		
Other Government Body			1	1
Local Authority				1
Trade Body		1		2
Total	6	7	4	13

\*N/A – No specific answer

### 1-3b. What percentage do you suggest and why?

The majority stated that it is too early to judge the ideal proportions that should be traded because the market and platform needs time to stabilise and settle before any proportions are suggested. A number of respondents also cited the added complexity of the 5% cap for boiler repairs which has since been separated on the platform.

A further 7 responses suggested percentages between 0% and 33%, with an average of 25%. Reasoning tended to suggest that lower cost measures with an established supply chain would mean that high volumes would be traded voluntarily without the is best done by locally based trusted bodies which they believe implies lower levels should be mandated to ensure a level of protection for these consumers.

4 responses suggested between 33% and 66%. One believed at least 50% of AW should be traded on brokerage because the eligibility criteria for AW presents a particular challenge for the supply chain in both identifying and engaging with eligible households.

A further 4 respondents suggested a proportion between 66% and 100% to ensure confidence and drive innovative engagement routes and delivery channels.

3 responses provided suggestions bridging the broad groupings outlined above. These suggestions included between 20-50%, 50-75% and 25-75%.

### 4. Do you have any suggestions for voluntary mechanisms for encouraging Energy Companies to use brokerage to deliver their Energy Company Obligation?

12 respondents did not provide any suggestions for voluntary mechanisms for encouraging Energy Companies to use the platform. Of those that did provide suggestions, the majority simply highlighted that a brokerage platform that delivers on its objectives would provide enough encouragement for energy companies to use the platform. Some also stated the need for transparency and attractive pricing, with two respondents stating the need for assured delivery or low delivery failure risks.

A large proportion of the remaining suggestions revolved around the functionality or design of the platform itself, such as requests for, user rating systems, separating of AW Boiler Repairs, mandatory visible reserve prices and revising auction timings.

A small number of respondents suggested changes to the administration of the obligation and the verification of measures from brokered lots so as to confirm and bank carbon scores as quickly as possible.

Two respondents did not believe a voluntary mechanism would be sufficient. One cited concerns over vertically integrated energy suppliers and suggested mandating levels traded through the brokerage platform should mirror the amount vertically integrated suppliers pass through their internal business and service arms. One other respondent believed voluntary mechanisms would not sufficiently drive investment and highlighted the conditions of any voluntary mechanism, and the market as a whole, may differ towards the beginning or end of obligation periods.



Other suggestions included energy companies who commit to actively acquire a percentage of their obligation through the brokerage platform should be immune from any non-completion fines or penalties for under-delivery. One respondent also suggested energy companies should be encouraged to purchase a mix of the three obligations at a range of prices and contract terms to help encourage a diverse range of players in the market.

## 5. Should Government regulate Energy Companies to channel their Energy Company Obligation through brokerage?

In all, 63%, or 19 of the 30 responses, did not believe Government should regulate the use of the brokerage platform. A total of 10 respondents, supported regulation, and a further 1, or 3%, did not provide a specific answer. A view of responses by stakeholder sector is as follows;

Stakeholder Sector	Yes	No	N/A
Energy Company		8	
GDA	1		
GDP	5	4	
Housing		2	
Supply Chain	3	1	
Other Government Body		2	
Local Authority			1
Trade Body	1	2	
Total	10	19	1

\*N/A – No specific answer

A significant number of responses did not provide any substantive reasoning for their answer to this question. Those that did, and who do not think Government should regulate energy companies to use the brokerage platform, cited a need to let the market stabilise and establish before any decision on regulation is made. Some responses also highlighted the risk involved in regulating at an early stage as placing early regulation requirements on purchases could significantly distort the market and market price. Nearly all responses highlighted how effective the channel had been in its early stages and questioned the need to use regulation when the current voluntary mechanism is seemingly working. Of those that supported regulation, no respondents provided any reasoning for their suggestion.

# Government Response

## 1 – 3b. What proportion of ECO should be traded on the brokerage platform?

While there were fewer responses received than anticipated, the majority of responses reflected the respondent's market position and provided arguments which the Department is already aware of. There was also very little new evidence submitted alongside responses.

The government continue to consider these issues and seek further views as part of the wider ECO consultation exercise which we plan to publish shortly.

## 4. Do you have any suggestions for voluntary mechanisms for encouraging Energy Companies to use brokerage to deliver their Energy Company Obligation?

Very few suggestions for a voluntary mechanism to encourage Energy Companies to use the brokerage platform were provided. A number of suggestions reflected the functionality of the existing platform. The Department has, following a series of mini consultations and stakeholder meetings, implemented a number of the suggestions put forward during this consultation, such as revising auction timings, and the mandatory showing of reserve prices.

The Government will continue to operate the brokerage platform under the current voluntary mechanism and will continue to gather stakeholder feedback through the various stakeholder forums, for example the ECO Steering Group which meets monthly to consider issues relating to ECO delivery, including in particular the operation of the brokerage platform. Agendas and minutes of this group are publicly available at [ECO Steering Group](#)

## 5. Should Government regulate Energy Companies to channel their Energy Company Obligation through brokerage?

The Government recognises all arguments provided in response to this question and no new evidence or arguments were provided. The Government will therefore not regulate Energy Companies to channel a proportion of their obligation through the brokerage mechanism at this stage. The Government will, however, continue to monitor the platform and trading with and will be seeking further views on this issue during the wider ECO consultation which we plan to publish shortly.

# Annex A: List of Respondents

Affinity Sutton	The Gdshop.com
British Gas	The Scottish Government
Carillion Plc.	The Welsh Government
Ecotricity	Willmott Dixon
EDF	
Eco Deal	
Enact	
Energy UK	
E.ON	
First Utility	
Grafton Group PLC	
Kingfisher	
Knuaf Insulation	
Instagroup	
Insulation NE Ltd	
Mark Group	
National Housing Federation	
National Insulation Association	
Network GD	
Npower	
Riverside	
Rockwool	
Saint Gobain	
Scottish Power	
SSE	

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