



Department
of Energy &
Climate Change

Research on the Green Deal Provider Market

**Research on the Green Deal Provider market,
including use of the ECO Brokerage platform
FINAL**

June 2014

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Glossary of Terms and Acronyms

This report uses the following terms and acronyms:

APR	Annual percentage rate
CCA	Consumer Credit Act
CERO	Carbon Emission Reduction Obligation
CERT	Carbon Emissions Reduction Target
CESP	Community Energy Saving Programme
CSCO	Carbon Saving Community Obligation
CWI	Cavity wall insulation
DECC	Department of Energy and Climate Change
ECO	Energy Companies Obligation
EPC	Energy Performance Certificate
EWI	External wall insulation
FIT	Feed-in Tariff scheme
GD Advisors	Green Deal Advisors/ Assessors
GD finance	Green Deal finance
GD ORB	Green Deal Oversight and Registration Body
GD Plan	Green Deal Plan
GD Provider	Green Deal Provider
GD	Green Deal
GDA	Green Deal Arrangements Agreement
GDAR	Green Deal Advice Report
GDCC	Green Deal Central Charge Database
GDFC	Green Deal Finance Company
GPS	Government Procurement Service (now the Crown Commercial Service)
PV	Solar Photovoltaic
SWI	Solid wall insulation

Executive Summary

Green Deal Providers and the ECO Brokerage platform

Green Deal (GD) Providers play a key role within the delivery of the GD and Energy Companies Obligation (ECO) programme. They organise the financing and installation of energy efficiency improvements, and are the only organisations that are able to provide GD finance within the framework of the GD Plan. GD Providers may also deliver ECO obligations on behalf of the energy companies. In order to facilitate this process, DECC set up the ECO Brokerage platform to provide a new route through which energy companies could contract the delivery of ECO. The platform is only accessible to GD Providers. GD Providers thus provide the 'bridge' between GD and ECO, and can present a blend of the two programmes as part of their offers to consumers.

Study aim and research objectives

In September 2013, ICF GHK was commissioned by DECC to carry out research into the GD Provider market, and the operation of the ECO Brokerage platform. This study forms part of the evaluation of the GD and ECO programme that is being led by ICF GHK. The aim of this study was to evaluate the role of GD Providers within the delivery of the GD and ECO programme. To meet this aim, the study was tasked with addressing the following research objectives:

- To assess whether the GD Provider market is an open and contested market, and to evaluate the processes through which companies become GD Providers and access finance from the Green Deal Finance Company (GDFC).
- To carry out research into the business models implemented by GD Providers in order to deliver the GD, including an assessment of how GD Providers respond to demand and organise the financing of energy efficiency improvements.
- To evaluate the ECO Brokerage platform, including research into if and how it is being used by GD Providers and energy companies in order to deliver under the ECO programme.

Study methodology

The primary methodology employed for this study was qualitative research. Between November 2013 and February 2014, semi-structured in-depth interviews were undertaken with:

- 30 companies that were active (or expected to become active) within the GD Provider market, in order to explore business models and the role of these companies within the delivery of the GD and ECO programme. This consisted of 27 registered GD Providers¹, and 3 companies that were in the process of registering as GD Providers. Purposive sampling was used in order to select companies with a range of key characteristics².

¹ There were a total of 112 registered GD Providers when the sample was drawn in November 2013

² Size, geographical market coverage, background (e.g. whether provided consumer credit, whether started up to serve GD/ECO), market status (e.g. whether providing GD finance), and level of usage of ECO Brokerage

- Two companies that provide loan finance to consumers to fund home improvements, in order to explore non-GD financing of energy efficiency measures.
- All seven energy companies with obligations under the ECO programme, to review the process of contracting with GD Providers, including via the ECO Brokerage platform.

In addition, the study team analysed administrative data from DECC concerning usage of the ECO Brokerage platform by GD Providers and energy companies.

The GD Provider market

GD Providers are a diverse group, with a wide variety of backgrounds and motivations for entering the GD Provider market. The sample of GD Providers included companies that were set up to serve GD, companies that wished to access the ECO Brokerage platform, and companies that moved into the GD market as they saw a market opportunity (and wished to diversify away from a reliance upon obligation-driven schemes such as ECO).

For some companies interviewed, the process of becoming authorised as a GD Provider was difficult and time-consuming. This was particularly true of smaller and/or newer companies, and for GD Providers that went through the authorisation process early when systems were being developed and there was a lack of information about what was required. The perception amongst GD Providers was that the authorisation process improved over time, as systems were tested and improved.

Some GD Providers found the process of onboarding with the GDFC challenging, particularly early on when the GDFC's systems and processes were still being developed and tested. Nevertheless, some GD Providers had benefited from the training and capacity building that the GDFC provided as part of the onboarding process, particularly companies with limited experience of providing consumer credit.

GD Providers applied to onboard with the GDFC because they regarded the ability to provide GD finance as integral to the operation of the market, even where they also drew on other sources of finance (ECO funding, GD cashback and third party credit). Where GD Providers had not chosen to onboard, this was typically because they did not regard current levels of demand for GD finance as sufficient to warrant the expenditure.

Some GD Providers interviewed expressed concerns about the costs to consumers of GD finance, particularly for smaller value GD loans where finance costs can become very high for such a long-term loan, and interviewees questioned whether this offered value for money. Nevertheless, it was noted that GD finance is a unique financial product, with credit terms that resulted in much wider availability than is the case for other types of credit.

GD Providers' business models

GD Advice Reports (GDARs) are the first stage in the GD customer journey, and some GD Providers have elected to take the production of reports in-house (or are closely affiliated with a GD Assessor Organisation that produces reports). This was largely due to concerns about the quality of externally produced GDARs, which some GD Providers refused to use, even though doing so was a requirement of the Code of Practice.

At the point at which fieldwork was carried out (November 2013 to February 2014), market readiness within the GD Provider community was limited, with relatively few able to offer GD Plans. This was reflected in limited levels of direct-to-consumer marketing to date. GD Providers had set up webpages, but many were relying on customers to find them (e.g. as a result of searches of the GD Oversight and Registration Body (GD ORB) database). Amongst those GD Providers that were onboard and theoretically ready to provide GD finance at the time

of interview, many noted that they were still in the process of testing their systems, and not ready to scale up their market offer.

Some GD Providers stated that demand under GD (i.e. enquiries from customers with a GDAR) was less than they had expected. Interviewees reported that they had not been ready to respond to initial demand in early 2013 and that after this, levels of interest dropped. Several GD Providers reported that they believed demand under GD would increase in 2014.

According to some GD Providers, it was difficult to meet the entirety of customers' finance needs using a GD loan; there was frequently a shortfall, which was seen to act as a deterrent for customers. Depending on the funding sources that they were authorised to draw upon, some GD Providers would seek to fill this shortfall by creating finance packages that were tailored to customers' needs and circumstances (e.g. their credit history). This could involve blending together GD finance with ECO subsidy (predominantly where external wall insulation or hard-to-treat cavity wall insulation was involved). However, GD Providers reported that, in practice, blending between GD finance and ECO subsidy was relatively rare, in part since this required access to ECO funding (which could be sporadic and was often area-based). GD finance could also be blended with GD cashback, and/or third party finance that was brokered by a GD Provider. Multiple funding streams were seen to add complexity – for instance where more than one credit agreement was required – and to act as a deterrent for customers.

The ECO Brokerage Platform

The Brokerage platform is an innovation that was introduced as part of the ECO programme to provide an alternative way for energy companies to contract delivery of their ECO obligations (in addition to commissioning via bilateral contracts and self-delivery). For newer and smaller GD Providers in particular, the platform provided access to energy company procurement opportunities that they would otherwise not have had, since they would have been unlikely to have been able to secure bilateral contracts with energy companies due to their size, absence of a track record, and lack of established relationships with procurement teams at the energy companies. The Brokerage platform had also provided a useful complement to bilateral contracts (for those GD Providers that were able to secure work through this contracting route). Brokerage enabled these GD Providers to secure ECO contracts from energy companies whilst bilateral contracts were being negotiated, and continued to provide a way in which to contract work at short notice and without need for (relatively complex) bilateral contract negotiations.

Levels of usage of the ECO Brokerage platform by GD Providers (measured in terms of the number of offers made each auction) was steady for the first part of 2013, before increasing during the summer of 2013 and remaining at a relatively constant rate throughout the rest of the year. The number of companies making offers as part of each auction increased steadily throughout 2013. Most of the offers made by GD Providers on ECO Brokerage (by number of offers) were under the Affordable Warmth obligation.

Energy company usage of the platform (measured in terms of the number of Lots purchased each auction), fluctuated throughout 2013, with peaks and troughs in the number of Lots bought. Energy company purchases via ECO Brokerage did not keep pace with the volume of offers being placed on the platform. For some GD Providers, the unpredictability of Brokerage as a source of contracts had made it an increasingly unattractive method of contracting when compared to bilateral deals (which were typically longer-term and larger-scale).

Energy companies reported that they prioritised bilateral contracts as a delivery mechanism and, for the most part, regarded the Brokerage platform as a way to fill shortfalls, provided the price was attractive. They expressed concerns about the ECO Brokerage contract compared to the flexibility of bilateral contracts, and also noted that the risk of contracting with anonymous parties meant that they would be reluctant to place significant shares of their obligations on

Brokerage. Energy companies stated that they contracted the majority of their ECO obligations through bilateral contracts, or via self-delivery if they had the in-house capacity to do so.

Prices on ECO Brokerage – particularly for Affordable Warmth – fell sharply from mid-2013 onwards. Brokerage prices started out higher than bilateral prices but dropped. Interviewees from energy companies and GD Providers attributed these trends to a range of factors, including increased competition on the platform and greater price awareness amongst energy companies (e.g. as bilateral contract prices started to influence their thinking as regards acceptable prices on the ECO Brokerage platform).

Overall conclusions of the ICF GHK study team

In relation to the research objectives that the study was designed to address, the following conclusions can be made:

- **The GD Provider market would appear to be an open market**, with a diversity of businesses having entered the market (in terms of size and backgrounds). Requirements to become a GD Provider (authorisation as a GD Provider and potentially onboarding with the GDFC) are complex – particularly for SMEs – but there is support available to assist applicants to overcome any barriers to entry (e.g. lack of familiarity with consumer credit). There had been simplification of the authorisation process at the time of fieldwork (November 2013 to February 2014), and GD Providers noted that they believed the system had improved over time as processes had ‘bedded in’. **It is less clear whether the GD Provider market is currently a contested market**, in the sense that authorised GD Providers are active and competing with each other for work. Programme data indicate that the number of authorised GD Providers has increased over time, indicating that it is a dynamic market, with new entrants. However, many GD Providers within the sample of interviewees, whilst authorised and in principle ready to prepare GD Plans, actually did not consider themselves to be market ready, and were not responding to consumer demand for GD finance. Instead, at the time of interview, GD Providers were often testing their systems and ‘ironing out’ any problems whilst they waited for consumer demand under GD to pick up in 2014.
- A range of business models have been developed as GD Providers test their approaches to delivering under GD. GD Providers were typically looking to exert greater control over the process of generating GDARs, often due to concerns about the quality of independently-produced reports, and also a wish to make greater use of the marketing/sales potential of the GDAR process (albeit recognising that advisors must declare any links to GD Providers and that GDARs are portable). Access to GD finance and the ability to write GD Plans was largely seen as a key feature of the GD Provider business model, though GD Providers expressed concerns about the design of GD finance at present (including, but not restricted to, the interest rate charged by the GDFC). The limitations imposed by the Golden Rule meant that GD Providers often struggled to fund energy efficiency installations using GD finance alone, and so GD Providers were experimenting with the use of alternative sources of finance to fund energy efficiency improvements. This included the use of third party finance (where this was available, which it often was not for SMEs), and potentially ECO funding (though opportunities for such blending were limited by whether or not customers were eligible for ECO, and whether GD Providers had access to ECO funding).
- **The ECO Brokerage platform is an open market**, with no major barriers to entry. Over the course of 2013 **it also became an increasingly contested market**, especially under the Affordable Warmth obligation (and to a lesser extent the CERO obligation), where the number of participants per auction increased over time. The ECO Brokerage platform

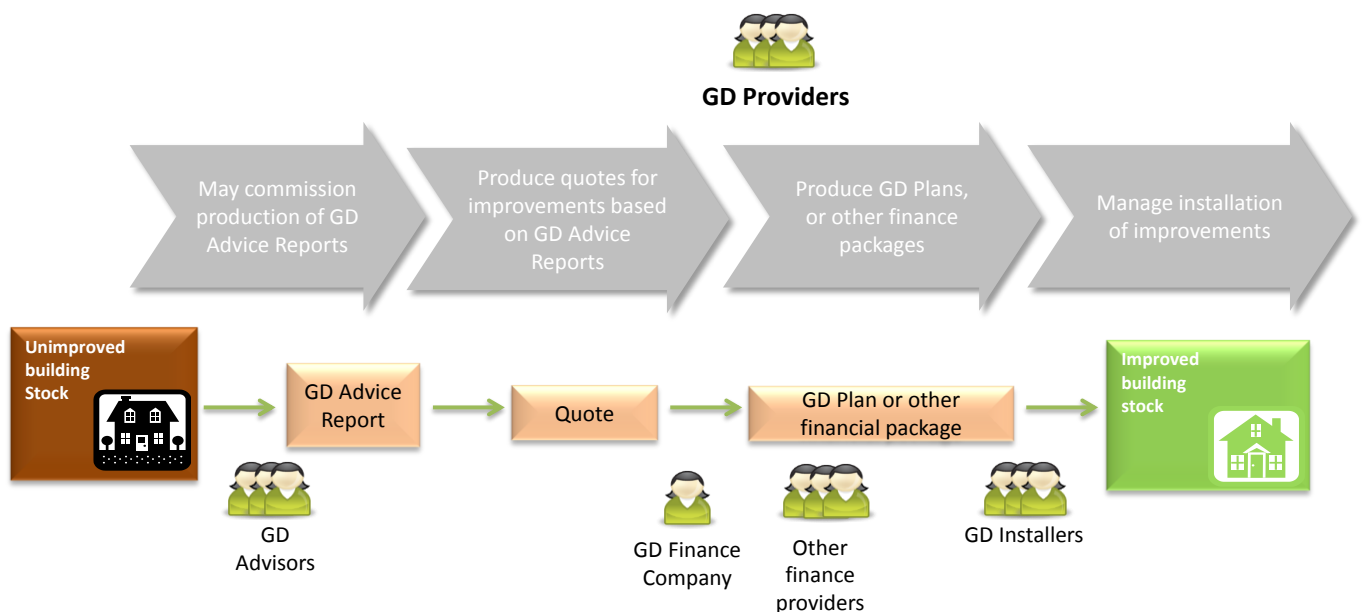
has **enabled greater numbers of companies (particularly SMEs) to access ECO contracts** than would otherwise have been the case, and has provided both energy companies and GD Providers with an alternative to bilateral contracts (which is particularly suited to small-scale ECO schemes that needed to be contracted quickly). Nevertheless, energy companies and to some extent GD Providers still prefer to contract ECO delivery via bilateral contracts. Whilst **the ECO Brokerage platform has improved price transparency under ECO**, the use of bilateral contracts and self-delivery by energy companies has limited market transparency.

1. Background and Methodology

Overview of Green Deal Providers and the Green Deal and Energy Companies Obligation programme

1.1. Green Deal (GD) Providers play a key role within the delivery of the GD and Energy Companies Obligation (ECO) programme. They are responsible for organising the financing and installation of energy efficiency improvements, and are the only organisations that are able to provide GD finance within the framework of the GD Plan. GD Providers play an important role throughout the GD customer journey, as illustrated in the diagram below. Specifically, GD Providers:

- May play a part in the production of GD Advice Reports (GDARs), if they have taken these functions in-house. This role involves promoting GD amongst consumers, and managing the process through which a GDAR is prepared.
- Develop quotes for energy efficiency improvements on the basis of the measures recommended within a GDAR.
- Develop financial packages for consumers that wish to proceed to an installation. These financial packages may consist of GD Plans drawing on GD finance, and/or may bring in other sources of finance in order to fund energy efficiency improvements.
- Manage the installation of energy efficiency improvements, and deliver ongoing responsibilities in relation to customer complaints, warranties etc.
- Receive repayment for installations, via a charge on consumers' electricity bills if GD finance was involved.



- 1.2. GD Providers are also ideally placed to deliver ECO obligations on behalf of the energy companies. As part of the ECO programme, DECC set up the ECO Brokerage platform, which provides a new route through which energy companies can contract the delivery of ECO, and which is only accessible to GD Providers. GD Providers thus provide the 'bridge' between GD and ECO, and can present a blend of the two programmes as part of their offers to consumers.
- 1.3. Any company that is able to fulfil these roles can apply to become a GD Provider. The role attracts businesses from a diverse set of backgrounds, ranging from companies that specialise in managing and delivering installations, through to companies that specialise in providing consumer credit. DECC's vision for the GD Provider market has always been that of an open and contested market, with competition driving up quality and driving down the prices that consumers pay.

Research objectives

- 1.4. In September 2013, ICF GHK was commissioned by DECC to carry out research into the GD Provider market, and the operation of the ECO Brokerage platform. This study forms part of the evaluation of the GD and ECO programme, that is being led by ICF GHK.
- 1.5. The aim of this study was to evaluate the role of GD Providers within the delivery of the GD and ECO programme. To meet this aim, the study was tasked with addressing the following research objectives:
 - To assess whether the GD Provider market is an open and contested market, and to evaluate the processes through which companies become GD Providers and access finance from the Green Deal Finance Company (GDFC).
 - To carry out research into the business models implemented by GD Providers in order to deliver the GD, including an assessment of how GD Providers respond to demand and organise the financing of energy efficiency improvements.
 - To evaluate the ECO Brokerage platform, including research into if and how it is being used by GD Providers and energy companies in order to deliver under the ECO programme.
- 1.6. In order to address these research objectives, the study was set a number of specific evaluation questions. These are split between evaluation questions that focus on the GD Provider market and evaluation questions that focus on the ECO Brokerage platform.

Evaluation of the GD Provider market

- 1.7. The study was tasked with providing answers to the following evaluation questions concerning the operation of the GD Provider market and the business models of GD Providers:
 - To what extent is the GD Provider market an open market? Are there any barriers to entry that prevent companies from becoming GD Providers and/or accessing GD finance, and are these barriers particularly acute for certain types of company (e.g. SMEs)?
 - To what extent is the GD Provider market a contested market? Are there sufficient numbers of GD Providers to respond to demand from consumers?
 - What are GD Providers' views on GD finance and its attractiveness to consumers? What do third party finance providers think about GD finance?

- How are GD Providers engaging with GD Advisors and GD Assessor Organisations as part of the delivery of GD?
- How do GD Providers respond to consumer demand? How do they develop financial packages in order to finance energy efficiency improvements?
- How do GD Providers generate income, and is this income sufficient to sustain the GD Provider market?

Evaluation of the ECO Brokerage platform

- 1.8. The evaluation was tasked with answering the following questions about the ECO Brokerage platform:
- To what extent is the ECO Brokerage platform an open market? Are there any barriers to entry that prevent companies from using the ECO Brokerage platform, and do these affect certain types of company more than others?
 - To what extent is the ECO Brokerage platform a contested market? Are there sufficient numbers of users to respond to demand from energy companies and to ensure competition between users?
 - To what extent is the ECO Brokerage platform a transparent market? In what ways do participants use the market information available on the ECO Brokerage platform?
 - Has the ECO Brokerage platform affected the prices paid by energy companies in the contracting of their ECO obligations?
 - Is the ECO Brokerage platform operating efficiently?

Report structure

- 1.9. This report consists of three chapters presenting the results of the data analysis:
- Chapter 2 analyses the GD Provider market, including the processes that GD Providers have undertaken in order to enter the market and access GD finance.
 - Chapter 3 analyses the business models deployed by GD Providers in order to deliver under the GD.
 - Chapter 4 analyses GD Providers' role within the delivery of the ECO programme, focussing on the use of the ECO Brokerage platform as a contracting mechanism.
- 1.10. Finally, Chapter 5 presents the conclusions and recommendations of the study team. Conclusions have been structured around the evaluation questions set out above.

Study methodology

- 1.11. The primary methodology employed for this study was qualitative research involving semi-structured in-depth interviews. This method was chosen because the main subject matter – the operations and business models of GD Providers – would be too complex and varied to explore through quantitative research. A survey, for example, would not allow us to explore the details of GD Providers' business models, and the reasons underpinning their market strategies.
- 1.12. Multiple types of organisation were included within the research, so as to ensure a range of perspectives on GD Provider operations (for details of the sampling methodology see below). The organisations that were included in the research were:
- Registered **GD Providers**, in order to explore business models and the role of these companies within the delivery of the GD and ECO programme.

- Companies **in the process of registering as GD Providers**, in order to explore current experience of the GD Provider registration process.
- **Companies that provide loan finance** to consumers to fund home improvements, in order to explore non-GD financing of energy efficiency measures (including via GD Provider operations – i.e. as an alternative to GD finance).
- The **energy companies** with obligations under ECO, in order to review the process of contracting with GD Providers to deliver ECO obligations, including via the ECO Brokerage platform.

Sample design and recruitment

1.13. For the most part, a purposive sampling approach was followed in the selection of interviewees, as set out below.

GD Providers and companies in the process of registering as GD Providers

1.14. A total of 30 companies were interviewed about the GD Provider market. This consisted of:

- 27 registered GD Providers
- 3 companies that were in the process of registering as GD Providers at the point of interview. Note that, throughout the remainder of this report, for ease of presentation these three companies are referred to as ‘GD Providers’, even though at the point of interview they were not authorised as such

1.15. At the point at which the research design was finalised (1 November 2013), there were a total of 112 authorised GD Providers. The target number of completed interviews from this sample frame was 27. Purposive sampling was used in order to select GD Providers with a range of key characteristics. These characteristics were chosen so as to ensure a breadth of organisations were included within the study, since it was envisaged that business models would vary depending on company size and background, and market position within the GD and ECO programme. The number of companies within each category was selected in order to ensure sufficient depth. Table 1 summarises the characteristics of the achieved sample.

1.16. It was also decided to include companies that were in the process of becoming authorised GD Providers. The population was unknown, and the Green Deal Oversight and Registration Body (GD ORB, which manages the authorisation process) could not release the identities of applicants without their permission. GD ORB contacted all applicants as at 28 November 2013, and three companies responded to indicate that they wished to be included in the study. These companies are included within Table 1.

1.17. Recruitment to the sample was carried out by contacting companies that met the characteristics set out in Table 1.1. Prospective interviewees were contacted by email (which provided details of the scope and objectives of the research), and provided with an opportunity to opt out of the study. All prospective interviewees were contacted via either email or telephone up to five times, after which non-respondents were replaced by a substitute, and the process was repeated until the target of 30 companies had been recruited.

1.18. In total, 15 GD Providers opted out of the study. Common reasons provided included: too busy to participate during the fieldwork period; in the process of exiting the GD Provider market and unwilling to participate; or, in the process of entering/ building their market offer, and not yet ready to discuss their experiences. Note that opt out rates were highest amongst GD Providers that had not started the process of onboarding with

the GDFC at the point of interview (this group accounted for 10 out of the 15 opt out companies).

Table 1.1: Characteristics of the achieved sample of GD Providers

Sample characteristics	Sample categories	Achieved sample (no. of GD Providers interviewed)
Size of GD Provider	Micro (0-9 employees)	7
	Small (10-49 employees)	8
	Medium (50-249 employees)	5
	Large (250+ employees)	10
Geographical market coverage of GD Provider	Nationwide	18
	Sub-national	12
Provided consumer credit prior to GD?	Yes	9
	No	21
Origins of company	Focussed on PV installations	6
	Started up to serve GD/ECO	7
GD market status of company	Onboard with the GDFC and making GD Plans	5
	Onboard with the GDFC but not made a GD Plan	10
	In process of onboarding with the GDFC	8
	Authorised GD Provider but not onboarding	4
	In process of becoming authorised GD Provider	3
Usage of the ECO Brokerage platform	Sold Lot(s) on the platform	11
	Attempted, but never sold Lots on the platform	3
	Registered, but never attempted to sell	7
	Not registered to use platform	8
TOTAL		30

Providers of third party finance

1.19. Accessing interviewees was challenging given the small size of the market and difficulties in identifying relevant individuals within large corporations that may or may not have considered the GD and ECO market. Consequently, interviewees were identified on the basis of contacts held by DECC, and contacts identified by GD Providers. Three third party financiers were identified in this way, and two agreed to participate in the study.

Energy companies

1.20. Seven energy companies had obligations under the ECO programme when the fieldwork commenced. All of these companies were contacted and agreed to participate in the study.

Fieldwork details

1.21. Fieldwork was carried out between November 2013 and February 2014, by a research team drawn from ICF GHK. Where possible, interviews were carried out face-to-face, either at the premises of the interviewee(s), or at ICF GHK's offices. Telephone interviews were carried out if this approach was not possible. Interviews typically lasted for between 45-90 minutes, and used a semi-structured topic guide.

Quantitative data analysis of ECO Brokerage data

1.22. As part of the research on the operation of the ECO Brokerage platform, the study team accessed detailed administrative data from DECC regarding each of the fortnightly ECO Brokerage auctions (see Chapter 4 for details of the ECO Brokerage platform). These data covered the period January to December 2013, and included information on all offers made and all offers accepted as part of each auction (including price data). Data were analysed in order to ascertain patterns of usage of the ECO Brokerage platform by both GD Providers (sellers) and energy companies (buyers). The observed patterns were discussed as part of the qualitative interviews with GD Providers and energy companies.

2. The GD Provider Market

This chapter looks at the key features of the GD Provider market. It describes the backgrounds of GD Providers and their reasons for targeting the Green Deal market. It then considers their experience during that process, including authorisation as a GD Provider and onboarding with the GDFC to enable access to GD finance. Finally, it analyses the views of GD Providers and third party providers of consumer credit on GD finance

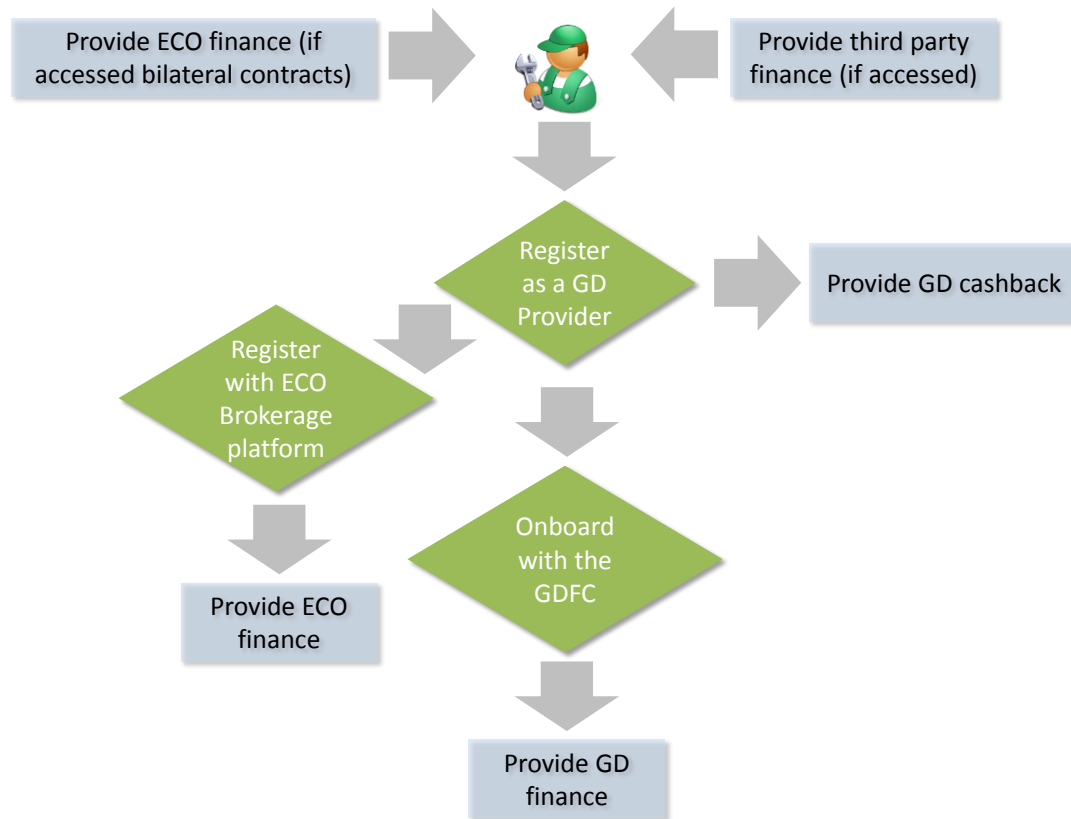
Key messages

- GD Providers are a diverse group, with a wide variety of backgrounds and motivations for entering the GD Provider market. The sample of GD Providers included companies that were set up to serve GD, companies that wished to access the ECO Brokerage platform and/or ECO, and existing companies that moved into the GD market as they saw a market opportunity (and wished to diversify away from a reliance upon obligation-driven schemes such as ECO).
- For some companies interviewed, the process of becoming authorised as a GD Provider was difficult and time-consuming. This was particularly true of smaller and/or newer companies, and for GD Providers that went through the authorisation process early when systems were being developed and there was a lack of information about what was required. The perception amongst GD Providers was that the authorisation process improved over time, as systems were tested and improved.
- Some GD Providers found the process of onboarding with the GDFC challenging, particularly early on when the GDFC's systems and processes were still being developed and tested. Nevertheless, some GD Providers had benefited from the training and capacity building that the GDFC provided as part of the onboarding process, particularly companies with limited experience of providing consumer credit.
- GD Providers applied to onboard with the GDFC because they regarded the ability to provide GD finance as integral to the operation of the market, even where they also drew on other sources of finance (ECO funding, GD cashback and third party credit). Where GD Providers had not chosen to onboard, this was typically because they did not regard current levels of demand for GD finance as sufficient to warrant the expenditure.
- Some GD Providers interviewed expressed concerns about the costs to consumers of GD finance, particularly for smaller value GD loans where finance costs can become very high for such a long-term loan, and interviewees questioned whether this offered value for money. Nevertheless, it was noted that GD finance is a unique financial product, with credit terms that resulted in much wider availability than is the case for other types of credit.

Overview of the GD Provider market

2.1. Figure 2.1 shows the registration processes within the GD Provider market, and indicates the types of finance offers that are associated with these registration processes (for example, GD Providers may only provide GD finance if they have onboarded with the GDFC). The remainder of this chapter analyses GD Provider experiences of these registration processes.

Figure 2.1: Key registration processes within the GD Provider market, and associated finance 'offers' to consumers



Backgrounds of GD Providers

2.2. To recap, semi-structured in-depth interviews were carried out with a total of 30 organisations, consisting of 27 registered GD Providers and three companies that were in the process of registering as GD Providers at the point of interview (note that for ease of presentation these 30 companies are collectively referred to as 'GD Providers' hereafter). GD Providers were purposively sampled in order to ensure that a range of 'types' of company were included in the study. This included companies of different sizes (SMEs etc.), and also companies at different 'stages' in terms of their position within the GD market (as shown in Figure 2.1).

2.3. The GD Providers in the sample of 30 companies included firms from a variety of backgrounds, including³:

- **Companies that focus on the delivery of energy efficiency schemes:** several GD Providers had a history of delivering under CERT⁴ and/or CESP⁵, and in some cases

³ Note that these categories are not mutually exclusive

⁴ The Carbon Emissions Reduction Target (CERT), which ran between 1 April 2008 and 31 December 2012

⁵ The Community Energy Saving Programme (CESP), which ran between 1 October 2009 and 31 December 2012

EEC⁶ before this. Many had been set up in response to these schemes, and saw ECO as a continuation of this market.

- **Companies that started up in response to GD and/or ECO:** these companies were often launched by one or more entrepreneurs, typically (at least initially) to serve the GD market rather than to deliver under ECO. This included individuals from an engineering/ installation background, and/or individuals from a financial services background (e.g. Independent Financial Advisors). Some companies were launched as GD Providers, whilst others set up as GD Assessor Organisations and/or GD installers and became GD Providers at a later date as they sought to diversify (see below).
- **Installers of Solar Photovoltaic (PV) or other renewable energy systems:** several GD Providers had a background in the installation of PV/ renewable energy systems, having been set up in response to the Feed-in Tariff (FIT) scheme⁷.
- **Property maintenance and construction companies:** these were companies that provided property maintenance services, typically for local authorities and/or housing associations, including the installation of energy efficiency measures. These companies typically saw GD and ECO as one of a number of 'offers' to their clients, given the diversity of types of housing and home ownership patterns that they work with.
- **Retailers/ wholesalers:** some GD Providers were also large retailers or wholesalers of building and home improvement products.
- **Energy companies:** at the time of writing, five of the 'big six' energy companies⁸ were authorised as GD Providers.

2.4. GD Providers are required to hold a Consumer Credit Act (CCA) Category A Licence, as under GD, GD Providers are the lenders, not the GDFC. GD Providers had a mixture of backgrounds in relation to the provision of consumer credit:

- **Some GD Providers in the sample had a long track record of brokering or providing consumer credit:** these companies often came from a consumer-facing sector, such as retail/ wholesale, energy provision, and/or energy efficiency installations. These were typically large or medium-sized companies. Many had experience of brokering loans to customers that were used to pay for energy efficiency products and installations, and thus regarded GD finance as a logical extension of this activity (albeit with a slightly different lending mechanism).
- **Some GD Providers had never provided consumer credit before:** as noted above, many GD Providers had started up in response to the GD and ECO programme, and at a corporate level had no track record of lending (though on occasions the founders had some experience in the area). Typically, it was small and micro-sized companies that had no experience of providing consumer credit.

Motivations for entering the GD Provider market

2.5. Companies chose to become GD Providers for the following reasons:

- To access the GD market, including access to GD finance

⁶ The Energy Efficiency Commitment (EEC) scheme, which ran between 2002 and 2008

⁷ Feed-In Tariffs (FITs) were introduced in April 2010, and pay consumers for the energy that they generate through PV or other renewable sources of electricity generation. Business were set up to install FITs measures

⁸ i.e. British Gas, EDF, E:on, Npower, Scottish Power, and SSE

- To test the model and shape government policy
- To access ECO funding through the brokerage platform
- To diversify their roles within the GD programme
- In response to changes to the FIT scheme.

To access the GD market

2.6. Several interviewees saw GD as a new market opportunity, and way of growing their business. There was a view that GD was a developing market, and that it was better to be involved from the beginning than to wait. For some this was linked to concerns about the long-term viability of existing business models that were based on obligation-driven initiatives such as CERT/ CESP. According to one interviewee:

“The MD [Managing Director] saw the light with Green Deal, he realised that we’re on a wave of funding/ no funding, stopping and starting. It’s unsustainable, a right mess. Green Deal is the opportunity for us to not be so reliant on the energy companies”

GD Provider, 50-249 employees

To test the model and shape government policy

2.7. There was a perception amongst interviewees that the GD Provider role is critical within GD, and provides the best opportunity to test the market and gain practical experience of the operation of GD system. It was also believed that GD Providers had more scope than other roles within the model to shape policy, and that the most important ‘players’ within the energy efficiency market were active in this space.

To access ECO funding through the Brokerage platform

2.8. The ECO Brokerage platform is only accessible to GD Providers. As discussed in Chapter 4, for some companies – particularly small and/or new companies – the Brokerage platform is the only realistic way to access ECO funding from energy companies.

To diversify their roles within the GD programme

2.9. Companies that had set up as GD Installers and/or Assessor Organisations, or individuals who were working as GD Advisors, regarded the GD Provider role as a logical extension of their work. As one interviewee saw it, *“there is a natural step, it’s easier to become an assessor, an installer and then a provider”*. For some, the decision to enter the GD Provider market was based on a view that large numbers of GD Advice Reports (GDARs) had been completed, but that this had not yet been translated into installations, and that there was thus an opportunity to fill a gap in the market. As one interviewee noted:

“We thought: we’re doing all these assessments, all these reports, and nothing’s happening, we’re giving them to the consumers, which don’t mean anything unless a GD Provider does something with it”

Prospective GD Provider, 0-9 employees

In response to changes to the FIT scheme

2.10. Reductions in the FIT rate prompted companies to seek new sources of income. This was particularly important for those companies that had been set up in response to the launch of the FIT scheme, and who were seeking to diversify to reduce their reliance on PV.

Entering the GD Provider market

2.11. Companies must undergo an authorisation process before they are registered as GD Providers. This authorisation process is implemented by the GD ORB. The purpose of this authorisation process is to ensure that GD Providers meet the required operating standards and are capable of fulfilling their various responsibilities under GD. GD Providers are required to be able to demonstrate competence in their supply chain facing functions and their customer facing functions (e.g. their ability to provide consumer credit and comply with regulatory requirements). As part of this authorisation process, applicants must:

- Complete a **pre-assessment questionnaire**. This questionnaire collects background corporate information, including: contact information, a company registration number, and the identity of company directors.
- Once the questionnaire has been returned, complete a **fitness test form**, which consists of information as to how the applicant intends to operate as a GD Provider. This includes information on:
 - Expectations of the volume of GD Plans
 - Marketing and sales procedures, together with information on any Advertising Standards Authority investigations
 - Procedures in relation to GD Advisors, and in particular whether applicants intend to use 'tied' advisors (e.g. linked to them via a commission-based arrangement)
 - Procedures for preparing quotes as part of GD plans, including evidence of understanding of the operation of the Golden Rule
 - Credit provision history, including any investigations by the Office of Fair Trading (OFT)
 - Supply chain management processes, evidenced by references from two suppliers or customers
 - Customer service and complaints handling procedures
 - Data protection and information security procedures
 - Health and safety procedures

2.12. In order to operate as GD Providers, applicants are also required to:

- Hold a Category A CCA licence, which enables them to lend money to consumers (the terms of GD Finance mean that the GD Provider is technically the lender).
- Sign up to the Green Deal Arrangements Agreement (GDAA), which sets out the terms and conditions associated with the Green Deal Central Charge Database.
- Obtain access to the Green Deal Central Charge Database (GDCC), which facilitates the collection (and remittance) of GD payments via the electricity meter.
- Obtain access to the Energy Performance Certificate (EPC) Register, since GD Providers must update EPCs following the installation of measures under the GD.
- Join the Green Deal Ombudsman and Investigation Service, which provides a redress scheme for consumers under the GD.

GD Providers' views on the authorisation process

2.13. The process of GD Provider authorisation was, for many interviewees within the sample, a complicated and time-consuming process. Whilst some businesses reported that they completed the authorisation process within two months, others reported that it had taken much longer (11 months was the maximum within the sample). Interviewees raised the following concerns about the authorisation process:

- **A lack of information and signposting about authorisation requirements:** some GD Providers reported that they had little visibility at the outset of the process about what was required, with the result that time was wasted “*to-ing and fro-ing*” whilst clarification was sought. Furthermore, this lack of clarity had made it difficult to carry out tasks in parallel, such that the process was drawn out for longer than was necessary as activities were completed sequentially. According to one GD Provider:
“The processes haven’t been too easy. Just finding the information and deciphering what they really want has been the difficult thing...the amount of information was limited to the GD Provider manual, which didn’t give too much information”

GD Provider, 0-9 employees

- **A perception that some requirements lacked depth and purpose:** proof-of-compliance requirements (e.g. details of company procedures) were sometimes seen to be time-consuming “*cut and paste*” exercises, rather than checks that would genuinely demonstrate competence. This was particularly true of demonstrating compliance with procedures that were set out in GD Provider guidance, where an interviewee described this process as taking guidance and “*changing ‘you should’ to ‘we will’*”. It was noted that, whilst compliance was important, this was not the same as being able to demonstrate that a business model was viable, or that an applicant truly understood some of the more complex requirements of a GD Provider (particularly in terms of providing consumer credit). Interviewees noted that this was important in the context of the GD Provider market, since any bankruptcies or instances of mis-selling could have a knock-on impact on consumer perceptions of the GD.

There was also a view that some checks were not correctly calibrated, such that some large companies which, by virtue of their trading footprint, had experienced County Court Judgements and/or Advertising Standards Authority complaints, experienced lengthy delays whilst these issues were checked.

2.14. There were differences between interviewees in relation to their experiences of the GD Provider authorisation process:

- **GD Providers that had been through the authorisation process early were more likely to have experienced difficulties and delays:** whilst there was frustration with the process, some GD Providers attributed this to the newness of the system, and what were seen as “*teething problems*” at GD ORB. GD Providers that had been through the authorisation process later on – for instance in the second half of 2013 – were less likely to report having experienced difficulties, and more likely to report that the information provided by GD ORB was useful. There was a perception amongst interviewees that the authorisation process had improved over time as systems had ‘settled’ and GD ORB had become more familiar with the types of problems encountered by applicants (and was thus able to anticipate issues in advance).
- **Micro businesses found the authorisation process more difficult than other sizes of business, particularly if they were start-ups:** these companies often did not have written procedures in place and were thus were in effect starting from

scratch and drafting procedures in a short space of time. Furthermore, their lack of trading experience meant that smaller businesses often struggled to explain in advance how they would deliver GD (e.g. how they would prepare a quote), since they typically did not come from a consumer credit background. Smaller businesses that had come from a consumer credit background (as opposed to an installation or assessment background) were better able to meet requirements as they had the necessary experience. For instance, one interviewee had previously been an Independent Financial Advisor, and reported that they had not found the authorisation process particularly onerous, since *“I come from a very regulated background, where the rules are much more severe”*.

- 2.15. Despite these concerns about how the authorisation process had been implemented, there was support for a thorough check on the capacity and suitability of companies that were applying to be GD Providers. This quote from one interviewee illustrates what was a typical view:

“It [authorisation] needs to be rigorous. As a potential consumer I was reassured the process was likely to result in serious providers being successful”

GD Provider, 250+ employees

- 2.16. By way of an explanation, GD Providers repeatedly made reference to the risk of mis-selling under GD, and the risk of such practices damaging the GD brand. Mis-selling is discussed in more detail in Chapter 3, and primarily concerned the risks associated with the provision of consumer credit by GD Providers (whether they understood their obligations under the CCA), and also how they interacted with GD Advisors (and the advice that Advisors provided to consumers). Rigour within the GD Provider authorisation process was seen as one way in which this risk could be minimised:

“I’m concerned that we’re setting up the potential PPI [Payment Protection Insurance] of the future, I was mis-sold GD finance etc...We don’t want to be tarred with that brush”

GD Provider, 250+ employees

- 2.17. As noted above, however, some GD Providers questioned whether the current authorisation process does indeed provide a sufficiently in-depth assessment of the capacity and suitability of applicants. Interviewees from medium and large companies with a history of providing consumer credit queried whether some of the smaller organisations that had become GD Providers truly understood their responsibilities: *“There are small providers who have signed documents that they have no idea of what they have committed to”*. The GDFC onboarding process (see below) was generally regarded as a more thorough assessment of GD Providers’ abilities to provide consumer credit.

Accessing finance from the GDFC

- 2.18. In order to access credit from the GDFC, GD Providers must first complete an ‘onboarding’ process. Onboarding consists of due diligence checks on GD Providers, including a review of financial performance and operational systems. Onboarding is also in effect a developmental exercise, in that GD Providers receive training and support in using the GDFC’s IT system, and accessing and using GD Plan templates. If they are approved at the end of the onboarding process, GD Providers are then provided with a line of credit, and may start providing GD finance to consumers via GD Plans.

Motivations for applying to access finance from the GDFC

2.19. GD Providers identified various motivations for applying to access finance from the GDFC:

- **It is needed in order to be able to offer GD Plans:** at present there is no other organisation offering credit *through the GD finance mechanism* on the same scale as the GDFC⁹. For many GD Providers, the process of developing a GD Plan which is then repaid through a charge on the electricity meter is an integral part of the GD. The branding (the “*banner*”) of GD was seen as a key marketing tool, and for some GD Providers, GD finance was a key part of that brand (“*government marketing strategy was gearing around the GDFC, so it was to piggy back this*”). As one interviewee explained:

“We went with the GDFC because it tied in with the whole ethos of the GD, you couldn’t be a GD Provider and not be onboard. It gave you credibility in the marketplace, so when people were doing their internet searches you were on the GDFC website”

GD Provider, 250+ employees

- **Some GD Providers had a history of providing consumer credit, and saw GD finance as another way of meeting customers’ needs:** as discussed above, many GD Providers – especially medium and large businesses from a retail/ wholesale or energy efficiency installation background – had a long track record of providing consumer credit as part of the purchase of goods and services. For these companies, GD finance was thus an extension – albeit where they are the lender, rather than a broker – of this activity, rather than a significant step into a new market.
- **The additional support that the GDFC provides:** as discussed above, smaller companies valued the support and capacity building associated with the onboarding process, as well as access to legal documentation and software. For companies without experience of providing consumer credit (which is the case for many GD Providers, especially new businesses and small/ micro sized companies), this was especially important, and a reason for onboarding:

“They take on board some of the administration for you. Everything is there that needs to be there, so you’re not going to miss anything or be short of CCA requirements. We’ve never provided consumer credit before, so it was new to us. You wouldn’t have a clue to be honest, well you’d have to go and get some training at whatever cost that would be, but this way you get guided through it, they’re holding your hand”

GD Provider, 0-9 employees

- **A lack of an alternative source of credit:** some GD Providers were unable to secure alternative finance for on-lending to consumers. As discussed above, the due diligence procedures of third party providers of finance typically prevented access to many GD Providers. This was particularly true of small and/or start-up companies that did not have the necessary scale or trading history to convince third party financiers to allow them to broker finance. According to one interviewee from a GD Provider:

⁹ At the time of interview, one other organisation was in the process of exploring whether they could do so, but this would not be on the same scale as the GDFC

“Third party finance we can’t get into because our trading performance is not one year old, and isn’t over a million pounds, and trade volume of one year minimum. So [they] don’t want to know us”

GD Provider, 10-49 employees

- **An unwillingness amongst larger firms to fund GD Plans using their own balance sheets:** some larger companies could feasibly have funded GD Plans using their own resources, but reported that the riskiness of what is a relatively new and untested market meant that there was little appetite for this:

“We could actually finance it from our books, but why would you want to? [There are] financial benefits of effectively selling off the debt to the GDFC, so financially our exposure is that much less”

GD Provider, 250+ employees

Reasons for not applying to access finance from the GDFC

2.20. Some GD Providers have elected not to apply to access credit from the GDFC. Interviewees from these companies identified a number of reasons for not onboarding, as follows:

- **Disinterest in providing GD Plans:** some companies did not intend to provide GD Plans, and thus saw no need to onboard with the GDFC. Reasons included:
 - *A focus on ECO:* in order to access the ECO Brokerage platform it is first necessary to become a GD Provider, but it is not necessary to onboard with the GDFC. Therefore, companies that intended to focus on ECO did not see the need to spend time and money accessing a product that they did not intend to sell.
 - *Access to alternative finance to fund energy efficiency installations:* GD finance is one payment mechanism, but there are other options available to consumers, including ECO money, third party finance, and self-finance (potentially incentivised by GD cashback). For some GD Providers, these alternative mechanisms were seen as a more attractive proposition than GD finance (e.g. due to a lower interest rate and more flexible repayment terms). As noted previously, this was less likely to be an option for smaller companies that would typically struggle to access third party finance.
- **Concerns about the cost of the onboarding process:** perceptions of what the onboarding process involved – in terms of time and resources expended – were a deterrent for some companies:

“The level of complexity with the GDFC...it was obvious that this was going to go terribly slowly...When we saw what onboarding looked like we decided that it was not an efficient use of time”

GD Provider, 250+ employees

For the most part, the GD Providers that had not applied to onboard with the GDFC at the point of interview were keeping a ‘watching brief’ on how the GD market developed. If they saw that demand for GD Plans was increasing at a rate that they deemed commercially attractive, it was noted that – despite concerns over the expense of onboarding – they would almost certainly seek to access GD finance. Onboarding would thus not appear to be an insurmountable deterrent for GD Providers.

2.21. There were no significant differences between larger and smaller businesses in terms of their reasons for not applying to onboard with the GDFC. As discussed below, the onboarding process was widely perceived to be more complex than the process of becoming authorised as a GD Provider, but this does not seem to be more likely to have acted as a deterrent for smaller businesses. Indeed, since smaller GD Providers were less likely to have access to third party sources of finance, it is possible that they were more likely to have applied to onboard with the GDFC (since they did not have an alternative).

Views on the GDFC's onboarding process

GD Providers' experiences of the GDFC's onboarding process

2.22. GD Providers reported mixed experiences of onboarding. For some the process had been relatively smooth, whereas others had experienced difficulties and delays. Some interviewees reported that the process was on-hold at the time of interview, largely due to a combination of problems with their application and also their concerns about the market opportunity at the end of the process (i.e. whether low take-up of GD Plans meant that it was worth continuing). Issues raised by GD Providers included the following:

- **Onboarding was somewhat disjointed early on, but had improved:** GD Providers noted that the onboarding process and the GDFC's credit 'offer' had not been worked out in detail when the early adopters went through the system. As a result, for some the onboarding process was initially disjointed and unclear. For example, key legal documents and operational systems were being developed as some GD Providers were onboarding. This had led to delays as documents were reviewed and revised. Over time, however, these issues have largely been addressed as systems and documentation had been developed and agreed. Those GD Providers that were onboarding towards the end of 2013 reported that the process was clear and well-organised.
- **The costs of onboarding constitute a significant and yet largely unknown (in advance) investment:** micro and small companies were particularly concerned about the resources they had expended as part of the onboarding process. Costs included: staff time, fees associated with the application (either £5,000 or £10,000 depending on when the application was lodged), and other expenses, such as legal costs associated with reviewing documents to ensure that GD Providers were clear as to what they were committing to. For many interviewees, the situation was exacerbated due to the absence of information that would have enabled them to plan ahead and budget for these expenses, leading to a perception amongst some that onboarding had been an unforeseen drain on resources. For larger companies with salaried staff (and internal legal expertise) this was less of a problem. However, for smaller companies that had been set up to serve GD, the delay and expense associated with onboarding had proved a significant challenge to their cashflow.
- **The GDFC has provided valued support to applicants:** some GD Providers cited the support provided by the GDFC as a reason why they had started the onboarding process. Regardless of their size, GD Providers with limited experience of providing consumer credit typically reported that the support made available by the GDFC as part of onboarding had been very helpful. This included access to IT systems, training, and the use of legal documentation. According to one interviewee:

“Of all the organisations that we’ve had to deal with, GDFC are the best. They’ve been really helpful with loads of other things: helping us with legal documents, the customer facing documents. Software to help us calculate how much GD loan is available. They’ve provided a lot of tools”

GD Provider, 250+ employees

- **There was duplication in terms of material submitted to GD ORB and GDFC:** GD Providers expressed frustration where they felt that they had had to provide the same information twice, and believed that there was scope for streamlining across the two processes.

Third party finance providers’ views on the GDFC’s onboarding process

2.23. Other providers of finance to the home improvement sector were asked about their views on the process of onboarding with the GDFC, and how it compared to their own processes of due diligence when selecting ‘brokers’ to provide their financial products to consumers. It should be noted that the lending mechanism is different to the GD finance model. GD loans are made by GD Providers (hence the need for a Category A CCA licence). Third party finance providers typically use brokers as a route to market, but they themselves retain responsibility for assessing and approving every single loan application. It should also be noted that third party finance providers did not have first-hand experience of the onboarding process, and were instead basing their opinion on discussions they had had GD Providers that had onboarded, together with general market knowledge. Interviewees reported the following issues in relation to GDFC onboarding:

- **Third party finance providers believed that most GD Providers would not pass their checks on the suitability of credit brokers:** interviewees reported that they employed detailed due diligence processes to ensure that potential credit brokers met certain standards. This included checks on trading history, financial performance and viability, and lending processes and systems. Though in principle similar to the onboarding process operated by the GDFC, third party finance providers believed that their checks were more stringent. Even though they retain control over loan approval, interviewees cited reputational risks associated with credit brokers going out of business, as well as equal liability for installations under Section 75 of the CCA. According to one interviewee, their checks are:

“...completely based on quality of retailer, we will go through accounts, creditworthiness. Our reputation is based on the retailers who we work with, so they’ve got to be absolutely top-notch, we have turned down contracts with a large number of retailers”

Third party finance provider

It was believed by interviewees that most GD Providers would not pass their due diligence checks as they would not be able to demonstrate the viability of their business models given a frequent lack of history of providing consumer credit. As explained by one interviewee:

“We have minimum trading periods and a lot of these guys are start-ups so we wouldn’t go anywhere near them...everyone [GD Providers] seemed to be relatively new to it...we’re looking for established businesses”

Third party finance provider

As discussed below, GD Providers reported experiencing difficulties in accessing third party finance (particularly if they are smaller and/or newer businesses).

- **Third party finance providers had mixed views on GD Providers:** interviewees reported that they used some GD Providers as credit brokers, and that in most cases these relationships pre-dated the launch of GD. However, interviewees noted that they had concerns about the capability of much of the GD Provider market, on the basis of a perception that most organisations came from an installation background and had insufficient experience of providing consumer credit:

“I spoke to a few GD Providers, and of those the majority were more manufacturer or distributor, and their expertise was in the product, and less in the transaction: selling, and post-selling, which you need. We have seen that many struggle, which quickly leads to customer dissatisfaction”

Third party finance provider

Views on the features of GD finance

2.24. GD Providers were asked about their views on the features of GD finance, regardless of where they were within the onboarding process. Third party finance providers were also asked to comment on GD finance and how it compared to their own consumer credit products (it should be noted that these opinions were not based on first-hand experience of making loans under GD). Interviewees discussed the following features of GD finance:

- The role of GD finance in the marketplace
- The GDFC’s interest rate
- Credit checking under GD finance
- The GD finance repayment mechanism
- Application of an uplift to annual repayments
- Credit lines under GD finance

The role of GD finance in the marketplace

- 2.25. GD finance was seen as a new and in many ways unique financial product. GD Providers believed that the wide coverage of GD finance distinguished the loan from other financial products, such as unsecured personal loans or secured loans such as top-up mortgages. Other products were available to a much smaller proportion of the population, and thus GD finance had the potential to be an important way in which to address an underserved market. Many micro and small GD Providers also noted that they were unable to become authorised brokers for unsecured personal loans, and thus that GD finance had provided them with the means with which to generate more sales than they would otherwise have been able to.
- 2.26. Third party finance providers also noted that GD loans have much wider availability than other consumer credit products. Interviewees were clear that GD finance has much wider availability than their own financial products. The threshold that they used as part of their credit check on loan applicants was set much higher, and they also employed various other policy rules in order to focus on their target demographic (which was described by one interviewee as “prime”).

The GDFC’s interest rate

- 2.27. Views were mixed on the GDFC’s interest rate. Many GD Providers reported that they thought that the headline GD finance interest rate was too high, particularly in the context of early discussions on the design of the GD programme when lower rates were

mooted (“*the cost of the finance, 6.96 per cent, is higher than a lot of people thought it would be*”). This was particularly true of GD Providers that had experience of providing credit to consumers as part of product sales, and who thus had a good understanding of the full range of options available to different types of consumer. Interviewees made the following points in relation to the GD finance interest rate:¹⁰

- For ‘small’ GD loans (generally seen to be in the region of £5,000 and below), GD finance was widely seen by GD Providers to be a poor value proposition. GD Providers reported quoting for small value loans with an APR of around 14-15 per cent. Over the lifetime of such a loan, finance costs reach a level that was seen as difficult to justify to consumers (according to one interviewee, “*smaller value loans are relatively pointless and not good value*”).
- Larger GD loans (generally seen as being worth at least £8,000) were seen to offer somewhat better value. GD Providers noted that, in their experience, the typical quoted APR ranged from 8-10 per cent, which was still significantly higher than the headline rate of 6.96 per cent, but was not uncompetitive when compared to other unsecured personal loans. Nevertheless, the long term of a typical GD loan still meant that the costs of servicing the finance became very high. According to one interviewee:

“[GD finance] is covering a part of the market where there aren’t really any products. If you try to get an unsecured loan for 10 years not only is this the best thing in the market it’s the only thing in the market. You just can’t get unsecured finance for that long. But the reason why you can’t is that over a long period the interest rate compounds and becomes very expensive. Customers aren’t really that interested in it”

GD Provider, 250+ employees

2.28. Third party financiers believed that the interest rate attached to GD finance is relatively high, but noted that the term of the loan is different. Interviewees reported that a typical headline APR for a comparable unsecured loan would be in the region of 5-6 per cent. However, it was noted that this is the headline rate, and is not available to all consumers. Furthermore, unsecured loans are typically for 1-5 years, which is much shorter than a GD loan. Furthermore, third party finance providers believed that GD finance was a relatively inflexible product, which might deter customers. Interviewees highlighted the following features of their finance products by way of a contrast:

- *Flexibility in repayment terms*: interviewees saw the inflexibility of GD finance over the lifetime of a relatively long-term loan as a “*ball and chain*” for consumers. It was reported that their customers are typically allowed to vary their terms of repayment over the lifetime of a loan, with flexibility to pay back more or less, as their circumstances evolve over time.
- *Variable interest rates*: interviewees noted that rates varied according to the credit history of the customer, with a better credit history equating to a lower interest rate. It was also noted by interviewees that the brokers distributing their finance were able

¹⁰ Please note: paragraphs 2.27 and 2.28 report providers’ views and attitudes about the financial makeup of the loans offered by the Green Deal Finance Company and have defined ‘small’ and ‘large’ loans in the terms used by providers during the research interviews. Further information setting out the annual percentage rates of the loans GDFC offers at different levels of borrowing is available at <http://www.tgdfc.org/providers/our-finance/>. This shows, for example, that the interest rate for a £1,500 GD loan has an APR of 10.3 % when taken out for 10 years and an APR of 9.4% over 25 years. On a loan of £5,000 the APR would be 8.2% over 10 years and 7.9% over 25 years.

to offer subsidised promotional rates (e.g. zero per cent finance for an initial period) in order to attract customers. The subsidy is, of course, typically recouped in other ways, but interviewees believed that headline interest rates are a selling point for some consumers:

“Promotional rates are key...the reason that [] or [] sell stuff with our finance is because it’s promotion credit, and it’s done at the point of sale and for a rate that’s attractive. If it wasn’t done that way they wouldn’t sell any more stuff...it’s rate driven”

Third party finance provider

Credit checking under GD finance

- 2.29. Some interviewees from within GD Providers queried the need for the depth of credit check carried out by the GDFC. These interviewees argued that this check added a further cost per loan, and deterred customers who were uncertain about seeking access credit (and whether the loan decision would affect their credit record). It was argued by some GD Providers that a check on whether customers paid their electricity bills would have been sufficient, since this is how repayment is collected.
- 2.30. This view contrasted sharply with the views of third party finance providers, who saw a detailed credit check on the borrower as an essential part of the lending process.

The GD finance repayment mechanism

- 2.31. GD Providers expressed concerns about consumer perceptions of the loan repayment mechanism under GD finance. Repayment through the electricity meter is a key feature of a GD loan, and is designed to incentivise people to invest in their properties. However, many GD Providers expressed concerns about how this repayment mechanism is viewed by consumers. It was noted that this new repayment model is untested, and that too little is presently known about the treatment of a GD loan if the initial borrower moves house. GD Providers were concerned that the buyer of a house with a GD loan attached might insist that the seller pay off the loan in full. It was noted by interviewees that market knowledge is presently insufficient to determine whether this is actually a problem.
- 2.32. Third party finance providers also raised concerns that the repayment mechanism under GD finance poses problems for a lender. A loan that is tied to the house rather than the householder is a different proposition from existing market offers, and interviewees reported that they had initially been interested in this model (*“it piqued our interest”*). However, for interviewees this mechanism was seen to add too much risk and uncertainty, primarily since the identity of the borrower could potentially change multiple times as a house was bought and sold:

“The bigger challenge for us was that the debt is not tied to [the borrower]. If the new incumbent to the house decided not to pay it, that’s the reality, they may not see value or don’t believe the savings. An element gets paid back by the energy company but it’s fraught with far too many complications for us. You’ve also got a change of agreement, who is the new person, how creditworthy are they? Over a 25 year loan, repayment could be anybody. You’re not underwriting an individual anymore”

Third party finance provider

Application of an uplift to annual repayments

- 2.33. GD Providers believed that the GDFC should have included the possibility of a 2 per cent annual uplift to repayments from the outset. Whilst the interest rate on GD finance

is fixed for the duration of the loan, there is scope for the introduction of a 2 per cent uplift to the value of annual repayments. Re-profiling repayment in this way means that the amount repaid over the lifetime of a plan increases, and thus that there is scope for consumers to borrow larger amounts within the framework of the Golden Rule (and thus potentially to benefit from a lower APR, since this varies according to the amount borrowed). However, it was noted by interviewees that, at the point of interview, the GDFC had not included the option of a two per cent uplift within the software used to cost GD Plans. Some GD Providers were critical of this omission, believing that the effect had been to make GD finance a less attractive proposition.

- 2.34. Furthermore, it was suggested that even a two per cent uplift was insufficient, with some interviewees believing a higher annual uplift should have been permitted. One interviewee contrasted this with their experience of developing finance plans for non-domestic customers:

“In our commercial modelling, we’ll do a year one savings, then each year we’ll assume a 5-6 per cent a year increase on energy bills. At the moment we can’t even do 2 per cent a year, it’s just a flat rate. Some of our [non-domestic] clients want to put it at 6-8 per cent. Doing that gives you access to more finance”

GD Provider, 50-249 employees

Credit lines under GD finance

- 2.35. Credit lines made available to GD Providers were seen as adequate, though limited demand meant that limits had not yet been tested: GD Providers reported that, at the time of interview, their credit lines from the GDFC ranged from £100,000 up to £5million. In general, larger companies received larger credit lines. For the most part, the lack of take-up of GD Plans meant that the upper limits of these credit lines had not been reached. Interviewees noted that they were under the impression that the GDFC would review and extend a credit line if necessary, and did not see this issue as a barrier to delivery.

Third party finance providers’ and GD Providers’ views on improving access to the GD Provider market

- 2.36. Interviewees from GD Providers and third party finance providers were asked to identify ways in which they thought that access to the GD Provider market could be improved. The following suggestions were made:
- There was support for further streamlining and simplification of the process of becoming an authorised GD Provider, and onboarding with the GDFC, since this would reduce the expense incurred by applicants and reduce delays. It was also argued that there should be greater integration between the two processes, due to perceptions that there were duplications.
 - GD Providers believed that GD ORB and the GDFC should provide more information and guidance on what was required as part of authorisation/ onboarding, again in order to speed up the process. It was also suggested that there should be support provided in other UK cities, since a lot of GD Providers had to travel a significant distance to get to London, and so only did this if it was absolutely necessary.
 - Interviewees supported some form of intervention in order to reduce the cost of GD finance, since as noted above, many believed that the interest rate acted as a deterrent to consumers. There was also support for the introduction of greater flexibility within GD finance, to enable GD Providers to vary the terms of the loan in

The GD Provider Market

order to make it more attractive to consumers. Again, the purpose was to make it easier for GD Providers to 'sell' GD finance to consumers, by making the product more competitive in the eyes of consumers.

3. GD Providers' Business Models

This chapter analyses the business models implemented by GD Providers. It is structured around the key components of the customer journey, and sets out GD Providers views on: the delivery of GDARs, quoting for energy efficiency installations, and developing financial packages to fund these installations. Finally, the chapter looks at the ways in which GD Providers generate income through GD

Key messages

- GD Advice Reports (GDARs) are the first stage in the GD customer journey, and some GD Providers have elected to take the production of reports in-house (or are closely affiliated with a GD Assessor Organisation that produces reports). This was largely due to concerns about the quality of externally produced GDARs, which some GD Providers refused to use, even though doing so was a requirement of the Code of Practice.
- At the point at which fieldwork was carried out (November 2013 to February 2014), market readiness within the GD Provider community was limited, with relatively few able to offer GD Plans. This was reflected in limited levels of direct-to-consumer marketing to date. GD Providers had set up webpages, but many were relying on customers to find them (e.g. as a result of searches of the GD Oversight and Registration Body (GD ORB) database). Amongst those GD Providers that were onboard and theoretically ready to provide GD finance at the time of interview, many noted that they were still in the process of testing their systems, and not ready to scale up their market offer.
- Some GD Providers stated that demand under GD (i.e. enquiries from customers with a GDAR) was less than they had expected. Interviewees reported that they had not been ready to respond to initial demand in early 2013 and that after this, levels of interest dropped. Several GD Providers reported that they believed demand under GD would increase in 2014.
- According to some GD Providers, it was difficult to meet the entirety of customers' finance needs using a GD loan; there was frequently a shortfall, which was seen to act as a deterrent for customers. Depending on the funding sources that they were authorised to draw upon, some GD Providers would seek to fill this shortfall by creating finance packages that were tailored to customers' needs and circumstances (e.g. their credit history). This could involve blending together GD finance with ECO subsidy (predominantly where external wall insulation or hard-to-treat cavity wall insulation was involved). However, GD Providers reported that, in practice, blending between GD finance and ECO subsidy was relatively rare, in part since this required access to ECO funding (which could be sporadic and was often area-based). GD finance could also be blended with GD cashback, and/or third party finance that was brokered by a GD Provider. Multiple funding streams were seen to add complexity – for instance where more than one credit agreement was required – and to act as a deterrent for customers.

GD Providers and Green Deal Advice Reports

- 3.1. GD Assessments – and the GDARs that form the output of this process – are the ‘entry point’ into the GD customer journey for households. They are intended to consist of an independent and impartial assessment of the energy performance of a home that is carried out by a specialist GD Advisor. On the basis of this GD Assessment, the GD Advisor recommends a package of energy efficiency measures. GDARs consist of two main documents:
- An EPC, which shows the current energy rating of a home, and the potential rating if home improvements were made. The EPC shows, for each of these improvements, whether some or all of the cost could be met by GD finance (based on whether the cost and savings associated with the measures would fall within the Golden Rule).
 - An Occupancy Assessment, which modifies the outputs of the EPC based on the GD Advisor’s assessment of a household’s actual energy use, and on the basis of this sets out the energy efficiency measures recommended by the GD Advisor.
- 3.2. The production of GDARs is intended to be separate from the process by which GD Providers develop financial packages in order to fund energy efficiency improvements. GDARs are an independent assessment with no assumption as to who will actually carry out the recommended works (it is possible for a householder to arrange for measures to be installed themselves). If, however, they wish to use a GD Provider to manage the installation process, GDARs are ‘portable’, in that households can shop around between GD Providers for quotes.
- 3.3. GDARs may also form part of the ECO customer journey. In order to access ECO funding under both CERO and CSCO (but not Affordable Warmth), households must have either a GDAR or a Chartered Surveyor’s Report completed for their home.

The role of GD Providers in the GDAR market

- 3.4. As noted above, GDARs are the first stage within the GD customer journey, and thus a key route to market for GD Providers. GD Providers operated one of three models in respect of the production of GDARs:
- *GD Providers that did not play any role in the production of GDARs.* These companies focussed on organising and managing installations, based on GDARs that were brought to them.
 - *GD Providers that contracted out GDAR production to affiliated GD Assessor Organisations¹¹.* Whilst these functions were external, they were able to offer a ‘one-stop-shop’ service to customers from GDAR production through to installation.
 - *GD Providers that brought GDAR production in-house.* Again, this model enabled GD Providers to provide a one-stop-shop service to customers, except that they employed GD Advisors directly.

GD Providers that played no role in the production of GDARs

- 3.5. Some GD Providers chose not to have any involvement in the commissioning or completion of GDARs. Many of these GD Providers were micro companies, and were too small to take on additional functions and employ staff in what many saw as a mature market (“*the energy assessor market is becoming saturated*”, according to one micro-

¹¹ GDAOs are certified organisations which employ GD Advisors, which in turn carry out GDARs. Those GD Advisors who operate as Sole Traders have the ability to carry out and file a GDAR independent of a GDAO.

sized company). For some interviewees the separation of GD Provider and GD Advisor functions were important in order to ensure that consumers saw them as un-conflicted when they were quoting for work:

“We saw that as being more open honest and transparent, and separated from the assessment process where the advice is given to the customer”

GD Provider, 50-249 employees

GD Providers that offered a ‘one-stop-shop’ to consumers

3.6. As noted above, there were two ways in which GD Providers played an active role in the production of GDARs, and offered a one-stop-shop to consumers:

- **Some GD Providers were affiliated with one or more external GD Assessor Organisations¹²:** affiliation could involve a loose agreement based on recommendation or a more formal contractual arrangement where GD Advisors were contracted by a GD Provider to complete assessments as required. This model was often used by large companies that periodically required a large Advisor workforce, for instance as part of a local authority based GD scheme. This approach ensured that companies did not have to employ a large number of GD Advisors, who may only be needed during certain periods.
- **Some GD Providers were registered GD Assessor Organisations:** an alternative model involved bringing GD Advisor functions in-house by registering as an Assessor Organisation. These companies directly employed a team of GD Advisors (typically in relatively small numbers: fewer than 15 GD Advisors per GD Provider was the norm). This model enabled the provision of an integrated “one-stop-shop” service from GDAR through to the production of a GD Plan, and allowed for greater quality control over the work of GD Advisors (see below). Cost reduction was also a driver, with a perception amongst some GD Providers that GD Assessor Organisations’ charges were too high. The in-house GDAR model was common amongst small- and medium-sized companies, who were delivering GDARs at a steady rate (in the region of the low hundreds per month was typical).

3.7. For GD Providers that were involved in the generation of GDARs (either in-house or via affiliated GD Assessor Organisations), the generation of GDARs was usually not a key source of income to GD Providers. Generally, the generation of GDARs was seen as a means to an end rather than as a core business activity:

“I’m not really fussed about assessments, I’m happy to do them but I’m focussing on the 100,000 people who’ve had assessments and haven’t done anything with them”

GD Provider, 50-249 employees

3.8. GD Providers typically charged customers for the production of a GDAR, though some offered these reports for free.

GD Providers that charged for a GDAR

3.9. GD Providers typically charged for a GDAR, with between £120 and £150 representing the typical market rate at the point of interview. For most GD Providers this was to ensure that the GDAR ‘business unit’ was able to recover its costs. There was also a view amongst some GD Providers that there should be transparency in GD charging (“we saw [charging] as being more open and honest”), and that the costs of a ‘free’

¹² GDAOs are certified organisations which employ GD Advisors, which in turn carry out GDARs. Those GD Advisors who operate as Sole Traders have the ability to carry out and file a GDAR independent of a GDAO.

GDAR would in fact be recouped via less transparent means. GD Providers often also believed that customers would not value (or act upon) a free GDAR.

- 3.10. Some GD Providers – generally larger companies that were able to cross-subsidise with other activities – operated their in-house GDAR operations as a loss leader, with the aim of recruiting customers for GD Plans, where greater margins could be made:

“We charge £55, which is a significant loss...we only charge to put people off, to make sure that the person who we’re going to invest 3 hours of time in, they will have to fund some of this stuff. If they’re can’t or won’t pay £55 then there’s no way they’re going to spend thousands of quid”

GD Provider, 250+ employees

GD Providers that offered ‘free’ GDARs

- 3.11. Few GD Providers within the sample provided ‘free’ GDARs (where they did, these costs were recouped via a charge on installation costs, so ‘free’ is something of a misnomer). GDARs that were produced to meet ECO requirements (i.e. under CERO or CSCO, where either a GDAR or a Chartered Surveyor’s report was required) were typically provided for free. As with the loss-leading GDARs discussed above, free GDARs were used as an incentive to encourage customers to consider the installation of energy efficiency measures (where a greater margin could be made. A free GDAR was usually conditional upon the customer proceeding to installation with that specific GD Provider (though interviewees reported that, in their experience, customers rarely shopped around with their GDAR).

GD Providers’ views on the GDAR market

- 3.12. A key reason why GD Providers took GDAR functions in-house was a concern about the quality of the work of GD Advisors, and GDARs that were produced. Specifically, the following issues were raised by interviewees:

- **EPCs sometimes contain errors:** GD Providers reported that they had received EPCs that contained errors and inconsistencies. Some of these problems were due to human error, which some interviewees attributed to insufficiently thorough Domestic Energy Assessor (DEA) training. For example, in the experience of one interviewee:

“[GD Advisors] would miss stuff, misdiagnose a wall, not recognise the solar hot water on the roof, say a property is electric when it’s gas”

GD Provider, 250+ employees

Errors in the inputs could have a significant bearing on the outputs of the EPC, as one interviewee explained:

“The big errors [in the EPC] are the age of the property, which is crucial because that’s about building standards. Going from a 1930s to a 1940s house, the whole measurement is different, so it will calculate savings in a different way. Getting the location wrong, with the prevailing winds can change your scores by up to 20 per cent”

GD Provider, 250+ employees

Other problems were attributed to differences in the software packages used by GD Advisors, which could generate slightly different results for the same property:

“The calculation engines run by the certification bodies...some are more robust than others...We’re with [] and they’re much better. We have concerns about using data produced by people going through other software”.

GD Provider, 50-249 employees

GD Providers reported that they set up systems – automated and in some cases manual – to check and challenge the EPCs that they received, in order to identify potential inaccuracies. Where there were errors they would seek to get GD Advisors to re-do EPCs.

- **The Occupancy Assessment can be inadequate:** GD Providers believed that many GD Advisors lack the necessary personal skills to engage with consumers and establish their needs. As one interviewee reported:

“They [GD Advisors] are trained to do EPCs, and that mind-set is different. It is assessing the property, and you don’t have to listen to the customer. A GD assessment, you have to talk to the customer, to understand how they use the building, and what they want out of the GD assessment”

GD Provider, 50-249 employees

GD Providers noted that this lack of understanding of customers’ needs and circumstances often led to a ‘recommended by assessor’ section of a GDAR that they considered inadequate. GD Providers are currently obliged to use assessors’ recommendations to build up a quote for a GD Plan. Many felt that these recommendations were often too narrow, potentially because an assessor had not taken sufficient time to review all options with consumers. It was suggested that this could be because they lacked the skills to engage with customers about more complex/ ‘unusual’ measures, or did not understand “*what combinations of measures are worth looking at*” (see below for details of the skills issue). It was suspected by GD Providers that many assessors to some extent ‘defaulted’ to more easily understood measures, such as boilers. In other instances, GD Providers believed that GDARs were driven by ECO requirements, and thus might only recommend the ECO-funded measure.

- **GD Advisors typically do not possess sufficient sales skills:** many GD Providers believed that, whilst GD Advisors may have the requisite technical skills, they often do not have the skills that are needed in order to ‘sell’ GD to consumers. As one interviewee noted:

“You can’t train a salesman to be a GD assessor. They are two different people, they have two different skills sets. We have salesmen, and we have surveyors, who probably aren’t very good at speaking to people but who are technically qualified and will get the detail”

GD Provider, 250+ employees

GD Providers that had experience of providing consumer credit as part of product sales were particularly likely to view the sales and technical side of the GDAR as two different roles. One company reported that, outside of GD, their model is that the first visit to a customer is undertaken by a salesperson, who reviews customer needs and, on the basis of this, develops a proposition for a sale: “*the point is that the first person a customer meets is a salesman, who secures some commitment to buy*”. It is only after this that a surveyor visits the customer to complete a technical survey (which may result in a follow-up visit by the salesperson if substantive changes to the

proposition are needed). As discussed below, some GD Providers have in effect imposed this model onto the existing GDAR structure.

- 3.13. GD Providers have concerns about the process through which GDARs are generated because they develop GD Plans on the basis of this information, and bear the liability if it transpires that there are any problems. For example, interviewees noted that errors in the EPC or the Occupancy Assessment might mean that projected energy bill savings did not materialise. Such problems might affect the ability of a GD Provider to enforce a credit agreement with a customer, as noted by one interviewee:

“All of the risk with Green Deal sits with the GD Provider, if the assessment is wrong you're on the hook and you might have to write it all off”.

GD Provider, 250+ employees

- 3.14. There was considerable concern amongst GD Providers about the possibility of mis-selling as part of the process of developing GDARs. Interviewees felt that they lacked visibility when it came to the nature of the discussions held between GD Advisors and customers, including most importantly, if finance had been raised and in what context. For example, GD Providers expressed concerns that GD Advisors were not making it clear to customers that GD finance was a loan, and that they were receiving enquiries from individuals who were under the impression that GD finance was a “*government grant*”. Whilst they were able to correct any misconceptions at the point of quoting for a GD Plan, there was still concern amongst GD Providers that they might end up bearing the consequences of mis-selling by GD Advisors.

- 3.15. GD Providers reported that they had taken the following types of action to minimise the levels of risk to which they were exposed:

- **Providing bespoke training to GD Advisors:** GD Providers with in-house GD Advisors reported that they often provided bespoke extra training for these individuals, in order to address the quality concerns discussed above. One interviewee described their training course as follows:

“We've taken about 100 people...[training them about] working with vulnerable customers, what are the financial options. Different types of credit and the pros and cons of credit. Taking them through the customer journey, then thinking about customer service. It takes 3 hours, and we plan to do more. Only [these GD Advisors] will go to houses where we think GD finance will be an option”

GD Provider, 50-249 employees

- **Re-doing GDARs for customers:** a common approach amongst GD Providers was to re-do elements of GDARs as part of the process of quoting for a GD Plan. This would involve contacting the GD Advisor who prepared the original report, and covering the costs associated with revisions (since customers would be unwilling to pay again for amendments to a GDAR).
- **Refusing to quote for GDARs that had been prepared by external GD Advisors:** some GD Providers that, despite Code of Practice requirements, they had decided not to respond to enquiries from customers with GDARs that had been prepared by another party (“*we say ‘no’ if they just ring up...it's company policy*”). Instead, these companies used their own GD Advisors to prepare GDARs. Customers are, of course, able to shop around between GD Providers on the basis of these GDARs. However, interviewees were typically of the opinion that they would rarely choose to do so, and would generally elect to take the easiest option by using the same company. According to one GD Provider, consumers tend not to shop around even

for mortgages, and thus will not do so for a relatively small loan to cover energy efficiency installations (“*portability is massively oversold*”).

GD Providers and the financing of energy efficiency improvements

3.16. Once consumers have had a GDAR prepared, there are a number of ways in which they can proceed. These include:

- **Doing nothing, or proceeding without using the services of a GD Provider** (e.g. by directly appointing an installer themselves). Since neither of these options involves a GD Provider, they are not considered any further in this report.
- **Contacting one or more GD Providers and asking for quotes.** Assuming that a consumer wishes to proceed having received a satisfactory quote from one or more GD Providers, the issue is then how they wish to finance the installation. As discussed below, this may be done using GD finance and through the framework of a GD Plan. There are also several other options open to consumers, including self-finance and the use of third party finance (i.e. consumer credit provided by an organisation other than the GDFC).

Market readiness of GD Providers

3.17. Market readiness – whether and in what ways GD Providers were ready and willing to respond to demand from consumers with GDARs – varied between interviewees:

- **Some GD Providers had only sought authorisation as a GD Provider in order to access ECO funding** through the Brokerage platform, and thus would not act upon GDARs where there was no ECO eligibility.
- **Some GD Providers were not onboard with the GDFC, and thus could not offer GD finance.** In the absence of GD finance, some GD Providers were instead offering third party finance. This process is discussed below.
- **GD Providers’ readiness to develop GD Plans *in volume* was limited.** Of the companies within the sample that were onboard with the GDFC (and thus able to provide GD finance), several reported that – at the time of interview – they were still testing their systems and developing their capacity to write GD Plans. Some GD Providers had completed their onboarding several months prior to interview, but reported that they had spent this time setting up and processing a handful of ‘test cases’, typically involving colleagues or family members. Interviewees reported that this test period was needed due to the complexity of the process, and the fact that systems were new and in some cases un-tried (e.g. the repayment mechanism). One GD Provider described their experience of testing the setting up of GD Plans as follows:

“It’s very bumpy, you get pushback because the computer says no and it’s a nightmare trying to get an answer. It’s the GD Plan tool, then the second EPC, then the GDCC, then you have to buy and sell the plan...I just want us to get all that right, and the more we learn and the software gets better and people stop making mistakes”

GD Provider, 50-249 employees

3.18. *Anecdotal* evidence from interviewees suggests that variations in the level of market readiness amongst GD Providers is reflected in the consumer experience of GD. Interviewees reported being contacted by consumers who had made repeated efforts to find a GD Provider that was willing and able to provide a quote for GD finance. Whilst

this sample is not reflective of the GD Provider population as a whole, this does give an indication of the position of the GD market at the time of the fieldwork (end of 2013 and early 2014). According to one interviewee:

"We had a phone call from someone who said they'd spoken to 20 GD Providers and we were the first ones who said they could do anything. So this is where the market is at the moment"

GD Provider, 50-249 employees

3.19. Limited market readiness was reflected in the fact that GD Providers had carried out very little direct-to-consumer marketing at the point of interview. As discussed above, very few interviewees considered themselves to be fully operational and able to respond to all enquiries. Consequently, they did not wish to generate demand that they were unable to meet. Marketing and customer engagement activity to date can be summarised as follows:

- **GD Providers that considered themselves to be market ready had undertaken some marketing and promotion activity:** this included adverts in local newspapers and/or the promotion of particular measures (e.g. boiler replacements).
- **Some GD Providers had a dedicated GD webpage:** the depth of content of webpages varied. Some provided an explanation of GD, and potentially included an online tool that enabled people to determine whether they would be likely to make any savings through GD. Such online tools were in effect screeners, that crudely determined whether it was worthwhile for households to obtain a GDAR and proceed with a GD Plan.
- **GD Providers relied largely on customers finding them, rather than vice versa:** for many interviewees, other than their website, the key source of enquiries was the GD ORB register of GD Providers. Interviewees believed that consumers searched this register once they had had a GDAR completed, and systematically contacted GD Providers to request quotes.
- **Marketing activity had taken place as part of local authority-driven GD schemes:** some GD Providers had been involved in the delivery of the Core Cities and Pioneer Places fund, which had involved marketing and promotion of GD to residents (potentially in partnership with a local authority). Being scheme-based these activities were, of course, time-limited and geographically focussed.

GD Providers' views on demand under GD

3.20. GD Providers were asked about their experiences to date of demand under GD. Note that this is not in relation to demand for GDARs, but relates to consumer responses to having had GDARs completed. It should be noted that limited market readiness and/or marketing and customer engagement had affected many GD Providers' knowledge of demand. As noted above, GD Providers varied in terms of their market readiness, with many unable to offer GD finance because they had not onboarded (which would be expected to influence whether customers contacted them). Others, as discussed above, were technically ready to provide finance, but were still market testing and thus had not yet fully tested customer demand. Marketing and customer engagement had, for most GD Providers, been limited and relatively low-key. Consequently, without having established a visible market presence and offer, many GD Providers noted that they were unable to accurately assess the scale and nature of demand under GD. Opinions were often based on somewhat ad hoc and 'reactive' responses to enquiries (as

opposed to proactive market testing), and perceptions gleaned from discussions with other GD Providers and other companies within their supply chains.

GD Providers' views on demand under GD to date

- 3.21. GD Providers reported that, for the most part, demand had not met their initial expectations. Several of the interviewees that were within the first 'wave' of companies that were authorised as GD Providers reported that there had been strong interest in GD in early 2013 (influenced by DECC's initial advertising). Demand had then dropped, and had since been "*bubbling along*" at a steady rate, without reaching levels that they had anticipated. There was some evidence, it was reported by several GD Providers, that demand had slowly been increasing towards the end of 2013 and beginning of 2014. However, overall, consumer interest had not reached the levels that they had anticipated when they had decided to enter the GD market.
- 3.22. There was considerable variation in the numbers of enquiries that GD Providers reported that they had received from consumers. A typical estimate amongst interviewees was that they received in the region of 10-30 enquiries a month from customers with a GDAR. There was considerable variation in this figure, with some GD Providers putting the figure at nearer 100 enquiries a month, and others indicating that monthly enquiries were "*negligible*". Inasmuch as interviewees were able to discuss specific determinants of the volume of enquiries that they received (as opposed to general drivers of demand under GD), there was a view that customers usually contacted the same company that was responsible for their GDAR. However, it was noted that some consumers shopped around, in which case having a web presence and being listed on the GD ORB's register and the GDFC's website of authorised finance providers were seen as important ways in which to attract customers.

GD Providers' views on future demand under GD

- 3.23. Views were mixed on the likely direction of demand under GD in 2014. Some interviewees were confident that demand would increase in 2014, though were unable to produce firm estimates of an order of magnitude given uncertainties about the details of the GD and ECO programme at the time of interview. Factors that were seen to be driving increased demand during 2014 included:
- Continued/ increased incentives, such as GD cashback
 - The GD Communities scheme
 - A possible reduction in the availability of ECO subsidy. As one interviewee argued, "people have been taught to get something for nothing"; a decrease in ECO might conversely lead to an increase in GD, though there was uncertainty about the true extent of 'overlap' between the two programmes
 - General factors driving demand for energy efficiency improvements, such as rising energy prices
- 3.24. For other interviewees, the GD market was still too variable for them to be confident about predicting the direction of demand in 2014. It was noted that the Autumn 2013 announcement of the proposed changes to ECO had created considerable uncertainty about the direction of the GD and ECO programme going forward. Any reduction in ECO funding, it was noted, would decrease the scope for GD Providers to blend GD and ECO (see discussion below), which affect demand for some energy efficiency improvements under GD (i.e. more expensive measures such as External Wall Insulation - EWI).

The process of responding to consumer demand

- 3.25. Companies that did not consider themselves to be market ready logged enquiries, with a view to returning to them at a later date. These GD Providers reported that they had created a database of enquiries, which they would re-contact as soon as they were ready to respond.

Responding to consumers with independently produced GDARs

- 3.26. GD Providers that were in a position to respond to consumer demand reported that a key issue that they faced was how to respond to requests from customers with independently prepared GDARs (assuming that they were prepared to act upon these GDARs). GD Providers had a number of concerns about these customers' understanding of GD and of GD finance in particular, and in response, many GD Providers carried out some form of 'screening' exercise when responding to enquiries from consumers who had GDARs. This could consist of a questionnaire that was completed by the consumer, or in some cases was carried out by telephone.
- 3.27. The main purpose of the screening exercise to make sure the customer understood how GD worked. As noted previously, many GD Providers expressed concerns about the ability of GD Advisors to explain the key features of the GD to consumers, particularly in relation to consumer credit. As some interviewees observed, awareness of GD financing was often very low, to the point where significant proportions of consumers were unaware that GD finance may not fully cover the cost of energy efficiency improvements. This 'screening' exercise was thus a way in which to inform customers that they may be required to make a contribution to the cost of the installation, and was a cost-effective way in which to focus efforts on those customers that were more likely to proceed. As one interviewee noted:

"There's a lot of drop out when people realise what the Green Deal is and what it will involve...50 per cent of people will say no because they thought it will pay for itself, but we haven't spent loads of time getting a quote"

GD Provider, 50-249 employees

Preparing quotes for finance packages

- 3.28. Regardless of the route through which enquiries had reached them, GD Providers reported that they sought to reduce the cost of generating a quote for consumers. The process of quoting for a package of energy efficiency improvements sometimes consisted of two steps. Some GD Providers generated an initial quote remotely, based on a schedule of installers' rates (typically tailored to the geographical area). Again, the purpose was to ascertain customers' willingness to proceed without having to carry out an expensive site visit. This could include the submission of photographs of a customer's property, in order to enable the generation of a more realistic quote. If customers were still willing to proceed, GD Providers would then typically arrange for an installer to carry out a detailed on-site technical assessment, the results of which could then be used to generate a final quote for the cost of the works.

Innovative approaches to delivery models

- 3.29. GD Providers are testing delivery models (process innovation) when it comes to responding to consumer demand. This was driven by a need to a) reduce the costs of responding to consumer demand, and b) reduce the drop-out rate. The approaches identified by interviewees consisted of:
- *Achieving the right balance between in-house and remote interaction:* whilst cost-effective, it was noted by some interviewees that remote processing of customer

enquiries can equate to a higher drop-out rate. Household visits enable GD Providers to 'sell' the GD more effectively (see earlier discussion about the importance of salesperson skills as part of the assessment process), though of course add considerable cost.

- *Targeted marketing and customer engagement*: at the point of interview, none of the GD Providers reported that they had actually implemented this approach, though some were considering it. Under this model, GD Providers would target consumers that they believed would be more likely to proceed with a GD Plan. This could, for instance, be based on analysis of data on income, or analysis of data on house types/ energy usage (e.g. off-grid consumers).
- *Geographical concentration*: GD Providers noted that costs can be reduced considerably if GD can be delivered at volume within a particular area. This enables GD Providers to achieve economies of scale in terms of identifying consumers, and reduces travel costs associated with installation. Local authority GD schemes and/or a blended GD and ECO approach were seen as vehicles for enabling this geographical approach. The scale of operation required in order to make this model viable meant that it was best suited to medium or large sized GD Providers.
- *Exploring ways in which to manage customer relationships*: the complexity and relatively drawn-out nature of the process of quoting for and implementing GD Plans had prompted some GD Providers to be proactive in how they manage customers, with a "case-handler" or "account manager" model introduced as a way of proactively managing problems.

Using GD finance to fund GD Plans

- 3.30. GD Providers that had onboarded and reached a stage where they had prepared quotes for GD Plans were asked about their experiences of building financial packages that included GD finance. At the point of interview, most of these GD Providers had only generated a few quotes for GD Plans, and were thus mostly still acquiring knowledge about GD finance. However, based on these early experiences, interviewees had found that there were problems in developing a quote that customers found attractive. GD Providers reported experiencing very high 'drop-out' rates after customers requested a quote, with relatively few people willing and/or able to proceed from initial quote to GD Plan.
- 3.31. GD Providers reported that it was typically not possible to meet the entirety of customers' finance needs using GD finance. Several GD Providers reported that GD finance was often only able to cover around a third of total costs as part of a quote for a GD Plan. There was thus often a funding shortfall, which could be substantial for a large package of energy efficiency improvements. GD Providers were sometimes able to draw in ECO subsidy to fill this gap, but reported that there was usually still a shortfall that would have to be financed by the customer. Even if customers were able to subsequently recover this expenditure via GD cashback, several GD Providers noted that consumers within what they regarded as the GD 'target market' often did not have the necessary up-front cash.
- 3.32. GD Providers reported that customers were sometimes under the impression that energy efficiency measures would be fully funded under the GD, with no need for up-front expenditure. It was believed that this impression had been generated by DECC advertising and marketing and/or the advice of GD Advisors. GD Providers reported that customers were often dissatisfied when they found out that this was not the case, and refused to proceed.

3.33. GD Providers attributed the shortfall in GD finance to the design of the Golden Rule. Interviewees supported the premise of the Golden Rule, since this provided consumers with confidence that energy efficiency improvements were, as a minimum, financially neutral. However, several GD Providers believed that the present design and calibration of the Golden Rule was too “conservative”, in that it was weighted too far towards safeguarding consumers. This included, for instance, the level at which the in-use factors had been set¹³, which interviewees believed resulted in too great a reduction in the calculated energy savings. Similarly, GD Providers also believed that the level of consumer protection under GD was set inappropriately high given the level of risk, which generated additional costs that were passed on to consumers.

‘Blending’ finance to fund energy efficiency measures under GD

3.34. As a result of these issues with financing energy efficiency measures using GD finance, GD Providers reported that they had, or expected to, utilise other funding streams in addition to or instead of GD finance. Indeed, for many interviewees, GD finance was simply one of a number of ways in which they could finance a sale, and it was their responsibility to review all of these options with consumers before making a decision about the most appropriate course of action (i.e. not to assume that GD finance was the first choice). As one interviewee explained:

“We would be agnostic about which finance they took out, but we would help them make the best decision for them. We wouldn’t lead on any one of those. I think their credit score would help us guide them to the best option”

GD Provider, 250+ employees

3.35. Alternative sources of finance that GD Providers identified included:

- Third party finance brokered by a GD Provider
- Self-finance arranged by a customer, either through savings or through independently arranged credit, such as a mortgage top-up or borrowing via a credit card
- GD cashback, which could be used to reimburse self-finance
- ECO subsidy

3.36. These sources of finance could be used in isolation or blended together, potentially involving of the following two methods:

- **Blending within a GD Plan:** alternative finance could be used to fill the shortfall in GD finance, as discussed above. Blending with ECO finance was also a possibility (see below). Whilst ECO funding provided a strong incentive for consumers to proceed, it was noted that there was typically still a significant shortfall even after GD finance and ECO funding were combined. In this situation self-finance or some form of third party credit was required. Interviewees noted that having two separate credit agreements within a financial package was undesirable, due to the paperwork burden and the complexity of having two loans with different repayment terms. In this context there was support for the introduction of some form of integrated ‘top-up’

¹³ In-use factors are applied in order account for potential differences in the theoretical savings association with an installation and the savings that households actually realise (e.g. due differences in the performance in-situ of measures compared to performance in laboratory conditions, and imperfect installation). They are thus intended to protect households against unexpectedly high bills, and lower the amount of GD finance that is available within the Golden Rule

type loan that would cover the shortfall without need for two completely separate credit agreements.

- **Blending outside of a GD Plan, via an ‘energy plan’ or similar:** some GD Providers reported that they intended to offer a financial package that excluded GD finance, potentially referred to as an “*energy plan*”. Though details were still to be worked out at the point of interview, GD Providers typically indicated that they saw such as plan as a way in which to package and present financial options, including GD cashback and/or a brokered third party loan. According to one interviewee:

“[It will] probably be called an energy plan. It will be part of the brand. Say it’s £2000, how do you want to pay for that? You can pay now, you can take a personal loan that we can broker. You may want to look at your mortgage.”

GD Provider, 250+ employees

Blending GD finance with ECO funding

3.37. As noted above, GD Providers could combine GD finance with ECO subsidy as part of a GD Plan, for instance to cover a funding shortfall where GD finance was not enough to pay for the entirety of a package of energy efficiency improvements. Green Deal Providers indicated that, *where possible*, they would always seek to include ECO subsidy within GD financial packages. Provided customers were eligible, GD Providers noted that the inclusion of ECO finance was a useful subsidy/ incentive to build in. Interviewees saw it as “*part of the service*”, in the sense that it was their role to review customers’ needs and resources and design the most suitable financial package. However, blending could only take place where and when GD Providers had access to ECO funding. As discussed in Chapter 4, the way in which ECO delivery has been contracted has meant that for many GD Providers access to ECO has tended to be sporadic, and in many cases has been linked to an area-based scheme (e.g. delivery for a local authority).

3.38. GD blending to date has mostly involved funding under the Carbon Emissions Reduction Obligation (CERO), with interviewees reporting that EWI and/or Hard-to-Treat CWI were the measures that were best suited to inclusion within blended packages of GD and ECO finance. External Wall Insulation (EWI) and Hard-to-Treat Cavity Wall Insulation (CWI) are relatively costly measures, and so some form of subsidy was often required in order to cover a shortfall in GD finance, and indeed to incentivise consumers. GD Providers suggested that this was particularly true of certain types of customer: “*asset rich, cash poor*” individuals who occupied big houses and were not able to provide sufficient up-front cash to cover the entirety of an EWI installation. Interviewees noted however, that blending under the CERO would probably become harder in the future, since:

- The proposed changes to ECO would probably mean less funding available for SWI, since the volume of SWI installations was expected to decrease overall, and it was often felt would increasingly be delivered ‘in-house’ by energy companies (see Chapter 4).
- Increased levels of GD Cashback for SWI meant that this might become a more attractive offer for consumers than subsidy under the ECO programme.

3.39. Conversely, GD Providers reported that there was limited scope for blending GD and ECO finance under Affordable Warmth (also known as the Home Heating Cost Reduction Obligation - HHCRO) or the Carbon Saving Community Obligation (CSCO). The target population under Affordable Warmth and CSCO, it was noted, may not be able to access GD finance or third party finance. As noted by one interviewee:

“Those that are on HHCRO [Affordable Warmth] are not in GD, they won't pass the credit checks and can't afford it, so you can count them out. CSCO probably the same again”

GD Provider, 10-49 employees

- 3.40. Some interviewees – particularly from larger firms – believed that Affordable Warmth and CSCO and GD were two fundamentally different initiatives that were aimed at different segments of the population. There were concerns about the “*reputational risks*” of lending (at what were often seen to be relatively high interest rates under GD) to individuals in receipt of benefits and/or in fuel poverty.

The impact of GD on product innovation

- 3.41. GD Providers queried whether the GD programme facilitated product innovation. To date, GD Providers reported that they had seen no evidence of product innovation driven by the GD programme, and suggested that in some ways the system acted as a deterrent. It was noted, for instance, that the requirement for long-term warranties meant that GD was not seen as the framework within which to market test new products (generally, customers might be offered a lower price in return for acknowledgement of risk via a shorter-term warranty).

Generating income through GD

Ways in which GD Providers could generate income through GD

- 3.42. GD Providers identified three possible sources of income as part of the provision of GD Plans to consumers:
- A mark-up on materials and/or installation costs
 - A mark-up on GD finance costs
 - A GD Provider ‘administration charge’

Mark-up on materials and/or installation costs

- 3.43. This was a common approach amongst interviewees. GD Providers would add their costs to the quotes provided by installers, and bundle this price together as part of their offer to consumers. Some GD Providers also added a mark-up to the supply of materials.

Mark-up on GD finance costs

- 3.44. None of the GD Providers within the sample had ever added any mark-up (e.g. by adding points to the interest rate) to the cost of GD finance in order to generate income. Interviewees believed that the interest rate was already high (see Chapter 2), and that any increase would be a further disincentive to consumers (“*we certainly won't add anything to the interest rate as people will just get scared*”). Indeed, as discussed previously, a route being considered by GD Providers was to reduce the headline interest rate in order to attract customers. This would mean that they would lose income on the provision of finance (but recover it through installation costs).

GD Provider ‘administration charge’

- 3.45. This option had not been implemented by any of the GD Providers in the sample at the time of interview, but there were examples where it was being considered. This approach would consist of a fee that was charged per GD Plan, and was used to cover the costs incurred by GD Providers. One interviewee was in the process of trialling this

approach when interviewed, and intended to operate a variable fee per GD Plan (£295 for a plan under £4,000 in value, and £495 for a plan over £4,000 in value). As noted by another interviewee, the benefit of a clearly itemised administration charge was that it provided clarity to customers, and avoided the situation where installation costs had to be inflated to cover GD Provider costs:

“We’d prefer a fixed fee, say £3-400. This is in the spirit of the GD. We’d prefer to be transparent. Customers are seeking quotes so they know they’re getting good value. So they know how much measures cost to install. So if we add prices on top [of the installation cost], then it looks very underhand. They turn round and say ‘that’s a rip off’ and it damages our name within the community. It doesn’t fit comfortably with us”

GD Provider, 50-249 employees

Income generated through GD

- 3.46. However, the lack of market readiness and the low volume of GD Plans meant that GD Providers had typically not generated any income *as a result of GD* at the time of interview. Instead, without sufficient scale, GD Providers were typically losing money on their GD activities: “[income from] *GD is minimal...we probably lose on every single GD Plan we process*”.
- 3.47. In the absence of the expected level of income from the generation of GD Plans, GD Providers had often become reliant on delivery under the ECO programme to generate income. Several reported that ECO delivery accounted for in the region of 90 per cent to 99 per cent of their company income. Note, however, that many of these interviews were completed before the 2013 Autumn Statement, and the announcement of the proposed changes to the ECO programme. As discussed in the following chapter, this had a significant impact on the scale of delivery under ECO, and thus on the income of GD Providers.
- 3.48. The importance of the ECO programme as a source of income was a cause for concern amongst many GD Providers. Interviewees noted that they had invested time and resources in setting up their GD operations in order to diversify their income streams and become less dependent on obligation-driven initiatives such as the ECO programme. Not surprisingly, micro and small companies were particularly concerned, especially where they were new businesses that had been set up to serve the GD and ECO programme, and could not easily draw upon other income streams. Even for larger companies, the failure of GD to generate income in 2013 had impacted on their expectations for the GD programme, and its role within their medium-term planning.
- 3.49. None of the GD Providers within the sample indicated that, at the time of interview, they were facing closure due to their inability to generate sufficient income through GD. However, as noted above, this may in part have been influenced by timing (fieldwork was carried out pre-Autumn Statement or shortly afterwards, meaning ECO was still generating income). Going forward, several interviewees were looking to prioritise other sources of income (for example, commercial energy efficiency installations).

Energy companies’ and GD Providers’ views on improving the delivery of GD

- 3.50. Interviewees from energy companies and GD Providers were asked to identify ways in which they thought that the delivery of GD could be improved. The following suggestions were made:

- Reform to the Golden Rule was highlighted by GD Providers as the single most important change that was needed in order to tackle lower than expected take-up of GD finance. Interviewees noted that they had raised the issue of the Golden Rule with DECC previously, and had produced recommendations as to how it could be changed to encourage take-up of GD finance. Without repeating these recommendations in detail here, it was suggested by GD Providers that the Golden Rule needed to be 'relaxed' to make it less restrictive, for instance by: amending the in-use factors that were built in; allowing for an uplift factor in excess of two per cent; and allowing forecast income from FITs and RHI to be included within the calculation.

GD Providers reported that amendments to the Golden Rule would increase the amount of finance available to pay for energy efficiency improvements, and would thus make GD Plans a much more attractive proposition to consumers, since upfront contributions would be reduced.

- GD Providers called for a rethink of GDARs and the roles and responsibilities of GD Advisors. GD Providers queried the added value of independent GDARs, due to the errors that they had experienced, and their doubts about the skills-sets and capabilities of GD Advisors. Interviewees called for greater integration between the role of the GD Provider and the production of GDARs, since it was often believed that the advantages of portability/ independence were outweighed by the disadvantages. Suggestions from GD Providers as to how this might work included: a requirement that GD Advisors be affiliated to one or more GD Providers; revisiting the process through which GD Advisors are trained and accredited in order to make it more robust; and granting GD Providers the freedom to build finance packages based on their own expertise and recommendations, rather than the recommendations of GD Advisors.

It was suggested by interviewees that these amendments would ensure that first contact between customers and the GD would be more focussed on 'selling' the benefits of the GD, and explaining how this could be financed. This would, it was suggested, reduce the high rate of drop-out between production of a GDAR and the production of a quote for a GD Plan.

- There was support amongst GD Providers for the streamlining of the GD customer journey, in order to significantly reduce the amount of time taken to develop a GD Plan. GD Providers compared the amount of time it took to arrange a GD Plan with the amount of time taken to arrange third party finance, and concluded that it had to be possible to streamline the GD Plan process. Interviewees stressed that streamlining should include speeding the process up and also simplifying it, since at present the GD Plan process was regarded as too complex for many customers to follow.

4. GD Providers and the ECO Brokerage platform

This chapter analyses the role of GD Providers within the delivery of the ECO programme, focussing on the ECO Brokerage platform. It evaluates the use of the ECO Brokerage platform, and analyses how the platform compares to bilateral contracts and 'self-delivery'

Key messages

- The Brokerage platform is an innovation that was introduced as part of the ECO programme to provide an alternative way for energy companies to contract delivery of their ECO obligations (in addition to commissioning via bilateral contracts and self-delivery). For newer and smaller GD Providers in particular, the platform provided access to energy company procurement opportunities that they would otherwise not have had, since they would have been unlikely to have been able to secure bilateral contracts with energy companies due to their size and absence of a track record.
- Levels of usage of the ECO Brokerage platform by GD Providers (the number of offers made each auction) was steady for the first part of 2013, before increasing during the summer of 2013 and remaining at a relatively constant rate throughout the rest of the year. The number of companies making offers as part of each auction increased steadily throughout 2013. Most of the offers made by GD Providers on ECO Brokerage (by number of offers) were under the Affordable Warmth obligation.
- Energy company usage of the platform (measured in terms of the number of Lots purchased each auction), fluctuated throughout 2013, with peaks and troughs in the number of Lots bought. Energy company purchases via ECO Brokerage did not keep pace with the volume of offers being placed on the platform. For some GD Providers, the unpredictability of Brokerage as a source of contracts had made it an increasingly unattractive method of contracting when compared to bilateral deals (which were typically longer-term and larger-scale).
- Energy companies reported that they prioritised bilateral contracts as a delivery mechanism and, for the most part, regarded the Brokerage platform as a way to fill shortfalls, provided the price was attractive. They expressed concerns about the ECO Brokerage contract compared to the flexibility of bilateral contracts, and also noted that the risk of contracting with anonymous parties meant that they would be reluctant to place significant shares of their obligations on Brokerage. Energy companies contracted the majority of their ECO obligations through bilateral contracts, or via self-delivery if they had the in-house capacity to do so.
- Prices on ECO Brokerage – particularly for Affordable Warmth – fell sharply from mid-2013 onwards. Brokerage prices started out higher than bilateral prices but dropped. Interviewees from energy companies and GD Providers attributed these trends to a range of factors, including increased competition on the platform and greater price awareness amongst energy companies (e.g. as bilateral contract prices started to influence their thinking as regards prices on the ECO Brokerage platform).

Overview of the ECO Brokerage platform

- 4.1. The Energy Companies Obligation (ECO) was introduced in January 2013, and places obligations on energy suppliers to deliver energy efficiency measures to domestic energy users. There are three ECO obligations: Affordable Warmth (also known as HHCRO), the Carbon Emissions Reduction Obligation (CERO), and the Carbon Saving Communities Obligation (CSCO).¹⁴ The three obligations broadly correspond to specific target groups/ energy efficiency measures:
- *Affordable Warmth*: provides heating (e.g. boilers) and insulation measures to private renters that receive certain means-tested benefits (particularly the elderly, individuals with a disability, and families). Affordable Warmth Lots traded on ECO Brokerage are expressed in terms of the value of the 'notional bill savings' to consumers that result from the installation of measures.
 - *CERO*: funds hard-to-treat homes and measures, focussing on SWI and hard-to-treat CWI. CERO Lots traded on ECO Brokerage are expressed in terms of tonnes of CO² saved as a result of the installation of measures.
 - *CSCO*: funds insulation measures and connections to domestic district heating systems supplying areas of low income, with a specific sub-target (15 per cent of the total) for low income and vulnerable households living in rural areas. CSCO Lots traded on ECO Brokerage are expressed in terms of tonnes of CO² saved as a result of the installation of measures.
- 4.2. The ECO Brokerage platform is a system that was set up by DECC and which is now run by the Government Procurement Service (GPS) that provides a means for energy companies to contract the delivery of their ECO obligations. It was launched in order to:
- Enable transparency in the market that encourages new market entrants and enables market operators to be confident that they are competing fairly
 - Promote competition between GD Providers in the delivery of ECO, with parties able to compete on price
 - Facilitate the cost-effective delivery of ECO and thus to reduce customers' bills
 - Provide an efficient and low-cost mechanism for contracting ECO delivery
- 4.3. The ECO Brokerage platform consists of a fortnightly online auction, whereby anonymous sellers (that must be authorised GD Providers) make offers ('Lots') to deliver either carbon savings (under CERO and CSCO) or notional bill savings (under Affordable Warmth). Each Lot consists of a stated volume of carbon or notional bill savings that will be delivered over a set time period (3, 6 or 12 months) at an agreed unit price. Sellers state a 'reserve price', which consists of a minimum unit price, below which they will not sell. Energy companies ('buyers') bid for Lots and, provided the reserve price is met, the sale is made. If more than one energy company bids for a Lot, the highest unit price offered wins.
- 4.4. Whilst the auctions operate every fortnight, registration with and usage of the ECO Brokerage platform is entirely voluntary for all parties. The platform is one of two – or,

¹⁴ In total, the following carbon and cost savings must be achieved under ECO (note that these are the pre-Autumn Statement 2013 totals):

- 20.9 MtCO₂ lifetime savings under CERO
- 6.8 MtCO₂ lifetime savings under the CSCO
- £4.2 billion of notional bill savings under Affordable Warmth

for some energy companies, three – ways in which the delivery of ECO obligations can be contracted:

- *Bilateral contracts*: Contracts commissioned directly between energy companies and contractors, which can include, but are not limited to GD Providers
- *Eco brokerage contracts*: Contracts commissioned via the ECO Brokerage platform
- *Self-delivery*: In some cases, ‘self-delivery’ by an internal unit within an energy company, typically involving the direct subcontracting of installers

4.5. The rationale for the creation of the ECO Brokerage platform (which was not used for the delivery of CERT or CESP) was to stimulate interest and competition amongst sellers and buyers, and to provide a mechanism that would facilitate the lowest cost delivery of carbon or notional bill savings under the ECO programme.

Motivations for registering with the ECO Brokerage platform

Motivations of GD Providers (sellers)

4.6. When the study commenced in October 2013, a total of 68 GD Providers were registered to use the ECO Brokerage platform. This represented 64 per cent of the total number of authorised GD Providers at the time (107¹⁵).

4.7. As set out in Chapter 1, qualitative interviews were carried out with a total of 30 GD Providers. The sample of 30 was disaggregated into companies that, at November 2013, had either:

- Sold a Lot on the ECO Brokerage platform at some point
- Placed at least one Lot on the ECO Brokerage platform, but had never actually sold a Lot to an Obligated Party
- Registered with the ECO Brokerage platform but never actually placed a Lot on the platform
- Never registered with the ECO Brokerage platform

4.8. GD Providers identified several motivations for registering with the ECO Brokerage platform (discussed in more detail below):

- So as not to miss out on a potential way in which to contract with energy companies
- For some GD Providers, particularly smaller companies, ECO Brokerage was seen as the only way that they could contract with energy companies
- To generate income whilst bilateral contracts were being finalised
- Due to a perception that the ECO Brokerage contract was slightly more weighted in favour of GD Providers, compared to a bilateral contract
- In order to gather market intelligence (e.g. pricing information)

So as not to miss out on a way to contract with energy companies

4.9. For many GD Providers, the ECO Brokerage platform was just another way in which to contract with energy companies. The ECO programme was a key source of income for many GD Providers. Companies therefore felt obliged to at least register for ECO brokerage for fear of being excluded from commissioning opportunities.

¹⁵ Note that this is slightly different from the total number of GD Providers that formed the sample frame for the GD Provider research (112 companies), since that sample frame was drawn in November 2013

ECO Brokerage was the only way to contract with energy companies

4.10. For some GD Providers, particularly smaller companies, ECO Brokerage was the only way in which they could contract with energy companies. Several GD Providers believed that ECO Brokerage had provided an opportunity to access ECO funding which otherwise would not have been available to them. Smaller companies and/or companies that had not delivered under CERT or CESP reported that they had either been unable to secure contracts through bilateral arrangements, or had been discouraged from trying. Interviewees from these companies reported that they lacked contacts within the energy companies (“*nobody would talk to us, we couldn’t get the right person*”), or that they were unsure what they needed to do in order to demonstrate that they had the capability and capacity to deliver under ECO. According to one company:

“ECO Brokerage is the best and I suspect for many the only route into the market if you want to get ECO...I would say Brokerage is absolutely fantastic, and we could not have entered that market otherwise”

GD Provider, 10-49 employees

To generate income whilst bilateral contracts were being finalised

4.11. For many GD Providers, ECO Brokerage provided a valuable means of generating income whilst they were waiting for bilateral contracts to be finalised: ECO Brokerage was operational from January 2013 onwards, whereas it had taken several months for some companies to set up bilateral contracts. Several companies reported that their core business was delivery under obligation-driven initiatives. Such companies had scaled up their activities significantly towards the end of CERT and CESP and had thus urgently needed new sources of income once those programmes had finished. ECO Brokerage thus provided a ‘stop gap’ whilst energy companies developed their approaches to ECO during early 2013. One GD Provider noted that some of the first bilateral contracts they saw under ECO were “*extremely unfavourable*” (see below for discussion of contractual terms and conditions), and thus that they had registered with ECO Brokerage to generate income whilst they carried out what proved to be lengthy contract negotiations.

Due to the ECO Brokerage contract

4.12. For some GD Providers, there was a perception that the ECO Brokerage contract was slightly more weighted in favour of GD Providers: work commissioned via the ECO Brokerage platform uses a standard contract, whereas bilateral contracts vary and are largely designed by energy companies (albeit via a negotiated process). Several GD Providers believed that the ECO Brokerage contract had slightly more favourable terms and conditions (such as 30 day payment terms, the absence of a retention clause¹⁶ and less onerous requirements in terms of technical monitoring). Moreover, for smaller companies in particular, the Brokerage contract meant that they did not have to negotiate with an energy company, which many believed would be a “*very one-sided*” discussion.

To gather market intelligence

4.13. GD Providers typically reported that the ECO Brokerage platform provided market intelligence. The Brokerage platform provides a source of information on market prices under the different obligations, and interviewees believed that this was one of its key

¹⁶ Retention clauses are sometimes included within bilateral contracts, and consist of payment that is held back until the validity of the delivery of carbon or notional bill savings is confirmed. This process can take time, which for GD Providers that need to pay installers can lead to cashflow problems

uses. As discussed below, price signals from the Brokerage platform have influenced GD Providers' pricing strategies.

GD Providers' views on the registration process

4.14. Registration with the ECO Brokerage platform was seen as a simple process, and none of the interviewees reported having experienced any difficulties in learning how to use the platform. GD Providers that had not registered for the ECO Brokerage platform gave the following reasons for their decision:

- **Some GD Providers had secured sufficient ECO work via bilateral contracts:** some interviewees reported that their bilateral contracts with energy companies were enough to meet their needs. Generally, these were companies that had delivered under CERT and/or CESP, and thus had existing relationships that had enabled them to access multiple energy companies and multiple bilateral contract tendering opportunities. For various reasons which are discussed throughout this chapter, many GD Providers reported that they preferred bilateral contracts given a straight choice between the two (e.g. due to favourable prices in bilateral contracts, and due to the “*volatility*” of trading on ECO Brokerage). For relatively small companies that did not have the scale or the appetite to take on large volumes of work under ECO, one or two bilateral contracts were sufficient to meet their needs.
- **Some GD Providers were not delivering under ECO at all, and thus had elected not to register with the Brokerage platform:** this was uncommon amongst GD Providers in the sample, but interviewees did raise concerns about the risks of delivering under ECO (which were of course, equally relevant to delivery via bilateral contracts). It was noted by interviewees that contracting under ECO often meant committing to delivering carbon savings with no guarantee that eligible and willing properties could be located. In such cases, significant penalties could be incurred. For businesses for whom energy efficiency installations were not their core business activity, the risk involved was often deemed too great to be worthwhile. According to one such company:

“The sums of money and the risk involved were deemed to be too big...as a new market entrant we might not have the confidence to sign up to 1000 tonnes of CO2”

GD Provider, 50-249 employees

Motivations of Obligated Parties (buyers)

4.15. Interviews were carried out with all seven of the energy companies with obligations under ECO. All but one of these energy companies was registered with the ECO Brokerage platform¹⁷. Energy companies identified the following reasons for registering with ECO Brokerage:

- **Some energy companies reported that they had registered with the platform so as not to miss out on new contracting opportunities:** in much the same way as some GD Providers had registered with the platform because they risked missing out if they did not, interviewees from the energy companies noted that if they had not registered then they could potentially have missed out on a cost-effective way in which to meet their ECO obligations.

¹⁷ Because only one energy company was not registered with ECO Brokerage and the identity of this company would be easy to locate, it would be disclosive to reveal their reasons for not registering. Instead, this company's concerns about ECO Brokerage have been analysed within the section below that discusses the energy companies' explanations as to their levels of *usage* of the platform

- **In order to build contractual relationships with new partners and diversify their supply chain:** energy companies noted that, whilst there are benefits to continuing to deliver via existing and in some cases long-standing bilateral contractual relationships, there were also good reasons to want to test the market and bring in new suppliers. Some energy companies had registered with ECO Brokerage to “*deal with a third party you wouldn’t normally deal with*”. Energy companies reported that they would find it difficult to contract via *bilateral* deals with some of the companies that are registered to use ECO Brokerage, primarily because it was believed they would not pass due diligence checks. The smaller value and size Lots available on ECO Brokerage (which it would often not be cost-effective to commission via bilateral contracts) are thus a less risky way in which to market test.
- **In order to collect market intelligence:** energy companies reported that one reason they had registered with ECO Brokerage was to gain access to market information, specifically in relation to pricing and also trends in contracting activity. As discussed below, price data obtained via the ECO Brokerage platform had shaped the prices agreed through bilateral contacts.

Similarities in motivations for registration with ECO Brokerage

- 4.16. Comparing between the motivations of GD Providers (sellers) and energy companies (buyers) for registering with the ECO Brokerage platform suggests that, for the most part, the motivations of sellers and buyers were similar. Both energy companies and GD Providers saw the ECO Brokerage platform as a significant contracting route, and thus joined because they felt that not doing so would deprive them of access to a market. The Brokerage platform was also seen as a useful source of market intelligence for both parties. The key difference between energy companies and GD Providers was that, for some of the latter group, the platform was the only way in which they could access the ECO market. For energy companies and many GD Providers (particularly larger firms with a track record of delivery under CERT/ CESP) the platform was useful for specific circumstances (e.g. to fill ‘gaps’ where bilateral contracts were not in place).

Motivations for using bilateral contracts

- 4.17. Bilateral contracts are commissioned directly between energy companies and contractors. Such contracts often involve a framework contract that is agreed between an energy company and several contractors. ‘Parcels’ of work are then commissioned from this framework contract. Alternatively, energy companies also signed contracts with individual contractors directly to deliver specific projects.

The motivations of GD Providers

- 4.18. GD Providers identified a number of reasons as to why they wished to participate in bilateral contracts:
- **Bilateral contracts have traditionally been the way in which obligation-based initiatives are contracted, and remain the favoured approach of energy companies:** to some extent, GD Providers participated in bilateral contracts because they had no choice if they wished to deliver under ECO. It was believed that energy companies preferred to commission via bilateral contracts, and that the majority of their obligations would be contracted in this way (as has proven to be the case).
 - **Whereas Brokerage is based purely on price competition, bilateral contracts provide scope to compete on other factors:** some GD Providers reported that their ‘offer’ to energy companies comprised competitive pricing together with other

benefits, including the quality of their audit and quality assurance processes, and the strength of their reporting and compliance systems. These companies had typically delivered under CERT and CESP and had built up a track record of delivery. Since ECO Brokerage is anonymous, the only variable upon which companies can compete is price. In this case, it was noted, these other factors do not get recognised and, since they add expense, they may actually count against a seller. As one company noted:

“Our positioning is better under bilateral. What we bring to the contract is our capability to secure customers, which might not get valued under a Brokerage contract. Surety of getting customers. We have very structured evidence and documentation. We can evidence what we do. Brokerage is more about price, compliance doesn't get valued”

GD Provider, 250+ employees

- **Some GD Providers used bilateral contracts to negotiate terms with energy companies:** whilst smaller companies and new market entrants often preferred the standard ECO Brokerage contract, for some GD Providers – generally larger companies – the contract negotiation process provided some flexibility (*“you have more control with a bilateral contract, as you have scope to change it”*). For example, it was noted by one interviewee that the timescales for reporting under the ECO Brokerage contract had proven problematic, whereas these could be amended under a bilateral contract.

The motivations of energy companies

4.19. Energy companies identified various reasons why they commissioned the delivery of ECO through bilateral contracts:

- **Bilateral contracts have proven to be an effective way in which to deliver obligations in the past:** energy companies noted that they have learned from previous obligation schemes, and have developed their contracting mechanisms on the basis of this experience. For interviewees, there was no reason to change a successful approach and, whilst most energy companies could see benefits to the Brokerage platform, they preferred to use their tried and tested methods. Several interviewees noted that the consequences of a failure to achieve their regulatory obligations could be severe and, thus, there was limited appetite to experiment.
- **There is greater control over contracting arrangements:** bilateral contracts are developed via negotiation between the energy company and the contractor, and there is greater flexibility for energy companies to design the contract to meet their needs. The energy companies believed that their contracts were more demanding than the ECO Brokerage contract, typically because they included much more detailed compliance related requirements. Key areas included:
 - *Proof of compliance:* whereas the Brokerage contract required that installers retain proof of compliance in case of audit (e.g. evidence on the eligibility of householders), energy companies reported that they require that this information is submitted to them.
 - *Achievement thresholds:* energy companies typically were not in favour of the fact that the ECO Brokerage contract allowed for delivery of between 90-110% of the contracted amount. It was noted that, over a large contract, under-delivery of 10% could be significant, particularly if this emerged near the end of the obligation period.

- **Delivery profiles:** particularly for longer contracts, energy companies insisted on the submission of delivery profiles, indicating milestones by which point an agreed proportion of delivery would have taken place. This information was seen as critical for identifying possible problems in advance and for planning purposes, in order that energy companies had an aggregate overview of their progress against their obligations. There are no such requirements under Brokerage contracts, and energy companies noted that there have been occasions where they have had no visibility of progress until the final day of the contract when all information was submitted at once.

It was also noted by energy companies that commissioning under bilateral contracts enabled them to renegotiate terms as needed, for instance as their delivery profile changed, or in the event of any significant changes to ECO programme design.

- **The identity of the contractor is known from the outset, which reduces risk:** a bilateral contract is a standard negotiation between a seller and a buyer, whereas with ECO Brokerage the identity of the contractor is only revealed once the sale has been agreed. Contracting via a bilateral arrangement, therefore, means that “*you know who you are dealing with*”. One interviewee, for instance, noted that over the course of previous obligations, they had been involved with disputes with some companies and would be very reluctant to work with them again. Contracting via ECO Brokerage meant that they might end up doing so.
- **It is possible to carry out advance due diligence of contractors under a bilateral contract:** linked to the previous point about contractor identity, energy companies reported that they typically undertake a rigorous due diligence process prior to signing any bilateral contract. These checks could cover, for instance, an assessment of contractors’ IT systems (e.g. to ensure that contractors can safely process customer data), and health and safety procedures (including procedures applied to installers where this is subcontracted). The purpose of such due diligence, it was reported, was to check the viability of contractors (to ensure that they were likely to remain in business over the lifetime of the contract), to ensure that installations would be carried out safely and to a high standard, and also to ensure that contractors understood and would be able to meet the reporting and audit requirements set by Ofgem.

Without this due diligence, energy companies reported that they sometimes had to invest time and effort in assisting contractors to build monitoring and reporting capacity. It was noted by interviewees that this had been a problem with some contracts commissioned via the ECO Brokerage platform, where it was felt that some GD Providers had initially been unable to meet the most basic standards, and had needed considerable assistance. Due diligence would typically have identified these problems in advance.

The benefits of using both ECO Brokerage and bilateral contracts

- 4.20. As the above analysis made clear, the use of ECO Brokerage and bilateral contracts was typically not an ‘either-or’ choice for GD Providers and energy companies, many of whom used both contracting methods simultaneously. The main benefit of this dual approach, as noted by both buyers and sellers, was the flexibility that it brought. Energy companies and GD Providers used the platform to ‘top-up’ their bilateral contracts, with Brokerage contracts often used to fill gaps or meet opportunities at short notice (e.g. by securing funding for a short-term project).

4.21. With this in mind, there was widespread support amongst energy companies for the retention of voluntary usage of the ECO Brokerage platform (i.e. that its use should not be mandated by DECC). In addition to their concerns about commissioning via ECO Brokerage (see above), energy companies noted that mandating using of the platform would reduce their flexibility in terms of commissioning. The views of GD Providers were more mixed. Many had a similar viewpoint to the energy companies, in that they had bilateral contracts and saw ECO Brokerage as a flexible way in which to provide ad hoc income. However, for some GD Providers, ECO Brokerage was their main (in some cases only) 'route' to market in terms of securing contracts from energy companies. These companies typically wished to see more work commissioned through ECO Brokerage, and supported some form of mandated use of the platform.

Energy companies' motivations for the self-delivery of ECO

4.22. Not all energy companies have internal installation delivery units. Some interviewees noted that they saw this as sitting outside their core business models, and also that the establishment of an internal installation delivery unit was an expensive and time-consuming process, especially given the short-term variability of obligation-based programmes such as ECO (and CERT and CESP before it). Amongst businesses with capacity to self-deliver under ECO, the following were identified as reasons why they used this contracting route:

- **Self-delivery is typically, though not always, cheaper than other mechanisms, and provides useful price information:** interviewees noted that self-delivery can mean 'cutting out the middleman', by omitting the management costs associated with contracting via a GD Provider. It was also reported that energy companies are able to draw on their own customer data in order to generate leads, which cuts costs still further. Finally, energy companies also noted that having internal business units that specialised in delivery had meant that they had access to a source of information about prices (albeit just their own delivery costs), which they could then draw as part of contract negotiations with external partners.
- **There is better visibility and control over delivery, and also flexibility in the event of problems:** internalising ECO delivery generally means enhanced visibility of progress against milestones (and familiarity with internal systems and procedures), and also earlier warning of any problems encountered. Internalising delivery was thus seen as a way in which to reduce risk. It was also noted by interviewees that there was greater flexibility to vary delivery in response to changing circumstances in the absence of a formal contract with an external body.

4.23. Several GD Providers expressed concerns about the self-delivery of ECO obligations by energy companies. Self-delivery takes away business from GD Providers. It was pointed out by GD Providers that the energy companies had a market advantage in that they were both the commissioning body and the delivery body. In the absence of transparency within ECO contracting, GD Providers argued that they were at a disadvantage when competing against internal installation units since they did not know their prices (whereas price data is publicly available via ECO Brokerage).

4.24. It was believed by some GD Providers that the proposed changes to ECO set out in the 2013 Autumn Statement had made self-delivery by energy companies more likely. Some GD Providers believed that targets had been reduced under CERO and incorrectly understood that targets had been extended for both Affordable Warmth and

CSCO¹⁸. As a result, their concerns regarding internal capacity to meet demand were no longer as great a problem. “*The fear is that they [the energy companies] internalise all their delivery*” according to one interviewee. Energy companies would not comment on their future plans in terms of self-delivery. GD Providers’ confusion regarding the proposed changes to the Affordable Warmth and CSCO targets may have been a result of the timing of the interviews: the announcements were made at the same time as the interviews were conducted and as a result GD Providers were not necessarily up to speed on the details of the proposed changes.

Usage of the ECO Brokerage platform

Note on the methodology

- 4.25. The following section combines two data sources in order to analyse usage of the ECO Brokerage platform by GD Providers and energy companies:
- Analysis of quantitative data on all offers made as part of every ECO Brokerage auction between January and December 2013
 - The results of qualitative interviews with 24 GD Providers that were registered to use the ECO Brokerage platform
- 4.26. This section of the report uses quantitative data to illustrate patterns and trends across the ECO Brokerage platform (e.g. the volume of sales), and qualitative data to explain these observations (and provide comparator information about bilateral contracts). Not all of the parties that used the ECO Brokerage platform in 2013 were interviewed, though the sample of GD Providers has sufficient breadth and depth of companies¹⁹ to allow conclusions to be drawn for the ‘population’ as a whole.
- 4.27. One GD Provider accounted for around 43 per cent of the total number of offers made over this period. Most of these offers were made over the course of just a few auctions and, for the most part, consisted of the same offer made repeatedly, with no matching purchase from an energy company. Due to the distorting effects of these records on the data analysis, all offers made by this GD Provider have been omitted from the data.

The volume of offers made on the ECO Brokerage platform by GD Providers

- 4.28. Data indicate that over the course of 2013:
- There were a total of 25 ECO Brokerage auctions, at approximately fortnightly intervals
 - Between them, 66 GD Providers made a total of 3,491 offers²⁰ across these 25 auctions

¹⁸ Under proposed changes to ECO, the original Affordable Warmth and CSCO targets to 2015 are to be maintained and new targets are to be set for 2017.

¹⁹ Note that this is not calculated on the basis of the statistical significance of the sample, but is instead a reflection of the inclusion of multiple categories of business in the sample (e.g. by size, background, usage of the ECO Brokerage platform etc.), and achievement of ‘saturation’, where additional interviews no longer generate entirely new data

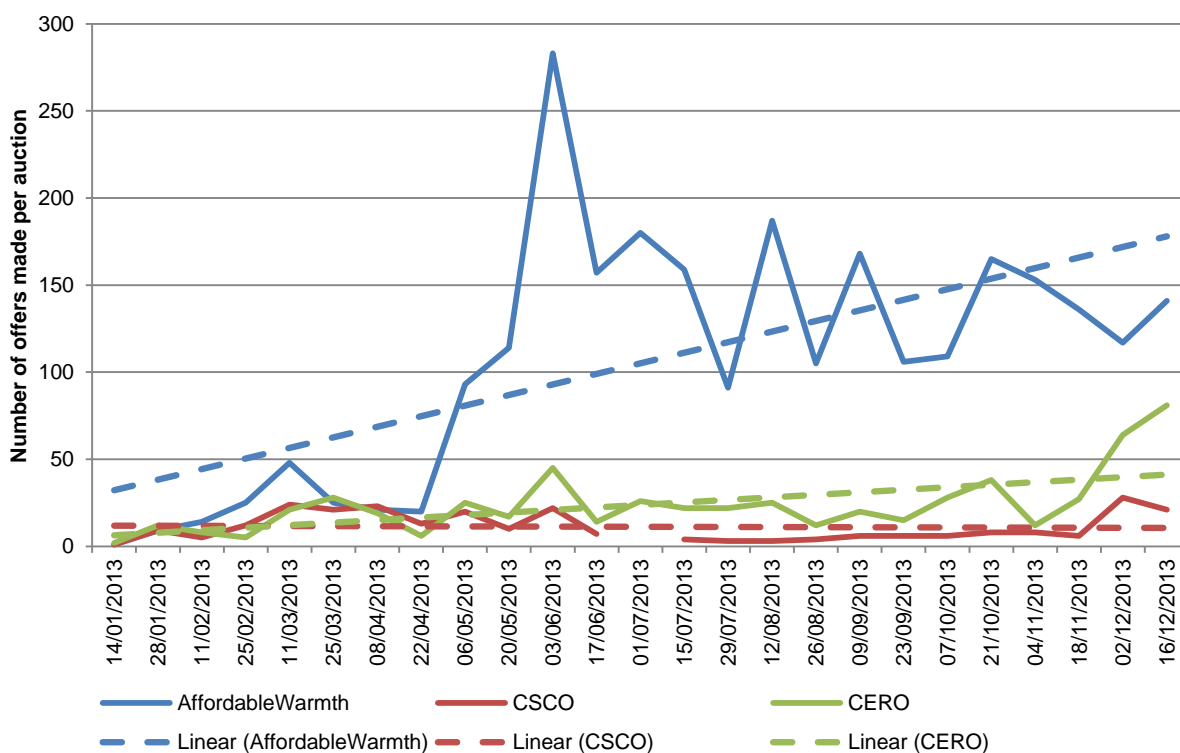
²⁰ Note the omission of an outlier GD Provider from this analysis, as explained above

The number of offers made on the ECO Brokerage platform by GD Providers

4.29. Figure 4.1 shows how the number of offers made by GD Providers changed over time, and how this varied between ECO obligations. As this data shows:

- From around May 2013, the number of offers per auction under Affordable Warmth increased significantly, and remained much higher than any of the other obligations throughout the remainder of 2013. Across the whole of 2013, Affordable Warmth offers made up around 75 per cent of total offers.
- The number of offers made under CERO was steady for most of 2013, apart from an increase in November 2013. Across the whole of 2013, CERO offers amounted to around 17 per cent of total offers.
- Relatively few offers were made under CSCO (around 8 per cent of total offers in 2013). The number of offers made per auction remained low throughout the year.

Figure 4.1: The total number of offers made by GD Providers, by auction, 2013



Source: DECC ECO Brokerage data

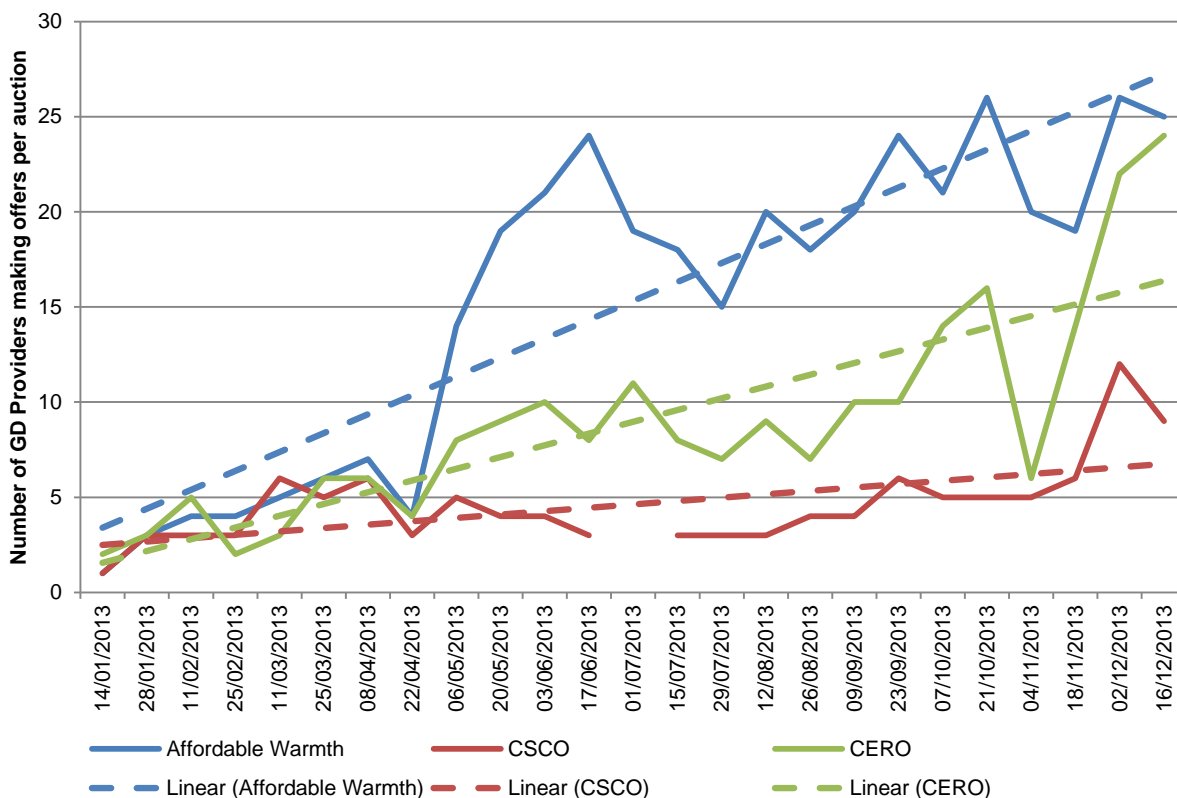
The number of GD Providers making offers on the ECO Brokerage platform

4.30. Figure 4.2 shows how the number of GD Providers making offers per ECO Brokerage auction changed over the course of 2013. The general direction of change for all obligations was for an increase in the number of active GD Providers per auction. Specifically:

- Affordable Warmth experienced the greatest number of GD Providers making offers per auction, with at least 15 active GD Providers per auction from April onwards. Numbers of active GD Providers per auction increased sharply around April 2013 and fluctuated upwards until the end of the year.
- For CERO, the number of GD Providers making offers on the ECO Brokerage platform increased steadily, with a sharp increase in November 2013.
- CSCO saw the fewest number of GD Providers per auction, with around five companies making offers per auction almost throughout the whole of the year.

4.31. Comparison between Figure 4.1 and 4.2 goes some way towards explaining why there was an increase in the number of offers made per auction, particularly under Affordable Warmth. The total numbers of offers made each auction has generally increased in line with the increased number of GD Providers active on the platform.

Figure 4.2: The total number of GD Providers making offers, by auction, 2013



Source: DECC ECO Brokerage data

GD Providers' explanations for their level of usage of the ECO Brokerage platform

4.32. The qualitative research with GD Providers explored the factors that determined the frequency with which they made offers via the ECO Brokerage platform. These findings provide some explanation for the patterns shown in Figures 4.1 and 4.2:

- **Several GD Providers reported that, since they first used ECO Brokerage, they had made offers at almost every auction:** for some GD Providers their frequent use of the platform was due to a low rate of success, meaning that it was necessary to make offers over the course of several auctions before a contract was agreed with an energy company. GD Providers often had a target for the level of funding that they needed, and would keep making offers until this was reached:

"We're active every fortnight, until we get our funding right. Once we've got our funding right we don't need to [use the Brokerage platform]"

GD Provider, 10-49 employees

- **Amongst GD Providers that had secured bilateral contracts, the Brokerage platform was often used as an ad hoc way to supplement this income:** Brokerage contracts were described by one interviewee as a way in which to "top up" income through bilateral contracts. Bilateral contracts were typically longer and larger, though they took more time to set up. Activity on the Brokerage platform was thus determined by the position in relation to these bilateral contracts, with companies active on Brokerage whilst they negotiated bilateral contracts.
- **Price signals were a driver of usage:** GD Providers reported that they typically monitor the prices achieved for sales and the reserve prices of other GD Providers. Their usage of the platform is then partly determined by the prices that they think they can sell for. One GD Provider summarised their internal decision-making as regards Brokerage activity as follows:

"[Activity on Brokerage] was a driven by a mixture of what bilaterals we had in place, what was flowing through, and prices. We were looking at playing the price game"

GD Provider, 50-249 employees

- **The Brokerage platform was seen as a way in which to quickly secure funding for small projects:** GD Providers noted that selling via the Brokerage platform was a "quicker mechanism" for contracting with an energy company than going through a bilateral contract, and thus provided a flexible route to securing funding. The relatively small size of the Lots on ECO Brokerage meant that the platform was a useful way in which to rapidly secure funding for small "projects". This could include funding for small-scale installation activity (such as a street of houses), or could be required in order to pay for a 'surplus' of installations that were generated after having over-delivered on a project connected with a bilateral contract.
- **GD Providers noted that the 2013 Autumn Statement had impacted on their bilateral contracts, which in turn had caused some to turn to ECO Brokerage:** interviewees reported that after the 2013 Autumn Statement, energy companies had started to cancel or renegotiate existing bilateral contracts (it was also reported that this had started to happen in anticipation of the Autumn Statement). In order to fill the shortfall in income that this had caused, some GD Providers had increased the scale of their usage of the Brokerage platform.

The volume of sales on the ECO Brokerage platform

4.33. Of the 3,491 offers that were made on the ECO Brokerage platform by GD Providers in 2013, a total of 417 were bought by the energy companies (equal to 12 per cent of total offers). Of these sales:

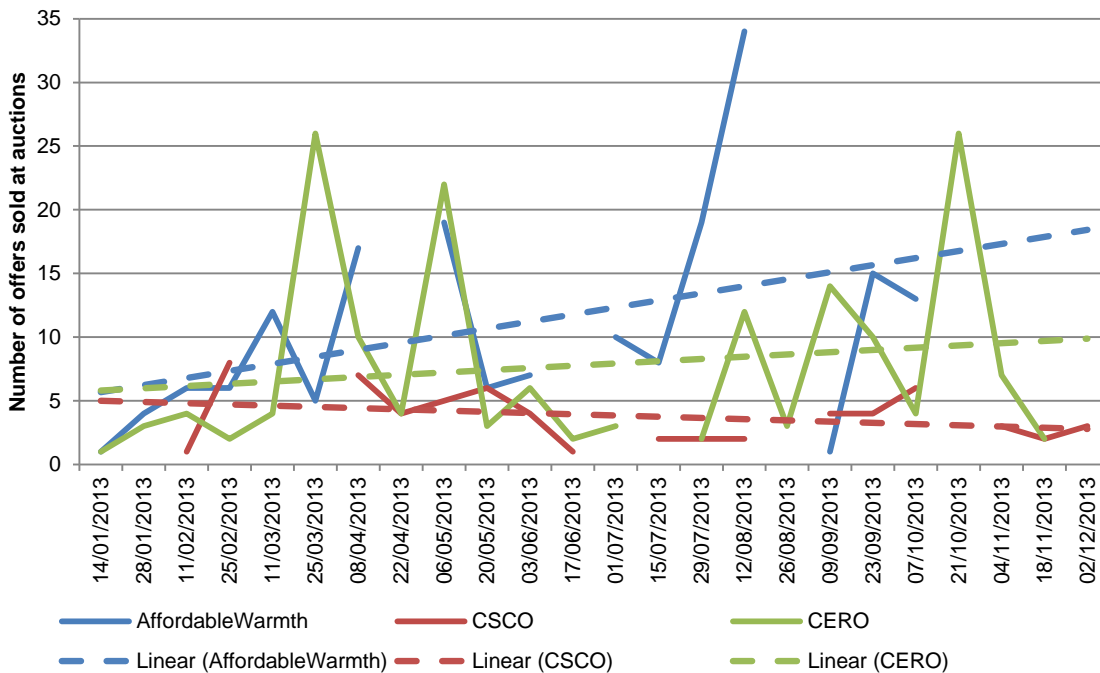
- 183 Lots were sold under Affordable Warmth, equal to 7 per cent of all Affordable Warmth offers
- 170 Lots were sold under CERO, equal to 29 per cent of all CERO offers
- A total of 64 Lots were sold under CSCO, equal to 24 per cent of all CSCO offers

The number of Lots sold on the ECO Brokerage platform

4.34. Figure 4.3 shows the number of Lots sold on the ECO Brokerage platform per auction over the course of 2013. As this data shows:

- Sales of Affordable Warmth Lots were highly variable over 2013. Whilst the general direction of change was an increase in the volume of Lots bought by energy companies, sales tended to come in ‘bursts’. There were eight auctions over the course of 2013 where no Affordable Warmth Lots were bought, including all five auctions from 21 October 2013 onwards (i.e. around the time of the 2013 Autumn Statement, as discussed below).
- The number of sales under CERO fluctuated throughout 2013, with a slight increase in the number of Lots sold per auction.
- There was, if anything, a slight drop in the number of sales per auction under CSCO over the course of 2013. There were also seven auctions where no Lots were sold (albeit in one case where there were no offers made).

Figure 4.3: The total number of Lots sold by GD Providers, by auction, 2013



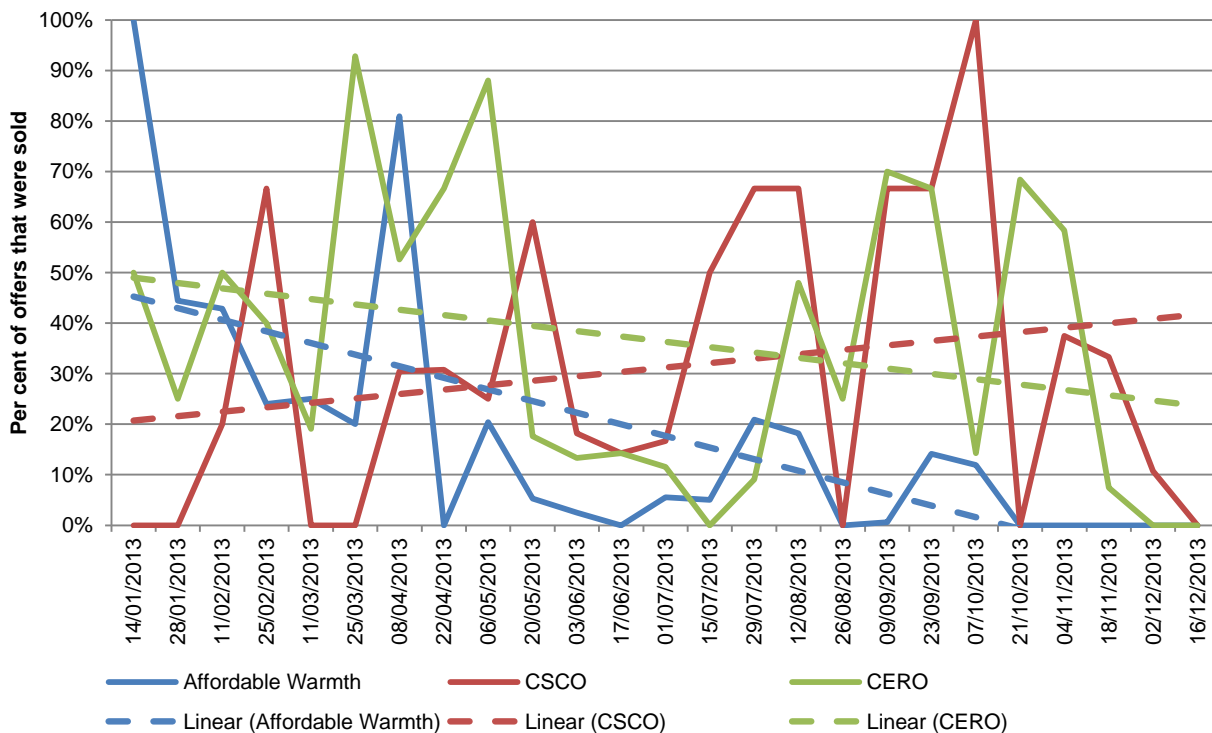
Source: DECC ECO Brokerage data

Lots sold as a proportion of offers made

4.35. Figure 4.4 shows how the proportion of offers made by GD Providers that were bought by energy companies changed over the course of 2013:

- There has been a notable downwards shift in the proportion of offers sold under Affordable Warmth. After April 2013, the proportion of offers sold per auction never rose above 20 per cent, whereas much higher rates had been observed at the beginning of the year. No Affordable Warmth offers were bought in the last quarter of 2013.
- Sales rates under CERO fluctuated between auctions throughout 2013, though there was a cluster of high rates of purchase in spring and autumn 2013.
- Sales rates under CSCO also fluctuated between auctions, but the direction of change seems to have been a slight increase over time in the proportion of offers that were bought by energy companies.

Figure 4.4: The proportion of offers made by GD Providers that were bought by energy companies, per auction, 2013



Source: DECC ECO Brokerage data

Energy companies' explanations for their levels of usage of the ECO Brokerage platform

4.36. Energy companies were asked what determined their buying activity on the ECO Brokerage platform. It was reported that:

- **For the energy companies, their position in terms of bilateral contracts shaped their use of the Brokerage platform:** for all energy companies, bilateral contracts were the preferred option in most circumstances, for the reasons discussed above. Generally, if energy companies were on course to meet their delivery milestones through bilateral contracts, then it was reported that they saw no reason to purchase via ECO Brokerage. Instead, Brokerage typically served a gap-filling purpose, as a way of quickly responding to a shortfall in delivery under bilateral contracts. One interviewee described their approach to ECO Brokerage as follows:

“If we are short on contracts in a particular month or a quarter, we will go on ECO Brokerage to fill that gap. We place more focus on ECO Brokerage only if there are no bilaterals in place”

Energy company

Interviewees noted that they were often “*opportunistic*” when it came to contracting, and would purchase via ECO Brokerage if a financially attractive offer was available. One interviewee summed up their approach to Brokerage as follows:

“You buy [using ECO Brokerage] what you’re short...if there’s a lower price on Brokerage and we’re already committed [via bilateral contracts], we wouldn’t go near it. If it’s an acceptable price and you’ve got flexibility to exit [bilateral] contracts then you might buy it. If you’re short [via bilateral contracts] and it’s an acceptable price, then you might buy it...we have a clear idea at all times if we’re short and what we’re paying”

Energy company

- **Price is the only factor when deciding whether to buy a Lot:** aside from the size of the Lot, price was the only information that energy companies could use to distinguish between offers, since the identity of the seller is always unknown to buyers when they are responding to offers²¹. Thus, the decision to purchase a Lot was purely based on the price offered.
- **The 2013 Autumn Statement affected the contracting of ECO:** energy companies would not discuss the details of their purchasing strategies or how they were or would be affected by the Autumn Statement, but did note that purchasing via the Brokerage platform had been affected by the announcements. Specifically, it was noted that usage of the platform – like purchasing via bilateral contracts – would slow whilst they sought clarification on targets and timeframes. As noted previously, bilateral contracts were being renegotiated on the basis of reduced prices, and it was noted by energy companies that these prices would also be relevant for contracts commissioned via ECO Brokerage.

²¹ A vendor rating system was subsequently introduced after the fieldwork period that would enable energy companies to take other factors into consideration as part of their decision-making

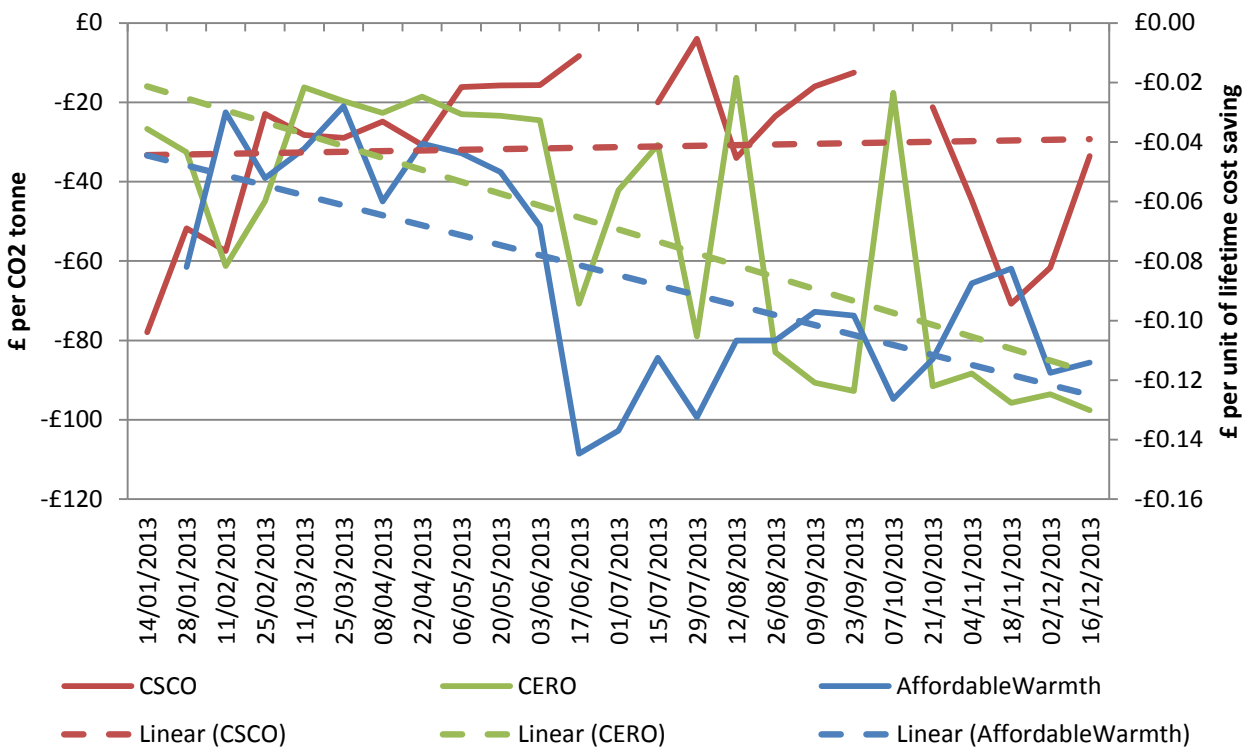
Trading prices on the ECO Brokerage platform

Trading prices on the ECO Brokerage platform

4.37. Figure 4.5 shows the average price of Lots sold at each auction in 2013. This is an average of the prices *paid* by energy companies, not an average of the prices offered by GD Providers. The data show that:

- There has been a sharp decrease in the average buying price of Affordable Warmth, which started out at around £0.22-£0.24 per £1 of lifetime cost savings in early 2013, then almost halved to between £0.12-£0.14 per £1 of lifetime cost savings in the second half of the year.
- The average buying price under CERO remained fairly constant at around £110-£120 per tonne of CO₂ for the first half of 2013, before dropping slightly to around £80-£100 per tonne of CO₂ for the second half of the year.
- The average buying price under CSCO ranged from between £50-£60 per tonne of CO₂ throughout much of 2013, with a slight increase towards the end of the year.

Figure 4.5: Average price of Lots sold, per auction (CSCO and CERO shown on the left axis, Affordable Warmth on the right axis), 2013



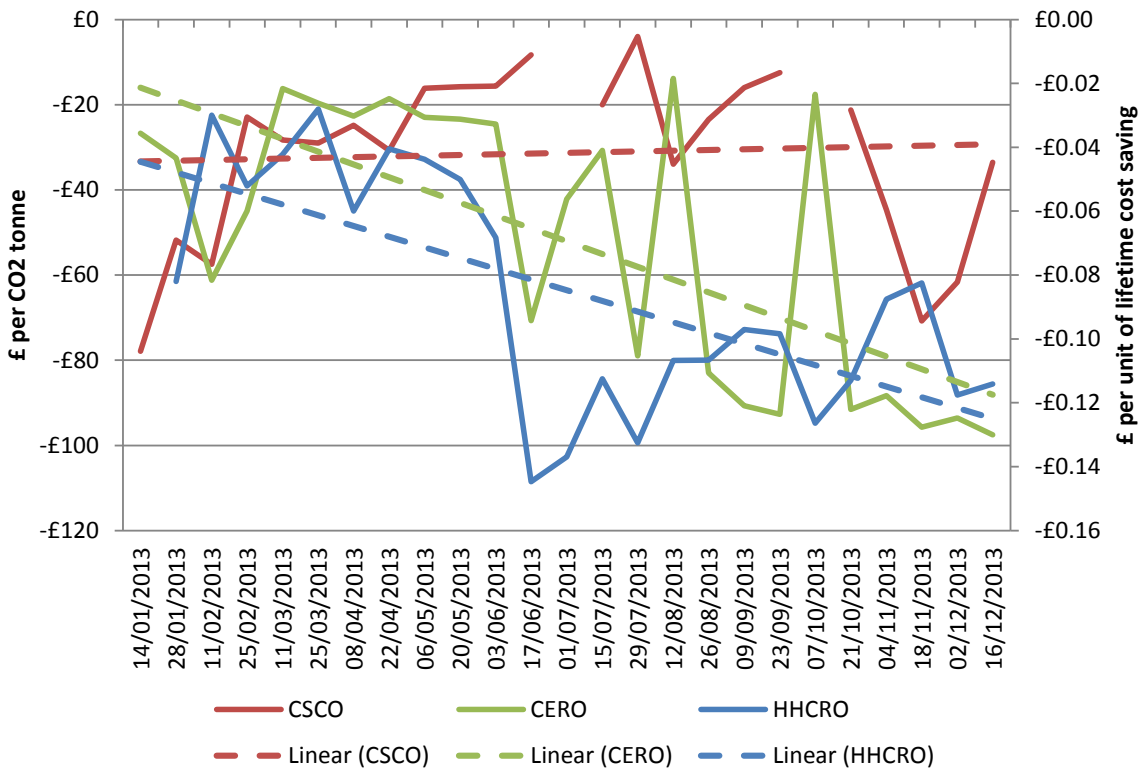
Source: DECC ECO Brokerage data

Differences between prices offered and prices sold

4.38. Figure 4.6 shows the average difference between GD Providers’ reserve prices²² and energy companies’ bids per auction for all Lots that were *not* sold. Lots on ECO Brokerage are not sold when energy companies do not meet the reserve price (or if one energy company meets the reserve price but is out-bid by another buyer with a higher offer). Analysis of cases where Lots were not sold provides an indication of how wide the pricing differential is between sellers and buyers. This may reflect GD Providers putting in reserve prices that energy companies considered too high, or energy companies putting in bids below the price that GD Providers were willing to accept.

- Under Affordable Warmth, the price differential between offers and bids for unsold Lots remained relatively constant at between £0.02-£0.06 per £1 of lifetime cost saving for the first half the year. Around Summer 2013 the average price differential increased sharply to around £0.14 per £1 of lifetime cost saving, and remained significant for the remainder of the year.
- The price differential under CERO also widened over the course of 2013, though there was much more fluctuation. By the end of 2013, energy companies were on average bidding almost £100 per tonne of CO₂ less than GD Providers’ reserve price for CERO.
- For CSCO the price differential was relatively constant for much of 2013, with an average gap between offers and bids for unsold Lots of around £10-£40 per tonne of CO₂. Towards the end of 2013 the price differential was more volatile.

Figure 4.6: Average difference between GD Providers’ reserve price and energy companies’ bid for all Lots that were not sold, per auction (CSCO and CERO shown on the left axis, Affordable Warmth on the right axis), 2013



Source: DECC ECO Brokerage data

²² A minimum price set by a GD Provider, below which they will not sell a Lot

GD Providers' and energy companies' views on ECO Brokerage prices

- 4.39. GD Providers and energy companies were asked to comment on ECO Brokerage prices, and what they believed had driven these trends. Interviewees' explanations can be summarised as follows:
- Selling prices under Affordable Warmth were seen to have started high, and dropped to a more realistic level
 - A lack of disaggregation within Lots between CERO and CSCO meant that price signals were confusing
 - The number of GD Providers selling on the platform – and thus competition – increased
 - Trends in bilateral prices influenced ECO Brokerage prices (and vice versa)

Prices under Affordable Warmth started high and then dropped

- 4.40. It was widely believed that selling prices under Affordable Warmth were initially too high, and had dropped over time to a more realistic level. Interviewees from energy companies and GD Providers reported that, in early 2013, sale prices under Affordable Warmth were “favourable” from the perspective of GD Providers. It was noted that Affordable Warmth was a new market when compared to CERT and CESP and that it had taken a while for some buyers and sellers to develop a clear understanding of market pricing. Prices had dropped as familiarity had increased. This observation is borne out by the data in Figure 4.5, which shows Affordable Warmth prices dropping significantly during mid-2013.
- 4.41. By the second half of 2013, Affordable Warmth prices had dropped to a level that many GD Providers thought was too low to be viable. Data from Figure 4.6 suggest that there were sharp differences between what GD Providers were prepared to offer and what energy companies were prepared to pay for Affordable Warmth Lots towards the end of 2013. Interviewees from GD Providers expressed concern that:
- There would be an increase in contract failures, as some GD Providers had sold under Affordable Warmth at prices at which they would struggle to subsequently deliver
 - The quality of installations might be affected as savings are made on materials and labour costs
 - Installers may increasingly ask for customer contributions to cover any funding shortfall
- 4.42. One interviewee from a GD Provider explained this issue as follows:
- “At the start the price was artificially high, 24p, now it has dropped to a level that is far too low, 10p. We don't know why this is but we won't go in at price that we can't afford to deliver. This will lead to a reduction in the quality of jobs. We work with good quality companies that invest in training and ISOs [ISO standards²³] etc. They can't go to the lowest prices but less high quality firms can”*

GD Provider, 10-49 employees

²³ ISO standards set out requirements, specifications, and guidelines that are used by businesses to ensure that their products, processes and services are fit for their purpose. More information about ISO standards is available here: <http://www.iso.org>.

- 4.43. Energy companies also noted that, by the end of 2013, prices under Affordable Warmth had reached a level where they had questioned whether installations could be delivered. However, at the point of interview, they had not experienced problems that could be attributed to price. As one interviewee noted:

“We have a sense that there is a bottom price so low that delivery is not realistic and possible but because that price depends on technical monitoring, which is still ongoing, we can’t say what this price is at the moment.”

Energy company

A lack of disaggregation within Lots between CERO and CSCO meant that price signals were confusing

- 4.44. Price signals under CERO and CSCO were widely seen to be somewhat confusing, mostly due to the lack of disaggregation between measures. At the point at which fieldwork was being undertaken, primary measures under CERO consisted of SWI and Hard-to-Treat CWI²⁴. Interviewees from GD Providers and energy companies noted that these measures have very different installation costs and thus buying/selling prices but that, within the ECO Brokerage ‘Bands’, they are always grouped together. Consequently, price information in relation to CERO was seen to be confusing since it was not clear which measure was involved (or indeed if the price was a ‘blend’ between the two measures). Bilateral contracts, in contrast, would typically be designed on the basis of separate prices for SWI and Hard-to-Treat CWI (though in some cases a blended price was used).

- 4.45. It was reported by interviewees from GD Providers and energy companies that, because of this lack of disaggregation, there were cases where CERO contracts that were won on the ECO Brokerage platform during early 2013 had been bought at a price that was equivalent to the price of SWI, when in fact Hard-to-Treat CWI had been delivered (which is cheaper). Over time, as this became apparent, the prices that energy companies were prepared to pay under CERO had dropped significantly (which is borne out by the data in Figures 4.5 and 4.6). As interviewees noted, this had made it very hard to trade SWI installations on ECO Brokerage, as the price was too low. According to one energy company:

“Within CERO you could be buying SWI or Hard-to-Treat CWI. SWI is hugely more expensive than Hard-to-Treat CWI. If you’re buying at £150 a tonne or something, you don’t want to buy that on Brokerage as it might be someone trying to sell Hard-to-Treat CWI at double the price they’d normally try and sell it to you. The effect is nobody wants to buy the expensive stuff on Brokerage because someone might be trying to profiteer. You tend to buy the cheaper stuff [i.e. Affordable Warmth]”

Energy company

- 4.46. Under CSCO it was noted that there is no distinction drawn between urban and rural delivery, despite the fact that rural measures are more expensive to deliver. Again, therefore, price signals could be misleading.

The number of GD Providers selling on the platform – and thus competition – increased over time for Affordable Warmth, and to a lesser extent for CERO

- 4.47. The number of GD Providers active on ECO Brokerage increased significantly from mid-2013 onwards, and competition exerted a downward pressure on prices. As shown in

²⁴ The 2013 Autumn Statement announced proposals to extend CERO to include loft insulation and Easy-to-Treat CWI

Figure 4.2, in the first few months of 2013 there were only a handful of GD Providers that were active on the platform. There was then an increase in the number of GD Providers active on ECO Brokerage, which interviewees believed drove down prices, particularly under Affordable Warmth which was seen as the most competitive of the obligations. Average prices under CERO declined over 2013, although the decrease was not as significant as was the case under Affordable Warmth. The number of GD Providers making offers under CERO increased steadily over 2013, as did the number of offers made per Lot. Again, this would point towards some degree of increased competition between sellers, which would be expected to have contributed towards the decrease in CERO prices (though note the point made above about price signals under CERO).

Trends in bilateral prices influenced ECO Brokerage prices (and vice versa)

4.48. Bilateral prices impacted on Brokerage prices (and vice versa). As noted previously, it took time for most energy companies to set up their first bilateral contracts once ECO was launched. According to interviewees from energy companies, the process of tendering for bilateral partners provided additional price information that was then taken into account when deciding buying prices on the Brokerage platform. Bilateral prices were, at least initially, widely reported by both GD Providers and energy companies to have been lower than prices under Brokerage contracts. Consequently, as more price information became available to energy companies, there was a process of adjustment whilst Brokerage prices dropped to match bilateral prices. According to an interviewee from a GD Provider:

“Bilaterals really drove the price of carbon in the early days, so you had a load of people sign bilaterals at the end of March and beginning of April when the price was really high on Brokerage, and the energy companies looked at Brokerage and said ‘why are we signing these contracts’, and that’s why you saw a drop in the price”

GD Provider, 50-249 employees

4.49. As Brokerage prices decreased, energy companies reported that these lower prices in turn affected bilateral prices. Interviewees from energy companies reported that they had used price information from the Brokerage platform as part of more recent negotiations over bilateral prices. As one interviewee noted:

“[The] low price on ECO Brokerage has put downward pressure on bilateral prices before. Especially over the last couple of weeks [late January 2014] when prices started to really drop down”

Energy company

The pricing models of energy companies and GD Providers

4.50. Interviews with GD Providers and energy companies included discussion of pricing models – i.e. the factors that shaped the prices at which they were prepared to sell or buy (via ECO Brokerage or through bilateral contracts).

Pricing models of energy companies

4.51. Energy companies reported that their approaches to pricing involved balancing their regulatory requirement to meet their ECO obligations with a need to achieve value-for-money when commissioning work. Interviewees indicated that, in general, they sought to drive down prices where possible, which was reflected in their bilateral negotiations and the prices that they were prepared to pay on Brokerage.

4.52. In general, energy companies reported that they were willing to pay slightly more via bilateral contracts than they were through Brokerage contracts, with the 'premium' being used to pay for reassurance that the contract would be met (because they typically knew and trusted the contractor, and/or had been through a more intensive due diligence process beforehand).

Pricing models of GD Providers

4.53. GD Providers' approaches to pricing were based on achieving a balance between their need to generate income (and often a wish to protect the income of their installers), and a need to offer a price that was competitive enough to secure sufficient work from the energy companies. Prices were calculated based on an understanding of materials and installation costs, with a margin added in order to generate income for the GD Provider. GD Providers typically had a price figure below which they would not sell. Several interviewees reported that they had "*priced keenly*" at first in order to win work through the Brokerage platform and get started. Looking across the GD Providers that were interviewed, a distinction can be drawn between:

- GD Providers that had bilateral contracts with energy companies, and had started winning work via the ECO Brokerage platform during the early part of 2013 when prices were higher. Many of these companies had historically delivered under CERT and/or CESP, and were often medium-sized or large companies. Interviewees from these companies reported that they were finding it increasingly difficult to compete at the prices available on the ECO Brokerage platform and, with their existing Brokerage and bilateral contracts in place, often did not see the need to do so:

"We haven't bid on Brokerage in the last three months. Our current focus is on delivering the contracts we've already won, not on winning more. There is no value in the Brokerage at this moment"

GD Provider, 50-249 employees

- **New market entrants, often micro and small businesses from an installation background.** Many of these businesses had started to use the Brokerage platform at the point in time at which prices had dropped. These businesses often operated relatively 'lean' pricing models, and were willing and able to sell for relatively low prices. One interviewee described their pricing approach as follows:

"We know we can deliver HHCRO [Affordable Warmth] quite comfortably at 12p which is a better rate than they've [other GD Providers] been delivering at. It's a fair price, we'll make £100-£200 per job to cover management costs which is reasonable. We know top-end prices are 13 or 14p"

GD Provider, 0-9 employees

The value and volume of Lots traded on the ECO Brokerage platform

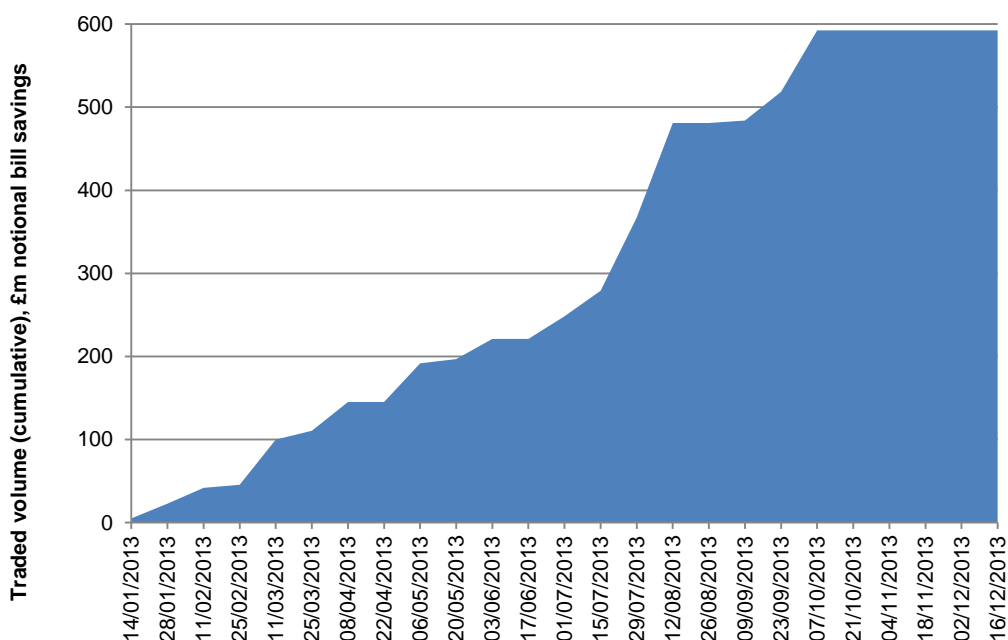
The volume of Lots traded on the ECO Brokerage platform

4.54. This sub-section analyses the total volume of Lots traded on the ECO Brokerage platform in 2013. Note that the term 'volume' is used to describe the unit traded: for Affordable Warmth this equated to notional bill savings; for CERO and CSCO this equated to tonnes of CO² savings.

The volume of Lots traded under Affordable Warmth

4.55. Figure 4.7 shows how the cumulative volume of Lots traded on the ECO Brokerage platform under Affordable Warmth increased over 2013. In total, over the whole of 2013, the Lots traded on the platform under Affordable Warmth equated to £593 million in notional bill savings to consumers.

Figure 4.7: The cumulative volume of Lots traded under Affordable Warmth (measured in terms of the notional bill savings that would result from the delivery of Lots), by auction, 2013

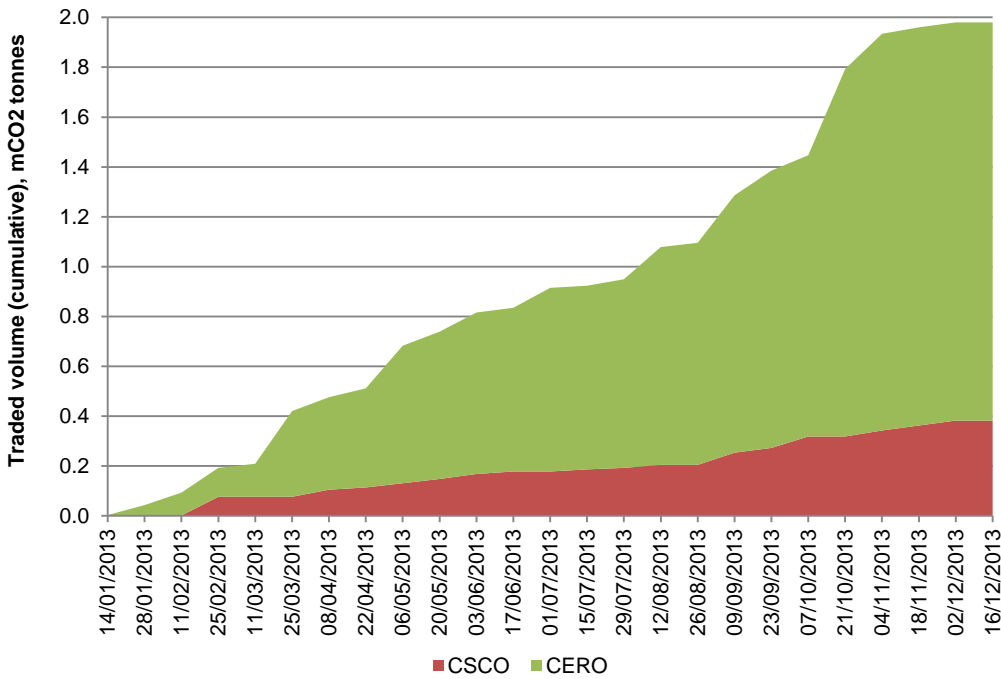


Source: DECC ECO Brokerage data

The volume of Lots traded under CERO and CSCO

4.56. Figure 4.8 shows how the cumulative volume of Lots traded on the ECO Brokerage platform under CERO and CSCO increased over 2013. Combined, CERO and CSCO Lots traded on the platform equated to some 1.98 million tonnes of CO² savings. CERO Lots accounted for the majority of this figure (81 per cent of the total, equal to 1.6 million tonnes of CO² savings. CSCO Lots traded on the platform equated to 0.38 million tonnes of CO² savings.

Figure 4.8: The cumulative volume of Lots traded under CERO and CSCO (measured in terms of the CO² savings that would result from the delivery of Lots), by auction, 2013

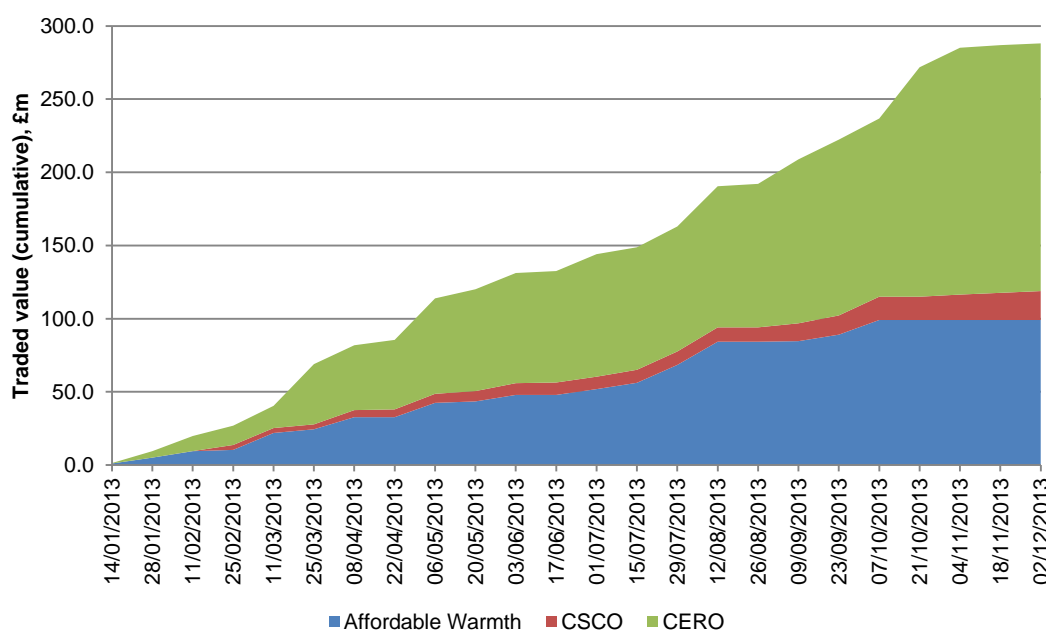


Source: DECC ECO Brokerage data

The value of Lots traded on the ECO Brokerage platform

- 4.57. Combining the trading price and the volume sold shows the trading value achieved per Lot sold on the ECO Brokerage platform. In total, across the whole of 2013, £288.1 million worth of Lots were traded on the platform. Of this figure:
- Affordable Warmth contributed £99.1 million, equal to 34 per cent of the total
 - £169.2 million of CERO Lots were traded via ECO Brokerage, equal to 59 per cent of the total
 - The traded value of Lots under CSCO amounted to £19.8 million, or 7 per cent of the total
- 4.58. Figure 4.9 shows the cumulative value of Lots traded on the ECO Brokerage platform across all auctions in 2013. These data show how the traded value of CERO Lots in particular increased over the year, particularly around autumn 2013 when trade in Affordable Warmth and CSCO Lots largely ceased.
- 4.59. The value of the Lots traded through ECO Brokerage highlights the scale of the income that has been generated through ECO delivery by GD Providers. As noted in Chapter 3, slow take-up of GD has meant that many GD Providers have had to secure income from other sources. Figure 4.9 demonstrates why ECO Brokerage and the ECO programme more broadly became so important to many GD Providers over 2013.

Figure 4.9: Cumulative value of Lots traded on ECO Brokerage platform, by auction, 2013



Source: DECC ECO Brokerage data

Energy companies' and providers' views on improving the ECO Brokerage platform

- 4.60. Interviewees from energy companies and GD Providers were asked to identify ways in which the ECO Brokerage platform could be improved. The following suggestions were made:
- GD Providers and energy companies suggested that Lots under CERO should be subdivided by measures, so that it is possible to make offers for specific measures (i.e. for SWI and Hard-to-Treat CWI). This was seen to be particularly urgent if the

proposed inclusion of Easy-to-Treat CWI and loft insulation is implemented, since these measures have an even lower price. Failure to do so, it was believed, would act as a barrier to the trading of the more expensive measures under CERO. Similarly, energy companies suggested that CSCO could be split into rural/ urban Lots, since it is more expensive to deliver in rural areas and there is no means by which to recognise this under the current system.

- Energy companies expressed a view that training for GD Providers in how to meet reporting and compliance requirements under the ECO programme should be part of GD ORB's authorisation process. As discussed above, energy companies reported that some GD Providers struggled to meet their requirements in terms of reporting and compliance checking, and noted that they often had to work closely with these companies in order to ensure that they could meet the necessary standards. This was regarded as a barrier to increasing their usage of ECO Brokerage.
- Energy companies believed that the rating system that DECC introduced²⁵ as part of the Brokerage platform could be enhanced in order to provide more detailed information. This suggestion relates to the point made above that, at the moment, competition is purely price based, with no scope for GD Providers to compete on the basis of the quality of the previous performance. Energy companies would like to have greater visibility of these factors when deciding what to buy to reduce the risk of using ECO Brokerage.
- Some GD Providers called for greater transparency across the ECO programme as a whole, and suggest that information should be published on the price and volume of contracting via bilateral contracts and via self-delivery. It was suggested that further transparency would improve competition within the marketplace.

5. Conclusions

This final chapter synthesises the results of the preceding chapters and sets out the conclusions of the ICF GHK evaluation team in respect of the evaluation questions outlined in Chapter 1.

Conclusions

- 5.1. Conclusions have been split between messages relating to GD Providers' experiences of the operation of the GD market, and messages relating to the operation of the ECO Brokerage platform. Conclusions have been structured around the evaluation questions that the study was tasked with answering.

The GD Provider market under GD

To what extent is the GD Provider market an open market? Are there any barriers to entry that prevent companies from becoming GD Providers and/or accessing GD finance, and are these barriers particularly acute for certain types of company (e.g. SMEs)?

Entering the GD Provider market

- 5.1. To become GD Providers, companies must first complete an authorisation process that is managed by GD ORB. The purpose of this authorisation process is to ensure that GD Providers meet the required operating standards and are capable of fulfilling their various responsibilities under GD. GD Providers are required to be able to demonstrate competence in their supply chain facing functions and their customer facing functions (e.g. their ability to provide consumer credit and comply with regulatory requirements).
- 5.2. For many GD Providers, authorisation was a complicated and time-consuming process. This was particularly true of companies that had been through authorisation in the early days of GD, when it was reported that systems were still 'settling' and there was a lack of adequate information and guidance about what was expected of a GD Provider. Since then, there was a perception that the authorisation process had improved.
- 5.3. Micro and small businesses typically found the authorisation process more difficult than larger businesses, particularly if they were start-ups, since they often did not have written procedures in place and were in effect starting from scratch and drafting procedures in a short space of time. However, despite these challenges, micro and small companies were still able to be authorised as GD Providers, and there do not appear to be any significant barriers to entry for smaller firms. Indeed, the support provided by GD ORB as part of the authorisation process was often highlighted as a useful capacity-building resource for GD Providers that were new to the market.
- 5.4. Overall, there was support amongst GD Providers for robust checks on applicants before they could enter the GD Provider market. The possibility of mis-selling under GD was seen as a significant risk, whether this was deliberate or caused by a lack of understanding and expertise in respect of providing consumer credit. The reputational

risks to the GD programme as a whole were thus largely seen to justify detailed scrutiny of all market entrants.

Accessing credit from the GDFC

- 5.5. In order to access credit from the GDFC, GD Providers must complete an 'onboarding' process. Onboarding consists of due diligence checks on GD Providers by the GDFC, including a review of financial performance and operational systems. If they are approved at the end of the onboarding process, GD Providers are then granted a line of credit, and may start providing GD finance to consumers via GD Plans.
- 5.6. GD Providers had mixed experiences of onboarding. For some, the process had been relatively smooth, whereas others had experienced difficulties and delays. As with GD Provider authorisation, this was partly an issue of timing, with GD Providers reporting that the onboarding process and the GDFC's credit 'offer' had not been worked out in detail when the early adopters went through the system. Micro and small companies had found the onboarding process particularly challenging, especially start-ups and businesses with no experience of providing consumer credit. Recognising this, the GDFC provided training and support to applicants as part of onboarding, which was reported to be particularly useful for smaller businesses.
- 5.7. Some GD Providers had elected not to apply to access credit from the GDFC, or had started the onboarding process but had either stalled or abandoned their application. Without access to GDFC credit, these companies cannot offer GD Plans. Interviewees identified a number of reasons behind their decision not to onboard with the GDFC, including a focus on ECO rather than GD, and/or the ability to offer consumers an alternative to GD finance. These companies did not see the onboarding process as a barrier to entry (though interviewees questioned the expense involved); rather, the provision of GD finance was not seen as a strategic priority for companies due to what they saw as low levels of demand for GD Plans.
- 5.8. As above, there was support amongst interviewees for a robust assessment of the capability of GD Providers before they are permitted to make GD loans to consumers, due to the reputational risks for the programme as a whole of mis-selling under GD. Amongst GD Providers there was a perception that the onboarding process was more thorough than the GD Provider authorisation process, in that it consisted of a more robust assessment of the viability of companies and an assessment of their abilities to provide consumer credit.

To what extent is the GD Provider market a contested market? Are there sufficient numbers of GD Providers to respond to demand from consumers?

- 5.9. Whilst the numbers of authorised GD Providers increased throughout 2013 (and stood at over 110 when this study commenced in November 2013), this does not necessarily equate to a contested market, since marketed readiness – i.e. whether GD Providers were actually in a position to respond to consumer demand – was variable. However, the general view amongst GD Providers was that consumer demand had not reached a level where this lack of market readiness was a problem.
- 5.10. Of the authorised GD Providers in the sample, only a small proportion were ready and willing to offer GD finance to consumers, despite that fact that many initially saw GD finance as key to the operation of the GD. Some GD Providers had not started or completed the onboarding process with the GDFC and were thus unable to finance GD Plans. Even where GD Providers were onboard with the GDFC, this did not always mean that they were willing to provide GD finance. Some GD Providers reported that, at the point of interview (which could be several months after onboarding had completed),

they were still testing their systems by developing and installing a handful of test GD Plans (typically with colleagues or family members). The delay in fully entering the market in part resulted from concerns about the complexity of the GD system and nervousness amongst GD Providers about writing loans in volume before they had tested for and 'ironed out' any problems. Where GD Providers were not market ready, they would typically log enquiries from consumers with a view to returning to them at a later date once they had finalised their market offer.

- 5.11. The market readiness of GD Providers was influenced by perceptions about consumer demand under GD. Levels of consumer demand were reported to have been much lower than was anticipated when GD Providers were first considering whether to enter the GD market. GD Providers had experienced an initial 'spike' in consumer interest when GD launched, but had been unable to meet this demand as they did not have their systems in place. Demand had then dropped, and had since been 'bubbling along' at a steady rate throughout the remainder of 2013, without reaching levels that they had anticipated.
- 5.12. In this market climate, most GD Providers had elected not to invest significant resources in marketing and consumer engagement activity. Companies typically had a webpage dedicated to GD, potentially featuring an online tool that enabled people to determine whether they would be likely to make any savings through GD. However, for the most part, GD Providers were relying on customers to come to them, rather than vice versa, whilst they waited for consumer demand to pick up. There was an expectation amongst GD Providers that demand under GD would increase in 2014.

What are GD Providers' views on GD finance and its attractiveness to consumers? What do third party finance providers think about GD finance?

- 5.13. GD finance was widely seen to be integral to the GD, since at the time of fieldwork there was no other organisation offering credit *through the GD finance mechanism* (i.e. repayment via a charge on the electricity meter) on the same scale as the GDFC. Whilst there were mixed views on the process of repayment of the loan via a charge on the electricity meter (see below), this mechanism was still seen as a key feature of the GD programme, and a way that it could be distinguished from existing market activity. The ability to offer GD finance through a GD Plan was seen as an important option to be able to offer to consumers, in part because it tied in with the brand of GD and the marketing and promotion that had and would be undertaken to promote the initiative.
- 5.14. For many GD Providers, GD finance was currently the only form of consumer credit that they were able to access. Smaller companies struggled to access credit lines from providers of unsecured loans, typically because they were start-ups and could not demonstrate the robust systems and trading history that was required. This was contrasted with the GDFC, which offers credit to a wider range of companies (albeit with a smaller credit line than would be provided by a large distributor of unsecured personal loans), and provides training and capacity building in order to bring companies' capabilities and systems up to the required standard.
- 5.15. GD Providers saw GD finance as a new and in many ways unique financial product, in that it is a long-term unsecured loan. Unsecured personal loans, it was reported by interviewees, are typically short-term, and contrasted with GD finance which was seen to have much wider availability. Interviews with third party providers of unsecured loans found that they would typically accept a much lower proportion of loan applicants than was the case with GD finance. Interviewees also contrasted GD finance with secured loans (e.g. mortgage top-ups), which were believed to be available to a much smaller proportion of the population than GD loans.

- 5.16. Views were mixed on the interest rate charged by the GDFC, with many GD Providers believing that the rate was set too high to make GD finance competitive. This was particularly true of GD Providers with experience of providing credit to consumers as part of product sales (who had a broader knowledge of the market, and had experience of consumer responses to interest rates). For small GD loans (typically described as being in the region of £5,000), GD finance was widely seen by those GD Providers that had experience of quoting for GD Plans to be a poor value proposition, with a high APR and significant finance costs. Larger GD loans (in the region of £8,000) were required before the APR became more attractive. It was reported that unsecured personal loans typically have a slightly lower headline interest rate than GD finance (in the region of 5-6 per cent compared to the GDFC's rate of 6.96 per cent, though in both cases the actual interest rate could be significantly higher).
- 5.17. GD finance was seen by some GD Providers to be relatively inflexible when compared to other unsecured personal loans available on the market. Other providers of unsecured personal loans noted that they typically offer flexibility in repayment terms, since customers prefer to have the ability to vary their terms of repayment over the lifetime of a loan, with flexibility to pay back more or less, as their circumstances evolve over time. It was also noted that there is typically more competition on the interest rate, with use of promotional rates to attract customers (e.g. zero per cent finance for an introductory period), and also the application of variable interest rates depending on customers' credit score and circumstances.
- 5.18. At the point at which this study was carried out, very few GD Providers had experience of testing GD finance in the marketplace (see the above discussion of market readiness). There were concerns, however, about consumer perceptions of the way in which the loan is attached to the electricity meter, rather than to the borrower. It was noted that this new repayment model is untested, and that too little is presently known about the treatment of a GD loan if the initial borrower moves house. Third party providers of loans also noted that this mechanism was potentially risky, since by the end of a long-term loan the house may have changed ownership on multiple occasions, and they were in effect lending to an unknown individual (the unproven nature of repayment via the electricity meter meant that this was not presently seen to provide a quantifiable measure of risk mitigation).

How are GD Providers engaging with GD Advisors and GD Assessor Organisations as part of the delivery of GD?

- 5.19. The first stage within the GD customer journey is the production of a GDAR, which is carried out by GD Advisors and contracted by GD Assessor Organisations. Some GD Providers were totally independent of the process of producing GDARs, and drew a distinction between the 'neutral' process of generating recommendations for consumers and the process of quoting for and installing energy efficiency improvements. In addition, GD Providers that were micro companies were often unable to take on such additional functions at their present size.
- 5.20. However, many GD Providers had opted to play an active role in the production of GDARs, either by affiliating with GD Assessor Organisations or by setting themselves up as GD Assessor Organisations and directly employing their own GD Advisors. Affiliation provided flexibility if large numbers of GD Advisors were needed periodically (e.g. as part of local authority based GD schemes). Where GD Providers had set up as GD Assessor Organisations, they typically only employed a small number of GD Advisors (fewer than 15 individuals was the norm). GD Providers typically charged for the production of GDARs, with market rates ranging from between £120 and £150 per GDAR. Some companies ran their GDAR operations as a loss leader in order to

generate leads for GD Plans or other finance packages, since greater margins could be made at the installation stage.

- 5.21. The main driver of the internalisation of GDAR functions within GD Providers was a concern about the quality and consistency of externally produced GDARs. GD Providers build financial proposals to consumers on the basis of GDARs, and bear the liability if these proposals turn out to be based on flawed reports (e.g. due to errors in an EPC). It was also noted that the production of GDARs is a key opportunity to 'sell' GD to consumers, and that the best GD Advisors need to be able to combine technical expertise with an ability to discuss customers' needs and come to a mutually agreed set of recommendations that are also commercially attractive to a GD Provider. Many GD Providers preferred to bring these functions in-house where they could employ and train GD Advisors on their own terms.

How do GD Providers respond to consumer demand? How do they develop financial packages in order to finance energy efficiency improvements?

Responding to consumer demand

- 5.22. GD Providers typically utilised some form of screening exercise as a first step in responding to demand from consumers with GDARs. This process was designed to ensure that customers understood how GD worked and that they were aware that they were taking out a loan, given GD Providers' concerns about the information that GD Advisors were providing to consumers. Once this was completed, GD Providers would then arrange for an installer to carry out a detailed on-site technical assessment (which would typically be more detailed than the GDAR process), the results of which could then be used to generate a detailed quote for the cost of the proposed energy efficiency improvements. This quote would also set out financing options.
- 5.23. GD Providers were often testing and refining their approaches to the process of responding to enquiries from consumers. This included experimenting with business models in terms of: targeting specific types of customer; focussing geographically, for example in cities; and proactively managing the customer journey process. The main driver of these process innovations was the amount of time that was typically required to generate a GD Plan, and the expenses incurred by GD Providers (e.g. staff time) in providing quotes. The relatively high rate at which customers dropped out between making an enquiry and responding to a quote meant that GD Providers were exploring ways in which they could be 'smarter' in identifying those customers who were most likely to proceed to installation.

Building financial packages for consumers

- 5.24. GD Providers reported that they had struggled to generate quotes for GD Plans that customers considered to be attractive propositions. This was because it was typically not possible to meet the entirety of customers' finance needs using GD finance. The funding shortfall was often significant (as a rule of thumb, GD Providers reported that around one third of total financing needs could typically be met using GD finance). GD Providers found that consumers were often under the impression that GD finance would cover all costs (which they believed had come from DECC advertising and through consumers' discussions with GD Advisors), and were deterred when they discovered that this was not the case.
- 5.25. Funding shortfalls were typically attributed to the design of the Golden Rule. GD Providers supported the premise of the Golden Rule, since this provided consumers with confidence that energy efficiency improvements were, as a minimum, financially neutral. However, it was widely reported that the design and calibration of the Golden Rule were

Conclusions

too restrictive (e.g. the in-use factors that were used resulted in too great a reduction in the calculated energy savings).

- 5.26. Without sufficient GD finance, GD Providers utilised other funding streams in addition to (or instead of) GD finance in order to develop funding packages. Alternative sources of finance that were used included: third party finance brokered by a GD Provider; self-finance arranged by a customer (e.g. savings, or independently arranged credit); GD cashback, which could be used to reimburse self-finance; and/or ECO subsidy. Indeed, for many GD Providers, GD finance was simply one of a number of ways in which they could finance a sale, and it was their responsibility to review all of these options with consumers before making a decision about the most appropriate course of action (i.e. not to assume that GD finance was the first choice).
- 5.27. The blending of sources of finance could take place within a GD Plan, or if no GD finance was required, then some GD Providers were promoting 'energy plans' as an alternative mechanism (which were described as a document that was similar to a GD Plan in that it set out the costs and associated savings associated with the package of measures, but without the presence of GD finance). Blending together multiple finance streams was seen as a way in which to overcome gaps in GD finance coverage and thus to facilitate sales of GD Plans. However, it was noted that this process could add complexity, particularly where GD finance was combined with a third party loan, thus requiring two separate credit agreements.
- 5.28. Blending GD finance with ECO subsidy was seen as a useful way in which to address funding shortfalls and incentivise the take-up of GD Plans. However, it was widely reported that, in practice, the 'crossover' between GD and ECO was relatively limited. GD Providers cited examples of having created blended packages where EWI and/or Hard-to-Treat CWI was involved (i.e. under CERO) and noted that, unless customers had access to significant savings, blending was a key way in which to engineer demand for EWI. There were also seen to be limited opportunities for blending under either Affordable Warmth or CSCO, largely due to the target markets of these two obligations and the ability of consumers to pass the necessary credit checks for GD finance. Finally, the ability of GD Providers to blend GD finance with ECO subsidy was also dependent upon whether they had access to ECO funding at that particular time (and potentially location given that ECO schemes were sometimes area-based), and whether this funding could be used for specific the GD customer (given eligibility criteria applied to consumers).

How do GD Providers generate income, and is this income sufficient to sustain the GD Provider market?

- 5.29. As it stands, GD Providers reported that they were most likely to generate income via GD Plans through a mark-up on installation costs. There was little appetite for adding a mark-up to the costs of GD finance, since it was felt that the impact on the interest rate would act as a deterrent to consumers. Some GD Providers were considering introducing an administration charge as part of a quote for a GD Plan, since it was felt that this would be a more transparent way in which to recoup their costs.
- 5.30. However, the low volume of GD Plans that had been developed at the point at which this research took place meant that none of the GD Providers that were interviewed had generated significant income through GD. Many interviewees reported that they were losing money on GD due to the low volume of GD Plans. GD Providers' business models and income projections had often been based on volume sales and cost reduction through economies of scale, rather than through ad hoc responses to enquiries.

- 5.31. In the absence of the expected level of income from the generation of GD Plans, GD Providers were often very reliant on delivery under the ECO programme to generate income. The importance of the ECO programme was a cause for concern for GD Providers, many of whom had entered GD in order to diversify away from obligation-driven initiatives due to concerns about the instability of such income streams. Micro and small companies were particularly concerned about their reliance on ECO, especially where they were new businesses that had been set up to serve the GD and ECO programme, and could not easily draw upon other income streams.
- 5.32. Whilst none of the interviewees within the sample reported that they were facing imminent closure due to their inability to generate sufficient income through GD, many were looking to increase income from non-GD sources (e.g. by moving into non-domestic energy efficiency installations). Furthermore, at the point of interview, the effects of the proposed changes to the ECO programme following the 2013 Autumn Statement had yet to be fully realised, but it was widely suspected that this would lead to a decrease in income available through ECO delivery.

The ECO Brokerage platform

To what extent is the ECO Brokerage platform an open market? Are there any barriers to entry that prevent companies from using the ECO Brokerage platform, and are these barriers particularly acute for certain types of company (e.g. SMEs)?

- 5.33. The ECO Brokerage platform is open to any authorised GD Provider, and to any energy company with an obligation under the ECO programme. The process of authorisation as a GD Provider was designed to ensure that companies were capable of delivering under the GD rather than ECO and so included checks that might be considered burdensome for a company that only wanted to deliver under ECO (e.g. an assessment of their ability to provide consumer credit and comply with regulatory requirements). As discussed above, the GD Provider authorisation process was complicated for many companies, particularly small and micro firms, but there is no evidence that it provided a significant barrier to entry.
- 5.34. The process of registration with the ECO Brokerage platform was seen to be straightforward, and neither GD Providers nor energy companies reported that it presented any kind of barrier to entry. This was true of GD Providers that had elected not to register with the ECO Brokerage platform, for whom registration costs had not influenced their decision (instead it was largely because they were able to secure contracts at more favourable prices through bilateral arrangements with energy companies).
- 5.35. One of the reasons why the ECO Brokerage platform was introduced by DECC was to enable a greater number of companies to participate in the delivery of ECO and, in particular, to enable smaller companies to access contracts from energy companies. The main alternative to ECO Brokerage is a bilateral contract agreed directly between an energy company and another firm. Bilateral contracts were established by energy companies through competitive tenders and/or were drawn up on the basis of existing relationships (e.g. dating from the delivery of CERT and CESP). New market entrants, particularly if they were smaller companies, often struggled to secure bilateral contracts, since they lacked contacts within energy companies, and/or could not provide a convincing track record of delivery that would enable them to compete with companies that had CERT or CESP experience. Smaller companies also struggled with the process of due diligence that energy companies typically undertook before signing a bilateral contract. Due diligence covered various aspects of a company's ability to deliver (e.g. their health and safety policies, their IT systems), and was designed by

energy companies to ensure that all of their contractors met certain quality standards. New market entrants without any experience of delivering for energy companies might not yet have such systems in place, and indeed may not be aware that this was a requirement.

- 5.36. Some GD Providers reported that they had secured contracts with energy companies via ECO Brokerage that they would not have been able to win via bilateral contracts. Similarly, energy companies confirmed that they had commissioned work from GD Providers whom they would not have been comfortable contracting with via bilateral deals. It can thus be concluded that the ECO Brokerage platform opened up the ECO market to a greater degree than would otherwise have been the case. It was also reported by both GD Providers and energy companies that new contracting relationships established on the basis of ECO Brokerage had led to (larger) bilateral contracts, as GD Providers had proved that they could deliver.

To what extent is the ECO Brokerage platform a contested market? Are there sufficient numbers of users to respond to demand from energy companies and to ensure competition between users?

- 5.37. Across the whole of 2013, a total of 66 GD Providers made offers on the ECO Brokerage platform. The number of GD Providers that were using the platform started low, with less than five GD Providers making offers per auction through till spring 2013. After this, the number of GD Providers using the platform increased, particularly under Affordable Warmth where 15-25 companies were making offers as part of every auction throughout the remainder of 2013. There was less activity under CERO and CSCO, but still a slight increase in the usage of the platform by GD Providers over the course of 2013. The number of offers made by GD Providers at each auction varied, though broadly followed the pattern set out above, with usage increasing over time. This points to a market that became increasingly contested over the course of 2013, particularly under Affordable Warmth (and to a lesser extent CERO).
- 5.38. Buying patterns by energy companies were patchier. The numbers of Lots purchased via ECO Brokerage broadly increased through much of 2013, though typically following a pattern whereby one auction resulted in a lot of sales and the following auction resulted in none or very few. As the number of offers made increased over the year, the result was that the proportion of offers that led to sales dropped significantly. This was particularly true following the 2013 Autumn Statement, shortly after which purchases of Affordable Warmth via the ECO Brokerage platform ceased, with five auctions in a row resulting in no sales. Energy companies noted that their purchasing behaviour under both bilateral and Brokerage contracts had been affected by the Autumn Statement, since they were seeking clarity on their delivery targets and the timeframe over which they needed to be achieved.
- 5.39. Energy companies reported that, where they used the ECO Brokerage platform, this tended to be in response to gaps or shortfalls in delivery under bilateral contracts. For all energy companies, bilateral contracts were the preferred method of contracting. There were several reasons as to why this was the case, including: scope to design the contract according to their needs, for instance through the inclusion of more detailed compliance reporting requirements; and visibility of the identity of the contractor (which reduced risks). Whilst exact proportions were not available, energy companies reported that ECO Brokerage accounted for a relatively small proportion of their ECO contracting.
- 5.40. Comparison of supply (by GD Providers) and demand (from energy companies) suggests that the main constraint on the usage of the ECO Brokerage platform was the limit on the extent to which the energy companies wished to contract using the platform,

rather than a shortage of offers. Price trends are discussed in detail below and, again, it is clear that competition on the ECO Brokerage platform increased over time.

To what extent is the ECO Brokerage platform a transparent market? In what ways do participants use the market information available on the ECO Brokerage platform?

- 5.41. Under CERT and CESP, the extent of publicly available market information was limited, because contracts were agreed privately between energy companies and their contractors. ECO Brokerage was in part envisaged as a way to increase transparency in the market. Information could then be used by all parties as a way of improving the efficiency and competitiveness of the market.
- 5.42. Access to market information was identified by both GD Providers and energy companies as a reason why they had registered with the ECO Brokerage platform. This was primarily to collect price data (selling and buying prices), as well as more general data on the volume of contracting taking place, and how this changed over time.
- 5.43. GD Providers reported that they used market information in order to determine their selling strategies on the ECO Brokerage platform. For instance, pricing data was used in order to set a competitive reserve price and, more fundamentally, to decide whether or not to use the platform if prices were deemed to have fallen too low. GD Providers also used information on the volume of commissioning in order to assess whether the ECO market was growing or not, which informed their strategic decision-making about market opportunities. Energy companies also reported that the market information available through the Brokerage platform helped shape the prices that they were prepared to buy at, for instance by ensuring that they were not paying more than other Obligated Parties.
- 5.44. Pricing information collected from the ECO Brokerage platform had influenced bilateral contracts, with energy companies indicating that the prices they could obtain via Brokerage were used as a negotiating position as part of bilateral deals.
- 5.45. Interviewees identified various pieces of market information that were not available through ECO Brokerage, which meant that it was not a fully transparent market. Most notably this included the identity of the buyer and seller (since ECO Brokerage is a 'blind auction'), meaning that it was not possible to discern trends in the behaviour of specific energy companies. The ECO Brokerage platform also provides data at the level of the obligation rather than the measure. CERO, for example, consists of either SWI or Hard-to-Treat CWI, which are very different in terms of their cost. CSCO does not disaggregate between urban and rural delivery, which again have different prices. There were thus limits to how price data could be used by market participants, which affected the extent to which ECO Brokerage provided useable market intelligence (e.g. through the use of price signals as part of bilateral contract negotiations).
- 5.46. ECO Brokerage remains a more transparent market than is the case for either the bilateral market or self-delivery energy companies, where information is not released publicly. However, the share of ECO contracting that takes place through bilateral contracts and self-delivery rather than via ECO Brokerage means that, overall, market transparency in the delivery of ECO remains limited. As noted by GD Providers, an energy company has access to information on prices under ECO Brokerage and bilateral contracts (and potentially under self-delivery), and can use this information as part of its negotiations. A GD Provider, however, only has access to information on Brokerage prices and its own pricing models, meaning that market knowledge is presently somewhat asymmetrical.

Has the ECO Brokerage platform affected the prices paid by energy companies in the contracting of their ECO obligations?

- 5.47. DECC introduced the ECO Brokerage platform in part to facilitate greater (and more transparent) competition on the basis of price, with the intention that cost savings would then be passed on to consumers through reductions in their energy bills. Under the Brokerage platform, parties compete entirely on price, since at the time of interview there was no information available about the performance of the seller.
- 5.48. Trends over 2013 in pricing on the ECO Brokerage platform have been complex. At the start of 2013, prices on ECO Brokerage, particularly under Affordable Warmth, were widely reported to have been higher than comparable prices under bilateral contracts. Interviewees attributed this in part to a slight time lag whilst GD Providers and energy companies adjusted to the new obligation and collected pricing information (particularly in relation to the cost of boiler and heating system installations, which had formed a relatively small part of CERT).
- 5.49. It also took several months for most energy companies to set up their bilateral contracts, since such contracts typically involved lengthy due diligence, and often required negotiation between parties. Bilateral contracts were a source of market intelligence for energy companies, since as part of the procurement process they collected detailed pricing data from all companies that wished to participate. Energy companies reported that, eventually, pricing data obtained from bilateral contracts began to feed in to their considerations in relation to purchasing via ECO Brokerage.
- 5.50. In early summer of 2013, the prices paid by the energy companies on the ECO Brokerage platform decreased significantly, particularly under Affordable Warmth, and to a lesser extent under CERO. (CSCO prices stayed relatively constant throughout the year, though the volume of sales was relatively low). Interviewees in part attributed these price changes to greater competition on the Brokerage platform. Usage of the platform by GD Providers increased significantly from the middle of 2013 onwards, which meant increased competition (as discussed above). In particular, there was an increase in usage by smaller companies and new market entrants, many of whom were willing and able to trade at lower prices than larger and more established firms.
- 5.51. It was also noted that ECO Brokerage prices had influenced bilateral prices. The lower prices available on the platform towards the end of 2013 were used as part of discussions between energy companies and delivery companies that took place as part of bilateral contract negotiations.
- 5.52. ECO Brokerage evolved over 2013 to become a low-cost way by which energy companies could contract the delivery of ECO measures. However, many GD Providers believed that the prices on the platform had become too low by the end of 2013, especially under Affordable Warmth. It was believed by many interviewees that, for GD Providers to deliver at such low prices, there would need to be sacrifices in quality and/or increases in contract failures. GD Providers typically preferred bilateral contracts if they were able to get them, in part since prices were slightly higher. Energy companies were prepared to pay a slight 'premium' for the reassurance provided by commissioning via a bilateral contract with a known and trusted party.

Is the ECO Brokerage platform operating efficiently?

- 5.53. The ECO Brokerage platform is a relatively efficient mechanism for contracting as far as GD Providers and energy companies are concerned. Transaction costs per sale were reported to be negligible, particularly when compared with bilateral contracts. Since the contract is fixed under ECO Brokerage there is no negotiation process. Bilateral

contracts, in comparison, can take months to negotiate and finalise, and thus can incur considerable costs. Energy companies also typically undertake due diligence on parties prior to contracting via bilateral deals, which creates costs. With the ECO Brokerage platform, due diligence of GD Providers was effectively carried out by GD ORB as part of the authorisation process, and so these costs were, to some extent, externalised. Overall, both energy companies and GD Providers saw the ECO Brokerage platform as a quick and simple way in which to contract ECO delivery, which is why it was often used in order to contract the delivery of small Lots of work at short notice.

- 5.54. However, whilst the contracting process can be efficient, energy companies noted that work commissioned via the ECO Brokerage platform often required a significant amount of time and resource to monitor. It was reported by energy companies that many GD Providers are new market entrants, and do not have the systems in place that enable them to collect and submit data on progress against delivery and proof of compliance. Energy companies reported that they have had to work very closely with some GD Providers once contracts have been signed to ensure that they provide the information that is needed to track delivery.

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