

Modification proposal:	Green Deal Arrangements Agreement (GDAA) Change Proposal (CP) 0060 – Amended GDAA Cost Recovery Process		
Decision:	The Authority ¹ has decided to consent to this proposal		
Target audience:	Green Deal Oversight and Registration Body (GDORB), GDAA Panel, Parties to the GDAA and other interested parties		
Date of publication:	14 November 2014	Implementation Date:	14 November 2014

Background

The Secretary of State has agreed to fund the GDAA² to 31 December 2014. From 1 January 2015 onwards the GDAA will be self-funding with costs recovered from GDAA parties. The GDAA includes cost recovery provisions to provide for self funding, but as funding has been provided by government to date, these have not yet been used. As the GDAA moves towards a self-funding model, the GDAA Panel and the Cost Recovery and Special Purpose Vehicle (CRSPV) Workgroup identified a need for revisions to these provisions.

The modification proposal³

CP 0060 was raised by InstaGroup ('the proposer'). It proposes to move towards a self-funding model through revisions to the cost recovery mechanisms. The proposed approach is one of funding by all GDAA parties through a mix of both fixed and variable charges.

Under the proposed change, all GDAA parties would pay a fixed amount, with an additional variable contribution made by Green Deal Provider and Supplier parties based on the number of Green Deal Plans that they are associated with and which are 'live'. This approach provides the GDAA Panel⁴ with a means to re-balance costs over time as the market size for Green Deal increases through varying both the fixed and proportionate contribution element of the calculation.

In accordance with paragraph 7.1.2 of the GDAA, Authority consent to CP 0060 is required as it seeks to amend Part 2 of the GDAA.⁵

GDAA Panel recommendation

At its meeting on 26 September 2014, the GDAA Panel agreed to approve CP 0060.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² A copy of the GDAA can be found here: <http://qdorb.decc.gov.uk/gdaa>

³ The terms 'modification' and 'modification proposal' have the same meaning as 'change' and 'change proposal' for the purposes of this document.

⁴ Established pursuant to Section 5 of the GDAA.

⁵ Changes to Part 2 of the GDAA (comprising Clauses 5 to 8), or any change to a definition in Clause 1.1 that may materially affect the provisions of Part 2, require Authority consent.

The Authority's decision

We have considered the responses to the proposal, which was issued by the GDAA Panel for Impact Assessment, and the decision of the GDAA Panel. We have concluded that the implementation of CP 0060 is consistent with the objective of the GDAA:⁶

To establish an effective mechanism for: (a) the collection of Green Deal Charges through electricity bills by Mandatory Green Deal Suppliers and Voluntary Green Deal Suppliers; and (b) the remittance of these payments to Green Deal Providers or their nominees, so as to enable the efficient use of energy to be promoted under the Green Deal and to do so in a way which protects the interests of consumers, promotes effective competition between electricity suppliers...and promotes the efficient use of energy.

We consider that consenting to this change is consistent with our principal objective and statutory duties.

Reasons for our decision

We note that the majority of respondents supported the proposal. We consider that the implementation of CP 0060 will contribute to the effective implementation of the GDAA by modifying the existing funding provisions to apportion the costs across all GDAA parties.

We anticipate that the fixed fee will be kept at an appropriate level so as not to materially impact smaller parties. This will be determined by the GDAA Panel and we expect appropriate checks and balances to be in place when fixing this. We also note that the approach provides the GDAA Panel with a means to re-balance costs over time if appropriate.

The new mechanism also moves the payment of the proportionate contribution, which replicates the existing formula contained in the GDAA, to a quarterly basis enabling the costs to be spread throughout the year. Enabling this flexibility can be expected to improve efficiency in the operation of the GDAA, which is central to the effective functioning of the Green Deal mechanism. We also consider the ability to spread payments across the year may be beneficial to some GDAA parties.

Pursuant to paragraph 7.1.2 of the GDAA, we consent to CP 0060 being made.

Lesley Nugent
Head of Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose

⁶ The objective of the GDAA is set out in Recital E of that agreement. For the purposes of Authority decisions, this objective is subject to Recital F and the words "promotes effective competition between Green Deal Providers" are excluded.