

Warm Home Discount

Annual Report 2012-13

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Overview:

The Warm Home Discount (WHD) scheme came into effect on 1 April 2011. Under the scheme, Compulsory Scheme Electricity Suppliers (CSES) that meet the criteria set out in the WHD Regulations 2011 are obligated to provide direct and indirect support to eligible customers. This is mainly through rebates toward the energy costs of customers who are fuel poor or at risk of fuel poverty over the period of the scheme.

This report informs the Secretary of State of the implementation and delivery of the WHD scheme during its second year. It is also aimed at gas and electricity suppliers and consumer groups, particularly those representing consumers vulnerable to fuel poverty.

This is Ofgem's annual report on the second year (April 2012-March 2013) of the WHD scheme. Ofgem's role is to administer the WHD scheme and monitor suppliers' compliance with their WHD obligations. All suppliers' activities were predominantly consistent with their WHD obligations in Scheme Year (SY) 2. Overall, support valued at £290.3m was provided to persons in or at risk of fuel poverty, with £283.3m of this being counted as WHD spend when taking account of suppliers' relevant Industry Initiative and Legacy Spending caps.

Context

The Energy Act 2010 provides the Secretary of State with powers to make regulations which introduce one or more support schemes for the purpose of reducing fuel poverty. These powers have been exercised through the Warm Home Discount Regulations 2011¹ to establish the WHD scheme which came into effect on 1 April 2011.

Part 2 of the Energy Act 2010 and the WHD Regulations task the Gas and Electricity Markets Authority (the "Authority") with the operational delivery of certain aspects of the scheme. These day-to-day functions are performed by its office ("Ofgem").

The Energy Act 2010 places the Authority under a statutory duty to keep the WHD scheme under review and the licensed suppliers' compliance with it.² Accordingly, this document represents the second annual report to the Secretary of State for Energy and Climate Change (SoS) in respect of SY2. The publishing of this annual report is also part of addressing the duties in Ofgem's 'Corporate Strategy and Plan' towards "delivery of government programmes for a sustainable energy sector".

Associated documents

- the Warm Home Discount Regulations 2011, the Warm Home Discount (Reconciliation) Regulations 2011, the Disclosure of State Pension Credit Information (Warm Home Discount) Regulations and relevant sections from the Energy Act 2010
<http://www.legislation.gov.uk/all?title=warm%20home%20discount>
- the Warm Home Discount: Guidance for Licensed Electricity Suppliers and Licensed Gas Suppliers (published 15 March 2013)
<https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-supplier-guidance-version-2-2013>
- the Warm Home Discount: Annual Report Scheme Year 1 (published 5 October 2012)
<https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-scheme-annual-report-scheme-year-1>
- Department of Energy & Climate Change, *Consultation on the Warm Home Discount* (published 2 December 2010)
<http://www.decc.gov.uk/assets/decc/Consultations/warm-home-discount/956-consultation-warm-home-discount.pdf>

¹ http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf

² Compulsory scheme electricity suppliers are subject to a statutory requirement to comply with their obligations under the WHD scheme under sections 25(8) and Schedule 6A, 6(f)(i) to the Electricity Act 1989 and 28(8) and Schedule 4B, 4(e)(i) to the Gas Act 1986

Contents

Executive Summary	5
1. Introduction	7
Target audience	7
Background	7
Structure of the document	7
Ofgem’s work directed towards vulnerable and fuel poor customers	8
2. Core Group	9
Number of beneficiaries, rebate value and total spend	9
Eligibility criteria	9
The matching process	9
Exceptions	10
Breakdown of Core Group activity by supplier	11
3. Broader Group	13
Number of beneficiaries, rebate value and total spend	13
Eligibility criteria	13
Verification process	13
Payment methods and notification to customers	14
Comparison of supplier obligations against actual spend	15
Comparison between SY1 and SY2	16
4. Legacy Spending	17
Number of participating suppliers, beneficiaries and total spend	17
Criteria for Legacy Spending	17
Discounted tariffs	18
Rebate schemes	18
Comparison of supplier spend against Legacy Spending cap	18
5. Industry Initiatives	20
Analysis of Industry Initiatives activities in SY2	20
Analysis by activity	20
Industry Initiative spend by activity	22
Supplier breakdown	23
Targeting those who are at risk of or are fuel poor	24
Value for money analysis	24
Comparison between SY1 and SY2	24
6. Ofgem audit programme	25
Ofgem audit programme	25
Programme key findings	26
7. Supplier compliance for Scheme Year 2	28
Key findings across all obligated suppliers	28
Key findings by obligated suppliers	29
8. Emerging issues in Scheme Year 2	36
Appendix 1 – WHD compulsory scheme electricity suppliers	38
Appendix 2 – Summary of WHD obligations	39

Executive Summary

The Warm Home Discount (WHD) requires participating domestic energy suppliers to provide approximately £1.13 billion of direct and indirect support to those who are in or at risk of fuel poverty. This support may be direct, through rebates to eligible customers, or indirect, through support to third parties that provide assistance to customers in or at risk of fuel poverty. The existing scheme runs until March 2015.

The Department of Energy and Climate Change (DECC) is responsible for WHD policy and legislation. Ofgem's role is to administer the scheme and monitor suppliers' compliance with their WHD obligations. As part of this role, we provide an annual report to the Secretary of State detailing suppliers' performance against their obligations. This is Ofgem's second annual report and covers activity which was undertaken during the second year of the scheme (SY2) 1 April 2012 to 31 March 2013.

We take our duty to protect vulnerable consumers and monitor supplier compliance very seriously. With this in mind, we are pleased all six obligated suppliers succeeded in delivering against their financial obligations in SY2. Overall suppliers spent a total of £290.3m to the benefit of those customers who are fuel poor or in a fuel poor risk group. When taking into account the relevant Legacy Spending and Industry Initiative caps, the spend counted under WHD was £283.3m, this was against an obligation of £275m. The scheme has four elements; the Core Group, Broader Group, Legacy Spending and Industry Initiatives. The key findings of each element are detailed below.

Core Group

The Core Group rebates provided were valued at £130 for older, fuel poor pensioner households. A total of 1,157,879 domestic customers benefited from a Core Group rebate, totalling a spend of roughly £150m. In line with the expansion of the Core Group eligibility criteria and the increase in rebate value in SY2, the number of beneficiaries increased by 65% and the total spend increased by 79%.

Suppliers ensured 99.9% of rebates were paid on time or were permissible exceptions³. The remaining 0.1% accounted for suppliers' minor contraventions of the WHD Regulations, including failure to provide rebates within the required timelines and failure to notify the Secretary of State of non Core Group customers within the required timelines.

Broader Group

Suppliers had a minimum Broader Group obligation of £47.6m, equating to 366,356 rebates at £130 each in SY2. All suppliers achieved their Broader Group minimum and collectively exceeded the minimum target by almost 34%, providing 489,494 Broader Group rebates, totalling £63.6m. All eligible Broader Group customers were provided with their Broader Group rebate before 31 March 2013. As a consequence of the increased Broader Group minimum in SY2, suppliers spent an additional £16m and provided 123,138 more Broader Group rebates than their obligation.

³ Permissible exceptions include regulation 8 exceptions and those circumstances where Ofgem determined that suppliers were not able to provide the rebate.

Legacy Spending

Suppliers can opt to count toward their non-core obligation the Legacy Spending tariffs and rebates that arose from the previous Voluntary Agreement. A cap of £70m was set by the Secretary of State for SY2.

All six suppliers chose to include Legacy Spending as part of their non-core spending in SY2. Overall, 966,823 customers benefited from a Legacy tariff or rebate, equating to a total spend of £54.3m. Of this, £47.3m was counted as WHD spend when taking into account the relevant caps. In line with WHD policy, spend on this element fell by 47% from SY1 and the number of customers benefiting from Legacy Spending fell by 33%.

Industry Initiatives

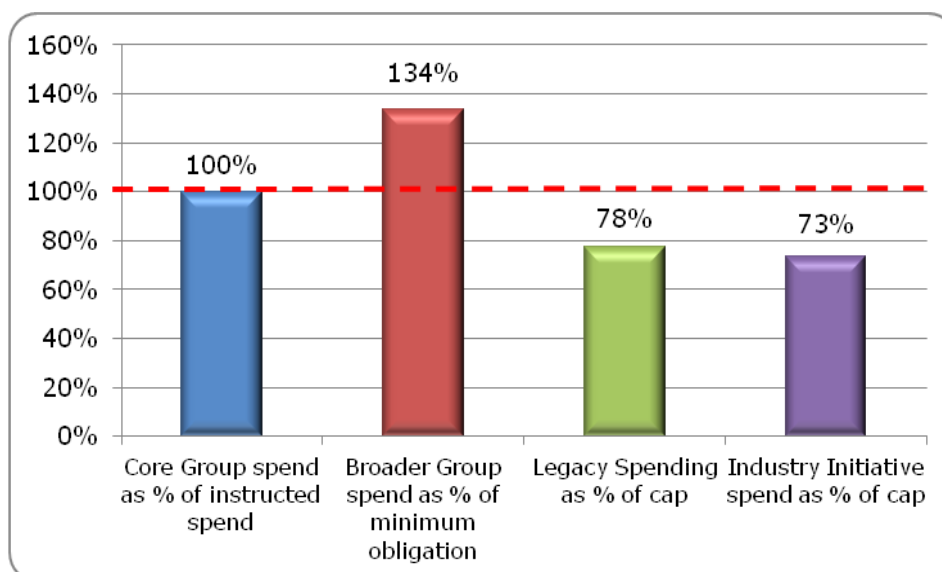
Suppliers can also choose to spend up to a collective maximum of £30m annually providing a wider range of support through Industry Initiatives to those in or at risk of fuel poverty. In SY2, suppliers collectively spent £21.9m on Industry Initiatives, benefiting a total of 98,739 customers and 3,862 trainees. The breakdown of spend by the six types of activity allowable under the WHD Regulations was; 70% on debt assistance, 11% on multi-activity initiatives, 10% on energy efficiency measures, 5% on energy advice, 3% on training and 1% on benefit entitlement checks.

Compared with SY1, suppliers spent an additional £1.3m and helped an additional 17,938 consumers in SY2. In line with the WHD Regulations, all Industry Initiatives wholly or mainly targeted their services to customers who were in fuel poverty or in a fuel poverty risk group and all initiatives were judged to have produced value for money.

Overall supplier spend and compliance

Figure A below illustrates suppliers' overall spending against their minimum obligations and maximum caps for SY2. Suppliers met the Core Group spend (as instructed to provide by DECC); exceeded the Broader Group minimum obligation by 34% and elected to spend 78% and 73% of the Legacy Spending and Industry Initiatives caps respectively. Minor contraventions of the scheme, notably Core Group, increased on SY1.

Figure A – Comparison of collective spending against minimum targets and maximum caps for Scheme Year 2



1. Introduction

Chapter Summary

This chapter provides a summary of the content and structure of Ofgem's Warm Home Discount Scheme Annual Report for Scheme Year 2.

Target audience

1.1. This report informs the Secretary of State (SoS) of the implementation and delivery of the WHD scheme during its second year. It is also aimed at gas and electricity suppliers and consumer groups, particularly those representing consumers vulnerable to fuel poverty and any other interested parties.

Background

1.2. The government is committed to tackling fuel poverty and assisting vulnerable consumers to heat their homes at an affordable cost.⁴ The WHD scheme is an important element in the Government's strategy for addressing the needs of households in or at risk of fuel poverty as it provides direct reductions to eligible consumers' energy bills.

1.3. Ofgem's role in the WHD scheme is to monitor and, where necessary, facilitate suppliers' compliance with their WHD obligations. One of Ofgem's key tasks is to publish an annual report of suppliers' activities under the WHD scheme. This, our second annual report, reviews suppliers' performance in the second year of the scheme and assesses whether or not they have met their obligations (for each element and their overall spend).

1.4. This report is based on information submitted by suppliers in their end-of-year compliance reports for SY2, which have been reviewed by Ofgem and agreed as accurate by suppliers' internal auditors and external auditors contracted by Ofgem.

Structure of the document

1.5. A summary of the different activities undertaken by suppliers as part of their WHD obligations for SY2 (1 April 2012 - 31 March 2013) is provided in this report. The remainder of this document is divided up into the following chapters:

- Chapters 2 - 5: Provide an overview of the activity which took place under each element (Core Group, Broader Group, Legacy Spending and Industry Initiatives) in SY2
- Chapter 6: Outlines Ofgem's Audit Programme and its key findings for SY2
- Chapter 7: Summarises the key outcomes by supplier for SY2
- Chapter 8: Raises issues that have emerged during SY2

1.6. In establishing the scheme, the SoS set the levels of spending for the duration of the scheme. These levels are divided between the core and non-core elements. Figure 1.1 shows the minimum obligations and caps for each element for SY2. A detailed explanation of each element and the intended spend for the four-year scheme period is contained in Appendix 2.

⁴ The Warm Homes and Energy Conservation Act 2000 committed the Government to implementing a strategy to tackle fuel poverty. The Government published the UK Fuel Poverty Strategy in 2001.

Figure 1.1 - SY2 WHD spend targets and limits

Core Group	Non-core scheme target	Non-core scheme elements				Overall spending target
		Broader Group minimum	Industry Initiative limit	Legacy Spending limit	LS & II combined limit	
£150m	£132m	£47m	£30m	£70m	£85m	£282m

1.7. These absolute values are subject to up to a 1% variation which facilitates supplier carry forward or carry back between consecutive scheme years.

Ofgem’s work directed towards vulnerable and fuel poor customers

1.8. Ofgem has created a Consumer Vulnerability Strategy to guide our work on vulnerability, and our expectations of the energy companies. The overarching objectives of the Strategy are for the energy market to understand and identify the causes of vulnerable situations in the energy market and reduce the likelihood and impact of such situations.

1.9. Vulnerability is about the situations that consumers are in, rather than about the individual per se. Risk factors stem from personal circumstances as well as from the energy market. Also, vulnerability can be transitory as people’s circumstances change. Our definition of vulnerability is when a consumer’s personal circumstances and characteristics combine with aspects of the market to create situations where he or she is significantly:-

- less able than a typical consumer to protect or represent their interests in the energy market; and/or
- more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial

1.10. The Strategy establishes an ongoing programme of work to identify and tackle vulnerability in the energy market. We will work with a range of stakeholders to achieve a work programme that is informed by research and insight, promotes best practice amongst suppliers and distributors, develops targeted and effective regulatory obligations, and promotes innovation in the provision of advice for consumers in vulnerable situations.

2. Core Group

Chapter Summary

This chapter provides an overview of the Core Group requirements placed on suppliers. It summarises the spend and the outcomes achieved by the obligated suppliers in Scheme Year 2.

Introduction

2.1. The Core Group element of the WHD scheme is administered by DECC who work closely with the Department for Work and Pensions (DWP) and participating suppliers to identify eligible Core Group customers.

Number of beneficiaries, rebate value and total spend

Key Finding

A total of 1,157,879 customers received a Core Group rebate in SY2. Each rebate, set at £130, was provided to customers between October 2012 and April 2013. All customers determined by the SoS to be eligible were paid the Core Group rebate. The total spending on the Core Group element for SY2 was £150.5m.

Eligibility criteria

2.2. In the second year of the WHD scheme, only recipients of Pension Credit Guarantee Credit (which is a subset of the Pension Credit) and those over 80 and receiving Pension Credit, Guarantee Credit and Savings Credit were eligible for a Core Group rebate.

2.3. Recipients of the appropriate Pension Credit who were not the person named on the electricity bill, or were a customer of a small supplier (i.e. with fewer than 250,000 domestic customers) that did not volunteer to participate in the scheme, were not eligible for a Core Group rebate.

The matching process

Data matching

2.4. Customers potentially eligible for the Core Group rebate are identified and located by matching name and address data held by the Government with the equivalent data held by suppliers. When a match is made between a person on the appropriate Pension Credit and an electricity customer, the SoS instructs the supplier to provide the rebate.

2.5. For SY2, DECC, DWP and suppliers worked together to improve this data matching process. The percentage of Core Group recipients identified through the data match increased from 85.19% in SY1 to 93.24% in SY2.

Key Finding

A total of 1,079,639 customers were provided with a Core Group rebate as a result of this automatic data matching process.

2.6. Not all eligible customers are found through automatic matching. For example, the spelling of a customer's name or address may differ between a supplier's dataset and DWP's records. As a result, customers who are not matched but are believed to fulfil the Pension Credit eligibility criteria are sent a letter asking them to contact a Government call centre. This is known as the 'sweep up' process.

Key Finding

78,240 customers were provided with a Core Group rebate as a result of the sweep up process.

Exceptions

2.7. Under regulation 8, the SoS has the authority to determine circumstances in which it would **not** be reasonably practicable for scheme electricity suppliers to provide the prescribed rebate to Core Group customers. The SoS has determined two exceptions:

- Exception A - a Core Group customer is deceased, that customer's account with its electricity supplier is closed, and the supplier has been unable to contact the customer's executor or a relative of the customer.
- Exception B - a Core Group customer has closed their account with the electricity supplier and no forwarding address has been provided to that electricity supplier.

2.8. In total there were 10 cases under Exception A and 78 cases under Exception B across the participating suppliers.

2.9. There may be instances where rebates are not provided to customers for reasons falling outside of the exceptions determined by the SoS. In such cases suppliers inform Ofgem of the reasons why these rebates cannot be provided. In SY2 reasons for non-payments included:

- 36 customers had non-domestic accounts and therefore were not eligible to receive a rebate
- 11 customers were not the named account holders and therefore rebates were not able to be provided
- 12 accounts were duplicates and the customers had already been provided a rebate
- 3 accounts were disconnected or de-energised and the rebate could not be provided
- 3 customers opted out of receiving the rebate and therefore rebates were not provided at the customers' request

2.10. For all cases Ofgem believes suppliers took adequate steps in an attempt to provide all rebates.

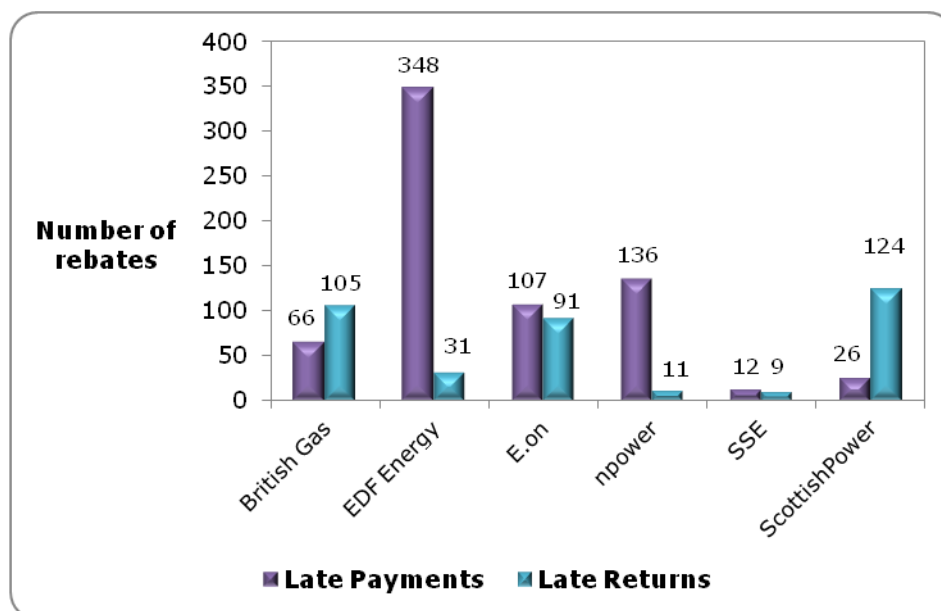
Breakdown of Core Group activity by supplier

2.11. Predominantly, supplier activities under the Core Group element were determined to be consistent with the WHD Regulations; overall 99.9% of rebates were paid on time or classified as a permissible exception⁵. The remaining 0.1% accounted for suppliers' minor contraventions of the WHD Regulations. These included:

- Failure to provide all rebates within the timescales outlined in WHD Regulations 7(6) and 7(7).
- Failure to notify the SoS within the timescales outlined in WHD Regulation 9(5) of persons who are not, or whom suppliers are not able to identify as, Core Group customers.

2.12. Figure 2.1 below shows a breakdown of these minor contraventions by supplier.

Figure 2.1 - Breakdown of Core Group minor contraventions by supplier



2.13. The implications of these minor contraventions are explored further in Chapter 8.

⁵ Permissible exceptions include regulation 8 exceptions and those circumstances where Ofgem determined that suppliers were not able to provide the rebate.

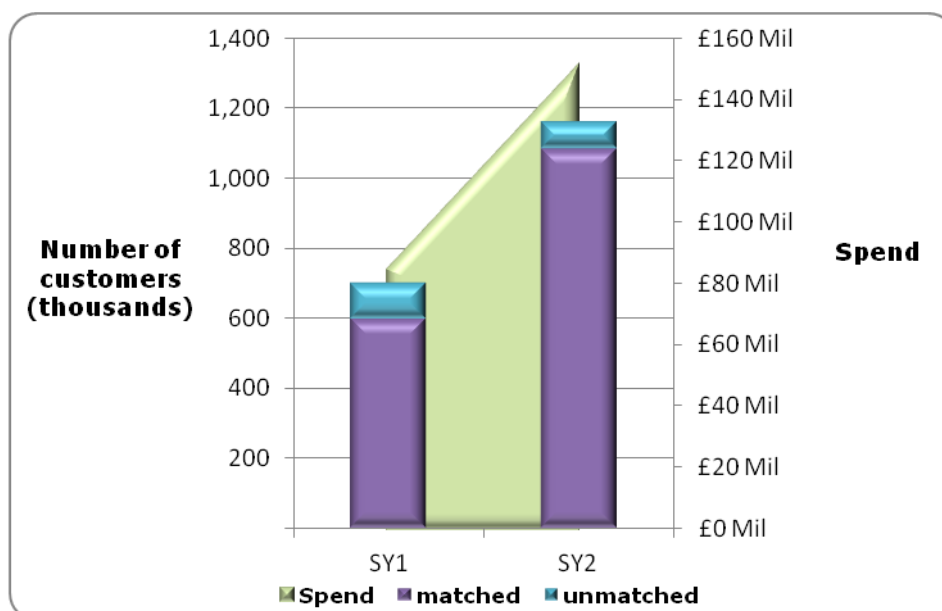
Comparison of SY1 & SY2 Core Group outcomes

Number of beneficiaries and total spend

2.14. In line with the expansion of the Core Group eligibility criteria and the increase in rebate value, the number of beneficiaries and total spend on the Core Group increased between the first and second year of the WHD scheme. The number of beneficiaries increased by 456,131 and the total spend increased by £66,314,490.

2.15. Figure 2.2 below illustrates this increase in the number of beneficiaries from 701,746 in SY1 to 1,157,879 in SY2 and spend from £84.2m in SY1 to £150.5m in SY2.

Figure 2.2 - Comparison of number of Core Group rebates and spend between SY1 and SY2



3. Broader Group

Chapter Summary

This chapter provides an overview of the Broader Group requirements placed on suppliers for the provision of Broader Group rebates. It summarises spending obligations and outcomes achieved by the participating suppliers in the second year of the scheme.

Broader Group summary

3.1. The Broader Group element of the WHD scheme requires suppliers to provide a minimum number of rebates to a wider group of fuel poor customers. Rebates are provided at the same value as the Core Group throughout the duration of the scheme, which was £130 in SY2.

3.2. In SY2, Broader Group minimum spending obligations across all suppliers was set at £47.6m, 36% of suppliers' total non-core spending obligation of £132m. This was a substantial increase on the target for SY1, and was set to enable a smooth transition between the introduction of a new rebate and facilitate achieving the SY3 target of £141m of Broader Group rebates under the WHD scheme.

Number of beneficiaries, rebate value and total spend

Key Finding

For SY2 the minimum target across all suppliers was 366,356 Broader Group rebates, equivalent to £47.6m. Suppliers exceeded the minimum spend requirement by 33.6%, by providing 489,494 rebates, equating to a total spend of £63.6m. This was a result of suppliers promoting their Broader Group in conjunction with reducing their Legacy Spending.

The Broader Group made up approximately 48% of suppliers' overall non - core spending in SY2, this compares to 18% in SY1.

Eligibility criteria

3.3. Suppliers can either use the predetermined criteria set out in the WHD Regulations⁶ or adopt their own Broader Group criteria. Ofgem must approve the use of either set of criteria.

Key Finding

All participating suppliers' Broader Group Eligibility Criteria were consistent with the requirements of the WHD Regulations.

Verification process

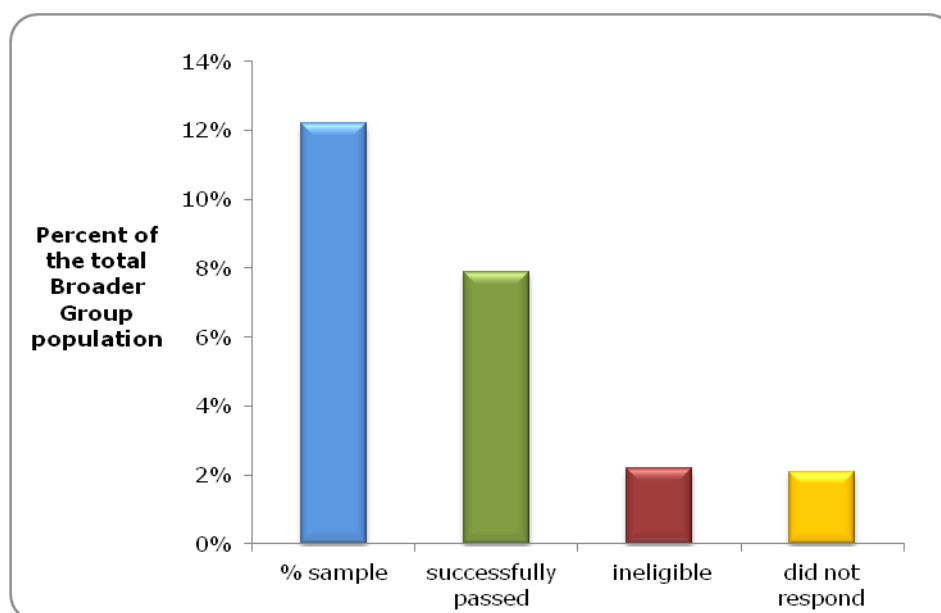
3.4. Suppliers are obligated to undertake the verification measures as set out in the WHD Regulations.

⁶Regulation 19(5) http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf

3.5. These verification measures are used by suppliers as a control measure in an effort to ensure rebates are provided to those who are eligible. Customers are deterred from making fraudulent claims by declaring they meet the eligibility criteria and understanding they may be asked to provide documentary evidence. A random sample is verified for documentary evidence, either by the supplier or a third party organisation, before rebates are provided. Under the legislation, suppliers must ensure that at least 5% of customers pass this documentary evidence check⁷.

3.6. All suppliers met or exceeded this target. The figure 3.1 below shows the percentage of the Broader Group population that were sampled and of this the percentage that successfully passed, were ineligible and did not respond e.g. did not provide documentation.

Figure 3.1 - Analysis of verification sampling



Key Finding

All suppliers met or exceeded the required verification measures.

Payment methods and notification to customers

3.7. The WHD Regulations provide details on the permissible methods for paying a rebate to a Broader Group customer.

3.8. As part of the provision of a Broader Group rebate a supplier must also notify the customer that this has been provided as a "rebate under the Warm Home Discount scheme."⁸

⁷ Regulation 19(7)(a) and paragraph 3, Part 2 of Schedule 2
http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf

⁸ Regulation 20 (4) http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf

Key Finding

All suppliers were found to have implemented the payment method and customer notification conditions consistently with the requirements of the WHD Regulations. All eligible Broader Group Customers were provided with a Broader Group rebate before 31 March 2013.

Comparison of supplier obligations against actual spend

3.9. All six suppliers opted to exceed their Broader Group minimum obligations, and thus gave a rebate to a larger number of eligible customers (circa 490,000). The overall difference of 33.6% above the minimum is shown in Figure 3.2 below which indicates the minimum obligation and actual rebates provided.

Figure 3.2 - Overall Broader Group performance against minimum obligation

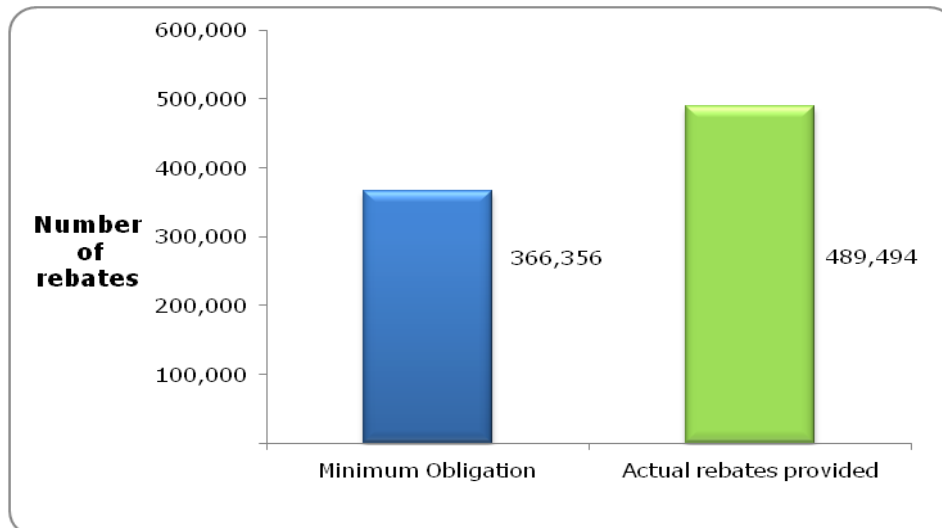
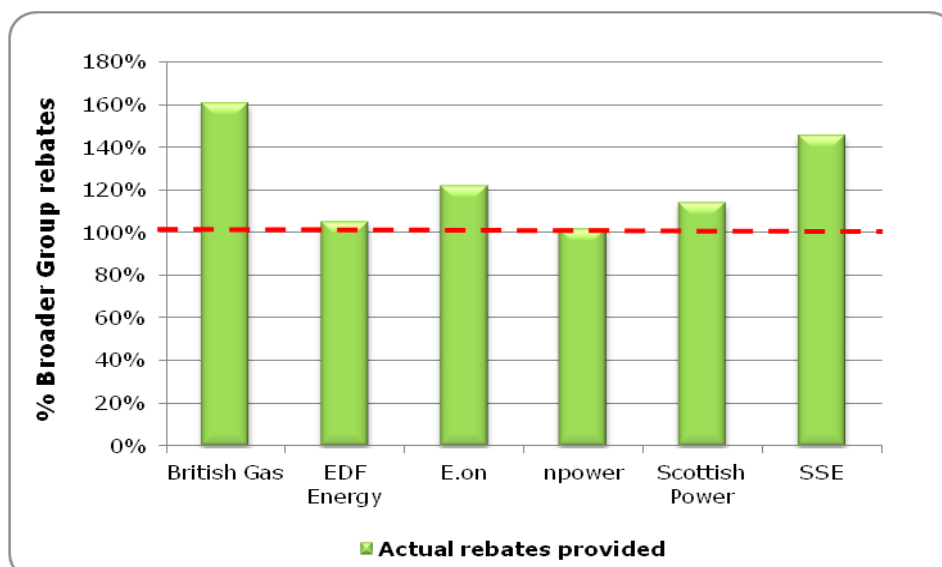


Figure 3.3 – Actual rebates provided against individual supplier minimum obligations



3.10. Figure 3.3 shows that British Gas and SSE exceeded their obligations by 60% and 45% respectively. E.on and ScottishPower by 22% and 14% respectively and EDF Energy and npower by 5% and 2% respectively. This overspend for certain suppliers underpins the downsizing of their Legacy Spending and preparation for another increase in Broader Group spend in SY3.

Comparison between SY1 and SY2

3.11. There was a step change in the Broader Group minimum obligation between SY1 and SY2 from £3.1m to £47m or just over 337,700 rebates. Suppliers were aware of this and last year most set their targets a lot higher than their minimum so as to reduce the transition to SY2. There is also substantial increase between scheme years 2 and 3 and some suppliers have again exceeded their minimum target in preparation for SY3.

3.12. Related to this is the decrease in the amount of Legacy Spending that can be counted toward a supplier's non-core obligation. As part of the transition some suppliers have actively supported the transition from Legacy Spending to Broader Group rebates in SY2.

3.13. Suppliers have sought to improve and make their processes for the administration of the Broader Group more effective, for example contracting with DWP to carry out the verification checks for eligibility criteria. This has resulted in a reduction in the percentage of Broader Group applicants found to be ineligible or not responding.

4. Legacy Spending

Chapter Summary

This chapter provides information on the Legacy Spending element of the WHD scheme and requirements placed on suppliers under this element. It summarises spending and outcomes achieved by the participating suppliers, broken down by discounted tariffs and rebates.

Introduction

4.1. Legacy Spending has been included in the WHD scheme to provide a smooth transition from the varying tariffs and rebates under the Voluntary Agreement to the fixed rebates offered to the Core and Broader Groups. It is not a compulsory element of the scheme, but suppliers who provide Legacy Spending are allowed to count it towards their non-core obligation. The maximum that can count towards suppliers' non-core obligations is being reduced incrementally from £140m across all suppliers in SY1 to £70m in SY2, £35m in SY3 and in SY4 Legacy Spending will no longer be part of the WHD scheme.

Number of participating suppliers, beneficiaries and total spend

Key Finding

All six supplier groups chose to include Legacy Spending as part of their non-core spending in SY2. A total of 966,823 customer accounts received a discounted tariff or legacy rebate. Suppliers spent £54.3m on the Legacy Spending element for SY2, however due to the impact of the combined Legacy Spending and Industry Initiative caps only £47.3m of this was counted towards their WHD obligation.

Criteria for Legacy Spending

4.2. A supplier must have provided support under the Voluntary Agreement in 2010/11 to participate in the Legacy Spending element of the scheme. The same eligibility criteria must be applied to a supplier's discounted tariffs and legacy rebates as was used under the Voluntary Agreement in 2010/11. In addition the number of customer accounts provided with a discounted tariff or legacy rebate by the supplier in a scheme year must not exceed the number of customer accounts provided with support in the last year of the Voluntary Agreement. Unlike the Broader Group and Industry Initiative elements, suppliers do not need to seek approval for this scheme activity.

Key Findings

All six suppliers provided legacy benefits within the regulatory criteria. Two companies holding licences in the npower group were not able to participate in the Legacy Spending element since they did not provide support under the Voluntary Agreement in 2010/11.

Discounted tariffs

4.3. The value of a discounted tariff that suppliers may count towards their non-core obligation is an averaged and seasonally weighted value, based on prices and customer numbers for each month.

Key Findings

In total 925,398 customers were provided with assistance to meet their energy costs through discounted tariffs to a total value of £48.5m. The value of benefit to individual customer accounts ranged from approximately £18 to £166 depending on the tariff and supplier.

All six suppliers provided at least one discounted tariff, with eight different tariffs being provided in total.

Rebate schemes

4.4. Electricity and gas rebates can also be provided to eligible customers under Legacy Spending. The value and frequency of that rebate is at the supplier's discretion. The supplier counts as Legacy Spending the total value of rebate support provided in the scheme year.

Key Findings

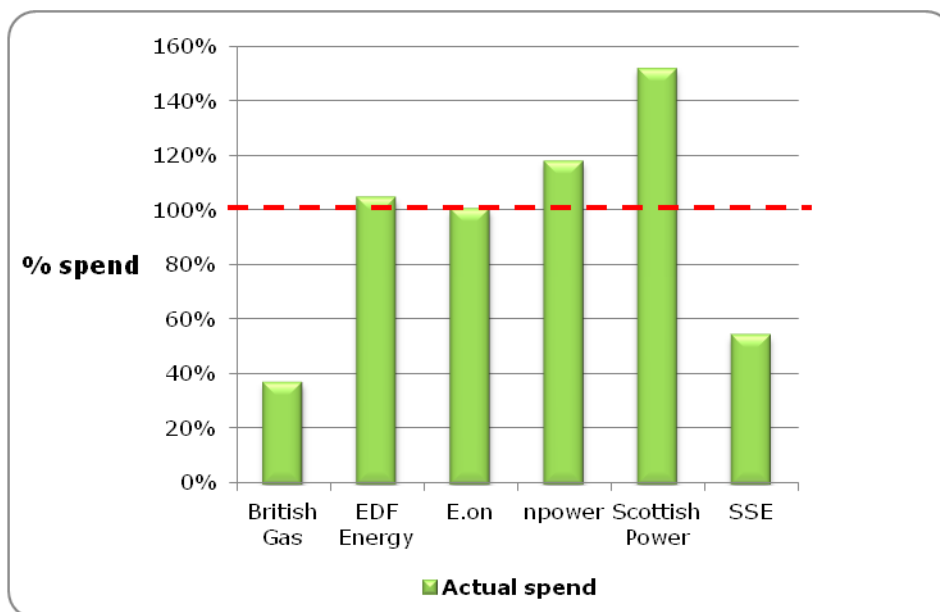
The amount of Legacy Spending through the provision of rebates was £5.8m

Two of the supplier groups offered Legacy Spending rebates, to a total of 41,425 customers, each of whom received assistance that averaged between £46 and £152.

Comparison of supplier spend against Legacy Spending cap

4.5. Figure 4.1 below shows each supplier's spend against their Legacy Spending cap. In line with the WHD Regulations, suppliers are not permitted to count any Legacy Spending beyond their individual Legacy Spending caps. Ofgem is aware some suppliers may have spent more on their Legacy tariffs and rebates than they reported to Ofgem. As demonstrated below three suppliers opted to report their overspend to Ofgem; EDF Energy, the npower group and ScottishPower all reported an overspend of 3.9%, 17.4% and 51.2% respectively. The total attributable spend for Legacy Spending, limited to their respective caps, for all suppliers was £47.3m.

Figure 4.1 – Actual Legacy Spending against individual supplier Legacy Spending caps



Comparison between SY1 and SY2

4.6. In line with the WHD Regulations and the targets set by the SoS, suppliers have continued the transition from providing support through Legacy Spending tariffs and rebates across to Broader Group and Core Group rebates in SY2. The total Legacy Spending in SY1 was £102.9m; this has fallen to £54.3m in SY2. The reduction in Legacy Spending should continue across all suppliers with the cap on Legacy Spending halving to £35m in SY3.

5. Industry Initiatives

Chapter Summary

This chapter discusses the Industry Initiatives element of the WHD scheme, with particular reference to the compliance of suppliers with the WHD Regulations, the range of Industry Initiative activities, their targeting and the number of customers that benefitted. It also provides information about the amounts spent on each type of activity and the value for money of the initiatives and when relevant comparison with SY1.

Introduction

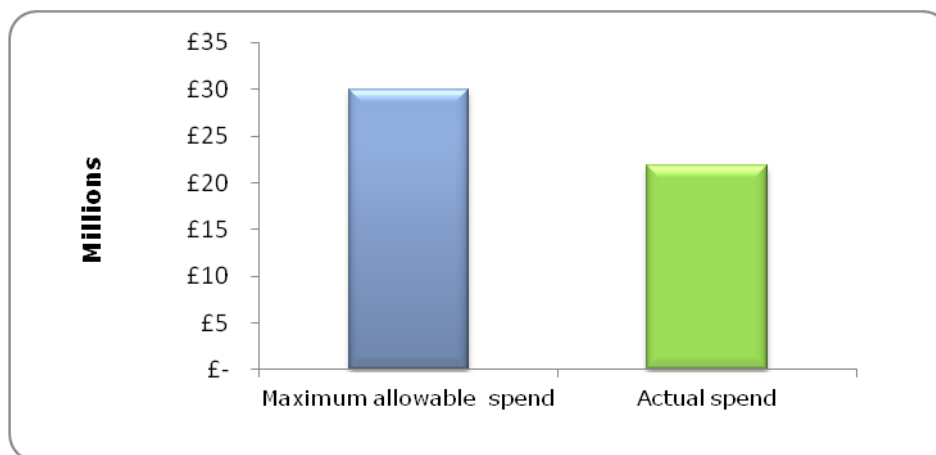
5.1. Industry Initiatives are the fourth element of the WHD scheme. The overall limit of spending on Industry Initiatives that can count towards suppliers' non-core obligations is capped at £30m⁹ in each Scheme Year.

5.2. Suppliers are required to submit notifications to Ofgem outlining their Industry Initiative. Ofgem approves the Industry Initiative if the proposal is determined to be in line with the WHD Regulations.

Analysis of Industry Initiatives activities in SY2

5.3. Figure 5.1 shows the maximum spending on Industry Initiatives that suppliers could count towards their non-core obligation in SY2 and the total of £21.9m that together suppliers spent in SY2.

Figure 5.1 – SY2 Industry Initiatives spend, actual against maximum



Analysis by activity

5.4. The WHD Regulations outline the six types of activity eligible under the scheme (energy debt assistance, energy efficiency advice, energy efficiency measures¹⁰, benefit entitlement checks,

⁹ Subject to the proviso that the supplier has not exceeded the combined maximum for Legacy Spending and Industry Initiatives (£85m in Scheme Year 2).

¹⁰ This includes energy efficiency appliances, thermal efficiency measures and microgeneration as set out in Schedule 4

referrals and energy efficiency training). Industry Initiatives do not have to focus on just one of the six types of activity specified in the WHD Regulations. Almost half (11 out of 24) of the approved initiatives involved a combination of activities, most commonly energy advice combined with benefit entitlement checks and referrals for rebates or energy measures.

Debt assistance

5.5. The largest proportion (70%) of Industry Initiative spending went to providing energy debt assistance to customers. This compares to 58% in SY1. Debt assistance (including debt relief) is part of a package which includes energy advice and financial advice. In total, 22,038 (22% of total) customers benefited from debt assistance services, an increase of 2,189 customers on SY1. The average award increased from £677 in SY1 to £692 in SY2.

Energy efficiency advice and multiple activity initiatives

5.6. There was one initiative (3% of customers) that provided only energy advice, although along with this advice customers were encouraged to apply for Broader Group rebates and/or benefits. Six initiatives combined energy advice with benefits entitlement checks, referrals to energy suppliers for rebates, social tariffs and energy measures. The largest proportion of customers (53%) or 52,114 benefited from energy efficiency advice.

Energy efficiency measures

5.7. Two suppliers directly supported the provision of measures. The types of measures provided ranged from providing energy efficiency appliances to assistance with energy efficient heating. The spend on this element was about 10%, with 7% of customers benefitting. The average cost across all measures was £339, compared with £367 in SY1.

Referrals and benefit entitlement checks

5.8. Although there was only one project for referrals only, this type of activity is often included in a package of advice provided to customers. There were six benefit entitlement checking initiatives accounting for 1% of the total spend and 4% of the customers benefiting from this type of Industry Initiative.

Energy efficiency training

5.9. Energy Efficiency training accounted for 3% of total spend with 3,862 front line workers or volunteers receiving training on energy efficiency.

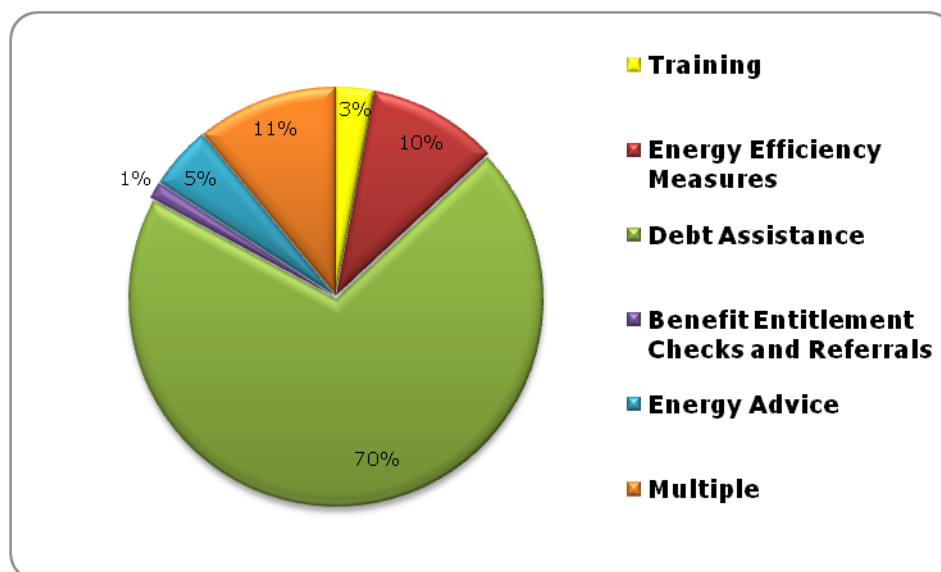
Key Finding

All suppliers' Industry Initiative activities were consistent with the WHD Regulations. In total, of the £30m available for Industry Initiatives, suppliers spent £21.9m. This is 73% of total allowable spend. In total 98,739 customers and 3,862 trainees benefited from Industry Initiative activities in SY2.

Industry Initiative spend by activity

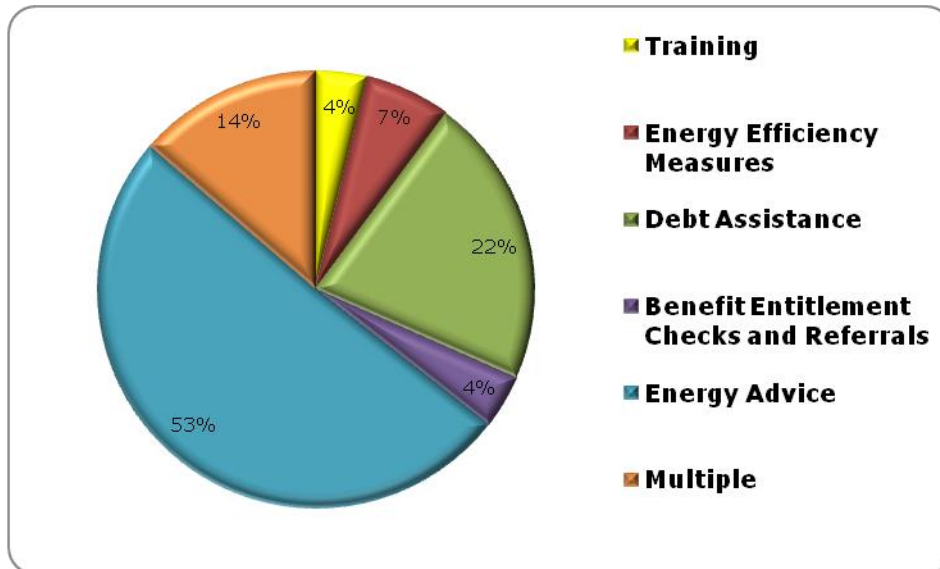
5.10. Figure 5.2 shows the proportions of total spending in SY2 by each type of activity. The highest proportion (70%) of spending was devoted to assistance with reducing energy debt, and four of the six suppliers engaged in this activity. The next highest proportions of spend at circa 10% were providing energy efficiency measures and 11% on multiple activity Industry Initiatives.

Figure 5.2 –Industry Initiative spending by activity



5.11. Figure 5.3 shows the proportion of the total number of customers (and of persons trained to give energy advice) that have benefited from spending under the various Industry Initiative activities. The highest proportion of customers benefited from energy advice initiatives (53%), followed by debt assistance (22%).

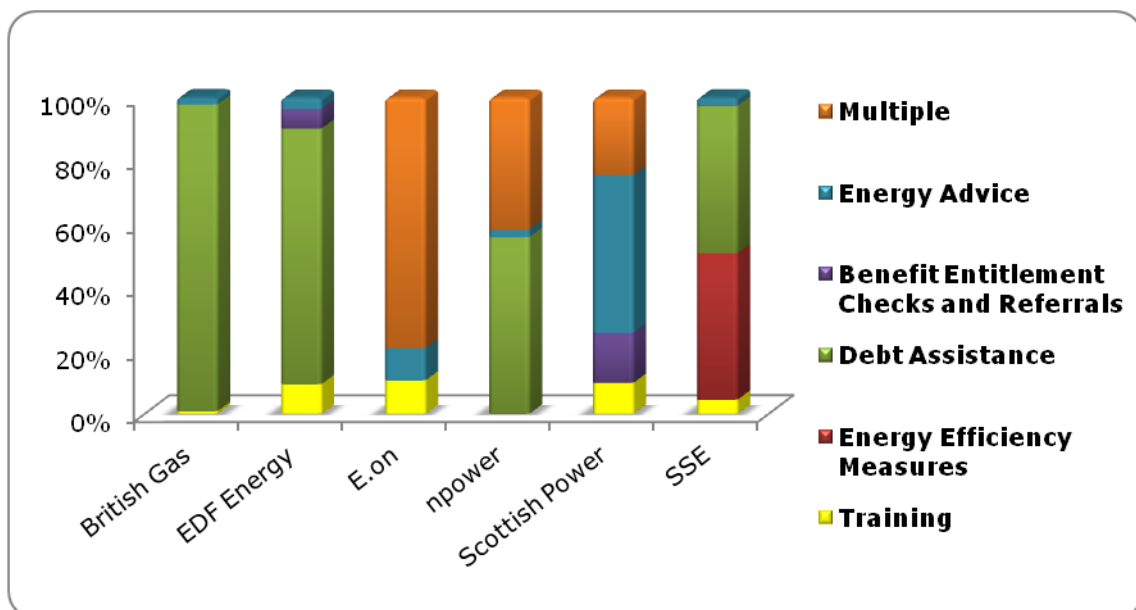
Figure 5.3 - Customers benefiting from WHD Industry Initiative by activity



Supplier breakdown

5.12. Most suppliers used their Industry Initiatives to support several different types of project. Figure 5.4 shows the variety of ways in which suppliers have used their spending on Industry Initiatives

Figure 5.4 - Spending by each supplier on types of Industry Initiatives



Targeting those who are at risk of or are fuel poor

5.13. In total 98,739 customers who were fuel poor (or at risk) and 3,862 trainees benefited from Industry Initiative spending.

Value for money analysis

5.14. Value for money is one of the three criteria against which a supplier's notification must be approved¹¹. During end of year compliance each Industry Initiative is assessed on whether value for money has been achieved. There were four Industry Initiatives where the amount of spend attributed to the suppliers' non-core obligation had to be adjusted to ensure value for money.

Comparison between SY1 and SY2

5.15. Although the total spend level is similar to SY1, the key differences between SY1 and 2 are:

- An increase in the number of customers benefiting from Industry Initiative spend by 120% from 80,801 in SY1 to 98,739 in SY2.
- A change in spend profile with a higher proportion of spend supporting 'assistance with energy debt' from 58% in SY1 to 70% in SY2.
- Most customers in SY2 benefited from energy advice (53%) provided with other activities, in comparison to SY1 where most customers benefited from multiple activity initiatives.

¹¹ Regulation 27(3)(c) http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf

6. Ofgem Audit Programme

Chapter Summary

This chapter explains the aims of and the reasons for the audit programme, as it was designed for the WHD scheme. It also summarises the findings of the audits conducted in SY2.

Ofgem audit programme

Aim of the audit programme

6.1. Ofgem keeps under review the operation of any support scheme and licensed suppliers' compliance with it. Ofgem therefore seeks to ensure that suppliers discharge their obligations and comply with the WHD Regulations.

6.2. The audit strategy for SY2 sought to provide assurance about compliance, meeting of obligations and accuracy of end-of-year reporting by suppliers. To this end, there were three strands of audit:

- external audit commissioned by Ofgem
- suppliers' internal audit
- independent audit of Ofgem's internal systems and processes for assessing compliance with the scheme at year end

6.3. The level of external audit input across the entire scheme was weighted towards SY1, supporting suppliers to minimise the risk of non compliance in the first year of the scheme. For SY2 onwards, suppliers agreed to take additional responsibility for providing independent assurance of compliance, allowing Ofgem to focus audit resources on areas of high risk.

6.4. Ofgem also adopts measures aimed at managing risks to the scheme, with particular focus on minimising the risk of fraud. These measures contribute to the risk-based approach of audit work designed to achieve the required level of assurance for the scheme.

6.5. In SY2, Ofgem engaged independent external auditors to undertake a programme of audits, covering all suppliers, across elements of the WHD scheme. The audit programme also included verification of the customer numbers submitted by each supplier, ensuring the accuracy of market share calculations.

6.6. As in SY1, Ofgem commissioned an independent evaluation of its internal processes, focussing in SY2 on ensuring that processes for assessing compliance at the scheme year end are robust.

Programme key findings

Key Findings

In SY2 independent auditors found that suppliers had, in the vast majority of cases, processed Core Group instructions in a timely fashion, however a small number of instances were noted where statutory deadlines were not met. This information formed part of the compliance assessment and suppliers have committed to improving processes to minimise the risk of reoccurrence.

Other audit work focused on compliance risks in supplier activities, and verifying accuracy of aspects of supplier End of Year submissions. Most activities were found to be operating effectively, and management actions have been agreed with suppliers to address findings from audit work. Auditors also noted areas of good practice within suppliers' scheme activities.

An independent review of Ofgem's internal systems and processes concluded that their systems and processes are suitable to enable Ofgem to make robust and evidence based compliance decisions.

6.7. For SY2, the controls to ensure timely processing of Core Group instructions and to prevent payments to customers who are ineligible for the Broader Group, for each supplier were audited by Ofgem-appointed auditors. A range of other activities were also examined, spanning higher-risk activities across Broader Group, Legacy Spend and Industry Initiatives. Additionally, the customer numbers for each supplier were audited. In total, Ofgem-appointed auditors carried out 24 audits of supplier activities and data.

6.8. As a result, the following opinions on assurance were obtained:

Element	Good/ Satisfactory Assurance	Weak	Unsatisfactory
Customer numbers	6	0	0
Broader Group	2	0	0
Core Group/Broader Group combined	3	3	0
Industry Initiative	7	1	1*
Legacy Spending	1	0	0
Total	19	4	1

* see Para 6.12

6.9. Assurance ratings for Ofgem-appointed audits were agreed with the appointed auditors; these expressed their opinion of suppliers' ability to demonstrate compliance to the WHD Regulations. Definitions of these ratings were shared with suppliers.

6.10. With the exception of one Industry Initiative, all activities received a minimum of Limited Assurance through audit. In each case, where Limited Assurance was noted from external audit, Ofgem sought and obtained sufficient additional evidence-based information from suppliers. Recommendations were provided as part of the audit and Ofgem ensured that these recommendations had been addressed and recommended improvements put in place. This meant that Ofgem could assess these activities as compliant with the WHD scheme.

6.11. Whilst there were three “Weak” ratings in the Core/Broader Group combined audits, the tests that Ofgem instructed their external auditors to conduct were designed intentionally to examine areas where it was perceived non-compliances were most likely to occur. This risk-based approach demonstrated its value as a number of non-compliances were identified which added to Ofgem’s evidential base on scheme contraventions. Identifying these allowed suitable recommendations to be made, that Ofgem is pursuing with Suppliers to mitigate the likelihood of reoccurrence in SY3 onwards.

6.12. One Industry Initiative was rated “Unsatisfactory” during SY2. This was due to the auditor’s concerns that insufficient progress was being made to complete activity within required timescales without significant remedial action. However, the supplier agreed a new action plan and tighter monitoring of progress to address these concerns, and all activity was completed by the deadline. This was confirmed by the supplier’s internal audit team, who provided End-of-Activity reporting to substantiate the supplier submission and confirm agreed management actions had been implemented.

6.13. For activities not audited by Ofgem-appointed auditors, reliance was placed on supplier independent internal audit functions to ensure audit assurances were obtained for all activities counted towards WHD obligations. Internal audit scope was set out in supplier guidance and agreed with suppliers during the scheme year to ensure independent assurance required by Ofgem was obtained.

6.14. Ofgem will continue to work with suppliers in each scheme year to ensure that the internal audits they provide meet the requirements for audit assurance of the WHD scheme.

7. Supplier compliance for Scheme Year 2

Chapter Summary

This chapter summarises the key outcomes for the second year of the Warm Home Discount Scheme. It provides an overview of compliance for scheme activity and financial obligation. It then provides information by participating on each element of the scheme and compliance with their financial obligations.

Key findings across all obligated suppliers

Compliance with WHD Regulations

7.1. There are two main areas that Ofgem focuses on in ensuring that suppliers have fulfilled their obligations under the WHD Scheme. The first is to check that suppliers have carried out the implementation of the scheme in line with the criteria and direction provided in the WHD Regulations (2011). The second is to ensure that each supplier has fulfilled their financial obligations for each element and then across the scheme as a whole, again in line with the regulations.

7.2. Figure 7.1 summarises supplier compliance against activity. All suppliers had minor contraventions in the Core Group (as outlined in Chapter 2 and detailed in Chapter 8). All suppliers were found to have complied with the WHD Regulations in the delivery of their Broader Group rebates, Legacy Spending and Industry Initiatives.

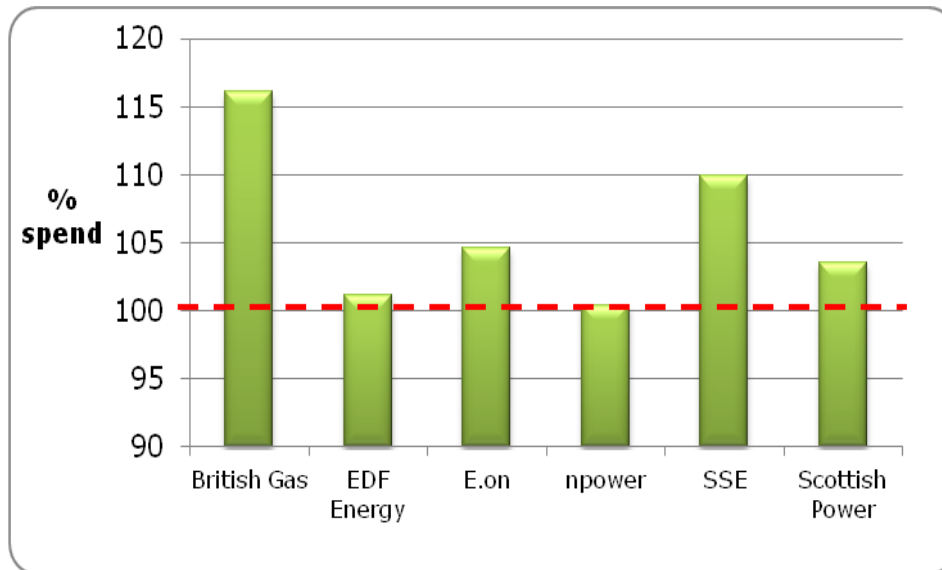
Figure 7.1 Supplier Compliance

	Core Group	Broader Group	Legacy Spending	Industry Initiatives
British Gas	Minor contraventions	Compliant	Compliant	Compliant
EDF Energy	Minor contraventions	Compliant	Compliant	Compliant
E.on	Minor contraventions	Compliant	Compliant	Compliant
npower	Minor contraventions	Compliant	Compliant	Compliant
SSE	Minor contraventions	Compliant	Compliant	Compliant
ScottishPower	Minor contraventions	Compliant	Compliant	Compliant

Compliance with SY2 WHD Spending Obligations

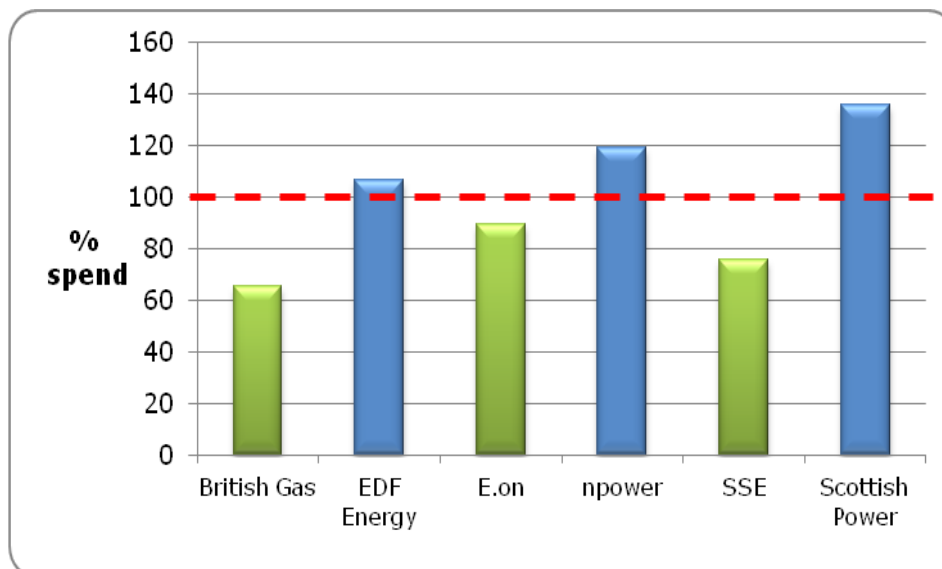
7.3. The second main area for compliance checking is to ensure that each supplier has met each of their financial obligations or targets. For the provision of Core Group and Broader Group rebates all suppliers were found to have met and some have exceeded their targets. The graph in Figure 7.2 illustrates this.

Figure 7.2 - Core and Broader Group spend by supplier



7.4. Legacy Spending and Industry Initiatives spend can be counted toward a supplier’s WHD spending obligation. The targets set by the SoS for Legacy spend decrease over the four years of the WHD Scheme to zero in year 4 of the scheme. The graph below shows how suppliers are managing the transition of providing support to fuel poor customers through Legacy Spending (mostly through discounted tariffs) to Core and Broader Group rebates. It shows that three out of the six suppliers are managing to reduce their legacy spend in line with the capped spending levels set by the SoS, with the remainder still exceeding the allowable spend ceiling, any excess does not count toward their obligations.

Figure 7.3 - Supplier spend against Legacy Spending and Industry Initiative caps



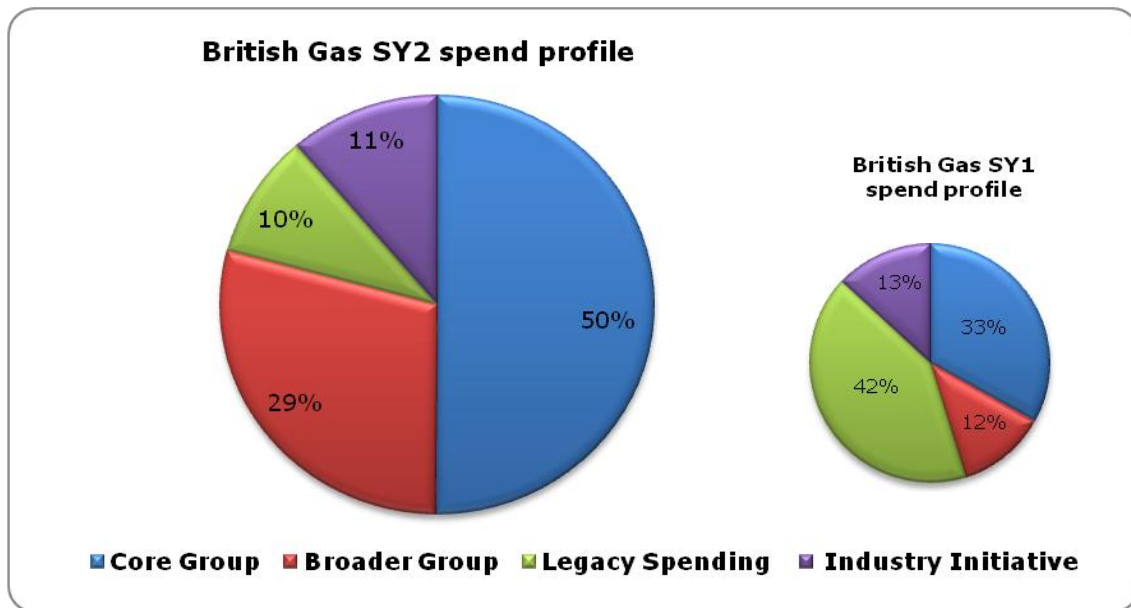
Key findings by obligated suppliers

7.5. Based on the information provided by suppliers in their end-of-year reports, Ofgem determines the attributable spend per supplier against each element of the WHD scheme.

British Gas

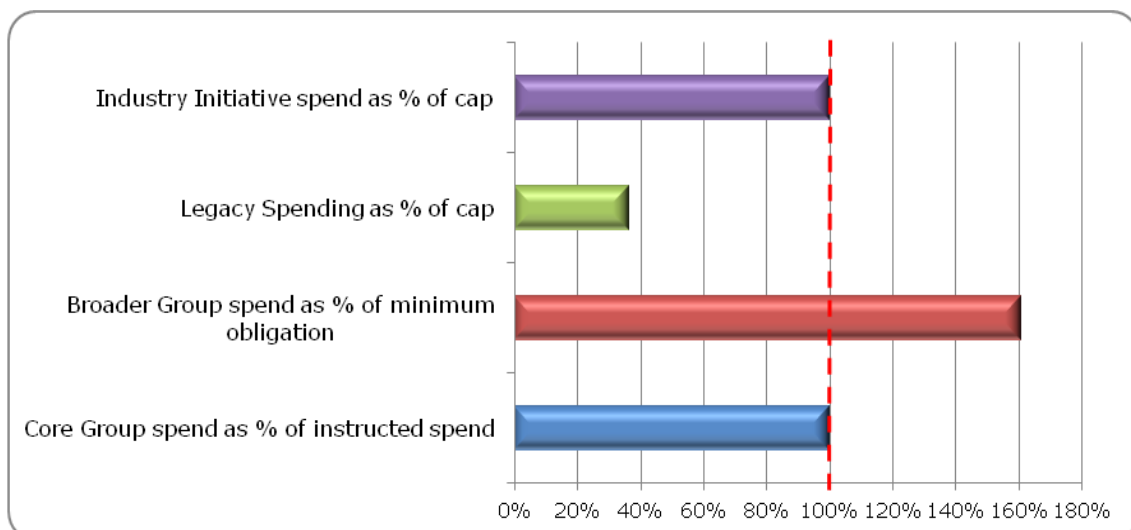
7.6. Figure 7.4 provides a breakdown of British Gas’s spend in SY2. It shows that the majority of spend (79%) was through Core and Broader Group rebates. The figure also shows the SY1 spend profile and illustrates the progress that British Gas has made in moving support from Legacy Spending to Core and Broader Group rebates.

Figure 7.4 – British Gas WHD spend SY2



7.7. Figure 7.5 illustrates how British Gas has performed against their obligations in SY2. In particular it shows British Gas has aligned their WHD spend with the requirements set out by the SoS for SY2 of the WHD scheme with a shift from Legacy Spending to Broader Group Rebates.

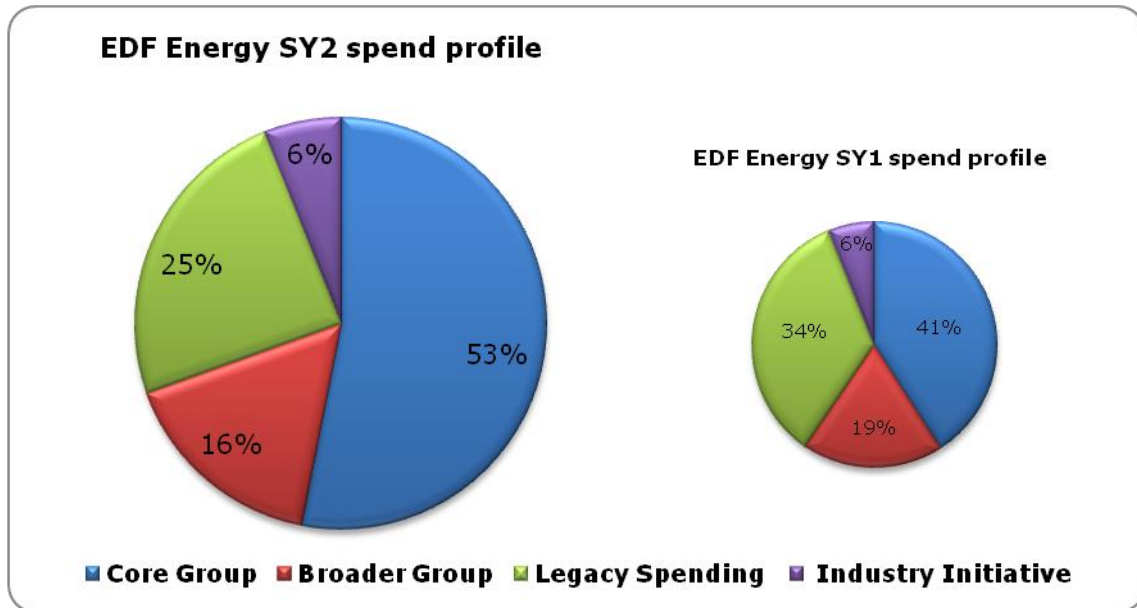
Figure 7.5 – British Gas WHD Obligations and Spend in SY2



EDF Energy

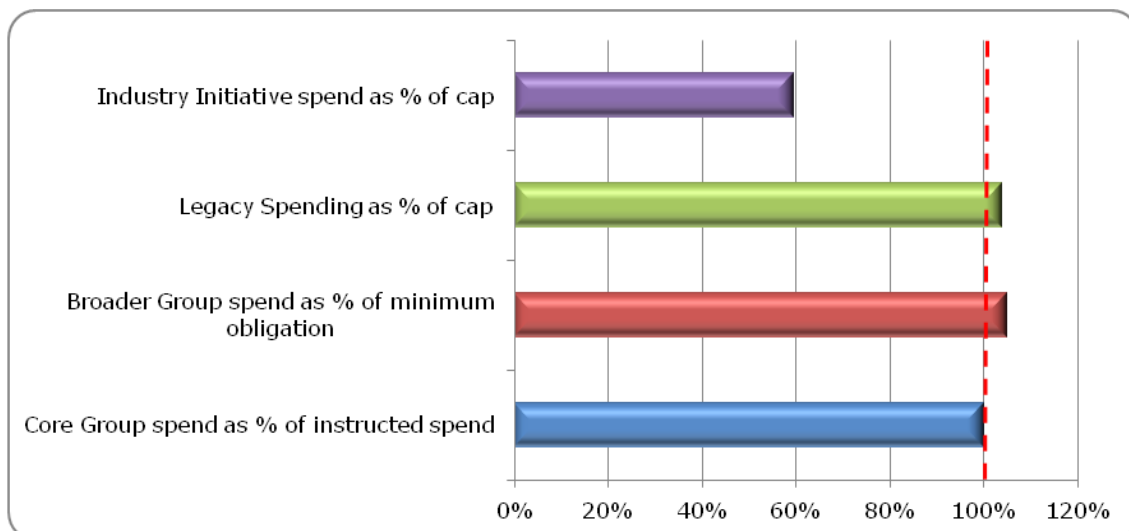
7.8. Figure 7.6 provides a breakdown of EDF Energy’s spend in SY2. It shows that the majority of spend (69%) was through Core and Broader Group rebates. It also shows the SY1 spend profile and illustrates the progress that EDF Energy has made in moving support from Legacy Spending to Core and Broader Group rebates.

Figure 7.6 – EDF Energy WHD spend SY2



7.9. Figure 7.7 illustrates how EDF Energy has performed against their obligations in SY2. In particular it shows that EDF Energy has aligned their WHD spend with the requirements set out by the SoS for SY2 of the WHD scheme, and optimised their Industry Initiatives spend within the allowable caps.

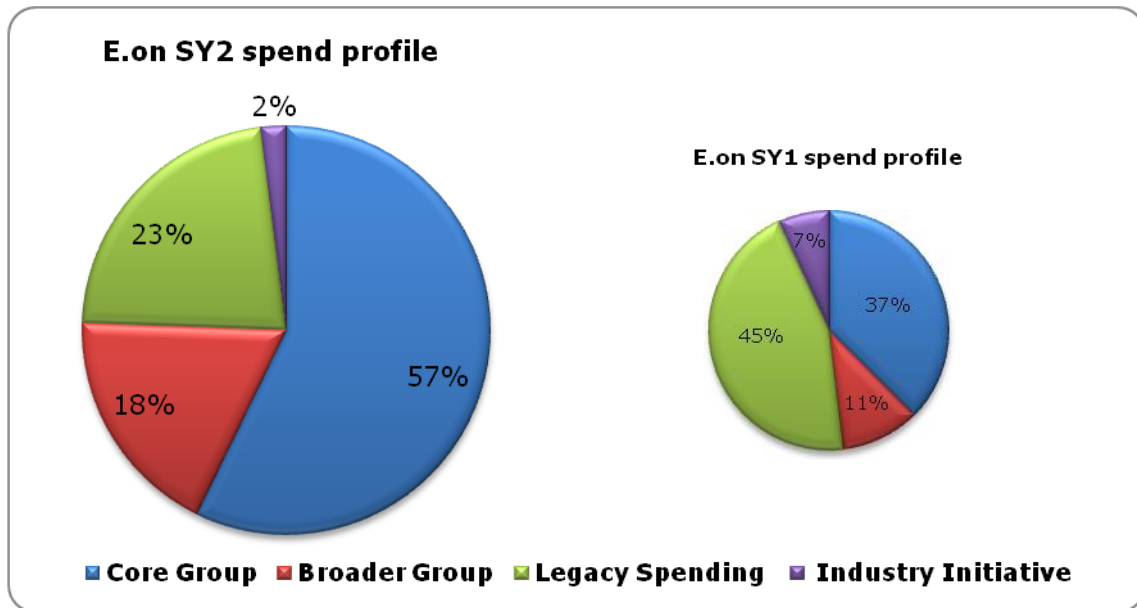
Figure 7.7 – EDF Energy WHD Obligations and Spend in SY2



E.on

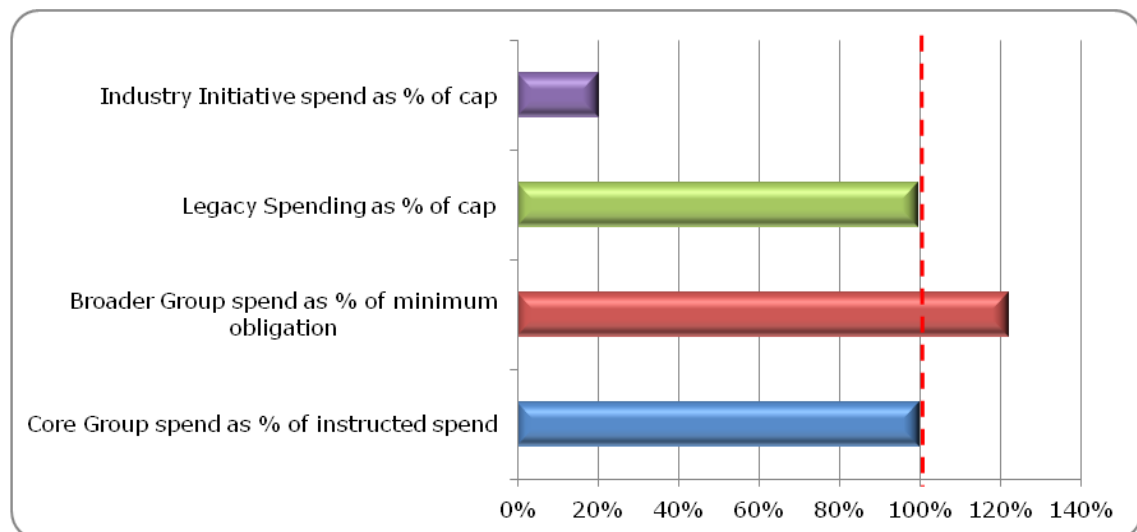
7.10. Figure 7.8 provides a breakdown of E.on's spend in SY2. It shows that the majority of spend (75%) was through Core and Broader Group rebates. It also shows the SY1 spend profile and illustrates the progress that E.on has made in moving support from Legacy Spending to Core and Broader Group rebates.

Figure 7.8 – E.on spend SY2



7.11. Figure 7.9 illustrates how E.on has performed against their obligations in SY2. In particular it shows that E.on has aligned their WHD spend with the requirements set out by the SoS for SY2 of the WHD scheme, and optimised their Industry Initiatives spend within the allowable caps.

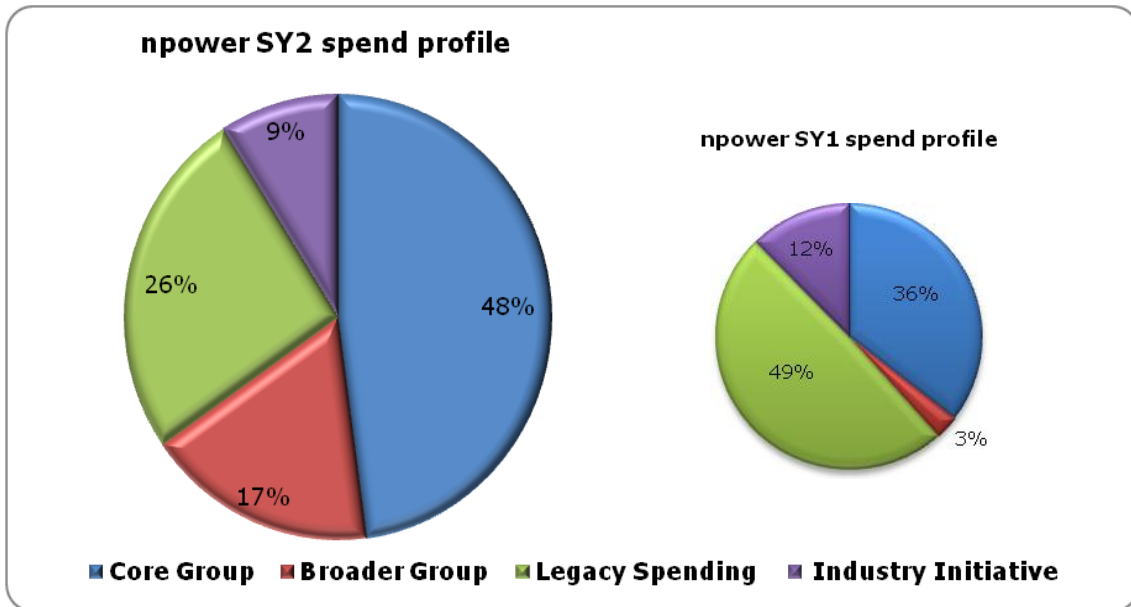
Figure 7.9 – E.on WHD Obligations and Spend in SY2



npower

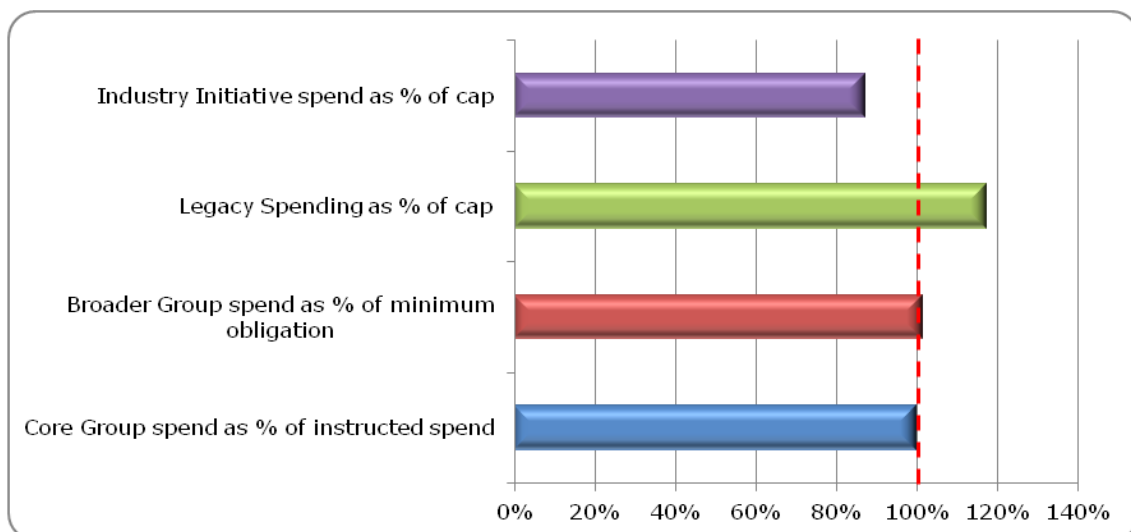
7.12. Figure 7.10 provides a breakdown of npower’s spend in SY2. It shows that the majority of spend (65%) was through Core and Broader Group rebates. It also shows the SY1 spend profile and illustrates the progress that npower has made in moving support from Legacy Spending to Core and Broader Group rebates.

Figure 7.10 – npower spend SY2



7.13. Figure 7.11 illustrates how npower has performed against their obligations in SY2. In particular it shows that npower has aligned their WHD spend with the requirements set out by the SoS for SY2 of the WHD scheme.

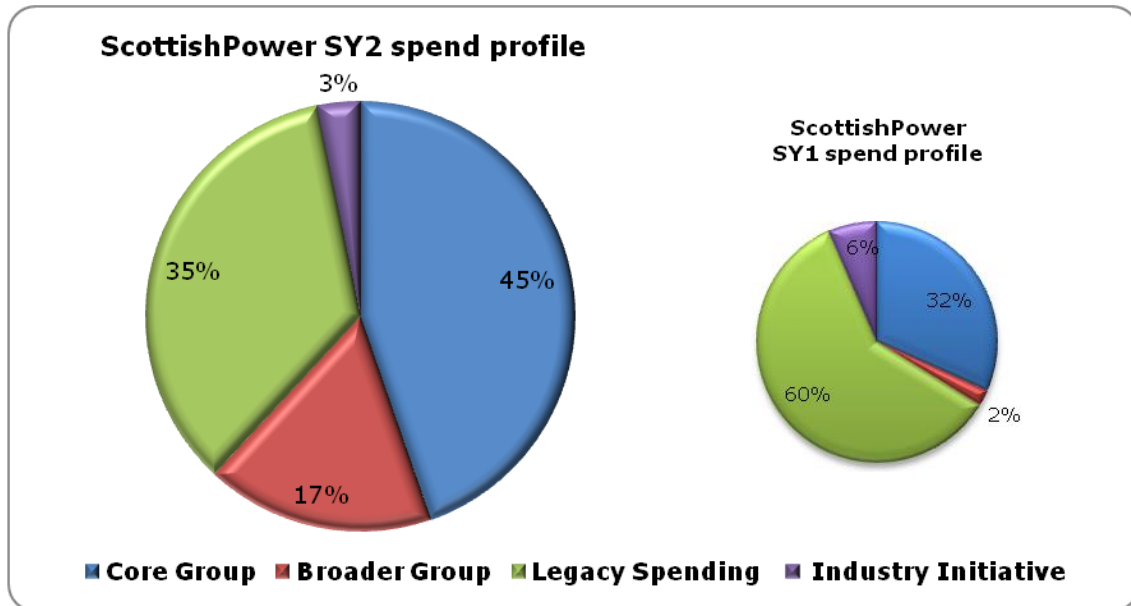
Figure 7.11 – npower WHD obligations and spend in SY2



ScottishPower

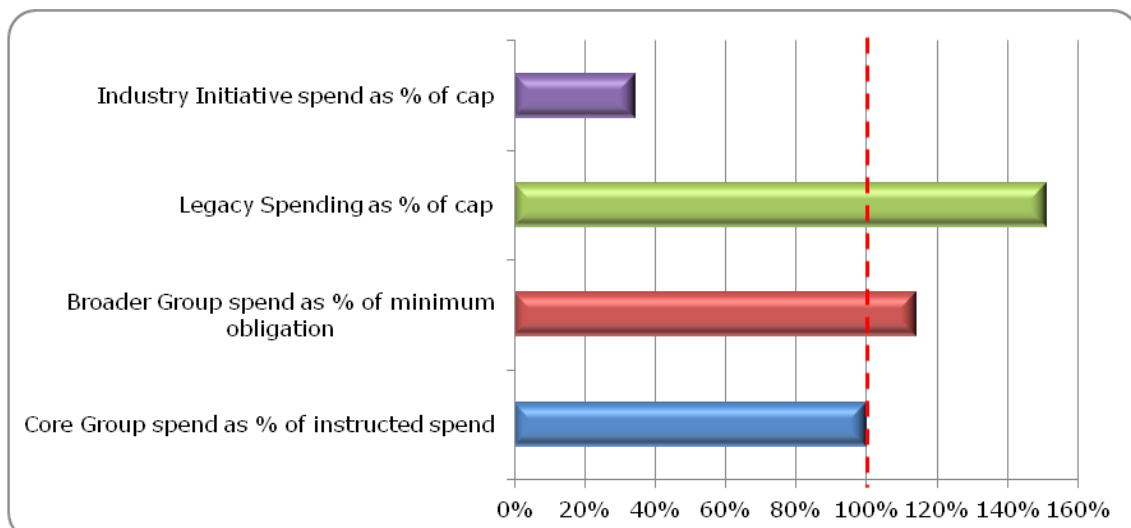
7.14. Figure 7.12 provides a breakdown of ScottishPower’s spend in SY2. It shows that the majority of spend (62%) was through Core and Broader Group rebates. It also shows the SY1 spend profile and illustrates the progress that npower has made in moving support from Legacy Spending to Core and Broader Group rebates.

Figure 7.12 – ScottishPower spend SY2



7.15. Figure 7.13 illustrates how ScottishPower has performed against their obligations in SY2. In particular it shows that ScottishPower has aligned their WHD spend with the requirements set out by the SoS for SY2 of the WHD scheme, with the exception of their Legacy Spending. Their low Industry Initiatives spend reflects the joint Legacy Spending and Industry Initiatives cap.

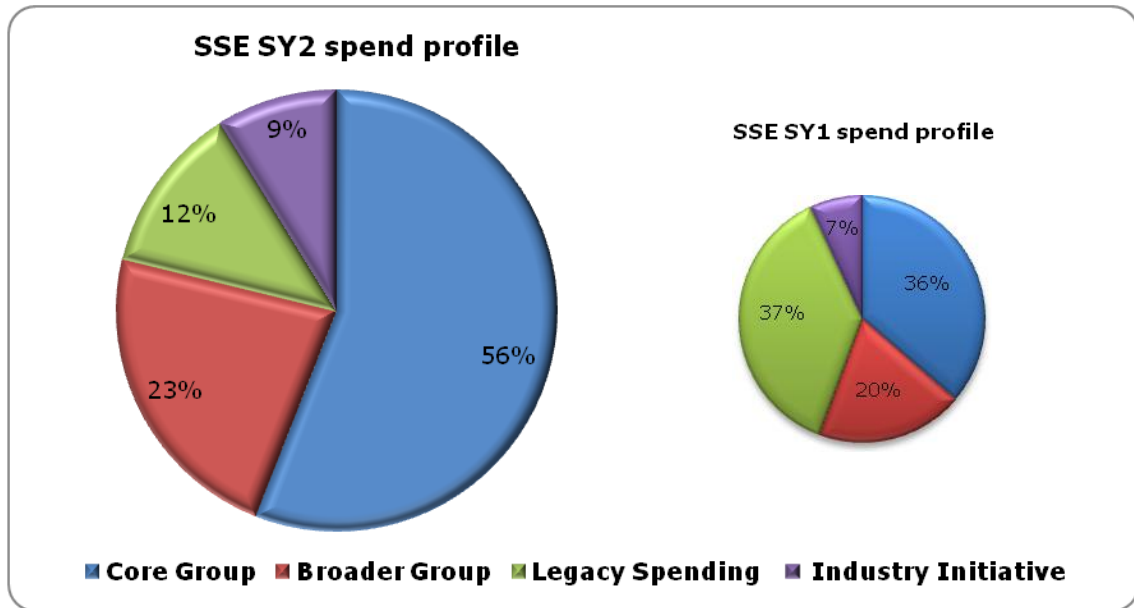
Figure 7.13 – ScottishPower WHD obligations and spend in SY2



SSE

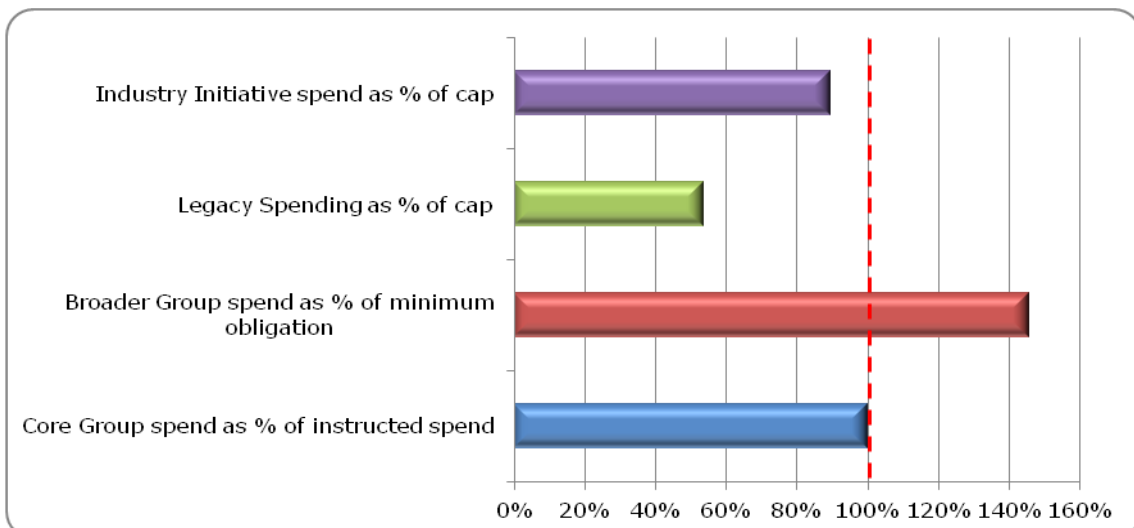
7.16. Figure 7.14 provides a breakdown of SSE’s spend in SY2. It shows that the majority of spend (79%) was through Core and Broader Group rebates. It also shows the SY1 spend profile and illustrates the progress that npower has made in moving support from Legacy Spending to Core and Broader Group rebates.

Figure 7.14 – SSE spend SY2



7.17. Figure 7.15 illustrates how SSE has performed against their obligations in SY2. In particular it shows that SSE has aligned their WHD spend with the requirements set out by the SoS for SY2 of the WHD scheme, by shifting spend from Legacy Spending to Core and Broader Group Rebates.

Figure 7.15 SSE WHD obligations and spend in SY2



8. Emerging issues in Scheme Year 2

Chapter Summary

This Chapter outlines some of the issues that arose during Scheme Year 2 that may have had an impact upon customers in or at risk of fuel poverty.

Compliance

8.1. In the second year of the WHD scheme, the six participating suppliers have again successfully complied with the spending requirements, fulfilling their obligations and reaching more customers with increased funding. Suppliers have positively managed the transition from the individual voluntary scheme regime to the Warm Home Discount obligation.

8.2. Across all companies, a total of £290.3m was spent benefiting customers who are fuel poor or in a fuel poor risk group. The number of beneficiaries receiving a Core Group rebate increased by nearly 500,000 to more than 1 million. Additionally, another 500,000 customers received a Broader Group rebate, and all participating suppliers exceeded their minimum obligation for the Broader Group.

8.3. Overall, 966,823 customers benefited from Legacy Spending tariffs or rebates, equating to a total spend of £54.3m. Of this, £47.3m of this was counted as WHD spend when taking into account the relevant caps. In line with WHD policy, spend on this element fell by 47% from SY1 and the number of customers benefiting from Legacy Spending fell by 33%.

Targeting fuel poor customers

8.4. As part of their WHD activities, suppliers are required to do a 5% minimum verification requirement in the WHD Regulations for Broader Group eligibility. Overall, more than a third (36%) of respondents failed the documentary evidence check. Although a proportion of these consumers did not provide any evidence at all, it is likely that some customers receiving a Broader Group rebate may not have been eligible for it. The structure of the WHD scheme does not allow for this spend to be discounted.

8.5. In one element of the scheme, the Industry Initiatives, an increased number of suppliers fell short of evidencing their targeting, or submitted activities not found on Schedule 4 of the WHD regulations. As a consequence, the attributable spending for these projects was reduced. Relative to the overall scale of the WHD scheme, the amount of the activity discounted was at a very low level.

8.6. Aside from these contraventions, it is clear that the WHD has led to considerable benefits to a large number of consumers that are in or at risk of being in fuel poverty.

Minor Contraventions

8.7. In the second year, there were some minor contraventions of statutory requirements and issues with targeting, although none affected the administration or delivery of the scheme.

8.8. The WHD regulations require suppliers to pay all their Core Group rebates in set time limits and notify the SoS within 30 days if they are unable to identify a customer. For SY2 all six suppliers contravened one or both of these requirements for the second year in a row.

8.9. British Gas, EDF Energy, ScottishPower and SSE had a significantly increased overall number of contraventions compared to SY1. E.on reported a considerable reduction in contraventions although verification of end of year reports by Ofgem's external auditors, identified contraventions that had not been previously reported. This was also the case with SSE and npower.

8.10. Although the volumes for the industry are very small (less than 1%), Ofgem is concerned there is an upward trend rather than a downward trend toward improvement.

Conclusion

8.11. Suppliers were successful meeting the challenges of the launch and initial scheme year for WHD and again met their spending requirements in SY2. However, instead of reducing the number of contraventions in SY2, the number in the Core Group actually increased.

8.12. Despite the decrease in Broader Group verification failure rates, due to more robust verification processes, supplier internal and Ofgem's external audit reports identified internal control issues. This suggests that there is the potential for customers receiving the rebate who may not have been eligible for it. This position will need to be closely monitored in the coming year so that any improvement to the scheme can be made when the legislation is changed from 2015.

8.13. In the coming year, Ofgem will work with suppliers to ensure they are able to meet the statutory scheme requirements. Using an enhanced risk-based audit approach, Ofgem will more closely monitor progress throughout Scheme Year 3 to help ensure supplier compliance. Ofgem expects to see the suppliers to show a performance improvement.

8.14. Ofgem will also work with DECC to learn the lessons from the first two years of the WHD scheme and to consider these in the design of the scheme extension from 2015.

Appendix 1 – WHD compulsory scheme electricity suppliers

WHD compulsory scheme electricity suppliers

Supplier Group	Licensed Supplier
British Gas	<ul style="list-style-type: none"> British Gas Trading Limited
EDF Energy	<ul style="list-style-type: none"> EDF Energy Customers Plc
E.on	<ul style="list-style-type: none"> E.on Energy Solutions Limited
npower	<ul style="list-style-type: none"> Npower Limited Npower Northern Supply Limited Npower Northern Limited Npower Yorkshire Supply Limited Npower Direct Limited Electricity Plus Supply Limited
ScottishPower	<ul style="list-style-type: none"> ScottishPower Energy Retail Limited
SSE	<ul style="list-style-type: none"> SSE Energy Supply Limited

A list of suppliers subsidiary companies can be found on the DECC website
<http://www.decc.gov.uk/en/content/cms/funding/whds/whds.aspx>

Appendix 2 – Summary of WHD obligations

1.1. The WHD scheme came into operation on 1 April 2011. The scheme mandates domestic energy suppliers to provide approximately £1.13 billion of direct and indirect support arrangements to fuel poor customers over four years. It replaced the previous Voluntary Agreement between suppliers and Government which was established in 2008 and ran until 31 March 2011. More information on the Voluntary Agreement can be found on the Ofgem website¹².

1.2. The WHD scheme is divided into four different elements: the Core Group, the Broader Group, Legacy Spending and Industry Initiatives. The following paragraphs provide brief descriptions of activities under each element.

Core Group

1.3. Support in this element is targeted at older, fuel poor pensioner households. Limited data held by Government (the Department for Work and Pensions (DWP)) on those in receipt of a subset of Pension Credit and the suppliers' customer records was shared. Customers found by matching or successfully applying and meeting the eligibility requirements (despite not being automatically matched) were provided with a rebate of £130 in SY2.

Broader Group

1.4. In addition to the Core Group, suppliers were required to provide an annual rebate of £130 in SY2 to a broader group of customers, based on eligibility criteria proposed by suppliers and approved by Ofgem. The government provides eligibility criteria that suppliers could choose to use to identify customers (in the form of means tested benefits) as an indication of eligibility for Broader Group support. However, suppliers are also free to propose additional eligibility criteria for approval by Ofgem.

Legacy Spending

1.5. Suppliers also have the option to continue to offer discounted/social tariffs or rebates to the types of customers who have benefited from these under the previous Voluntary Agreement. This was capped at £70m for SY2. The Legacy Spending element is intended to provide a smooth transition from the Voluntary Agreement to the WHD scheme.

Industry Initiatives

1.6. Suppliers can also spend up to a collective maximum of £30m per year on initiatives aimed at providing a wider range of support targeted at those in or at risk of fuel poverty.

1.7. For further information on how we carry out our functions under the scheme, what suppliers need to do to comply with the scheme and how we interpret various provisions of the WHD scheme, please see our Supplier Guidance (published March 2013).

¹²<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Suppliers%20Social%20Spend%20report%202010-2011.pdf>

Suppliers with a mandatory obligation

1.8. Under the WHD scheme, a licensed electricity supplier is a Compulsory Scheme Electricity Supplier (referred to in this report simply as a 'supplier') in a Scheme Year if it, together with any licensed electricity and/or gas suppliers connected to it, had at least 250,000 domestic customers on 31 December preceding the start of that scheme year. A list of the twelve compulsory scheme electricity suppliers and the supplier groups they are part of can be found in Appendix 1.

1.9. For the purposes of this report, we discuss suppliers by their supplier group rather than by their individual supply licences. The six supplier groups are British Gas, EDF, E.on, npower, SSE and ScottishPower.

1.10. If a licensed electricity supplier is not a compulsory supplier it can elect to be a Voluntary Scheme Supplier. A voluntary supplier would only have obligations under the Core Group element of the WHD scheme whereas a compulsory supplier has obligations under core and non-core (Broader Group, Legacy Spending and Industry Initiative) elements of the scheme. For SY1 and 2, no licensed supplier elected to be a Voluntary Scheme Supplier.

Spending obligations

1.11. In establishing the scheme, the SoS set the levels of spending for the duration of the scheme. These levels are divided between the core and non-core elements. The core spend estimate is related to the number of Pension Credit (Guarantee Credit) customers matched with suppliers' databases and was expected to be circa £85m for SY2.

1.12. The non-core spend level is calculated using this Core Group estimate and the overall spending target for the scheme year in question. The non-core spending obligation consists of a minimum obligatory spend on the Broader Group and of maximum caps for Legacy Spending and Industry Initiatives. The combined limit of Legacy Spending and Industry Initiatives is not the total of these two caps. Spend profiles including limits and caps can be found in Figure 1.1.1.

Figure annex 1.1.1 Non-core scheme year targets

	SY1	SY2	SY3	SY4
Overall non-core scheme year target	£153m	£132m	£100m*	To be confirmed in Feb 2014
Overall scheme Legacy Spending limit	£140m	£70m	£35m	£0
Overall scheme Industry Initiative limit	£30m	£30m	£30m	£30m
Overall scheme LS & II combined limit	£150m	£85m	£53m	£30m
Overall Broader Group minimum	£3m	£47m	£47m*	To be confirmed in Feb 2014
Overall spending target	£250m	£275m	£300m	£310m

*This is likely to increase in SY3 by circa £35m

1.13. Suppliers' spending obligations are calculated by Ofgem based on their total market share. Each supplier is informed by Ofgem of its individual non-core spending obligation and caps for each scheme year. For SY2 suppliers were notified in April 2012. Under Regulation 15(2) a small variation in spend of +/-1% is permitted for SYs 1 to 3, suppliers can exercise this variation and will have their spending obligations adjusted accordingly for the following year.

Compliance activities

1.14. Suppliers are required to carry out a number of compliance activities as part of their obligations under the WHD scheme. Figure 1.1.2 summarises the content and timetable of certain of the activities.

Figure annex 1.1.2 - Summary of Compliance Activities

<p>Core Group</p>	<ul style="list-style-type: none"> Suppliers are obligated to provide all Core Group rebates, unless they apply an exception as determined by the SoS. Rebate must be specified as being made under the WHD scheme (value for SY2 = £130 including VAT). Rebates must be provided by 31 March of each Scheme Year unless the SoS notifies suppliers to provide a Core Group rebate after 1 March. In that case a supplier has 30 days to provide the rebate.
<p>Broader Group</p>	<ul style="list-style-type: none"> Suppliers are obligated to provide a minimum number of rebates to customers. Rebates must be specified as being made under the WHD scheme (value for SY2 = £130 including VAT). Rebates must be provided by 31 March of each Scheme Year. Ofgem must approve all Broader Group notifications. This includes ensuring that eligibility criteria, verification measures and payment processes are in line with Part 4 Chapter 2 of the WHD Regulations. Against this approval Ofgem ensures compliance on an annual basis.
<p>Legacy Spending</p>	<ul style="list-style-type: none"> Tariff/rebate must work in the same way as in the last year of the Voluntary Agreement. Eligibility criteria must be the same as in the last year of the Voluntary Agreement. Number of eligible customers must not exceed those benefiting from discounted tariffs or rebates in the last year of the Voluntary Agreement.
<p>Industry Initiatives</p>	<ul style="list-style-type: none"> Suppliers must obtain Ofgem's prior approval before incurring any spend on Industry Initiatives. Activity must be permitted under regulation 26 and Schedule 4 of the WHD Regulations. The activity is targeted at persons in fuel poverty or at risk of fuel poverty. The initiative must also demonstrate value for money.