

Warm Home Discount

# Annual Report 2013-14

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# Warm Home Discount

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## Overview:

The Warm Home Discount (WHD) scheme came into effect on 1 April 2011. Under it, Compulsory Scheme Electricity Suppliers (CSES) that meet the criteria in the WHD regulations 2011 must provide rebates for energy costs to eligible customers that are either fuel poor or at risk of fuel poverty over the period of the scheme. Ofgem's role is to administer the WHD scheme and monitor suppliers' compliance with their obligations.

This is Ofgem's annual report on the third year (April 2013-March 2014) of the WHD scheme. It updates the Secretary of State on how delivery of the WHD scheme is progressing. It may also be of interest to gas and electricity suppliers and consumer groups, particularly those representing consumers vulnerable to fuel poverty.

All suppliers' activities were predominantly consistent with their WHD obligations in Scheme Year (SY) 3. Overall, £293.6m worth of support was provided to people in or at risk of fuel poverty, with £290.9m of this counted as WHD spend when taking into account suppliers' Industry Initiative and Legacy Spending caps.

## Context

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

Part 2 of the Energy Act 2010 and the WHD regulations give the Gas and Electricity Markets Authority (the Authority) the task of delivering certain aspects of the scheme. These day-to-day functions are performed by its office (Ofgem).

The Energy Act 2010 puts the Authority under a statutory duty to review the operation of the WHD scheme, as well as the licensed suppliers' compliance with it.<sup>2</sup> This document is the third annual report to the Secretary of State for Energy and Climate Change (SoS) and covers SY3. We publish it as part of our duties towards delivering government programmes for a sustainable energy sector<sup>3</sup>.

## Associated documents

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- The Warm Home Discount Regulations 2011, the Warm Home Discount (Reconciliation) Regulations 2011, Warm Home Discount (Amendment) Regulations 2014, 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 29 July 2014)  
<https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-supplier-guidance-version-3>
- The Warm Home Discount: Annual Report Scheme Year 2 (published 30 October 2013)  
<https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-annual-report-scheme-year-2>
- 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>

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<sup>1</sup> [http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi\\_20111033\\_en.pdf](http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf)

<sup>2</sup> 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

<sup>3</sup> <https://www.ofgem.gov.uk/ofgem-publications/37154/corporate-strategy-and-plan-2011-2016.pdf>

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## Executive Summary

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The Warm Home Discount (WHD) requires participating domestic energy suppliers to provide approximately £1.13 billion of 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 who help customers in or at risk of fuel poverty. The current 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 third annual report and covers the third year of the scheme (SY3) 1 April 2013 to 31 March 2014.

All eight obligated suppliers succeeded in delivering against their financial obligations in SY3. Overall suppliers spent a total of £293.6m to benefit those customers who are fuel poor or in a fuel poor risk group. The scheme has four elements; the Core Group, Broader Group, Legacy Spending and Industry Initiatives. The spend counted under WHD was £290.9m against an obligation of £267m. This takes into account the relevant Legacy Spending and Industry Initiative caps.

The key findings of each element are below:

### Core Group

The Core Group rebates provided were £135 per household for older, fuel poor pensioner households. Altogether, 1,236,770 domestic customers benefited from a Core Group rebate, totalling a spend of roughly £167m. In line with the expansion of the Core Group eligibility criteria and the increase in rebate value in SY3, the number of beneficiaries increased by 6.8% and the total spend increased by 10.9%.

Suppliers ensured 99.9% of rebates were paid on time or categorised as permissible exceptions<sup>4</sup>. The remaining 0.1% was a result of 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 Core Group non-customers on time, although all rebates have now been provided.

### Broader Group

Suppliers had a minimum Broader Group obligation of £47m, equating to 348,149 rebates at £135 each in SY3. All suppliers achieved their Broader Group minimum and collectively exceeded the minimum target by almost 74%, providing 605,472 Broader Group rebates, totalling £81.7m. 99.8% of Broader Group customers were provided with their Broader Group rebate before 31 March 2014, while the remaining 0.2% received their rebate by 30 April 2014. In preparation for an expected increase in the Broader Group obligation for SY4, and using the increased banking allowance introduced by the amendment to the Regulations, suppliers spent an additional £34.7m and provided 257,323 more Broader Group rebates than their obligation.

### Legacy Spending

Suppliers could opt to count toward their non-core obligation the Legacy Spending tariffs and rebates that arose from the previous Voluntary Agreement. A cap of £35m was set by the Secretary of State for SY3.

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<sup>4</sup> Permissible exceptions include regulation 8 exceptions and those circumstances where Ofgem determined that suppliers were not able to provide the rebate.

# Warm Home Discount

Five of six relevant<sup>5</sup> suppliers chose to include Legacy Spending as part of their non-core spending in SY3. Overall, 376,692 customers benefited from a Legacy tariff or rebate, equating to a total spend of £22.4m. £19.8m of this was counted as WHD spend when taking into account the relevant caps. In line with WHD policy intentions, reported spend on this element fell by 59% from SY2 and the number of customers benefiting from Legacy Spending fell by 61%, as support transferred to the Broader Group. After SY3, suppliers cannot count any value of Legacy Spend in any future years.

## 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 SY3, suppliers collectively spent £22.4m on Industry Initiatives, benefiting a total of 158,441 customers and 10,745 trainees. The breakdown of spend by the six types of activity allowable under the WHD regulations was; 60% on debt assistance, 29% on multi-activity initiatives, 6% on energy advice, 3% on training and 2% on benefit entitlement checks and referrals to other support organisations.

Compared with SY2, suppliers spent an additional £0.5m and helped an additional 59,702 consumers in SY3. 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 assessed to ensure that that had achieved value for money. We agreed adjustments to the attributable spend on one activity to represent value for money.

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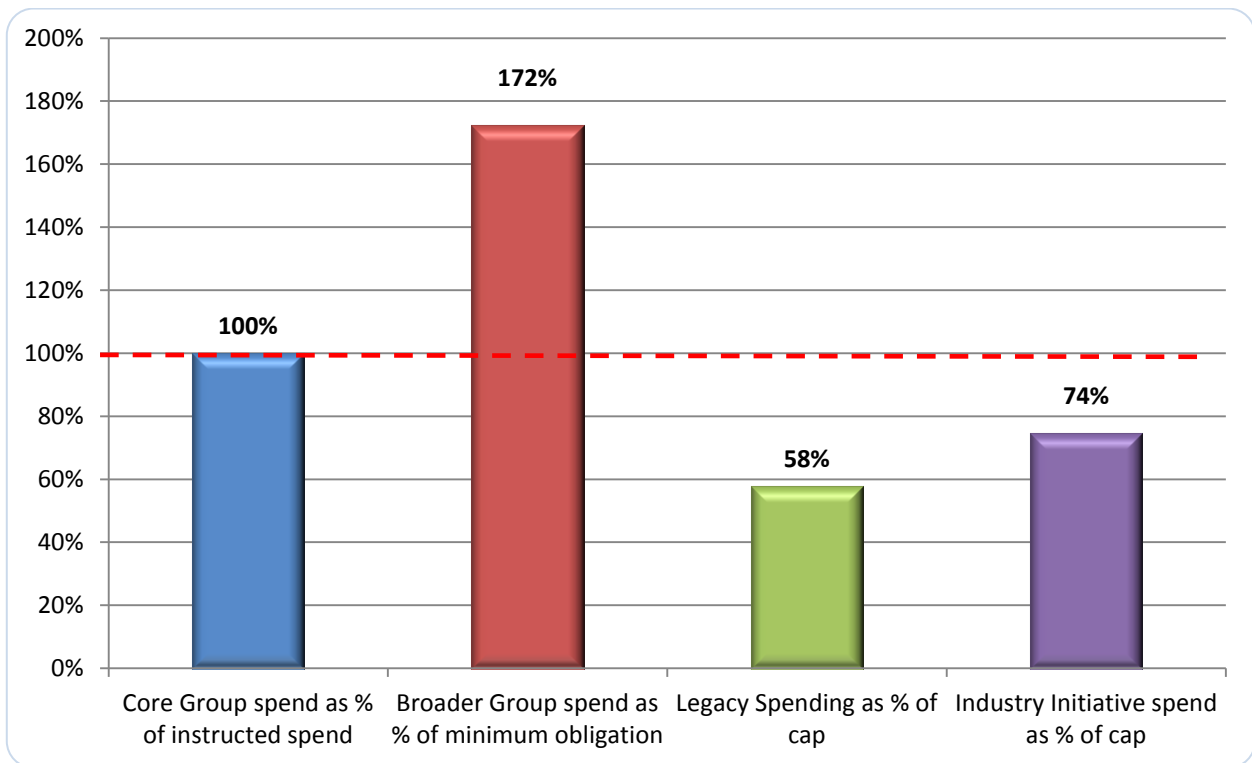
<sup>5</sup> “relevant supplier” means a compulsory scheme electricity supplier, or a scheme gas supplier which is connected to a compulsory scheme electricity supplier, which—  
(a) made a voluntary commitment; and  
(b) under that commitment, provided financial benefits to domestic customers in the period from 1 April 2010 to 31 March 2011



## Overall supplier spend and compliance

Figure A below illustrates suppliers' overall spending against their minimum obligations and maximum caps for SY3. Suppliers met the Core Group spend (as instructed by DECC); exceeded the Broader Group minimum obligation by 72% and elected to spend 58% and 74% of the Legacy Spending and Industry Initiatives caps respectively.

**Figure A – Comparison of collective non-core spending against minimum targets and maximum caps for Scheme Year 3**



## Minor Contraventions

There were a small number of minor contraventions of the WHD regulations in SY3. However these decreased compared to SY2, and most suppliers had no minor contraventions at all in SY3.

## 1. Introduction

### Chapter Summary

This is a summary of the content and structure of Ofgem's Warm Home Discount Scheme Annual Report for Scheme Year 3.

### Target audience

1.1. This report is intended to update the Secretary of State (SoS) on the implementation and delivery of the WHD scheme during its third year. It is also likely to be of interest to 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 has committed to tackling fuel poverty and helping vulnerable consumers to heat their homes affordably.<sup>6</sup> The WHD scheme is an important part of the government's strategy for helping households in or at risk of fuel poverty as it directly reduces eligible consumers' energy bills.

1.3. Ofgem's role in the WHD scheme is to help suppliers comply with their obligations, and monitor how well they do so. As part of this, we publish an annual report of suppliers' activities under the WHD scheme. This, our third annual report, helps keep the operation of the WHD scheme under review, analyses suppliers' performance in the third 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 SY3. We have reviewed these reports, and asked suppliers' internal auditors as well as external auditors contracted by us to verify the reports' accuracy.

1.5. SY3 is the first scheme year to have new supplier entrants to the Warm Home Discount since the beginning of the scheme. The growth in its customer numbers meant First Utility became obligated on 1 April 2013. Utility Warehouse became a distinct supplier group from Npower during the scheme year, having been an obligated CSES through the Npower "connected" supplier group up to that point. So by the end of SY3, there were eight obligated suppliers reporting separately, compared to six in SY1 and SY2.

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<sup>6</sup> 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, with the WHD scheme introduced in 2011. Following the introduction of the Energy Act 2013, devolved assemblies now have responsibility for fuel poverty strategy in UK nations.



## SY3 WHD spend targets and limits

<b>Core Group</b>	<b>Non-core scheme target</b>	<b>Non-core scheme elements</b>				<b>Overall spending target</b>
		<b>Broader Group minimum</b>	<b>Industry Initiative limit</b>	<b>Legacy Spending limit</b>	<b>LS &amp; II combined limit</b>	
£200m	£100m	£47m	£30m	£35m	£53m	£300m

1.6. Under the original WHD regulations, these absolute values were subject to a maximum 1% variation which facilitated supplier carry forward or carry back between consecutive scheme years. With effect from 14 March 2014, the WHD Regulations were amended to allow suppliers to count spend of up to 34% over their SY3 non-core obligation towards their SY4 obligation, as the SY4 non-core obligation is significantly higher than the SY3 obligation. Suppliers could therefore balance spending between the two years in a more flexible way than was possible before the amendment.

## 2. Core Group

### Chapter Summary

An overview of suppliers' Core Group requirements, along with the spend and the outcomes achieved by the obligated suppliers in Scheme Year 3.

### Introduction

2.1. The Core Group element of the WHD scheme is administered by DECC, which works 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

#### Fact

A total of 1,236,770 customers received a Core Group rebate in SY3. Rebates, set at £135, were provided to customers between October 2013 and April 2014. All customers that the SoS determined eligible were paid the Core Group rebate. The total spending on the Core Group element for SY3 was £166.96m.

### Eligibility criteria

2.2. In the third year of the WHD scheme, recipients of Pension Credit Guarantee Credit (a subset of the Pension Credit) only, and those over 75 and receiving Pension Credit Guarantee Credit and Savings Credit were eligible for a Core Group rebate. Recipients of the appropriate Pension Credit who were not the person named on the electricity bill, or were a customer of a supplier under the threshold (ie with fewer than 250,000 domestic customers at 31 December 2012) that did not volunteer to participate in the scheme, were not eligible for a Core Group rebate.

### The matching process

#### Data matching

2.3. 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.

2.4. For SY3, 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 93.24% in SY2 to 93.95% in SY3.

# Warm Home Discount

## Fact

A total of 1,161,938 customers were provided with a Core Group rebate as a result of this automatic data matching process.

2.5. Not all eligible customers are found through automatic matching. For example, there might be discrepancies in how a customer's name or address is spelled between a supplier's data 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.

## Fact

74,832 customers were provided with a Core Group rebate as a result of the 'sweep up' process.

## Exceptions

2.6. Under regulation 8, the SoS can determine when it would **not** be practical for scheme electricity suppliers to provide the rebate to Core Group customers. There are two exceptions, which the SoS has determined:

- Exception A - a Core Group customer has died, and their account is closed with the electricity supplier, and the supplier has been unable to contact the customer's executor or a relative
- Exception B - a Core Group customer has closed their account with the electricity supplier and not given them a forwarding address

2.7. In total there were six cases under Exception A and 43 cases under Exception B across the participating suppliers.

2.8. There may be instances where rebates are not provided to customers for reasons outside of the exceptions determined by the SoS. In such cases, suppliers tell us why they cannot provide these rebates. In SY3, reasons for non-payments included:

- Seven customers had non-domestic accounts and so were not eligible to receive a rebate
- 25 customers were not the named account holders and so could not get the rebate

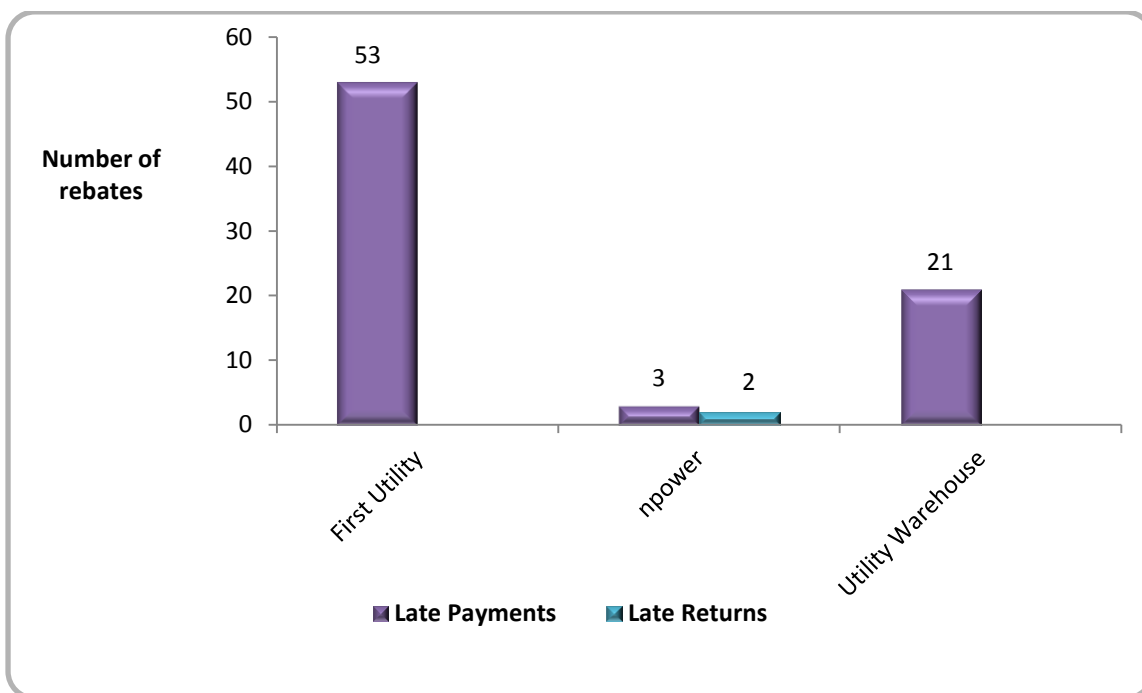
We believe suppliers took adequate steps in an attempt to provide all rebates in all cases.

## Breakdown of Core Group activity by supplier

2.9. Predominantly, supplier activities under the Core Group element were consistent with the WHD regulations. Overall, over 99.9% of rebates were paid on time or classified as a permissible exception<sup>7</sup>. The remaining fraction, less than 0.1%, was made up of 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 people who are not, or suppliers could not identify as, Core Group customers.

**Figure 2.1 - Breakdown of Core Group minor contraventions by supplier**



2.10. We explain these minor contraventions, and the reasons for them, in Chapter 8. We are pleased to see a significant reduction in the number of minor contraventions in the Core Group compared to SY2. However we expect suppliers to improve in future to meet the timescales in all cases for SY4.

<sup>7</sup> Permissible exceptions include regulation 8 exceptions and those circumstances where Ofgem determined that suppliers were not able to provide the rebate.

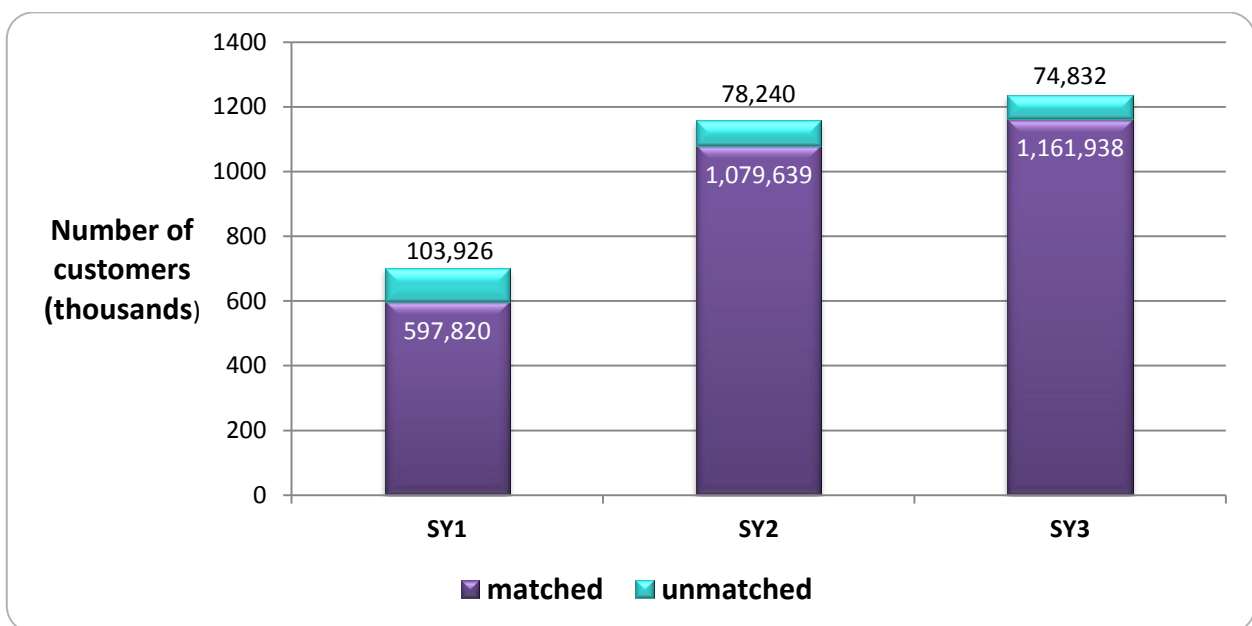
## Comparison of SY2 & SY3 Core Group outcomes

### Number of beneficiaries and total spend

2.11. 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 second and third year of the WHD scheme. The number of beneficiaries increased by 78,891 and the total spend increased by £16,439,680, from £150.5m in SY2 to £167.0m in SY3.

2.12. Figure 2.2 below illustrates this increase in the number of beneficiaries across the first three years of the scheme.

**Figure 2.2 - Comparison of number of Core Group rebates and data match efficiency across SY1 to SY3**



2.13. As noted earlier, as well as increases in the number of beneficiaries, the efficiency of data matching has significantly improved over the three years. This means that fewer eligible customers have needed to take action to receive their Core Group rebates.

## 3. Broader Group

### Chapter Summary

Overview of the requirements on suppliers for providing Broader Group rebates, summarising spending obligations and outcomes achieved by the participating suppliers in the third 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 £135 in SY3.

3.2. In SY3, the Broader Group minimum spending obligation across all suppliers was set at £47.4m, 47.4% of suppliers' total non-core spending obligation of £100m. This was similar to the target for SY2, as the expansion of the Core Group between SY2 and SY3 was originally projected to balance the reduction in Legacy Spend caps.

### Number of beneficiaries, rebate value and total spend

#### Fact

For SY3 the minimum target across all suppliers was 351,458 Broader Group rebates, equivalent to £47.4m. Suppliers exceeded the minimum spend requirement by 72.3%, by providing 605,472 rebates, equating to a total spend of £81.7m. This was a result of suppliers promoting their Broader Group in conjunction with reducing their Legacy Spending. Some suppliers also took advantage of the recent amendment to the WHD Regulations that relaxed the banking adjustment mechanism between scheme years 3 and 4, to help them smooth the transition between the SY3 obligation and the increased SY4 obligation.

The Broader Group made up approximately 66% of suppliers' overall non-core spending in SY3, this compares to 48% in SY2.

3.3. The Warm Home Discount was originally designed as a four-year scheme. DECC and DWP made estimates of the eligible customer base for the WHD scheme at the start of the four-year period, when planning the financial value of obligations to be put on suppliers.

3.4. As the scheme has developed in the first three years, DECC and DWP have identified changes in the demographic which mean the size of the Core Group in SY3 was smaller than first predicted. Under the WHD regulations, the SoS must adjust the size of the non-core spending obligation to compensate for the variations between the predicted and actual size of the Core Group, to maintain the policy intention of providing £1.13bn of support over four years.

3.5. The Secretary of State has set the overall non-core obligation for SY4 to reflect the smaller than predicted size of the Core Group in SY3, meaning that the obligation is a significant increase on SY3. To facilitate this, in consultation with suppliers and other stakeholders, an amendment was made to the WHD regulations which allowed suppliers to



bank up to 34% of the value of their SY3 obligation, once they had met their SY3 obligation, and allocate the banked amount against their SY4 obligation.

3.6. The amendment did not provide for changing the caps on spend that could be attributed from Legacy Spend or Industry Initiatives. So to make use of the extra flexibility on overspend allowed by the amendment, suppliers could only increase the size of their Broader Group.

3.7. At the same time, some suppliers have chosen to reduce their Legacy Spending before the end of SY3, after when they will be unable to attribute any Legacy Spend to their obligations. As a result of these factors, suppliers overspent between 3% and 119% of their respective Broader Group minimums, and collectively suppliers spent 72.3% more than the minimum Broader Group spend for the scheme as a whole.

3.8. For the first time in the scheme, the Broader Group made up the majority of the value of the WHD non-core spending during SY3, achieving the policy intention to move support for customers in or at risk of fuel poverty, from reduced tariffs under the Voluntary Agreement, to a fixed rebate against electricity bills. Broader Group rebates accounted for around 66% of non-core spend in SY3, compared to 48% in SY2.

## Eligibility criteria

3.9. Suppliers can either use the predetermined criteria set out in the WHD regulations<sup>8</sup> or adopt their own Broader Group criteria. Ofgem must approve the use of either set of criteria.

### Fact

All participating suppliers' suggested additional Broader Group Eligibility Criteria to target fuel poor customers. After reviewing these, we were satisfied that each of them were consistent with the requirements of the WHD regulations.

## Verification process

3.10. Suppliers are obligated to undertake the verification measures as set out in the WHD regulations.

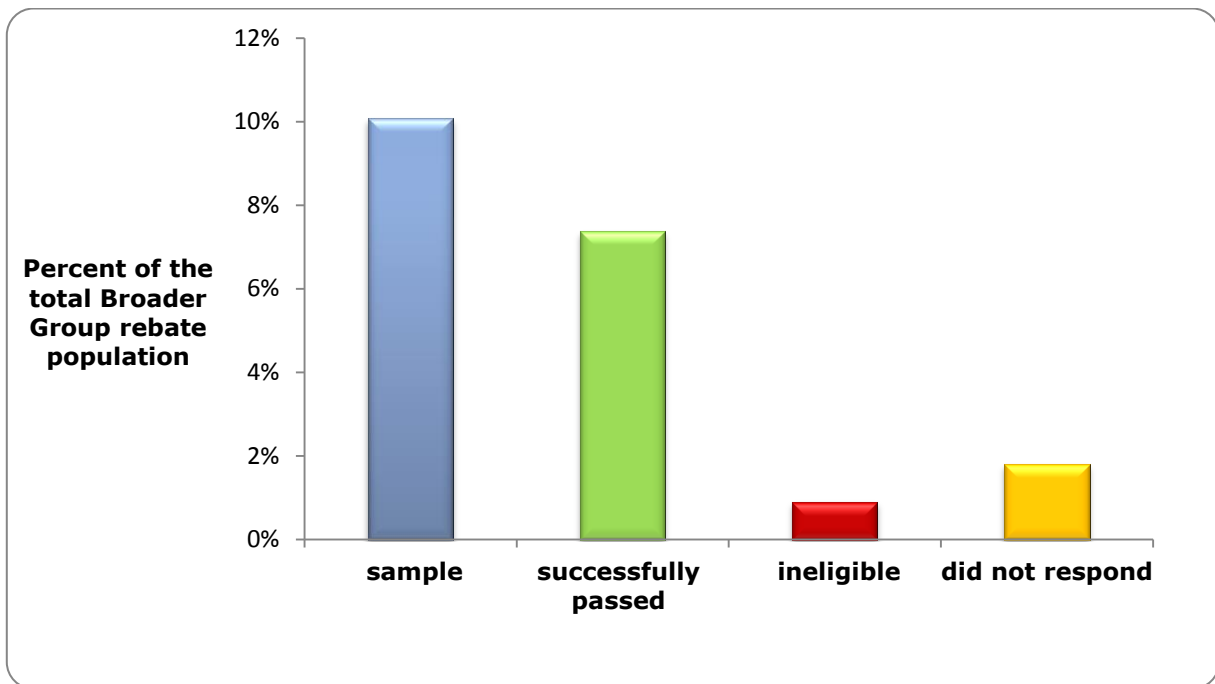
3.11. These verification measures are used by suppliers to help ensure rebates are provided to those who are eligible. Customers are deterred from making fraudulent claims by declaring they meet the eligibility criteria and understanding they may be asked to provide documentary evidence. A random sample 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 who receive a rebate pass this documentary evidence check<sup>9</sup>.

3.12. All suppliers met or exceeded this target. Figure 3.1 shows the percentage of the Broader Group recipients that were sampled, and of this, the percentage that successfully passed, or were ineligible, or did not respond eg did not provide documentation.

<sup>8</sup>Regulation 19(5) [http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi\\_20111033\\_en.pdf](http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf)

<sup>9</sup> 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](http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf)

**Figure 3.1 - Analysis of verification sampling**



## Payment methods and notification to customers

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

3.14. We expect payment of Broader Group rebates to be made by the end of the scheme year, which for SY3 was 31 March 2014. There were minor contraventions by one supplier in not meeting this deadline in all cases, however payments were completed by 30 April 2014, so the impact on consumers was low.

3.15. 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."<sup>10</sup>

### Fact

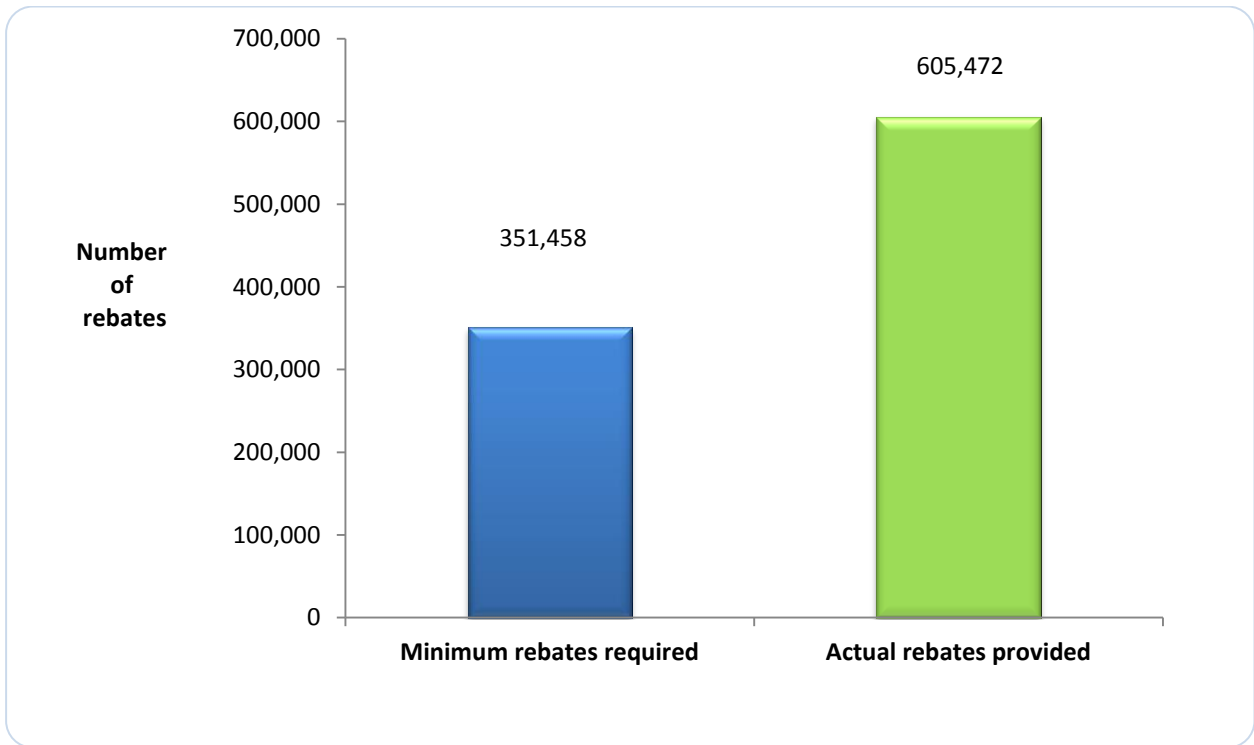
All suppliers were found to have implemented the payment method and customer notification conditions consistently with the requirements of the WHD regulations. The majority of Broader Group Customers were provided with a Broader Group rebate before 31 March 2014, with a small fraction (less than 0.2%) receiving the rebate by 30 April 2014.

## Comparison of supplier obligations against actual spend

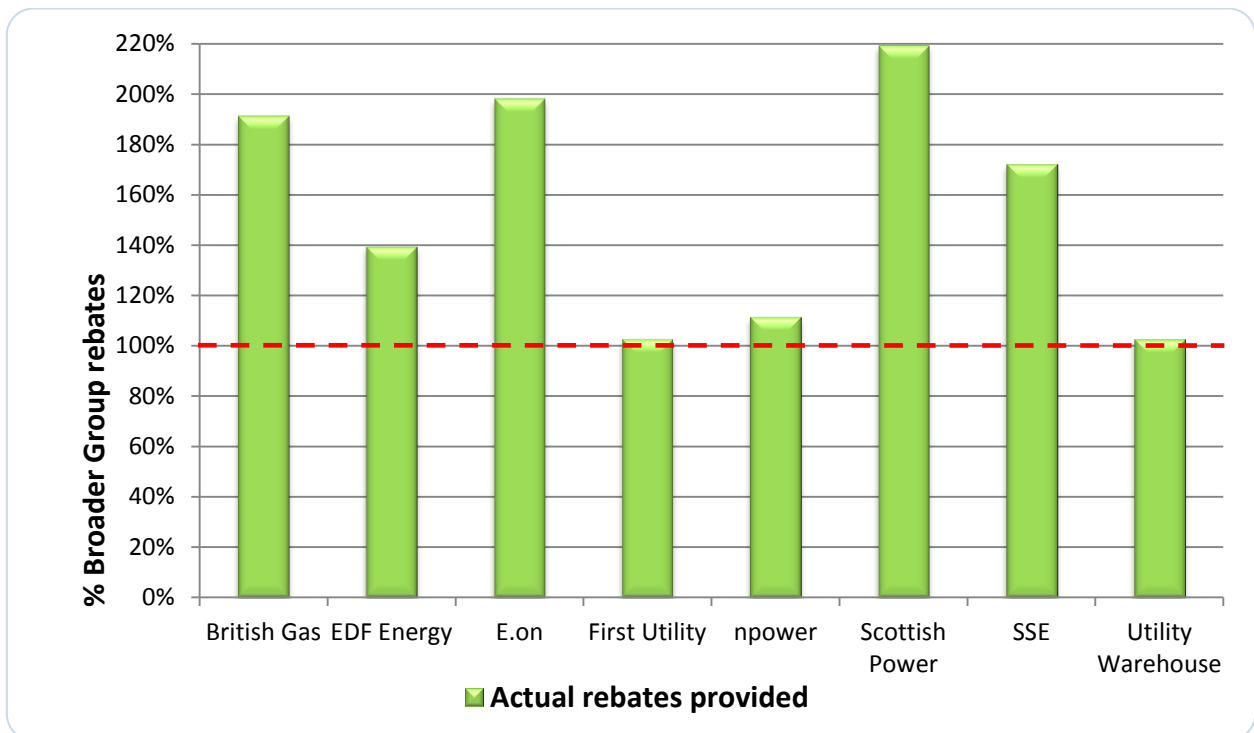
3.16. All eight suppliers opted to exceed their Broader Group minimum obligations, and thus gave a rebate to a larger number of eligible customers, 605,472. The overall difference of 72.3% above the minimum is shown in Figure 3.2 which indicates the minimum obligation and actual rebates provided.

<sup>10</sup> Regulation 20 (4) [http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi\\_20111033\\_en.pdf](http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf)

**Figure 3.2 - Overall Broader Group performance against minimum obligation**



**Figure 3.3 - Actual rebates provided against individual supplier minimum obligations**



3.17. Figure 3.3 shows the variation in supplier approach to the Broader Group. All suppliers delivered more than the minimum required rebates, to differing extents. ScottishPower delivered more than double (119% more) the required number of Broader Group rebates for SY3. It chose to focus its spend in SY3 on the Broader Group, and to use the facility to carry forward 34% of

the value of its SY3 total non-core obligation to SY4 spend. British Gas and E.ON both spent close to double the required amount, with Broader Group overspend of 91% and 98% respectively. SSE also delivered significantly more than the minimum number of rebates, providing 72% more than the minimum.

3.18. Respectively, EDF Energy and Npower delivered 39% and 12% more rebates than the minimum requirement, while the new entrants to WHD, First Utility and Utility Warehouse, both delivered approximately 3% more than the minimum. This overspend for suppliers comes as the Legacy Spending element of the scheme ends, for relevant suppliers, and makes use of the flexibility allowed by the amended Regulations to work towards meeting a significant increase in Broader Group minimum spend in SY4.

## Comparison between SY2 and SY3

3.19. The Broader Group minimum obligation for SY3 remained approximately the same as SY2, being £47.4m in SY3 compared to £47.6m in SY2. The level of support for the Broader was maintained alongside the increase in support that was provided through the Core Group in SY3.

3.20. Related to this is the decrease in the amount of Legacy Spending that can be counted toward a supplier's non-core obligation. Some suppliers have actively supported the transition from Legacy Spending to Broader Group rebates in SY3, by significantly reducing the spend on Legacy Spend and instead increasing their Broader Group well above the minimum requirement.

3.21. Almost all suppliers now work with DWP on verification checks for eligibility criteria. This has helped to reduce the percentage of Broader Group applicants found ineligible or not responding, and reduces the burden on consumers to provide evidence of their application. In SY3, there were significantly fewer customers who returned ineligible or incorrect evidence, and fewer customers who failed to return any evidence.

## 4. Legacy Spending

### Chapter Summary

Information on the Legacy Spending element of the WHD scheme, and requirements placed on suppliers under it. Summary of 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 eligible Legacy Spending are allowed to count it towards their non-core obligation. The maximum that could count towards suppliers' non-core obligations was reduced incrementally from £140m across all suppliers in SY1 to £70m in SY2, and £35m in SY3. In SY4 Legacy Spending will no longer be part of the WHD scheme.

4.2. Two supplier groups, First Utility and Utility Warehouse, were obligated in SY3 but were not relevant suppliers as they did not offer any support as part of the Voluntary Agreement. This means that they could not claim any Legacy Spend towards their SY3 obligation.

### Number of participating suppliers, beneficiaries and total spend

4.3. Five of six relevant supplier groups chose to include Legacy Spending as part of their non-core spending in SY3. A total of 376,693 customer accounts received a discounted tariff or legacy rebate. Suppliers spent £22.4m on the Legacy Spending element for SY3, however due to the impact of the Legacy Spending caps, only £19.8m of this was counted towards their WHD obligation

### Criteria for Legacy Spending

4.4. 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.

### Fact

Five of six relevant suppliers provided legacy benefits within the regulatory criteria. The remaining relevant supplier, British Gas, chose to concentrate on Broader Group and Industry Initiatives instead of claiming Legacy Spend against its SY3 obligation. Two suppliers, First Utility and Utility Warehouse, were not relevant suppliers.

## Discounted tariffs

4.5. 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.

### Fact

In total, 353,847 customers were helped to meet their energy costs through discounted tariffs to a total value of £17.9m. The value of benefit to individual customer accounts ranged from approximately £75 to £471 depending on the tariff and supplier.

The five suppliers choosing to count Legacy Spend provided one discounted tariff each.

## Rebate schemes

4.6. 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.

### Fact

The amount of Legacy Spending through the provision of rebates was £4.5m.

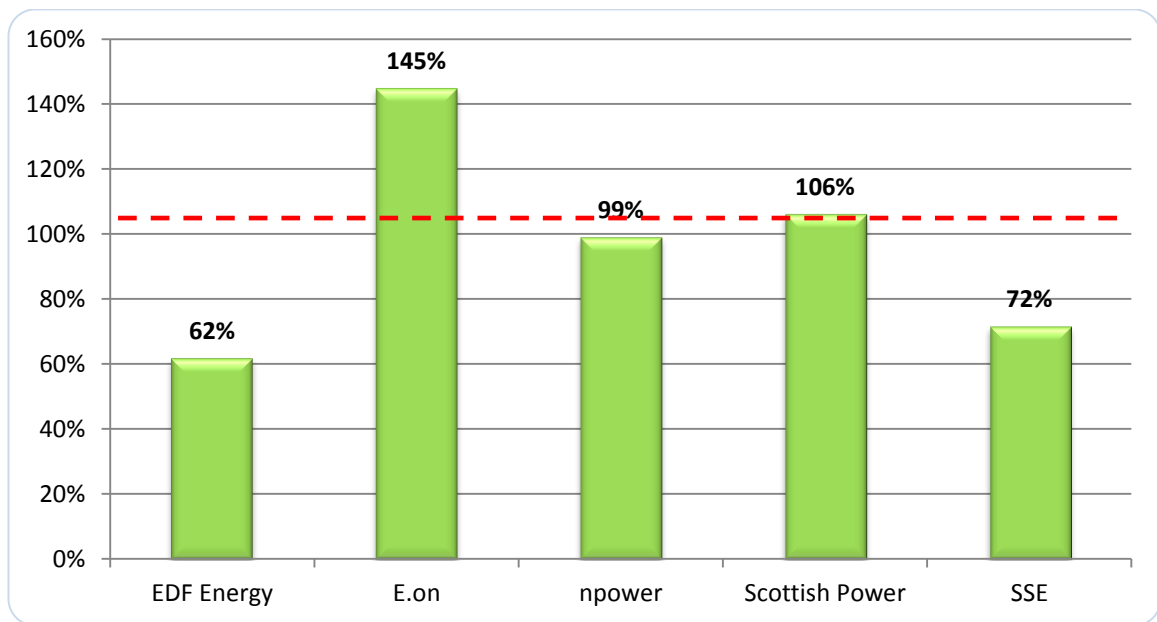
Two of the supplier groups offered Legacy Spending rebates, to a total of 22,846 customers, each of whom received assistance that ranged between £54 and £200.



## Comparison of supplier spend against Legacy Spending cap

4.7. Figure 4.1 below shows each relevant supplier's spend against their Legacy Spending cap. In line with the WHD regulations, suppliers cannot count any Legacy Spending beyond their individual Legacy Spending caps. We know some suppliers may have spent more on their Legacy Spending tariffs and rebates than they reported to Ofgem. As demonstrated below, two suppliers opted to report their overspend to Ofgem: E.ON and ScottishPower reported an overspend of 44.7% and 6.1% respectively. The total attributable spend for Legacy Spending, limited to their respective caps, for all suppliers was £19.8m.

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



## Comparison between SY2 and SY3

4.8. 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 SY3. The total Legacy Spending claimed by suppliers in SY2 was £54.3m. This has fallen to £22.4m in SY3. SY3 was the last year in which suppliers could count Legacy Spend towards their WHD obligation, and for SY4 they can only count Core Group, Broader Group and Industry Initiative spend instead.

## 5. Industry Initiatives

### Chapter Summary

Discusses the Industry Initiatives element of the WHD scheme, with particular reference to how suppliers comply with the WHD regulations, the range of Industry Initiative activities, their targeting and the number of customers that benefitted. We also show how much was spent on each type of activity and the variety of ways that suppliers have targeted their industry initiative spending.

### Introduction

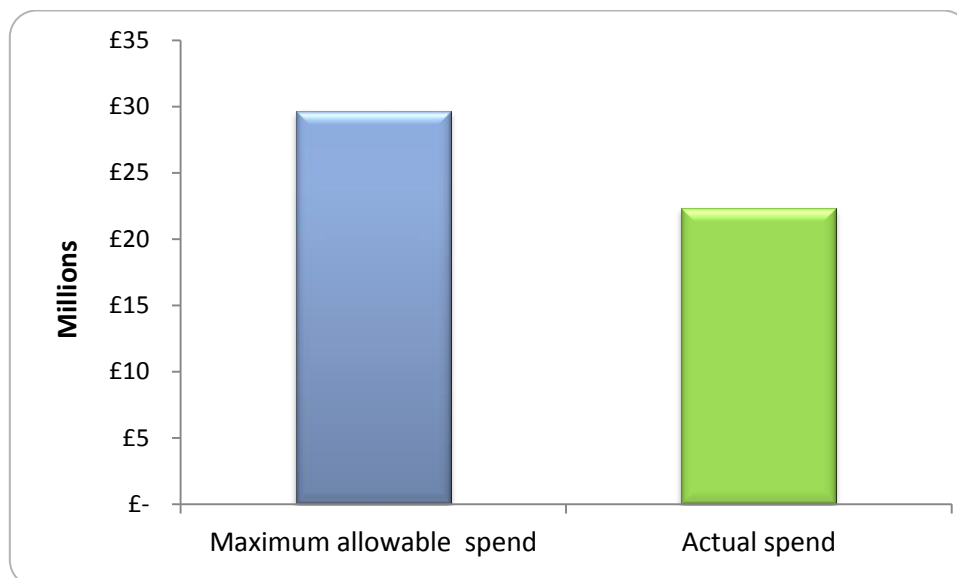
5.1. Industry Initiatives are the fourth element of the WHD scheme. The overall limit of spending on Industry Initiatives that can count towards suppliers' non-core obligations is capped at £30m<sup>11</sup> in each Scheme Year.

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

### Analysis of Industry Initiatives activities in SY3

5.3. Figure 5.1 shows the maximum spending on Industry Initiatives that suppliers could count towards their non-core obligation in SY3 and the total of £22.3m that together suppliers spent in SY3.

**Figure 5.1 – SY3 Industry Initiatives spend, actual against maximum**



<sup>11</sup> Subject to the proviso that the supplier has not exceeded the combined maximum for Legacy Spending and Industry Initiatives (£53m in Scheme Year 3).

## 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 measures<sup>12</sup>, benefit entitlement checks, 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. Around a third (8 out of 23) of the approved initiatives involved a combination of main activities, most commonly energy advice combined with benefit entitlement checks and referrals for rebates or energy efficiency measures.

### Debt assistance

5.5. The largest proportion (60%) of Industry Initiative spending went to providing energy debt assistance to customers. This compares to 70% in SY2. Debt assistance (including debt relief) must be part of a package which includes energy advice and financial advice. In total, 17,006 (10% of total) customers benefited from debt assistance services, a decrease of 5,032 customers on SY2. The average award increased from £692 in SY2 to £791 in SY3.

### Energy efficiency advice and multiple activity initiatives

5.6. Five initiatives, including one multi-supplier initiative, had provision of energy efficiency advice as their main activity. These initiatives could also offer some referrals to other services or benefit entitlement checks alongside the advice, although this was not the primary aim. Four others provided multiple services which included energy advice. The majority of customers who received support through industry initiatives got some form of energy or energy efficiency advice – 120,929 (72%) benefited from energy advice on its own or alongside other support.

### Energy efficiency measures

5.7. There were no industry initiatives in SY3 that only provided energy efficiency measures to consumers. However some multiple-activity industry initiatives included small energy efficiency measures or provided energy efficient appliances alongside other support such as energy advice or debt assistance. We have not analysed the specific value of energy efficiency measures provided through these industry initiatives.

### Referrals and benefit entitlement checks

5.8. Three industry initiatives focused on providing benefit entitlement checks, referrals to other support services, or a combination of both. These services were sometimes offered alongside other support such as energy advice, as noted above. The three initiatives focusing on referrals and benefit entitlement checks represented 1.5% of the Industry Initiative spend for SY3, with 6% of consumers supported in SY3 accessing one of these services.

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<sup>12</sup> This includes energy efficiency appliances, thermal efficiency measures and microgeneration as set out in Schedule 4 of the WHD regulations [http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi\\_20111033\\_en.pdf](http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf)

## Energy efficiency training

5.9. One large training service, funded jointly by a number of suppliers, accounted for the majority of funding used for training energy advisors in SY3, with two smaller projects also funded by individual suppliers. In total, 5,937 advisors received training in energy topics in SY3, with 3% of the total industry initiative spend funding this activity.

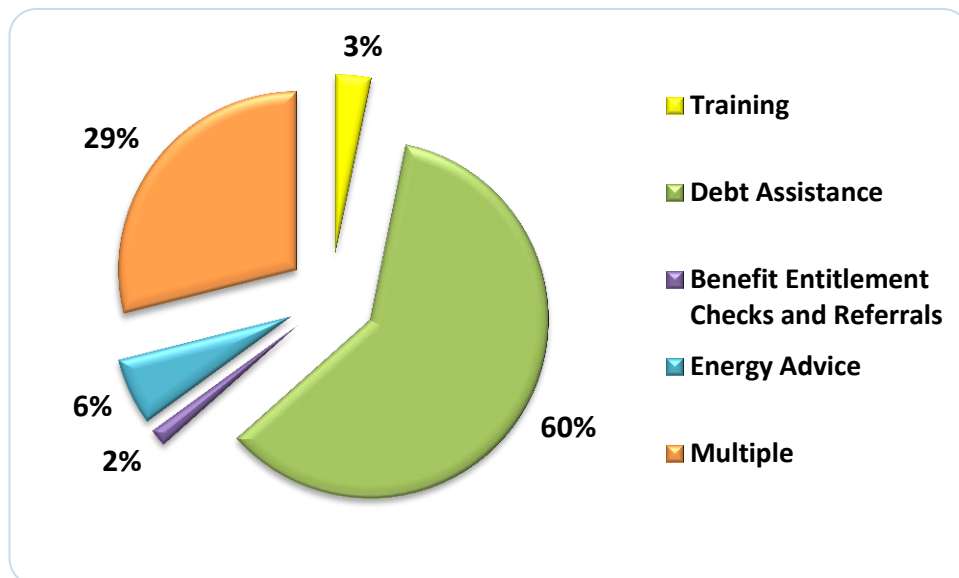
### Fact

All suppliers' Industry Initiative activities were consistent with the WHD regulations. In total, of the £30m available for Industry Initiatives, suppliers spent £22.3m. This is 74% of total allowable spend. In total 169,186 customers and 5,937 trainees benefited from Industry Initiative activities in SY3.

## Industry Initiative spend by activity

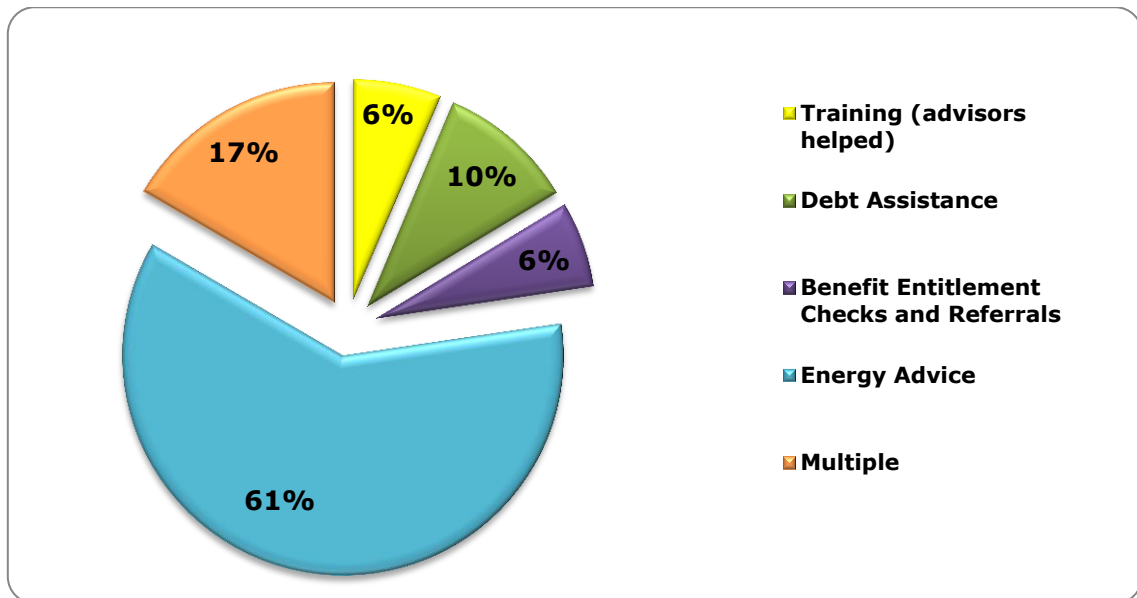
5.10. Figure 5.2 shows the proportions of total spending in SY3 by each type of activity. All eligible types of industry initiative support were provided by at least one supplier, although some types were only provided in multiple activity initiatives.

**Figure 5.2 – Industry Initiative spending by activity**



5.11. Figure 5.3 shows the proportion of the total number of customers (and of people trained to give energy advice) that have benefited from spending under the various Industry Initiative activities.

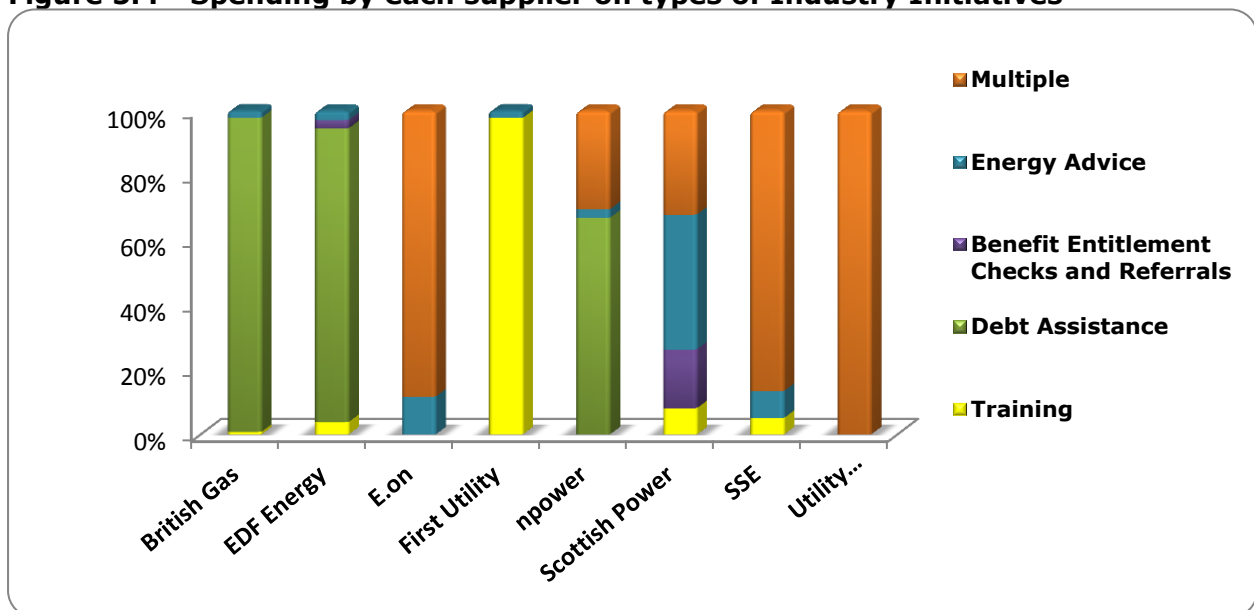
**Figure 5.3 - Customers benefiting from WHD Industry Initiative by activity**



## 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 fuel poverty or fuel poor

5.13. Through the end-of-year assessment of activities, we are generally satisfied that the 169,186 consumers who received support through industry initiatives were wholly or mainly in or at risk of fuel poverty. We are also satisfied that the 5,937 advisors trained in energy advice would go on to assist people who were wholly or mainly in or at risk of fuel poverty. There were two Industry Initiatives for which we received insufficient evidence that the people supported were in or at risk of fuel poverty, and the spend attributed to the respective suppliers' non-core obligations had to be adjusted so that only activities which had properly targeted consumers were counted.

## Value for money analysis

5.14. Value for money is one of the three criteria against which a supplier's notification must be approved by Ofgem<sup>13</sup>. During end-of-year compliance checks, each Industry Initiative is assessed on whether value for money projected in the notification has been achieved. There was one Industry Initiative where the amount of spend attributed to the supplier's non-core obligation had to be adjusted to meet the value for money criterion. All other activities achieved satisfactory value for money.

## Comparison between SY2 and SY3

5.15. Although the total spend is similar to SY2, the key differences between SY2 and 3 are:

- An increase in the number of customers benefiting from Industry Initiative spend by 120% from 98,739 in SY2 to 169,186 in SY3.
- A change in spend profile with a lower proportion of spend supporting 'assistance with energy debt' from 70% in SY2 to 60% in SY3.
- Most customers in SY3 benefited from energy advice, either on its own (61%) or being one of the 17% of customers who accessed services that provided multiple types of support – almost all of these services provided energy advice alongside other activities.

5.16. These figures indicate that energy advice is the activity that can be brought to the widest group of consumers, at a low cost relative to some other types of activity – energy advice only accounted for about 6% of initiative spending.

5.17. However activities such as debt assistance tend to focus on the most vulnerable consumers and have a much more immediate impact on their ability to pay for heating. They therefore justify the higher cost per customer, alongside other measures to reduce future energy costs.

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<sup>13</sup> Regulation 27(3)(c) [http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi\\_20111033\\_en.pdf](http://www.legislation.gov.uk/ukxi/2011/1033/pdfs/ukxi_20111033_en.pdf)



## 6. Ofgem audit programme

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### Chapter Summary

The aims of and the reasons for the audit programme, as it was designed for the WHD scheme. Summary of the findings of the audits conducted in SY3.

### Aim of the audit programme

6.1. Ofgem keeps under review the operation of any support scheme, and how licensed suppliers are complying with it. We want to make sure that suppliers meet their obligations and comply with the WHD regulations.

6.2. The audit strategy for SY3 aimed to give assurance on compliance with WHD obligations and suppliers' accuracy in end-of-year reporting. The audit had two strands:

- external audit of supplier activities commissioned by Ofgem
- suppliers' internal audit

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 us to focus audit resources on areas of high risk. We continued this approach during SY3.

6.4. We also try to help suppliers manage 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 SY3, we asked independent external auditors to audit all suppliers participating in the WHD scheme. The audit programme included a selection of different types of activity, and also included verifying the customer numbers submitted by each supplier, making sure their obligations are set correctly.

## Programme key findings

### Fact

In SY3 independent auditors found that suppliers had, in the vast majority of cases, implemented good systems to process Core Group instructions promptly. However, there were a few instances where systems could be improved, and suppliers agreed actions to achieve this. We were pleased that this minimised late payments and late returns of Core Group instructions by the end of the year.

Other audit work focused on compliance risks in supplier activities, and verifying the accuracy of supplier end-of-year submissions. We found that most activities were operating effectively. We have agreed with suppliers' management what actions they will take to address findings from audit work. Auditors also noted areas of good practice within suppliers' scheme activities.

6.6. For SY3, auditors appointed by us made sure that each supplier's processing of Core Group instructions was done accurately and promptly. Other activities were also examined, spanning higher-risk activities across Broader Group and Industry Initiatives. As in the first year of the WHD scheme, the programme focused on activities carried out for the first time, meaning new entrants were subject to audits to minimise their risk of non-compliance in their first year. The customer numbers for each supplier were also audited. In total, Ofgem-appointed auditors carried out 26 audits of supplier activities and data.

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

Element	Good/ Satisfactory Assurance	Weak	Unsatisfactory
Customer numbers	7	0	0
Core Group	8	1	0
Broader Group	4	2	0
Industry Initiative	1	3	0
<b>Total</b>	<b>20</b>	<b>6</b>	<b>0</b>

\* see Para 6.13

6.8. We agreed assurance ratings for audits with our appointed auditors, to show the auditor's opinion of the likelihood that audited suppliers would be able to demonstrate compliance with the WHD regulations. Definitions of these ratings were shared with suppliers.

6.9. The majority of activities that were audited in SY3, 20 of 26 achieved at least a "Satisfactory" rating. This meant that there were no significant concerns about suppliers' ability to comply with the WHD obligation. In some cases, the auditors noted areas of best practice in delivering activities which we have noted for potential sharing with other suppliers, to improve delivery across the scheme.

6.10. The remaining six audits received an overall rating of “Weak”. This was because auditors raised one or more concerns about an activity’s compliance with WHD criteria. In each case, we sought further evidence from suppliers and asked for management action to be taken to mitigate the issues highlighted. In two cases, this was sufficient to resolve the concern.

6.11. Of the other four, two audits related to the same activity, and we eventually had to adjust the attributable spend for SY3 from that activity. Two others highlighted minor contraventions of the scheme regulations which are included in this report. Since then, suppliers have acted to improve processes, which should prevent these minor contraventions recurring.

6.12. No activities received an “Unsatisfactory” rating during SY3.

6.13. For activities not audited by Ofgem-appointed auditors, reliance was placed on supplier independent internal audit to ensure audit assurances were obtained for all activities counted towards WHD obligations. Supplier guidance explained the required scope of internal audit, which we agreed with suppliers during the scheme year to ensure that they provided robust and comprehensive independent assurance.

6.14. We 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 3

### Chapter Summary

Outcomes for the second year of the Warm Home Discount Scheme, and an overview of compliance for scheme activity and financial obligation. It then provides information, analysed by participating supplier, on each element of the scheme and compliance with their financial obligations.

### Key findings across all obligated suppliers

#### Compliance with WHD regulations

7.1. We focus on two main areas to make sure suppliers have fulfilled their obligations under the WHD Scheme. The first is to check that suppliers have implemented the scheme in line with the criteria and direction in the Warm Home Discount 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, according to the regulations.

7.2. Figure 7.1 summarises supplier compliance against activity. Three of eight suppliers had minor contraventions in the Core Group (as outlined in Chapter 2 and detailed in Chapter 8). One supplier had minor contraventions in the Broader Group (noted in Chapter 3 and detailed in Chapter 8). All suppliers were found to have complied with the WHD regulations in the delivery of their Legacy Spending and Industry Initiatives.

**Figure 7.1 Supplier Compliance**

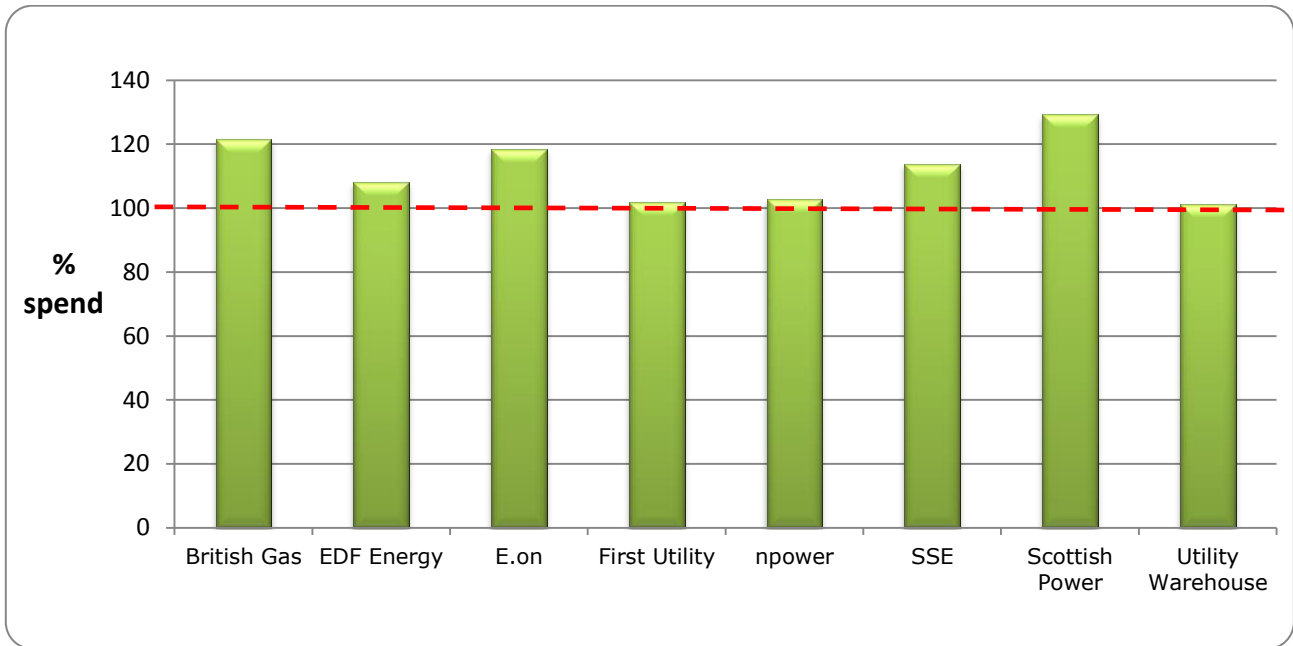
	<b>Core Group</b>	<b>Broader Group</b>	<b>Legacy Spending</b>	<b>Industry Initiative</b>
<b>British Gas</b>	Compliant	Compliant	Compliant	Compliant
<b>EDF Energy</b>	Compliant	Compliant	Compliant	Compliant
<b>E.ON</b>	Compliant	Compliant	Compliant	Compliant
<b>First Utility</b>	Minor Infringements	Compliant	Compliant	Compliant
<b>Npower</b>	Minor Infringements	Compliant	Compliant	Compliant
<b>SSE</b>	Compliant	Compliant	Compliant	Compliant
<b>ScottishPower</b>	Compliant	Compliant	Compliant	Compliant
<b>Utility Warehouse</b>	Minor Infringements* <sup>14</sup>	Minor Infringements	Compliant	Compliant

<sup>14</sup> On investigation, this was found to be outside the control of Utility Warehouse – see paragraph 8.10 for further details.

## Compliance with SY3 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. All suppliers met their requirements for the provision of Core Group rebates, while for Broader Group Rebates, all suppliers were found to have met and some have significantly exceeded their targets. The graph in Figure 7.2 illustrates this.

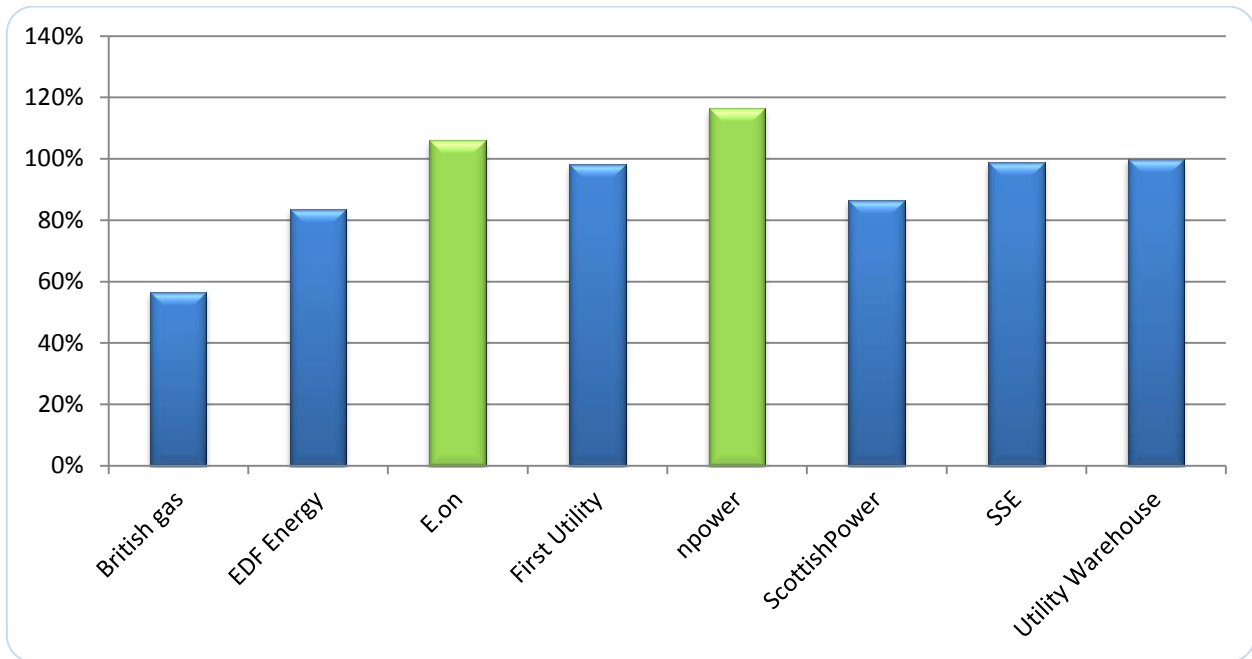
**Figure 7.2 - Core and Broader Group spend by supplier**



7.4. Legacy Spending and Industry Initiatives spend can count 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. Figure 7.3 shows how suppliers are, in most cases, spending less than the maximum claimable level of support to fuel poor customers through Legacy Spending (mostly through discounted tariffs) and moving to Core and Broader Group rebates. It shows that one of the six relevant suppliers completely ended their legacy spend before SY3 began, while two others were not relevant and could not claim Legacy Spend towards their obligation. Three suppliers reduced the amount of Legacy Spend to below the cap for SY3, which dropped from a total of £70m in SY2 to £35m in SY3.

7.5. Two suppliers, E.ON and ScottishPower, chose to provide more than the maximum claimable support to customers. Only the value equivalent to their Legacy Spend cap was attributed to the SY3 obligation, as explained in section 4, although our assessment indicated that the spend was otherwise eligible aside from reaching the maximum attributable value.

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



## Key findings by obligated suppliers

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

7.7. We found that all suppliers had made sufficient attributable expenditure during SY3 to meet each of their non-core obligations.

7.8. Suppliers had the choice of how to meet their non-core obligation as a combination of Broader Group, Industry Initiative and Legacy Spend, with Broader Group the only compulsory element for suppliers. Appendix 3 shows the different approaches by supplier to meet their obligations, in terms of breakdown of spend.

## 8. Looking forward

### Chapter Summary

Some of the findings from Scheme Year 3 and future developments that may affect customers in or at risk of fuel poverty, or the WHD scheme itself.

### Compliance

#### Fact

All participating suppliers met their obligations for SY3, collectively spending nearly £24m more than the minimum overall obligation.

8.1. In the third year of the WHD scheme, the eight participating suppliers successfully complied with the spending requirements. In fulfilling their obligations, these suppliers reached far more customers with rebates than in previous years, and the value of each rebate continues to increase each year. Suppliers collectively opted to go well beyond the minimum required spend on providing rebates to customers, with an additional 12% paid out to customers in the year.

8.2. The eight suppliers comprised six who had been obligated since the beginning of the scheme, and two new entrants. Ofgem has positively managed new suppliers' entry to, and engagement with, the WHD obligation. With the entry of these new suppliers, it now means that the benefits of the WHD scheme are available to more customers of participating suppliers.

8.3. Across all companies, a total of £290.9m eligible WHD funding 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 80,000 to more than 1.2 million. Additionally, another 605,000 customers received a Broader Group rebate, and all participating suppliers exceeded their minimum obligation for the Broader Group.

8.4. Overall, 376,692 customers benefited from Legacy Spending tariffs or rebates, equating to a total spend of £22.4m. Of this, £19.8m of this was counted as WHD spend when taking into account the relevant caps. In line with WHD policy, reported spend on this element fell by 59% from SY2 and the reported number of customers benefiting from Legacy Spending fell by 61%.

### New entrants

#### Fact

Two new participating CSESs became part of the scheme in SY3, broadening the reach of the WHD scheme to additional customers, and another new CSES joins in SY4.

8.5. One supplier, First Utility, entered the scheme as it reached the threshold for mandatory participation at 31 December 2012. The second, Utility Warehouse, was previously connected to another supplier group, but was bought from that group during the scheme year, becoming a CSES in its own right. As WHD obligations are put on the CSES licence holder, the

new owner of the group became responsible for delivering the obligation and providing reporting at the year end.

8.6. As Utility Warehouse became a separate entity in the second half of the scheme year, after arrangements for transfer of Core Group instructions between suppliers and DECC had been set up, it was agreed that Npower and Utility Warehouse would collaborate to process Core Group instructions for Utility Warehouse. However this added more steps to the process, which unfortunately delayed processing Core Group instructions, as described later.

8.7. Each new obligated party experienced the challenges associated with new obligations and reporting requirements, as with participants in the first year of the WHD scheme, but because we engaged early with the new entrants, issues and minor contraventions were kept to a minimum, and both suppliers were able to comply with the majority of their obligations. This was aided by collaboration on Industry Initiatives between the new entrants and existing obligated suppliers.

8.8. With the GB domestic energy market changing over time and the trend of smaller suppliers increasing their market share, we expect the number of participants to increase each year of the scheme. A ninth supplier, Co-operative Energy, became obligated at the beginning of SY4, meaning that in the fourth year of the scheme, there are 50% more participants than in the first and second years. Again, we will need to closely support the new entrant to ensure it can meet its obligation. Ofgem will also monitor the market and engage with other suppliers who may be obligated in future years, so that they can create plans well in advance for joining the scheme.

## Scheme extension to 2016

### Fact

The Warm Home Discount scheme will be continued for a fifth year, 2015-16. This will need legislation to be amended, and we will review the first four years of the scheme at the end of SY4.

8.9. The UK government announced a commitment to continue the WHD scheme for an additional year to the original four-year period, in their consultation of October 2014<sup>15</sup>. This additional year will be April 2015 – March 2016.

8.10. Between publishing this report and the end of SY4, DECC will consult on new legislation to enact this scheme extension, and lay amending regulations.

8.11. The consultation responses may suggest some changes that could be made to the WHD scheme in order to better support customers in or at risk of fuel poverty. In light of this, we will review the first four years of the scheme as a whole, to understand how delivery has developed over the period of the original legislation.

8.12. We have worked closely with suppliers during compliance assessment periods to help them submit information which is accurate, timely and complete. We expect suppliers to ensure their submissions meet these expectations so that next year's review is effective, as well as the scheme as a whole.

<sup>15</sup> <https://www.gov.uk/government/consultations/warm-home-discount-extension-to-201516>



## Increased Broader Group minimum spend in SY4

### Fact

The minimum spend on the Broader Group will be significantly larger in SY4 than in any previous year, reaching more vulnerable customers.

8.13. Chapter 3 of this report explained that there will be a significant increase in the non-core obligation, and consequently the minimum spend on the Broader Group, in SY4 compared to SY3. To help mitigate the impact on suppliers, an amendment was made to the WHD regulations to allow overspends of up to 34% of the SY3 non-core obligation to be attributed to a supplier's SY4 obligation.

8.14. This has the effect of letting suppliers choose whether they provide all the extra support in SY4, or spread the extra support between SY3 and SY4. As can be seen from figures earlier in the report, some chose to take full advantage of the change, whereas others made partial or only minimal use of it.

8.15. We will monitor suppliers' progress through the scheme year in reaching the new minimum spend level, in particular those who achieved a smaller overspend against their Broader Group minimum in SY3 and hence will have a larger increase to manage in SY4.

## Targeting fuel poor customers

### Fact

Participating suppliers have been generally successful in targeting consumers in or at risk of fuel poverty with the support offered under WHD.

8.16. 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, just over a quarter (27%) of respondents failed the documentary evidence check, which shows an improvement to the results for SY2, where 36% of respondents failed. Although a proportion of these customers 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.

8.17. In one element of the scheme, the Industry Initiatives, three activities submitted fell short of showing evidence that benefits were provided wholly or mainly to people in fuel poverty or in a fuel poverty risk group under regulation 27 (3), or had not met agreed targets to achieve value for money in delivery. 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 very low, equivalent to less than 0.1% of the scheme value.

8.18. Aside from these possible issues related to showing evidence of delivery, 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

### Fact

Suppliers have successfully reduced the number of minor contraventions of the WHD regulations, but these have not been completely avoided in SY3. Ofgem will work with suppliers to improve processes for providing support in line with WHD regulations.

8.19. In the third year, there were some minor contraventions of statutory requirements and problems with targeting, although none affected the administration or delivery of the scheme.

8.20. 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 SY3, three of the eight obligated suppliers contravened one or both of these requirements. This included both new entrants, and one supplier obligated in previous years.

8.21. First Utility failed to pay all its Core Group rebates within the time limits set by the regulations because of administrative problems in making payments. We expect First Utility to improve its internal systems to prevent this happening again.

8.22. As previously noted in this report, Utility Warehouse became an obligated group under the WHD scheme part way through SY3, after the majority of Core Group processing had been completed. Given the circumstances of Utility Warehouse becoming a separate group from Npower, both parties agreed to collaborate on processing the remainder of SY3 Core Group instructions to pay rebates. An administrative error as part of this collaboration led to a small number of Utility Warehouse customers receiving their rebate outside the timescales required by the regulations. We do not expect this to be repeated in future, as Utility Warehouse will be solely responsible for processing Core Group instructions to pay rebates to its customers.

8.23. Npower failed to pay all its Core Group rebates within the time limits set by the regulations, and failed to notify the SoS within 30 days of a small number of customers they had been unable to identify. These failures also happened in SY1 and SY2, although the number of failures is smaller than in previous years.

8.24. The remaining five suppliers, who had all committed minor contraventions in SY2, improved their performance in SY3 so that no minor contraventions were identified.

8.25. We are pleased to see improvements by all suppliers who were obligated in SY2, compared to that year's performance, but some suppliers still need to improve to prevent further minor contraventions in SY4.

## Conclusion

8.26. Suppliers were successful in meeting their spending requirements in SY3, notably including the two new entrants to the scheme. All suppliers exceeded the minimum obligations, in some cases even beyond the limits on industry initiatives and legacy spend, and in one case beyond the value allowed to be carried forward to SY4.

8.27. Minor contraventions of the scheme regulations have been reduced compared to SY2, although they have still occurred in a few suppliers. A small number of industry initiatives did not meet all requirements for targeting and value for money, although this was minor compared to the overall level of activity across the scheme for SY3. We expect suppliers to completely avoid these minor contraventions in SY4.

8.28. The Broader Group was significantly over-delivered in SY3, as suppliers actively switched from Legacy Spend to Broader Group support for customers, ahead of the end of Legacy Spend following SY3. Additional Broader Group spend also allowed suppliers to support extra customers in SY3 and carry forward the value of additional support to SY4. Suppliers have continued to work in partnership with the Department of Work and Pensions (DWP) to carry out Broader Group verification, which has reduced the number of applicants failing the verification test.

8.29. Despite the decrease in Broader Group verification failure rates as a result of better verification processes, suppliers' internal and Ofgem's external audit reports again identified internal control issues. This suggests that suppliers could improve the way they minimise the risk of payments to ineligible customers. Where issues were identified, we have asked suppliers to explain the improvements that will be made so that these problems are avoided in future.

8.30. In the coming year, we will work with suppliers to ensure they can meet the statutory scheme requirements for SY4. Ofgem will use a risk-based audit approach and regular engagement to closely monitor progress throughout SY4 to help ensure supplier compliance. We expect to see continued performance improvement from obligated suppliers.

8.31. Ofgem will work closely with the new entrant to the WHD scheme in SY4, Co-operative Energy. Our close engagement with new entrants in SY3 helped them to comply, and we intend to repeat this successful strategy with Co-operative Energy. We will promote best practice in delivering support to its eligible customers as a new participant.

## Appendix 1 – WHD compulsory scheme electricity suppliers

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### WHD compulsory scheme electricity suppliers

<b>Supplier Group</b>	<b>Licensed Supplier</b>
British Gas	<ul style="list-style-type: none"><li>• British Gas Trading Limited</li></ul>
EDF Energy	<ul style="list-style-type: none"><li>• EDF Energy Customers Plc</li></ul>
E.ON	<ul style="list-style-type: none"><li>• E.ON Energy Solutions Limited</li></ul>
First Utility	<ul style="list-style-type: none"><li>• First Utility Limited</li></ul>
Npower	<ul style="list-style-type: none"><li>• Npower Limited</li><li>• Npower Northern Supply Limited</li><li>• Npower Yorkshire Supply Limited</li><li>• Npower Direct Limited</li></ul>
ScottishPower	<ul style="list-style-type: none"><li>• ScottishPower Energy Retail Limited</li></ul>
SSE	<ul style="list-style-type: none"><li>• SSE Energy Supply Limited</li></ul>
Utility Warehouse	<ul style="list-style-type: none"><li>• Electricity Plus Supply Limited</li></ul>

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

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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 website<sup>16</sup>.

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 £135 in SY3.

### **Broader Group**

1.4. In addition to the Core Group, suppliers were required to provide an annual rebate of £135 in SY3 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 had 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 £35m for SY3. 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 version 3<sup>17</sup> (published July 2014).

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<sup>16</sup><http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Suppliers%20Social%20Spend%20report%202010-2011.pdf>

<sup>17</sup> <https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-supplier-guidance-version-3>

## 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 11 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 eight supplier groups are British Gas, EDF, E.ON, First Utility, Npower, SSE, ScottishPower and Utility Warehouse.

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 the first three years of the scheme, 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 £200m for SY3.

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 2.1.

**Figure annex 2.1 Non-core scheme year targets**

	<b>SY1</b>	<b>SY2</b>	<b>SY3</b>	<b>SY4</b>
<b>Overall non-core scheme year target</b>	£153m	£132m	£100m	£144m
<b>Overall scheme Legacy Spending limit</b>	£140m	£70m	£35m	£0
<b>Overall scheme Industry Initiative limit</b>	£30m	£30m	£30m	£30m
<b>Overall scheme LS &amp; II combined limit</b>	£150m	£85m	£53m	£30m
<b>Overall Broader Group minimum</b>	£3m	£47m	£47m	£114m
<b>Overall spending target</b>	£250m	£275m	£300m	£310m

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 SY3 suppliers were notified in March 2013. Under Regulation 15(2) a small variation in spend of +/-1% was permitted for SYs 1 and 2. The Warm Home Discount (Amendment) Regulations 2014 allowed suppliers to spend up to 34% over their SY3 obligation and have this counted towards their SY4 non-core obligation. 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 2.2 summarises the content and timetable of certain activities.

**Figure annex 2.2 - Summary of Compliance Activities**

<b>Core Group</b>	<ul style="list-style-type: none"> <li>Suppliers are obligated to provide all Core Group rebates, unless they apply an exception as determined by the SoS.</li> <li>Rebate must be specified as being made under the WHD scheme (value for SY3 = £135 including VAT).</li> <li>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.</li> </ul>
<b>Broader Group</b>	<ul style="list-style-type: none"> <li>Suppliers are obligated to provide a minimum number of rebates to customers.</li> <li>Rebates must be specified as being made under the WHD scheme (value for SY3 = £135 including VAT).</li> <li>Rebates must be provided by 31 March of each Scheme Year.</li> <li>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.</li> </ul>
<b>Legacy Spending</b>	<ul style="list-style-type: none"> <li>Tariff/rebate must work in the same way as in the last year of the Voluntary Agreement.</li> <li>Eligibility criteria must be the same as in the last year of the Voluntary Agreement.</li> <li>Number of eligible customers must not exceed those benefiting from discounted tariffs or rebates in the last year of the Voluntary Agreement.</li> </ul>
<b>Industry Initiatives</b>	<ul style="list-style-type: none"> <li>Suppliers must obtain Ofgem's prior approval before incurring any spend on Industry Initiatives.</li> <li>Activity must be permitted under regulation 26 and Schedule 4 of the WHD regulations.</li> <li>The activity is targeted at people in fuel poverty or at risk of fuel poverty.</li> <li>The initiative must also demonstrate value for money.</li> </ul>

## Appendix 3 – Obligated suppliers in SY3

### British Gas

Figure appendix 3.1 provides a breakdown of British Gas’s spend in SY3. It shows that the majority of spend (89%) was through Core and Broader Group rebates. It also shows the SY2 spend profile and illustrates that British Gas has completely moved support from Legacy Spending to its Core and Broader Group rebates, providing significantly more than the minimum required Broader Group.

**Figure appendix 3.1 – British Gas WHD spend profile in SY3 and SY2**

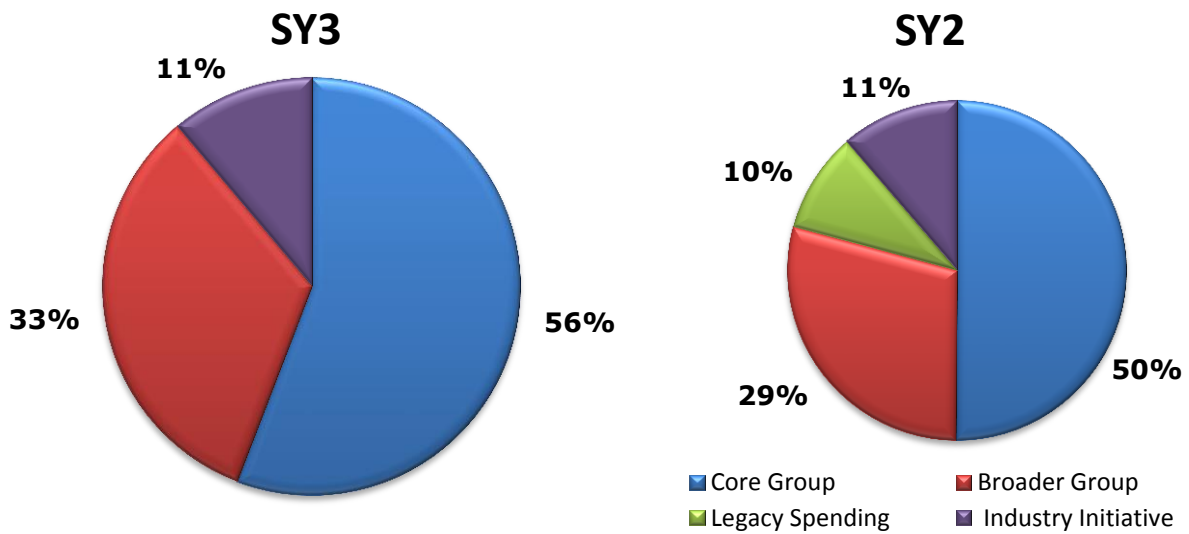
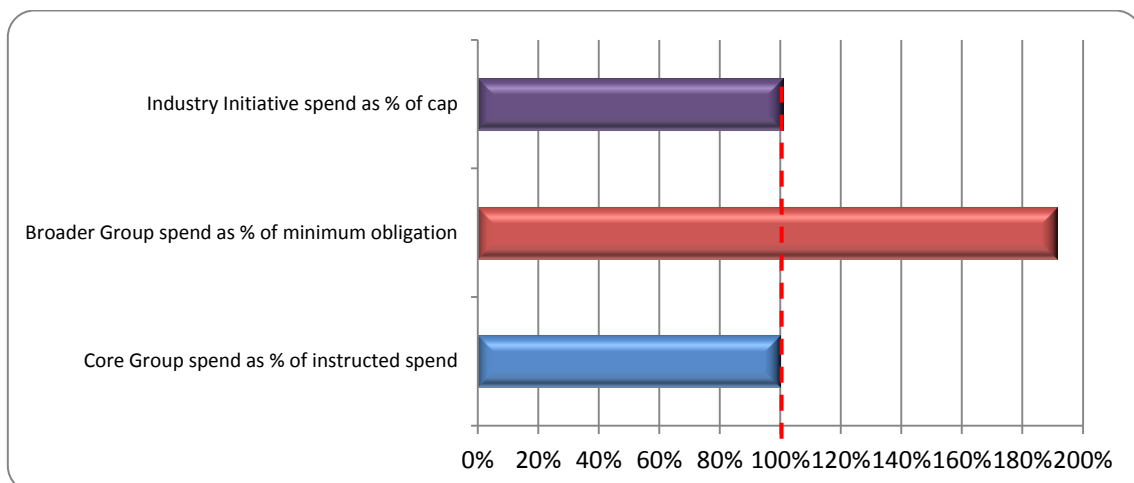


Figure appendix 3.2 illustrates how British Gas has performed against its obligations in SY3. In particular it shows British Gas has aligned its WHD spend with the requirements set out by the SoS for SY3 of the WHD scheme with a complete shift from Legacy Spending to Broader Group Rebates.

**Figure appendix 3.2 – British Gas WHD obligations and spend in SY3**





## EDF Energy

Figure appendix 3.3 provides a breakdown of EDF Energy’s spend in SY3. It shows that the majority of spend (84%) was through Core and Broader Group rebates. It also shows the SY2 spend profile and illustrates the progress that EDF Energy has made in moving support from Legacy Spending to Core and Broader Group rebates.

**Figure appendix 3.3 – EDF Energy WHD spend profile in SY3 and SY2**

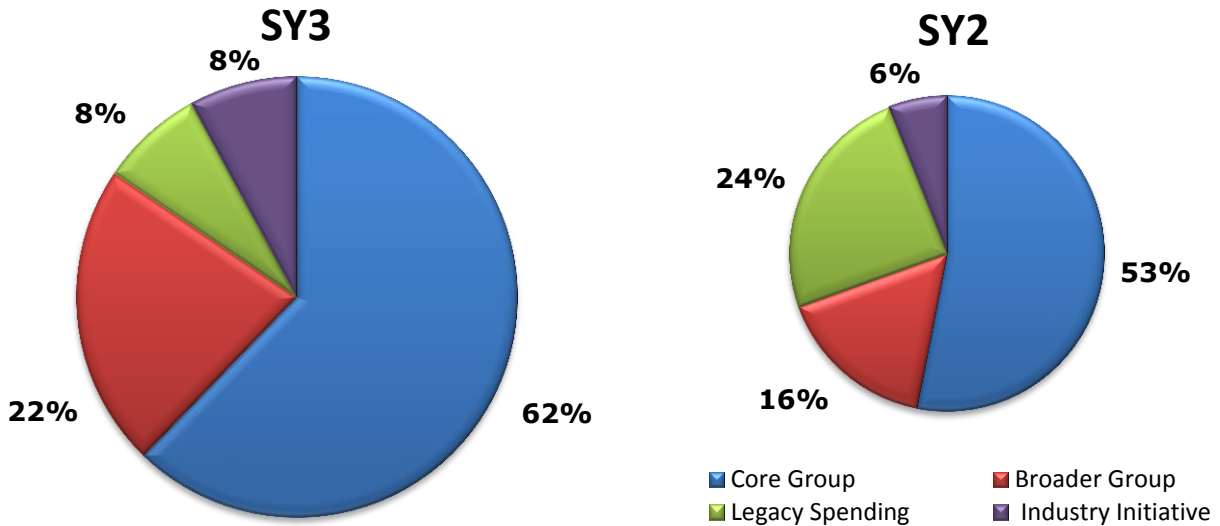
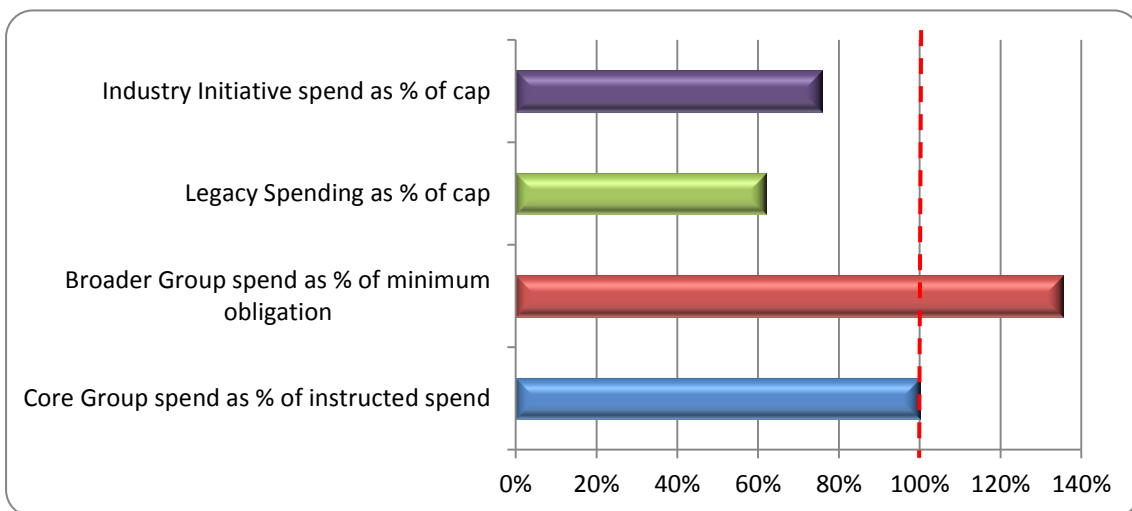


Figure appendix 3.4 illustrates how EDF Energy has performed against its obligations in SY3. In particular it shows that EDF Energy has aligned its WHD spend with the requirements set out by the SoS for SY3 of the WHD scheme, and optimised its Legacy Spend and Industry Initiatives spend within the allowable caps.

**Figure appendix 3.4 – EDF Energy WHD obligations and spend in SY3**



## E.ON

Figure appendix 3.5 provides a breakdown of E.ON’s spend in SY3. It shows that the majority of spend (83%) was through Core and Broader Group rebates. It also shows the SY2 spend profile and illustrates that, while E.ON has made good progress in moving support to Core and Broader Group rebates, it continues to provide additional support beyond its cap to Legacy Spend customers.

**Figure appendix 3.5 – E.ON WHD spend profile in SY3 and SY2**

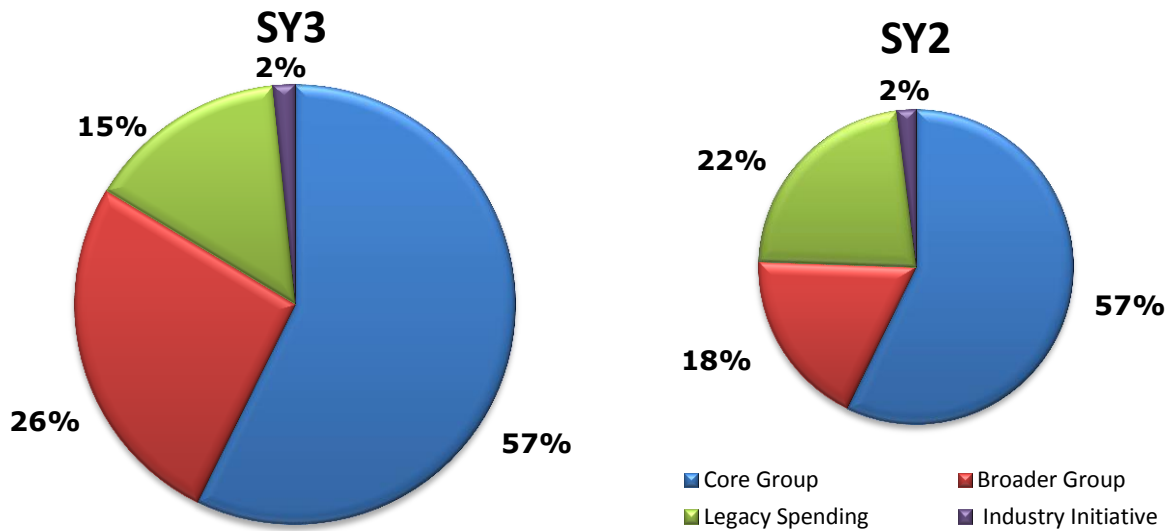
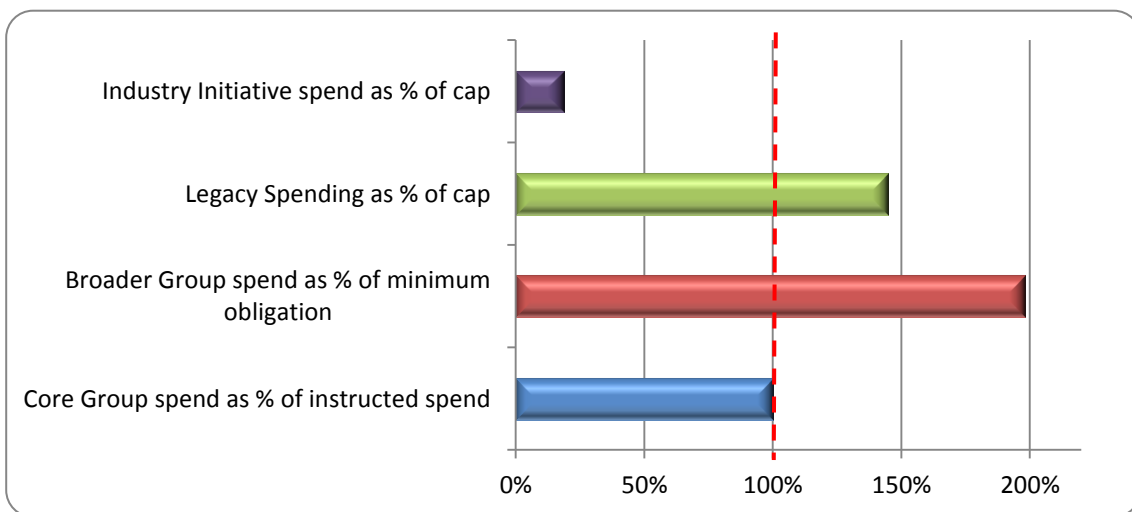


Figure appendix 3.6 illustrates how E.ON has performed against its obligations in SY3. In particular it shows that E.ON has aligned its WHD spend with the requirements set out by the SoS for SY3 of the WHD scheme, and focused on Broader Group spending in SY3.

**Figure appendix 3.6 – E.ON WHD obligations and spend in SY3**



## First Utility

Figure appendix 3.7 breaks down First Utility's spend in SY3. It shows that the majority of spend (79%) was through Core and Broader Group rebates due to the cap on Industry Initiatives, and the lack of Legacy Spending as First Utility is not a relevant supplier for this. First Utility is a new entrant in SY3 and so has no SY2 comparator.

**Figure appendix 3.7 – First Utility WHD spend profile in SY3**

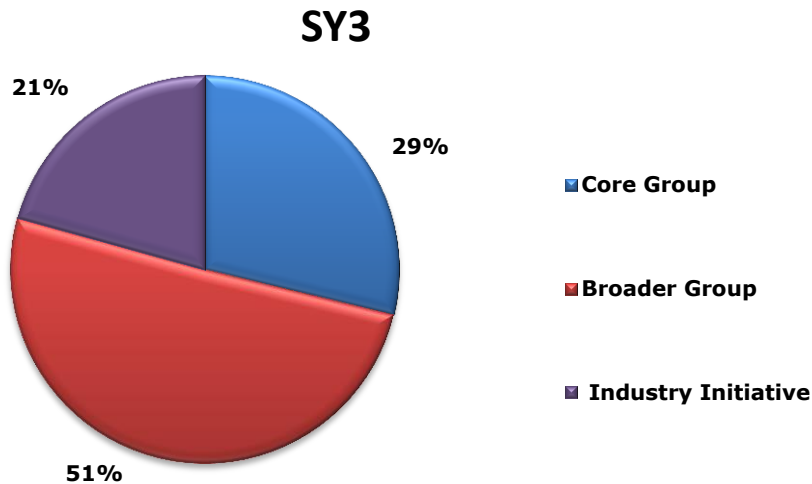
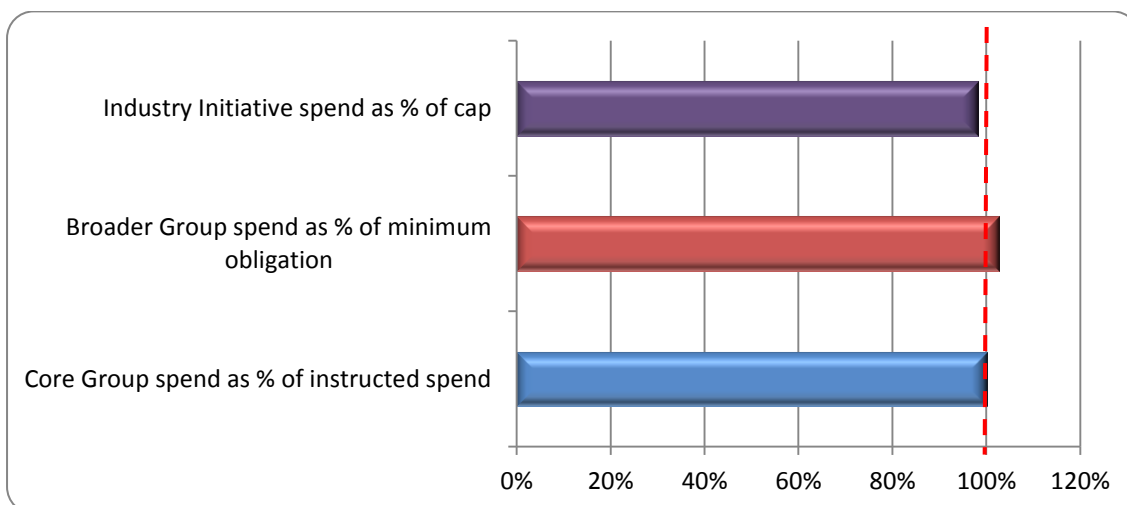


Figure appendix 3.8 illustrates how First Utility has performed against its obligations in SY3. First Utility met each of its obligations and was within its cap on industry initiative spend in its first year of participation in the scheme.

**Figure appendix 3.8 – First Utility WHD obligations and spend in SY3**



## Npower

Figure appendix 3.9 shows a breakdown of Npower’s spend in SY3. It shows that the majority of spend (77%) was through Core and Broader Group rebates. It also shows the SY2 spend profile and illustrates the progress that Npower has made in moving support from Legacy Spending to Core and Broader Group rebates.

**Figure appendix 3.9 – Npower WHD spend profile in SY3 and SY2**

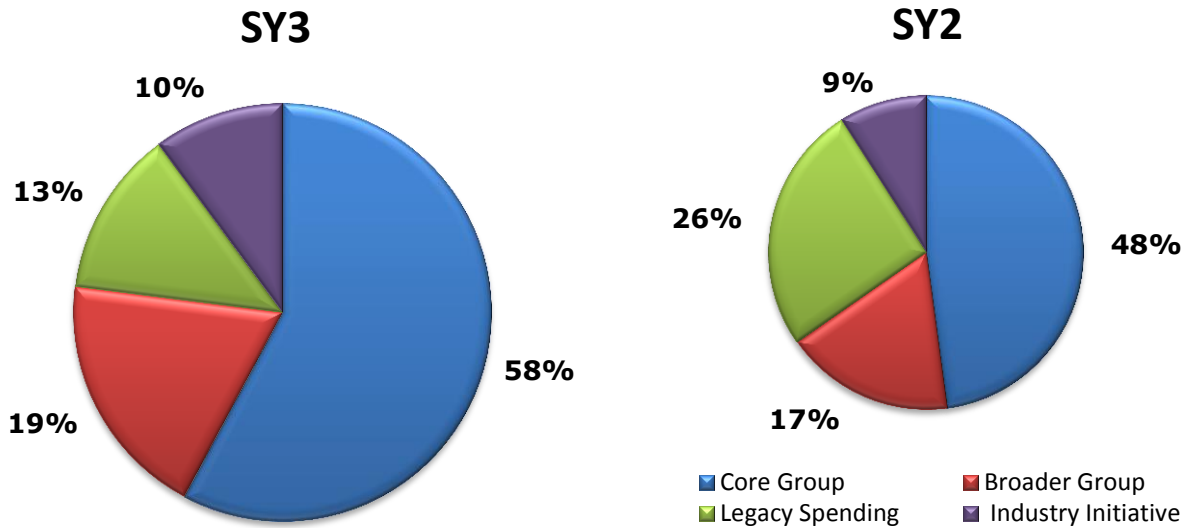
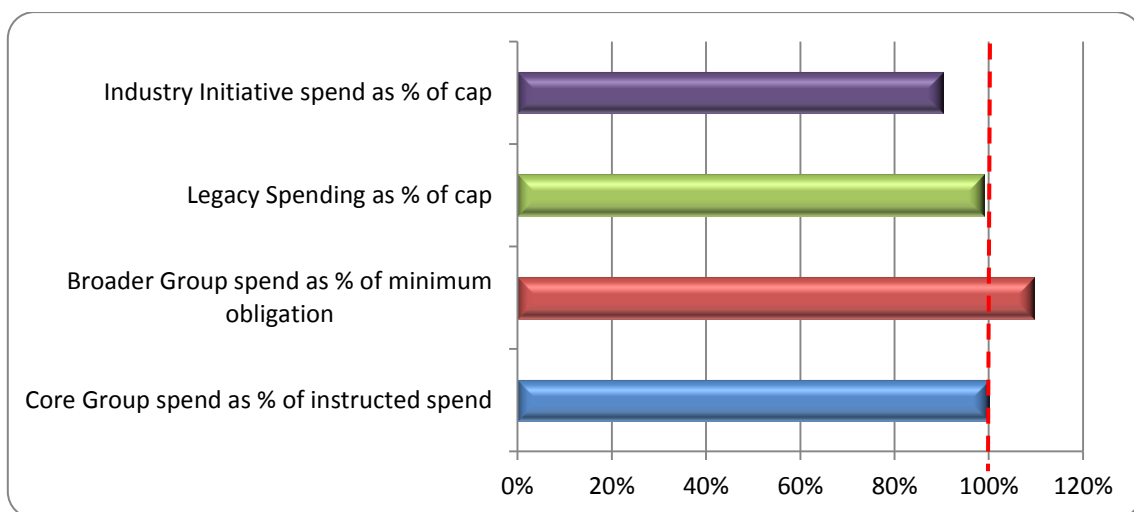


Figure appendix 3.10 illustrates how Npower has performed against its obligations in SY3. In particular it shows that Npower has aligned its WHD spend with the requirements set out by the SoS for SY3 of the WHD scheme.

**Figure appendix 3.10 – Npower WHD obligations and spend in SY3**



## ScottishPower

Figure appendix 3.11 provides a breakdown of ScottishPower’s spend in SY3. It shows that the majority of spend (84%) was through Core and Broader Group rebates. It also shows the SY2 spend profile and illustrates the significant progress that ScottishPower has made in moving support from Legacy Spending to Core and Broader Group rebates.

**Figure appendix 3.11 – ScottishPower WHD spend profile in SY3 and SY2**

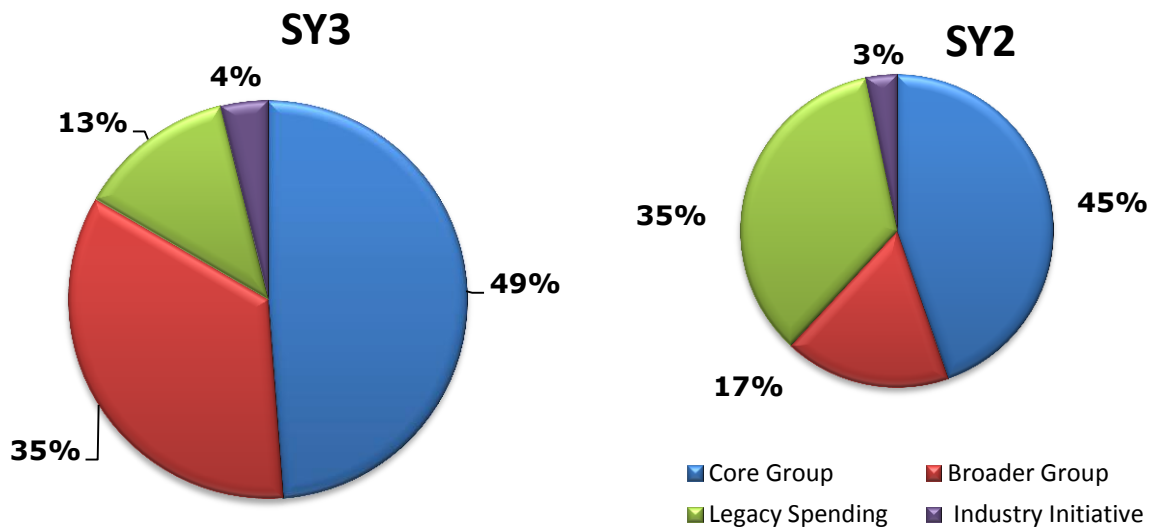
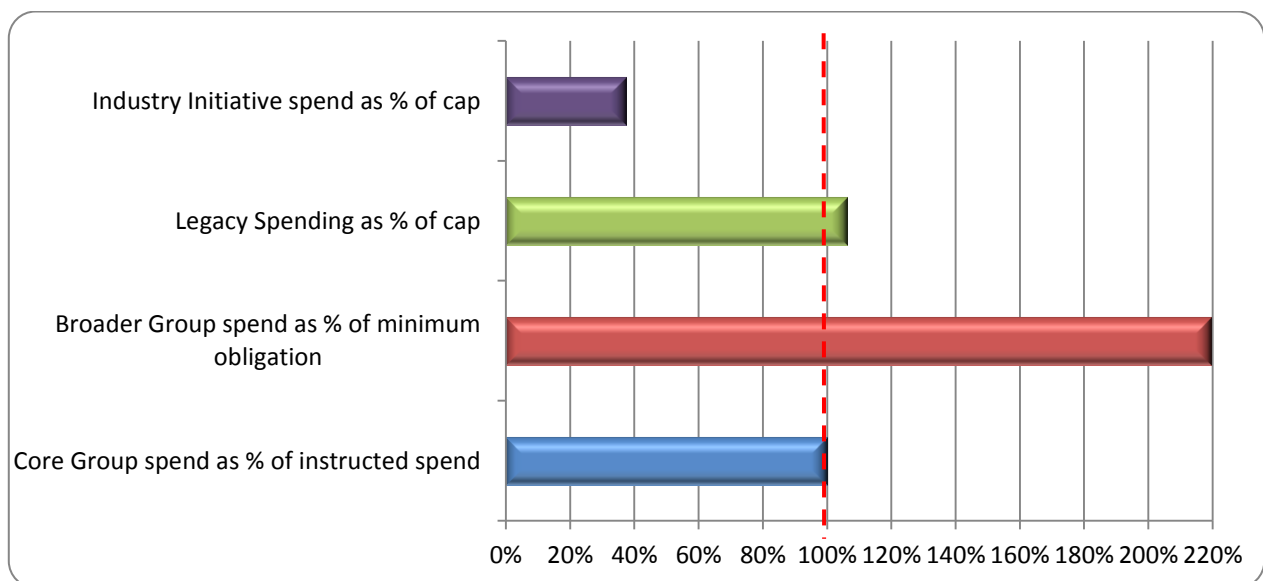


Figure appendix 3.12 illustrates how ScottishPower has performed against its obligations in SY3. In particular it shows that ScottishPower has focused its WHD spend on Broader Group, providing more than double the required number. It also shows a mixture of other assistance through Legacy Spend and Industry Initiatives.

**Figure appendix 3.12 – ScottishPower WHD obligations and spend in SY3**



## SSE

Figure appendix 3.13 provides a breakdown of SSE's spend in SY3. It shows that the majority of spend (84%) was through Core and Broader Group rebates. It also shows the SY2 spend profile and illustrates the progress that SSE has made in moving support from Legacy Spending to Core and Broader Group rebates.

**Figure appendix 3.13 – SSE WHD spend profile in SY3 and SY2**

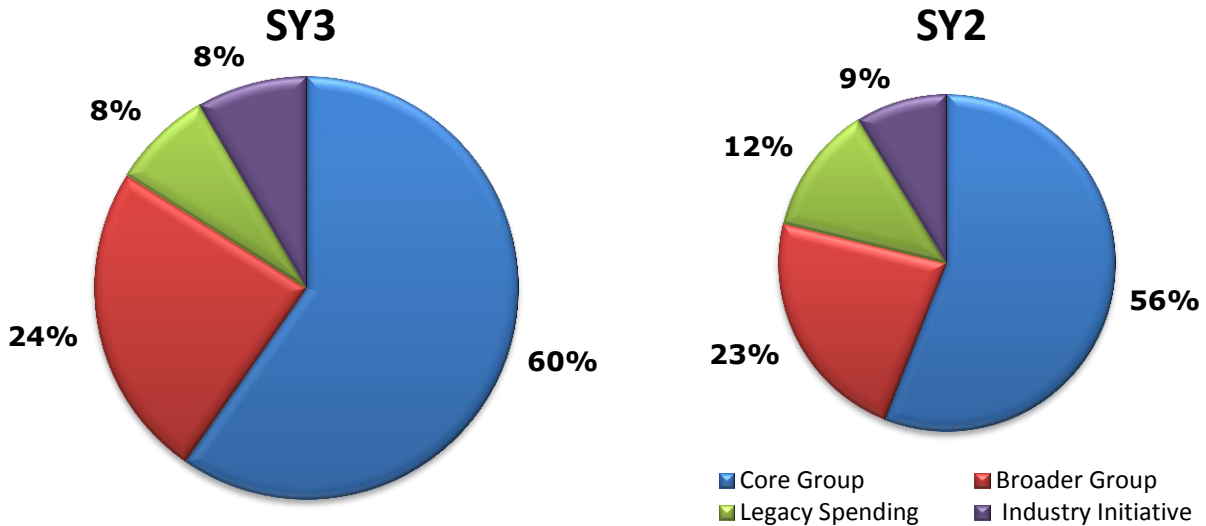
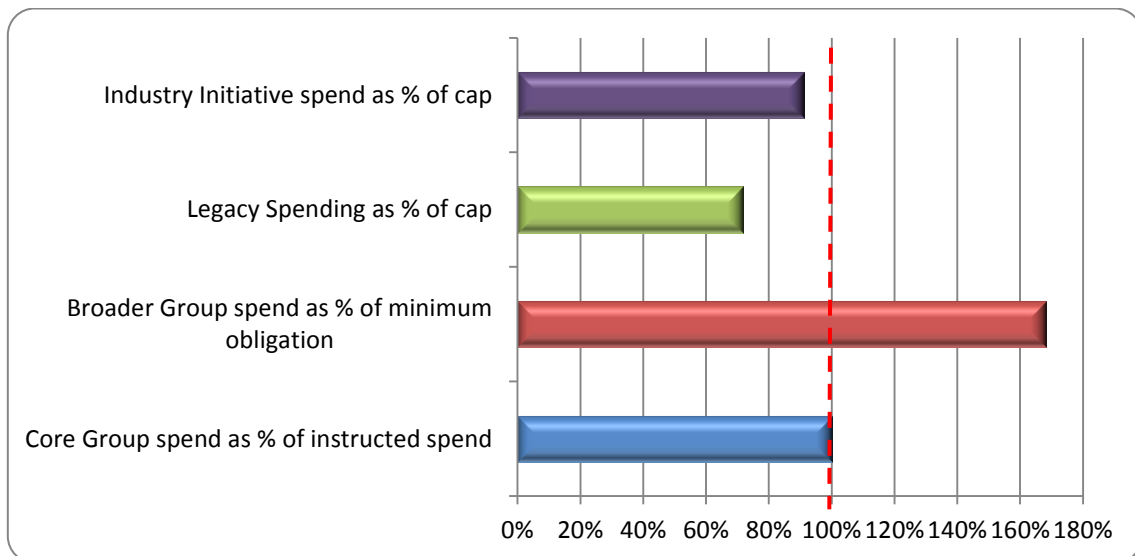


Figure appendix 3.14 illustrates how SSE has performed against its obligations in SY3. In particular it shows that SSE has aligned its WHD spend with the requirements set out by the SoS for SY3 of the WHD scheme, by shifting spend from Legacy Spending to Core and Broader Group Rebates.

**Figure appendix 3.14 SSE WHD obligations and spend in SY3**



## Utility Warehouse

Figure appendix 3.15 provides a breakdown of Utility Warehouse’s spend in SY3. It shows that the majority of spend (85%) was through Core and Broader Group rebates due to the cap on Industry Initiatives, and the lack of Legacy Spending as Utility Warehouse is not a relevant supplier for Legacy Spend. Utility Warehouse is a new entrant in SY3 and so has no SY2 comparator.

**Figure appendix 3.15 – Utility Warehouse WHD spend profile in SY3**

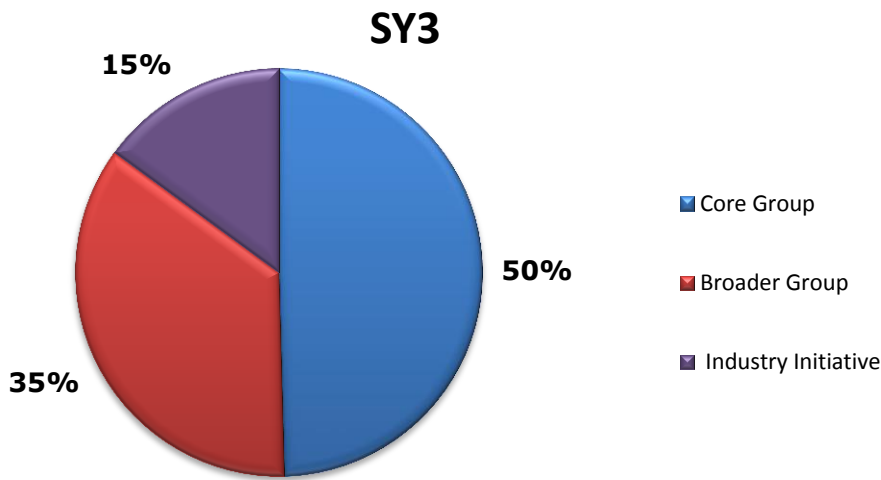


Figure appendix 3.16 illustrates how Utility Warehouse has performed against its obligations in SY3. Utility Warehouse met each of its obligations and was within its cap on industry initiative spend in its first year of participation in the scheme.

**Figure appendix 3.16 –Utility Warehouse obligations and spend in SY3**

