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Dear Sophia

Consultation to review the Energy Industry Voluntary Redress Scheme

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind and solar generation, as well as coal and gas stations and energy storage. We have around five million electricity and gas customer accounts, including residential and business users.

EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

The Energy Redress Industry Voluntary Scheme (hereafter referred to as the 'redress scheme') provides an opportunity to support energy consumers, by counteracting the negative effects that may result when suppliers fail to meet the Supplier Licence obligations. To that end the voluntary redress payments made by suppliers should deliver the maximum benefit possible to energy consumers. Ofgem should take opportunities to improve the current scheme, through a greater focus on decarbonisation, ensuring successful scheme applicants are those best placed to deliver benefits, and more timely allocation of funding.

Decarbonisation

There is potential to improve the current redress scheme by ensuring that it reflects Ofgem and the wider industries commitment to achieving net zero. While we recognise the scheme does intend to provide longer term cost and energy saving solutions for vulnerable consumers, this is not explicitly linked to decarbonisation in the '[Authority Guidance on the Allocation of the Redress Fund](#)' to the Energy Savings Trust (EST).

To address this in the longer term Ofgem, in line with their own net zero commitments, should dedicate a larger proportion of the redress funds specifically to decarbonisation.

As a simple step-change Ofgem should make it a prerequisite for eligibility across all funding (including the main fund and the innovation fund) that all projects must pass a 'decarbonisation test'. This means that the charity or other eligible participant must be able to demonstrate that their initiative will, at the very least, not be counter to the industry's wider decarbonisation objectives before being awarded funding. This requirement should be explicit in the redress scheme guidance.

We note in the EST Evaluation Report, that of the capital measures installed as a result of advice referrals, 167 were new gas boilers. This is second only to draft exclusion measures at 189. This is disappointing; we would expect the charities invested in to only provide low carbon solutions when looking at capital investments that support consumers in the longer term. While vulnerable consumers may require short term financial support to be able to heat their homes, longer term investment funding should not be provided for capital measures or initiatives that rely on fossil fuels. In particular, support to consumers to heat their homes on an enduring basis should not include the installation of a fossil fuelled boiler unless this is in response to an immediate need of a vulnerable consumer.

Ofgem has the opportunity to monitor the impact the redress scheme is having on decarbonisation by making it a requirement that the EST provides evidence in their 'Evaluation Report' of how allocated funding has contributed towards net zero. This means that the report should include data and quantitative analysis on the carbon reduction impact of projects funded, alongside data on any financial benefit or saving conferred on consumers. This is missing from the current report.

To date the largest attributed benefit to consumers appears to result from switching with total savings of £1,047,824. Switching is already an integral part of energy market dynamics, with a significant part of domestic regulation and policy geared to making switching as easy as possible for consumers. Funding that results only in customers switching supplier does not confer any genuine additional benefit for consumers at all. Rather than focusing on existing measures that are already in place to support consumers, the scheme should genuinely be adding value by looking for gaps in the market that support net zero and therefore vulnerable consumers in the longer term. If this is not the case, then the scheme will be failing on its own terms.

Option for energy suppliers as fund recipients.

Energy suppliers should have the opportunity to apply to be redress fund recipients, alongside charities. The aim of the redress scheme is to maximise long-term consumer benefit from the overall funds. It is therefore not appropriate to assess applicants against a very narrow and limiting set of criteria as is currently the case, with only charities or Local Authorities associated with charities eligible for funding. Rather applicants should be assessed primarily against value for money and the expected overall benefit, including in decarbonisation impact, that their proposal will bring to energy consumers.

There are two opportunities for suppliers to become eligible recipients of redress payments. Firstly, suppliers should be eligible to apply to the EST for redress funding alongside charities. Suppliers are

likely to already have the expertise, resource and structures in place to maximise the potential benefit to vulnerable consumers from any funding, given that suppliers are required to have support schemes in place for vulnerable consumers through their regulatory commitments such as the Warm Home discount, and ECO, and may already have measures that go further, such as the EDF Support Fund. Many of the EST projects' successes have been on delivering small simple measures, for relatively small numbers of consumers, and therefore while valuable, the benefit is limited. For example, the most significant capital measure directly installed across 5 projects is just 3,730 LED lightbulbs.

If suppliers can offer the most effective solution from both a cost and decarbonisation perspective, there is no reason why suppliers should not be eligible to apply for funding. However, there must be a blended approach by the EST to ensure smaller charities still have a fair opportunity to be awarded funding. We therefore propose as part of any assessment by the EST there would be a higher bar for suppliers to be considered for funding to ensure they do not have an unfair advantage i.e. a supplier's proposal must be the most effective from both a cost and decarbonisation perspective before being given funding consideration. With a mix of supplier and charity funded activity the EST scheme will be well placed to maximise the benefits it can provide to vulnerable consumers.

Secondly, suppliers that are subject to enforcement should have the opportunity to propose an alternate investment route for redress payments other than the EST scheme. This approach should be considered if a supplier can demonstrate that their investment would provide additional added value to consumers, that would not otherwise be achievable. Specifically, if the agreement to make redress payments coupled with a supplier's own funding and expertise could make an otherwise unfeasible project cost effective, with the prospect of delivering substantial benefits e.g. low carbon heat as a top up to ECO funding.

We recognise that it would not be appropriate for suppliers to benefit directly from their own non-compliance. If suppliers subject to enforcement were to propose an alternate investment route for their redress payments, it should be pre-requisite that they do not seek to gain (or indeed obtain) positive publicity from voluntary redress payments, either directly or indirectly. However, we do not consider customers would be confused into thinking voluntary redress payments have been made by a company of its own volition given the publicity surrounding Ofgem enforcement decisions. Consequently, providing the voluntary redress is not used in a way that confers a benefit to the supplier (e.g. reducing energy debt of the company's customers), we consider there is an opportunity for more efficient and effective use of redress payments by the supplier themselves than would be achievable through the EST scheme.

For both options, this does not mean suppliers should be automatically be granted a say in how any redress payments are allocated, whether subject to enforcement or not - only that they (or organisations affiliated to suppliers) are eligible as applicants, alongside other parties, to be assessed against the same guidance criteria - *'to identify the most appropriate mix of projects and recipients to ensure maximum long-term consumer benefit from the overall funds.'*

Efficient Allocation of Funds

The EST must ensure that redress payments are allocated as quickly as possible to eligible applicants to maximise the potential impact and benefits for consumers. Ofgem set out in its guidance that funding must be '*allocated in a reasonable timescale*'. However, the amount of funding provided to eligible participants between 2018 and 2020 is almost £19million¹ under the amount of redress payments made by energy companies in the same time period. While we recognise the EST would prefer to manage monies to an extent in order that funding available remains broadly consistent, this seems a particularly high figure, with almost half of supplier redress payments remaining unallocated. Ofgem must take steps to rectify this going forward, perhaps building on current guidance by specifying a timescale to allocate funds, or by setting a cap on the level of funds allowed to remain unallocated at any point in time. This should include a requirement for the EST to invest and obtain interest on any positive balance they hold, as this could provide further support to those in need.

It is worth noting that if suppliers also had the opportunity to propose an alternate investment route for redress payments, then as the direct provider of the funds they could invest payments much sooner than the EST and therefore ensure vulnerable customers most in need do not have to wait to benefit. This is particularly important in the coming months when the most significant financial impacts from COVID-19 on consumers are expected.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Nicola Pope on 07875 112428 or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink that reads 'R. Beresford'.

Rebecca Beresford
Head of Customers Policy and Regulation

¹ figure 1 page 9 'Consultation to review the Energy Industry Voluntary Redress Scheme'