

Sophia McGuigan  
Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

8 April 2021

Dear Sophia

**CONSULTATION TO REVIEW THE ENERGY INDUSTRY VOLUNTARY REDRESS SCHEME**

Thank you for the opportunity to respond to Ofgem's consultation which reviews the Energy Industry Voluntary Redress Scheme.

We have set out responses to the specific questions within the consultation document in Annex 1 to this letter.

We would highlight in particular the following points:

- While we are generally supportive of the existing funding split, we are mindful of the potential for consumers in vulnerable circumstances to face barriers in being able to benefit from the output from innovation and decarbonisation projects. The reasons for this can be varied, but could include challenges due to cost, technical limitations or understanding. We think this is a particular risk for decarbonisation as the transition to net zero accelerates and we therefore believe that it could be beneficial for Ofgem to adjust the allocation of Decarbonisation Fund funding to ensure a proportion is targeted at those projects that act to ensure vulnerable customers are not left behind as the market evolves. We have proposed two potential options for this in Annex 1 of this letter.
- We are supportive of the suggestion to make a fuel voucher a permanent feature of the overall Energy Redress Scheme. While we agree that it should be targeted at prepayment customers, who are particularly exposed to the impact of financial challenge through the potential for self-disconnection, we also recognise that many customers on credit payment methods who were previously able to pay their bills, experienced financial difficulty as a direct result of Covid-19, through loss of income and potential higher energy usage. We therefore think that there is a role to play for a voucher scheme in supporting credit customers, particularly during specific crises, where vulnerabilities can be short term and transient.

If you have any questions arising from our response, please do not hesitate to contact me or Emma Howe ([ehowe@scottishpower.com](mailto:ehowe@scottishpower.com)).

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive style with a blue color.

**Richard Sweet**  
Head of Regulatory Policy

**CONSULTATION TO REVIEW THE ENERGY INDUSTRY VOLUNTARY REDRESS  
SCHEME – SCOTTISHPOWER RESPONSE**

**Section 3. Areas for consideration**

**1. Types of projects**

**Question 1: Do you consider the funding split between the Main Fund, Innovation Fund and Decarbonisation Fund to be appropriate?**

We have provided a combined response to Questions 1 and 2, see below.

**Question 2: Do you consider the proportionate funding split between vulnerable consumers and all energy consumers to be appropriate? i.e. 70% to vulnerable consumers and a total of 30% to all energy consumers.**

We have provided below a combined response to questions 1 and 2 of Ofgem's consultation.

Ofgem's current split sees 70% of funding allocated to consumers in vulnerable circumstances via the Main Fund, with the remaining 30% split equally between the Innovation Fund to support the development of innovative products and services relating to energy, and the Decarbonisation Fund to target development of products and services that tackle decarbonisation.

We are generally supportive of the current funding split between vulnerable and all energy consumers. We think it is right that the funding is predominantly focused on supporting vulnerable customers. It is those customers who need the most support to manage their energy costs, and the Redress Scheme is able to fund a range of initiatives, including those which organisations other than suppliers are better placed to deliver.

We are however mindful of the potential for consumers in vulnerable circumstances to face barriers in being able to benefit from the output from innovation and decarbonisation projects. The reasons for this can be varied, but could include challenges due to cost, technical or understanding. We think this is a particular risk for decarbonisation as the transition to net zero accelerates, and we therefore believe that it could be beneficial for Ofgem to adjust the allocation of Decarbonisation Fund funding to ensure a proportion is targeted at those projects that act to ensure vulnerable customers are not left behind as the market evolves.

This could be delivered for example through allocating more money from the Voluntary Redress Scheme to fund projects with the specific objective of providing vulnerable customers with advice and support in accessing funding and grants for low carbon technology, or educating vulnerable customers in the uses and benefits of heat pumps and heat networks.

We see two ways in which this could be delivered within the structure of the funding between Funds within the Scheme:

- 1. Maintain the current funding structure, but ringfence a proportion of the Decarbonisation Fund for projects that directly support vulnerable customers within the specific decarbonisation projects*

The example below shows a scenario where a third of the Decarbonisation Fund is dedicated to projects that support vulnerable customers as well as decarbonisation.

Fund	Funding allocation	Minimum % of fund to be allocated to vulnerable customers	Total funds allocated to vulnerable consumers	Total funds allocated to all energy consumers
Main Fund	70%	100%	70%	0%
Decarbonisation Fund	15%	33.3%	5%	10%
Innovation Fund	15%	0%	0%	15%
	100%		75%	25%

2. *Reduce the Main Fund allocation and transfer a proportion to the Decarbonisation Funds but ringfence that proportion for projects that directly support vulnerable customers within the specific innovation and decarbonisation projects*

There are clearly a range of reallocation options available to achieve this, and we have proposed one example scenario below:

Fund	Funding allocation	Minimum % of fund to be allocated to vulnerable customers	Total funds allocated to vulnerable consumers	Total funds allocated to all energy consumers
Main Fund	60%	100%	60%	0.0%
Decarbonisation Fund	25%	40%	10%	15%
Innovation Fund	15%	0%	0%	15%
	100%		70%	30%

Our preference would be for Option 1. While Option 2 maintains the current 70%/30% funding structure, we believe that in current circumstances projects within the Decarbonisation Fund may already be supporting customers in vulnerable circumstances and that there is a potential unintended consequence that support for vulnerable customers could reduce through application of Option 2. While we recognise that both Option 1 and Option 2 have the potential associated risk of not all Decarbonisation Funds being utilised if there are insufficient applications for decarbonisation projects specifically targeted at vulnerable customers, we believe that the challenging timelines for achieving net zero and the need for customer support in this area are likely to mitigate this risk.

**Question 3: Should a fuel voucher fund remain a permanent feature of the overall Energy Redress Scheme, so that it can react quickly to specific crises?**

We are supportive of the suggestion to make a fuel voucher a permanent feature of the overall Energy Redress Scheme. ScottishPower already operates a fuel voucher scheme for prepayment customers which is administered by third party organisations on our behalf. The feedback we have had from our customers and third parties is that the scheme provides a real benefit for some consumers who may struggle to pay for their energy costs.

Ofgem's voucher scheme was prompted by customer need during the Covid-19 pandemic which has impacted so many customers financially. Our scheme is an enduring one, but it has inbuilt flexibility that allowed us to adjust the support during the pandemic (in particular extending our higher winter payment amount for longer) to ensure as many customers as possible could benefit from the scheme during the initial lockdown period.

We think retaining the voucher scheme as a permanent feature of the Redress Scheme will offer Ofgem similar flexibility in the future to support customers at times of particular financial challenge.

We believe it is important that if Ofgem retains the fuel voucher fund, then it continues to ensure that it is only open to charities who have registered with the Energy Redress Scheme and who have passed a due diligence assessment. It may also be appropriate for any such scheme to be combined with wider debt and energy efficiency advice schemes, particularly if the scheme is used on an enduring basis rather than targeted only during specific crises. This would ensure that customers requesting the fuel voucher are also provided with advice that could support them in better managing their finances in the future. ScottishPower's Hardship Fund which provides financial awards to credit customers, requires customers to seek debt advice from our third party administrator, and we believe this is an important part of supporting these financially vulnerable customers.

**Question 4: If a fuel voucher fund is set up, what type of consumer should be eligible to apply for these vouchers? e.g. vulnerable consumers, pre-payment meter consumers.**

Ofgem notes that the current fuel voucher scheme targets prepayment customers facing critical situations. We agree that prepayment customers are particularly exposed to the impact of financial challenge through the potential for self-disconnection, and we agree that a fuel voucher scheme should continue to be targeted at those customer groups.

However, as highlighted by the Energy Saving Trust in its latest review of the Redress Scheme and in particular the Covid-19 Crisis Fund<sup>1</sup>, we also recognise that many customers on credit payment methods who were previously able to pay their bills experienced financial difficulty as a direct result of Covid-19, through loss of income and potential higher energy usage. We therefore think that there is a role to play for a voucher scheme in supporting credit customers, particularly during specific crises, where vulnerabilities can be short term and transient, but can have a significant impact on consumers during that period.

## **2. Widening the eligibility scope to other organisations**

**Question 5: What are your views on expanding the applicant scope beyond charities and organisations that partner with charities? If you think the scope should be expanded, do you have any suggestions for how eligibility should be defined? (e.g. what legal structures/status should qualify? Should there be other qualifying criteria?)**

We think others may be better placed to respond to this question particularly those organisations involved in projects. We would however highlight that if Ofgem is to expand the applicant scope beyond charities and organisations that partner with charities, it is important that a balance is maintained to ensure that the wider scope of organisations (and therefore potentially projects) does not dilute the support offered within those projects.

The possibility of allowing local authorities (acting alone) to apply to the Scheme, as suggested by Ofgem in paragraph 3.12 of the consultation document raises some difficult issues. Local authority funding is, as Ofgem notes, a matter for central government, or for local government

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<sup>1</sup>[https://www.ofgem.gov.uk/system/files/docs/2021/01/est\\_energy\\_redress\\_scheme\\_evaluation\\_report\\_2018\\_to\\_2020\\_dated\\_october\\_2020\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2021/01/est_energy_redress_scheme_evaluation_report_2018_to_2020_dated_october_2020_0.pdf)

itself through its own revenue-raising powers. Any funding from Ofgem via the Scheme may simply substitute for this this.

The suggestion also needs to be looked at in the context of devolution. Local government is a devolved matter in Scotland, and decisions on Scottish local government funding lie with the Scottish Government. If access to redress funds was extended to local authorities, then Ofgem and the Energy Saving Trust would need to ensure that there is no discrimination between local authorities across Great Britain. We note that this may not be easy, as the funding and functions of local authorities in the different parts of Great Britain can vary significantly.

### **3. Experience of charities applying to the Energy Redress Scheme**

As this section is for charities which have applied to the Redress Scheme only, we have not provided responses to Questions 6 – 8.

### **4. Other feedback**

**Question 9: Should we consider any other areas regarding the Energy Redress Scheme? If so, please provide an outline explanation of your suggested area(s). If possible, please outline any associated benefits and costs with your suggestion(s).**

We note that the Energy Saving Trust's latest review of the Scheme for 2020 highlights challenges around identification of vulnerable customers and public engagement more generally. We wonder therefore if there may be merit in undertaking a review of how the projects funded by the Scheme are signposted and publicised to raise awareness and maximise the number of customers benefiting from the projects.

**Question 10: Do you have any other general comments or feedback you would like to provide?**

We have no other comments or feedback.

**ScottishPower**  
April 2021