

17 January 2022

Neil Kenward
Director, Retail Price Regulation
Ofgem
10 South Colonnade
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Email: Alisonrussell@utilita.co.uk

Dear Neil,

RE: Price Cap - Consultation on the Warm Home Discount scheme allowance methodology in the default tariff cap

Thank you for the opportunity to respond to the above document.

While this consultation does directly impact on the price cap methodology, rather than replicating here our overarching concerns on the price cap methodology, we ask that Ofgem refer to our submission in response to the *Call for input: Adapting the price cap methodology for resilience in volatile markets* which we submitted to Ofgem on 11 January 2022. We attach a copy for convenience at Appendix 1.

Ofgem proposes to use the latest available information from BEIS to provide an appropriate estimate within the price cap methodology to reflect the expected additional costs of the Warm Home Discount in the next scheme year. We are happy to be able to support the general approach proposed by Ofgem and agree it is sensible.

We also accept that a true up may be required if, for example, additional sums are required to be paid out or the scheme is extended in terms of the number of customers. We also accept that in principle, if the scheme were not to be implemented as expected, the allowance may need to be corrected, and that this would be initiated in cap period nine. However, we do have reservations here in that we believe it will depend on the lead time of such change.

If suppliers have received sufficient notice to hold any expenditure back, then clawback would be reasonable. However, if such notice of scheme change is delayed, suppliers may already have had to start spending on their schemes to deliver in a timely manner. In this case, any clawback activity would need to reflect that there had been some unavoidable spending in good faith. If Ofgem is not able to accept this approach, then it would be better to simply allow for a delay in the scheme implementation, as suppliers cannot be expected to risk expenditure which they may not be able to recover.

We have also set out in our responses to other documents in the suite of consultations published on 16 December that we advocate an extension to the Warm Home Discount Scheme. While we do not favour the principle of the Warm Home Discount in general, believing that Fuel Poverty is a social rather than a supplier issue, in the current circumstances we believe an extension to give extra support to the most vulnerable in our community would be a proportionate response.

We believe that an extension would be needed both in terms of the number of recipients of the scheme (currently around 1.5 million) and the value of the payment. While the payment value is proposed to increase to £150 from scheme year 2022/2023, this is not enough. We estimate the current cost of the Warm Home Discount to be around £8 per household. Doubling both the value and the number of recipients would therefore increase the cost to circa. £32 per household. These additional costs should be subject to the current Core Group Reconciliation process.

Reducing energy bills by £300 for winter 2022/23 would make a big difference to the three million most vulnerable households in our communities while not significantly impacting the bills of those more able to pay. A second essential element of this proposal would be that all suppliers should participate to ensure that all eligible customers receive the payment.

If our proposal is taken forward, Ofgem will need to further increase the expected allowance within the price cap methodology to accommodate the additional cost.

We hope that this submission has been helpful. I would, of course, be happy to arrange a more detailed discussion if you would find this helpful.

Kind regards

By email

Alison Russell
Director of Policy & Regulatory Affairs