

Warm Home Discount Annual Report

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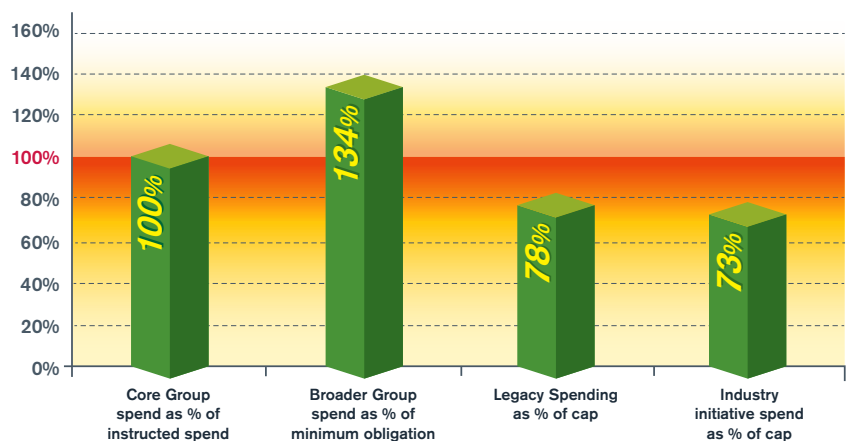
October 2013

The Warm Home Discount (WHD) requires participating domestic energy suppliers to provide approximately £1.13 billion of direct and indirect support to those who are in or at risk of fuel poverty over the four years of the scheme. The existing scheme runs until March 2015.

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

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

Figure 1: Comparison of collective spending against minimum targets and maximum caps for Scheme Year 2



Core Group

The Core Group element of the WHD scheme is administered by DECC who work closely with the Department for Work and Pensions and participating suppliers to identify eligible Core Group customers. In the second year of the WHD scheme, only recipients of Pension Credit Guarantee Credit (which is a subset of the Pension Credit) and those over 80 and receiving Pension Credit, Guarantee Credit and Savings Credit were eligible for a Core Group rebate.

- For SY2, the Core Group provided rebates valued at £130 to older, fuel poor pensioner households.
- A total of 1,157,879 domestic customers benefited from a Core Group rebate, totalling a spend of £150.5m.
- In line with the expansion of the Core Group eligibility criteria and the increase in rebate value in SY2, the number of beneficiaries increased by 65% and the total spend increased by 79%.

Suppliers ensured 99.9% of rebates were paid on time or were permissible exceptions.¹ The remaining 0.1% accounted for suppliers' minor contraventions of the WHD Regulations, including failure to provide all rebates within the required timelines and failure to notify the Secretary of State of non Core Group customers within the required timelines.

Figure 2: Comparison of number of Core Group rebates and spend between SY1 and SY2

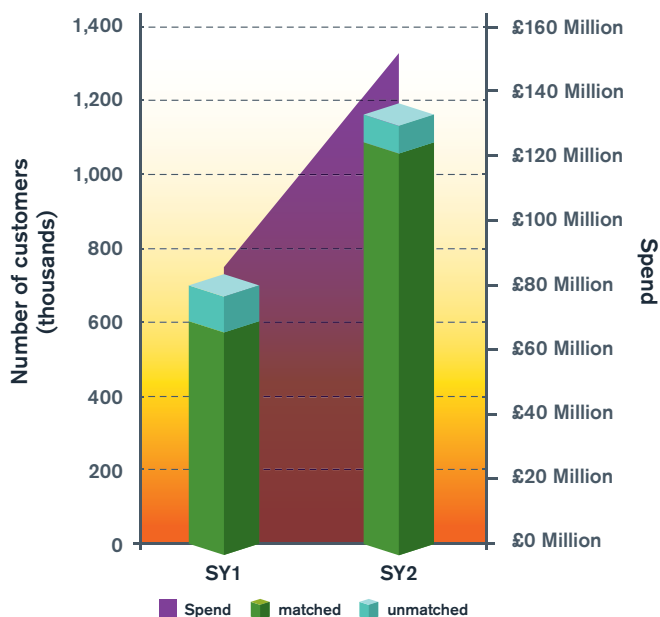
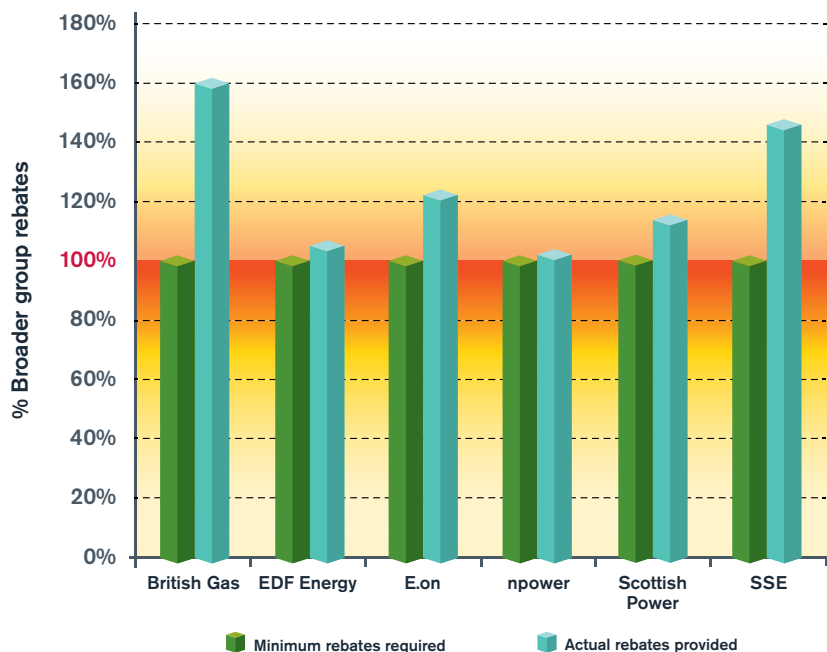


Figure 3: Performance against minimum obligation broken down by supplier



¹ Permissible exceptions are as regulation 8 and where Ofgem determine the rebate could not be provided

² Regulation 19(5) http://www.legislation.gov.uk/uksi/2011/1033/pdfs/uksi_20111033_en.pdf

Broader Group

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 is £130 in SY2. Suppliers can either use the pre-determined criteria set out in the WHD Regulations² or adopt their own Broader Group criteria. Ofgem must approve the use of both sets of criteria.

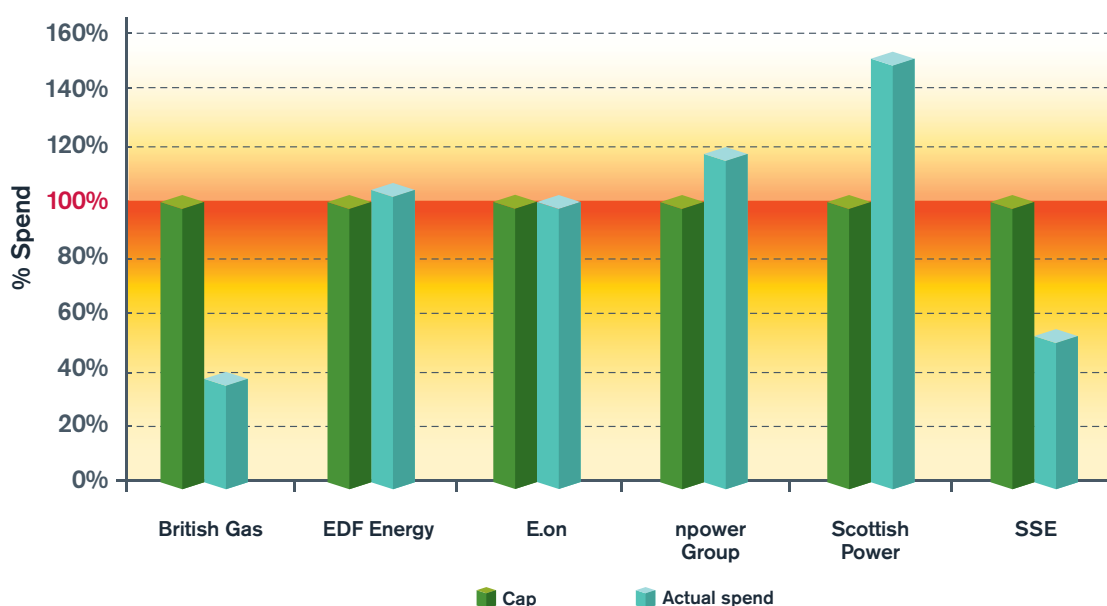
- Suppliers had a minimum Broader Group obligation of £47.6m, equating to 366,356 rebates at £130 each in SY2.
- All suppliers achieved their Broader Group minimum and collectively exceeded the minimum target by almost 34%, providing 489,494 Broader Group rebates, totalling £63.6m.
- As a consequence of the increased Broader Group minimum in SY2, suppliers spent an additional £16m and provided 123,138 more Broader Group rebates than in SY1.

Legacy Spending

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

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

Figure 4: Individual supplier performance against Legacy Spending cap



Industry Initiatives

Industry Initiatives are the fourth element of the WHD scheme.

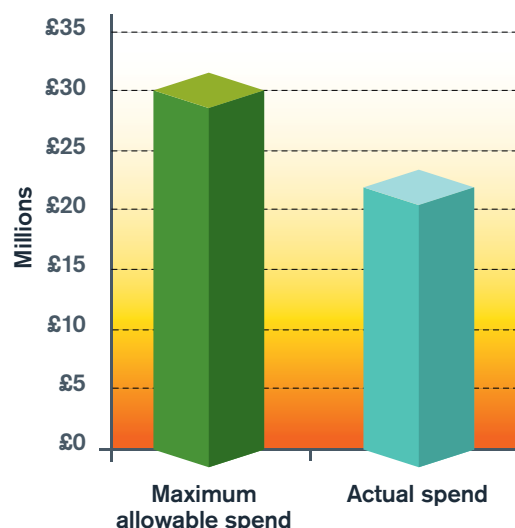
Suppliers can choose to spend up to a collective maximum of £30m annually, providing a wider range of support through Industry Initiatives to those in or at risk of fuel poverty. In SY2, suppliers collectively spent £21.9m on Industry Initiatives, benefiting a total of 98,739 customers and 3,862 trainees.

The breakdown of spend by the six types of activity allowable under the WHD Regulations was:

- 70% on debt assistance
- 11% on multi-activity initiatives
- 10% on energy efficiency
- 5% on energy advice
- 3% on training and
- 1% on benefit entitlement checks

Compared with SY1, suppliers spent an additional £1.2m and helped an additional 17,938 consumers in SY2.

Figure 5: SY2 Industry Initiatives spend, actual against maximum



Overall supplier spend and compliance

The six participating suppliers have again successfully complied with the scheme spending requirements, fulfilling their obligations and reaching more customers with increased funding. Suppliers have positively managed the transition from the individual voluntary scheme regime to the Warm Home Discount obligation. However, in other areas of compliance instead of improving performance in SY2, the number of contraventions of Core Group statutory requirements increased significantly.

The WHD regulations require suppliers to pay all their Core Group rebates in set time limits and notify the Secretary of State within 30 days if they are unable to identify a customer. For SY2 all six suppliers contravened one or both of these requirements for the second year in a row. Although in real terms the volumes for the industry are small (less than 1%), Ofgem is concerned the trend is toward considerable increases instead of toward improvement.

An increased number of supplier Industry Initiatives (four) fell short of evidencing their targeting, or submitted activities not found on Schedule 4 of the WHD regulations. Attributable spending for these projects was proportionally reduced.

Ofgem will work with suppliers to ensure they are able to meet the statutory scheme requirements. Using an enhanced risk-based audit approach, we will more closely monitor progress throughout Scheme Year 3 to help guide suppliers. We expect to see a performance improvement in Scheme Year 3.

For more detail on the WHD SY2, please see the full report at <https://ofgem.gov.uk/ofgem-publications/84064/whdannualreportschemeyear2.pdf>

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



Key contacts

WHD

For more information, visit the Ofgem webpage at www.ofgem.gov.uk/environmental-programmes/warm-home-discount

Alternatively, you can contact the WHD operational team on **0141 331 6023**, or via email at **WHD@ofgem.gov.uk**

Press enquiries

For press enquiries please contact the Ofgem press office on **020 7901 3858**