

Warm Home Discount: Guidance for Licensed Electricity Suppliers and Licensed Gas Suppliers [Version 3]

Guidance

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Overview:

This document provides guidance on:-

- how Ofgem will perform its duties under the Warm Home Discount (WHD) scheme,
- what licensed electricity suppliers and licensed gas suppliers will need to do to comply and
- how Ofgem will interpret various provisions of the WHD scheme.

The Energy Act 2010 provides the Secretary of State with powers to make regulations to introduce schemes for the purpose of reducing fuel poverty. The Warm Home Discount Regulations 2011 have been made under these powers and require licensed electricity suppliers and Ofgem to undertake a number of duties and functions.

This document is guidance for licensed electricity suppliers to assist them in understanding their obligations and to administer their obligations in line with the Warm Home Discount Regulations (2011). This is an update to the original guidance document published on 12 March 2013 (version 2), to provide clarity on the administration of the WHD scheme in light of our own and supplier experience gained during the operation the scheme.

It is the responsibility of each supplier to understand the provisions of the Regulations and how those provisions apply to them. This guidance is not intended to be a definitive guide to these provisions.

Context

The Energy Act 2010 provides the Secretary of State with powers to make regulations to introduce support schemes for the purpose of reducing fuel poverty. These powers have been exercised through the Warm Home Discount Regulations 2011 (the "Regulations") to establish the WHD scheme. Additional regulations were also laid to allow for legal consent for data matching between government and Compulsory Scheme Electricity Supplier (CSES) for the Core Group (The Disclosure of State Pension Credit Information Warm Home Discount Regulations 2011). In addition, regulations were made to support the reconciliation process, (The Warm Home Discount Reconciliation Regulations 2011 the "Reconciliation Regulations").

Section 13 of the Energy Act 2010 places an obligation on the Authority (Ofgem) to keep under review the operation of any such support scheme and suppliers' compliance with it. The Regulations and the Reconciliation Regulations further extend the Authority's role by requiring it to undertake a number of duties and functions. These include receiving information, providing information, making calculations and approving scheme activities before CSESs provide eligible benefits under the scheme.

Scheme 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. These requirements were enacted under sections 9 to 11 of the Energy Act 2010 and are therefore relevant requirements for the purposes of Part 1 of the Gas Act 1986 and Part 1 of the Electricity Act 1989. Ofgem¹ can take action if it is satisfied that a supplier has contravened, is contravening or is likely to contravene a relevant requirement. Such action may be by way of an order for securing compliance and / or, where a supplier has contravened or is contravening, by the imposition of a financial penalty.

¹ Ofgem is the office of GEMA and 'Ofgem' & 'GEMA' are used interchangeably

Associated documents

- The Warm Home Discount Flexibility for Higher Spending
<https://www.gov.uk/government/consultations/warm-home-discount-flexibility-for-higher-spending>
- WHD Guidance version 2
<https://www.ofgem.gov.uk/ofgem-publications/58947/warm-home-discount-supplier-guidance-version-2-2013.pdf>
- The Warm Home Discount Regulations
http://www.legislation.gov.uk/uksi/2011/1033/pdfs/uksi_20111033_en.pdf
- The Warm Home Discount (Reconciliation) Regulations 2011
http://www.legislation.gov.uk/uksi/2011/1414/pdfs/uksi_20111414_en.pdf
- The Disclosure of State Pension Credit Information (Warm Home Discount) Regulations
http://www.legislation.gov.uk/uksi/2011/1830/pdfs/uksi_20111830_en.pdf

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Executive Summary

The Warm Home Discount (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 existing 'Voluntary Agreement' between suppliers and Government which ran between April 2008 and March 2011. More information on the Voluntary Agreement can be found on the Ofgem website².

This document is aimed at obligated licensed domestic electricity suppliers and licensed domestic gas suppliers. It provides guidance on how Ofgem will perform its duties under the WHD scheme and how it will interpret various provisions of the scheme, especially with regards to supplier compliance.

The document reflects the experience gained in monitoring and reporting on the Voluntary Agreement and also the learning from scheme year one. We have used this to improve our processes for administering the scheme going forward. This document updates the previous guidance and provides further clarity for suppliers on the Core Group, Broader Group, Industry Initiatives elements of the scheme, as well as the End of Year reporting, audit requirements and fraud prevention practices.

The Core and Broader Group rebates are provided by suppliers to customers who are in or at risk of fuel poverty. This document explains the criteria for qualifying for the rebate, the amount of rebate to be paid, and the administration processes that need to be in place to effectively implement and manage these elements.

Legacy Spending and Industry Initiatives are elements that had their roots in the Voluntary Agreement, and the WHD scheme has continued to shape these supporting mechanisms. For Legacy spending the key change has been to reduce the level of spend for discounted tariffs and rebates; and for industry initiatives greater specificity has been introduced. This guidance provides information to facilitate obligated suppliers to deliver these elements in line with the Regulations.

The final sections of the report deal with the processes surrounding annual compliance. These chapters provide obligated suppliers with guidance on the information that has to be provided to evidence their compliance with the Regulations and their financial obligations.

²<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Suppliers%20Social%20Spend%20report%202010-2011.pdf>

1. Introduction

Chapter Summary

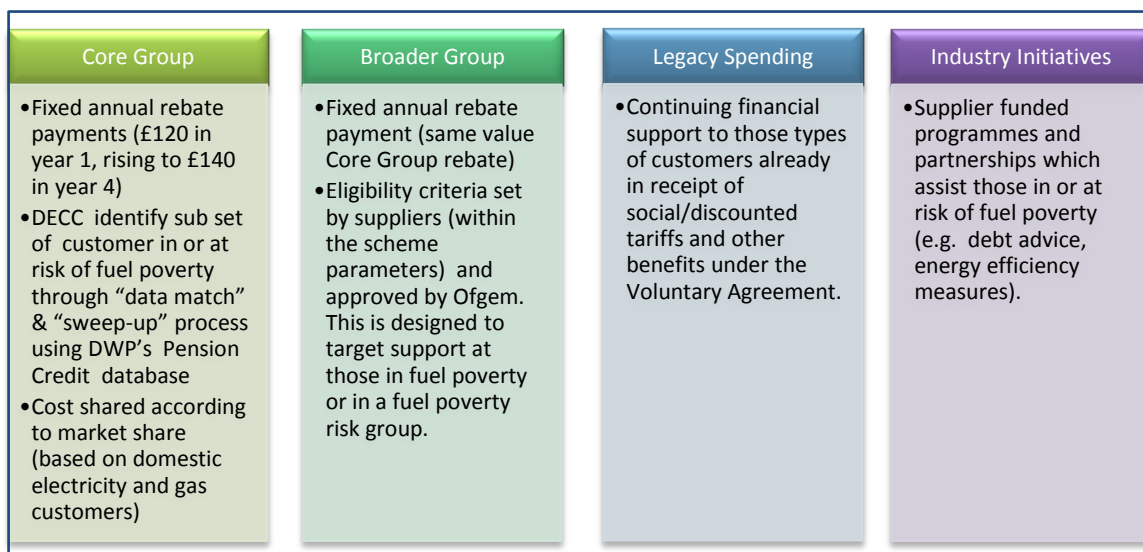
This is an overview of the framework of the Warm Home Discount (WHD) scheme.

Overview of WHD scheme

1.1. The WHD scheme is based on four key elements: the Core Group, Broader Group, Legacy Spending and Industry Initiatives:-

- The Core Group (Chapter 3) benefits households identified by the government as being at risk of fuel poverty through data matching and sweep-up. Pensioner households identified receive a specified financial benefit in the form of a rebate from their electricity supplier.
- The Broader Group (Chapter 4) also benefits households who are fuel poor or at risk of fuel poverty, but these households are identified as eligible for a rebate by CSEs within the scheme parameters. This rebate is of the same value as those provided in the Core Group.
- The transitional Legacy Spending element (Chapter 5) allows suppliers to provide similar financial support to that available under the Voluntary Agreement. Permitted Legacy Spending by Compulsory Scheme Electricity Suppliers (CSEs) will stop in scheme year 4.
- Industry Initiatives (Chapter 6) are CSE programmes and partnerships which provide other benefits to vulnerable households (e.g. debt advice, energy efficiency measures).

Diagram A: Summary of key elements of the WHD scheme



DECC's role

1.2. DECC maintain overall responsibility for the coordination and oversight of the WHD scheme, and any policy changes required. In particular they oversee the delivery of the Core Group activity and appoint a number of contractors to undertake specific tasks including the data match, the sweep up and the reconciliation exercises. DECC is also required to provide certain information to Ofgem and suppliers in order to enable them to undertake their WHD scheme duties and functions.

1.3. Questions on the scheme as a whole, and specifically on the Core Group, should be directed to DECC via email (warmhomediscount@decc.gsi.gov.uk) or by telephone (0300 060 4000) or information can be found on the DECC website.

Ofgem's role in WHD

1.4. Ofgem's role in the WHD scheme is to administer the non-core elements of the scheme (Broader Group, Industry Initiatives and Legacy Spending) and to monitor and facilitate suppliers' compliance with all elements of the scheme.

Our duties include:

- Receiving suppliers' customer data notifications;
- Calculating the market share of each CSES (both for the Core Group and the non-core spending obligation);
- Setting CSES spending obligations and limits for the non-core elements;
- Receiving proposals from CSESs for the Broader Group and Industry Initiative elements of the scheme and determining whether to approve, reject or seek more information on the proposals³;
- Monitoring and assessing CSESs compliance with the scheme, including through the use of external auditors⁴;
- Determining whether CSESs obligations have been met.

Supplier obligations

1.5. CSESs and those who elect to become obligated as voluntary scheme suppliers are required to pay Core Group rebates. CSESs are also obligated to meet individual non-core spending obligations. Details of how these spending obligations are calculated are in Chapter 2.

Meaning of the term supplier

1.6. Throughout this document we use different terms for energy suppliers. The reason for this is the Regulations have different qualifying criteria for each element.

³ Ofgem has extensive powers to request further information under reg. 30 of the Regulations.

⁴ As footnote 3.

- **Core Group:** There are (i) obligated domestic electricity suppliers (and their connected gas suppliers) and (ii) voluntary domestic electricity suppliers. This is explained in paragraphs 2.6-2.9 after which they are referred to as participating suppliers.
- **Broader Group:** The duty is on the obligated domestic electricity supplier and the Regulations refer to them as CSEs. Spend can also be discharged by a connected gas supplier.
- **Industry Initiatives:** The duty is on the obligated domestic electricity supplier and the Regulations refer to them as CSEs. Spend can be discharged by a connected gas supplier.
- **Legacy Spending:** The duty is on the obligated domestic electricity supplier and the Regulations refer to them as CSEs. Spend can also be discharged by a connected gas supplier. This scheme supersedes a previous agreement where participating parties are referred to as relevant suppliers.

Changes made to the previous supplier guidance

1.7. We have changed the guidance for two reasons:

- to take account of recent amendments to the Regulations. These give suppliers greater flexibility for higher spending on their non-core obligations;
- to provide more information on existing aspects of the scheme.

1.8. We have only altered the following sections:

- Chapter 2, Notification and target setting
- Chapter 4, Broader Group
- Chapter 6, Industry Initiatives
- Chapter 7, End of Year reporting

1.9. The differences between this version and Version 2 are shown in Appendix 3.

Date of effect for version 3 of the guidance

1.10. With effect from 1 April 2014, we will apply the processes and policies described in this version 3 of the guidance to CSEs who are obligated to participate in SY4.

1.11. As noted above, this guidance was also produced to take account of recent changes to the Regulations in relation to the banking and borrowing provision, (reg. 14). These amendments came into force on 14 March 2014. As such paragraphs 2.36 to 2.38 and 4.5 will apply to any scheme year 3 compliance assessments.

2. Notification and target setting

Chapter Summary

The notification of customer numbers is a requirement, this section describes the different types, who makes them, when they are to be made and what details are to be included. It goes on to explain how this data is used to calculate a Compulsory Scheme Electricity Suppliers' (CSES) market share and the way in which non-core spending obligations are set.

Customer data notification

2.1. Each licensed domestic electricity supplier, and any licensed domestic gas supplier connected to a licensed domestic electricity supplier, is required to notify Ofgem of the number of domestic customers they had on the 31 December preceding the start of each scheme year. Domestic dual fuel customers are to be counted twice (once as an electricity customer and once as a gas customer). This notification must be submitted to Ofgem by 14 February preceding the start of each scheme year. Such customer data notifications should be in writing and submitted electronically to Ofgem's Warm Home Discount (WHD) inbox (WHD@ofgem.gov.uk). The notification should be submitted by a nominated representative of the licensed electricity or gas supplier, with the authority to make such notifications.

2.2. We request in each individual customer data notification a list of the number of customers for the licensed domestic electricity suppliers and/or licensed domestic gas suppliers which are connected to the licensed domestic electricity supplier. In this scheme licensed electricity suppliers and licensed gas suppliers are connected to each other if they belong to the same group of companies. To reduce the administrative burden on suppliers we will accept joint notifications from connected licensed domestic suppliers as long as they detail each licensed supplier's relevant customer data separately.

2.3. Ofgem will contact licensed domestic electricity suppliers in advance of this deadline to advise of the information required and will provide the appropriate forms in which this should be provided to us. We will aim to do this by the end of January preceding the start of the next scheme year.

2.4. This customer data notification is the same customer data that some licensed domestic electricity suppliers are required to notify Ofgem of under other schemes. We will therefore look to undertake a joint exercise to request this information for all relevant schemes so that one proforma need only be submitted for customer notification data.

2.5. If a licensed domestic electricity supplier or a licensed domestic gas supplier fails to provide a notification as required by the Regulations then it will not be in

compliance with relevant requirements of its licence conditions. Ofgem does have the powers to determine a supplier's domestic customers for the 31 December preceding the start of the scheme year. However that does not remove the requirement from that supplier to submit notification of its number of domestic customers.

Compulsory and Voluntary Scheme suppliers

2.6. A licensed electricity supplier is a CSES in a scheme year if it had at least 250,000 domestic customers on 31 December preceding the start of that scheme year. Part 1 of the Regulations (Interpretation in part 2) gives the definition of domestic customers and dual fuel customers.

2.7. A licensed electricity supplier is also a CSES in a scheme year if:

- a) it is connected to a licensed electricity supplier which is a CSES for that scheme year; or
- b) it is connected to a licensed gas supplier which had at least 250,000 domestic customers on 31 December preceding the start of that scheme year; or
- c) collectively the group of licensed electricity and gas suppliers connected to the licensed electricity supplier in question had at least 250,000 domestic customers on 31 December preceding the start of that scheme year.

2.8. A licensed electricity supplier can elect to be a Voluntary Scheme Supplier if collectively it, and any connected licensed electricity and/or gas suppliers had less than 250,000 domestic customers on 31 December preceding a scheme year and notifies Ofgem of its intention to be a Voluntary Scheme Supplier. This is referred to as an election notification for participation in the Core Group element of the scheme. This notification must be submitted to Ofgem by the end 14 February preceding the start of the scheme year. Such customer data notifications and election notifications should be in writing and submitted to Ofgem's WHD Inbox (WHD@ofgem.gov.uk). The notification should be submitted by a nominated representative of the licensed electricity or gas supplier, with the authority to make such notifications.

2.9. A licensed gas supplier is a Scheme Gas Supplier in a scheme year if; it supplied domestic customers on 31 December preceding the start of the scheme year and is connected to a licensed electricity supplier which is a CSES in that scheme year. A scheme gas supplier can spend on behalf of a CSES in the Legacy Spending and Industry Initiative elements.

Ofgem notifications of market share and non-core spending obligation

2.10. Ofgem will determine whether or not a domestic electricity supplier is a CSES and will confirm whether there are any Voluntary Scheme Suppliers.

2.11. We will notify each participating scheme supplier of their market share for the Core Group element; market share of the non-core element; the value of their non-

core spending obligation calculation; and notify scheme gas suppliers of their status by 14 March preceding the start of that scheme year.

2.12. The notification will only provide an initial non-core spending obligation calculation because a scheme supplier's non-core spending obligations may be adjusted to recognise a supplier's own under or over spend in their non-core spending obligation for the previous scheme year copied below. It will not be adjusted for any other reason.

2.13. We will notify each CSES of its final adjusted non-core spending obligation by 30 September of each scheme year. How this adjustment will be made is detailed below in paragraphs 2.35-2.39.

The WHD scheme estimated spend profile

2.14. The anticipated or estimated total WHD spending target for each scheme year is as follows:

- Scheme year 1 - £250 million (actual spend £237.5 million)
- Scheme year 2 - £275 million
- Scheme year 3 - £300 million
- Scheme year 4 - £310 million

The Core Group spending estimate

2.15. For each scheme year the Secretary of State (SoS) will provide an estimate of that year's Core Group spending by 14 February. This estimate is based on the estimated number of eligible customers i.e. the number of pensioners falling within the relevant Pension Credit subsets:-

- Scheme year 1 - only recipients of the Pension Credit Guarantee Credit (which is a subset of Pension Credit).
- Scheme year 2 - customers receiving Pension Credit, Guarantee Credit and Savings Credit aged 80 and over, in addition to those in receipt of Guarantee Credit only.
- Scheme year 3 - customers receiving Pension Credit, Guarantee Credit and Savings Credit aged 75 and over, in addition to those in receipt of Guarantee Credit only.
- Scheme year 4 - customers receiving Pension Credit, Guarantee Credit and Savings Credit aged 65 and over, in addition to those in receipt of Guarantee Credit only.⁵

⁵ DECC Impact Assessment(IA): DECC0027 (28/02/1011)

2.16. The estimated spend may also take into account Core Group spending in previous scheme years. The SoS may use this figure to adjust and determine the scheme year's total non-core spending obligation. DECC will inform Ofgem of this determination to allow Ofgem to calculate individual non-core spending obligations for relevant CSEs.

Market share calculation for Core Group

2.17. Ofgem will use the data provided by the domestic customer number data notifications to calculate the market share of each participating scheme supplier, in order to apportion spending equally based on that data.

2.18. We will calculate the market share of each scheme licensed electricity supplier as directed by the Reconciliation Regulations. The market share formulae to be used in the Core Group element mirrors the formulae used for calculating non-core spending obligations.

2.19. As confirmed in paragraph 2.10-2.13 above, each individual licensed electricity supplier will be notified of its individual Core Group market share by 14 March prior to the scheme year.

2.20. A list of participating licensed suppliers will be provided to the reconciliation operator and DECC in line with the Reconciliation Regulations, see paragraph 3.25 – 3.27.

Market share calculations

2.21. Ofgem will use the data provided by the customer data notifications to calculate the market share of each CSES for the non-core element of the scheme.

2.22. For a licensed electricity supplier which is unconnected to a licensed gas supplier the equation for calculating its individual market share (ims) is as follows:

$$\text{ims}\% = \frac{\text{idc} \times 100}{\text{TDC}} \%$$

where:

idc = an individual licensed electricity supplier's number of domestic gas and electricity customers on 31 December preceding the scheme year (labelled "X" in the Regulations); and

TDC = the total number of domestic customers of all compulsory scheme electricity suppliers and scheme gas suppliers which are connected to compulsory scheme electricity suppliers on 31 December preceding the scheme year (labelled "Y" in the Regulations).

2.23. For a licensed electricity supplier which is not connected to any other scheme electricity supplier but is connected to one or more licensed gas suppliers, an individual electricity licensee's market share (ims) is as follows:

$$\text{ims \%} = \frac{(\text{idc} + \text{tgdc}) \times 100}{\text{TDC}} \%$$

2.24. Where:

2.25. tgdc = the total number of domestic customers of all licensed gas suppliers connected to that licence electricity supplier on 31 December preceding the scheme year.

2.26. For a licensed electricity supplier connected to other scheme electricity suppliers, which are connected to one or more licensed gas supplier, an individual electricity licensee's market share (ims) is as follows:

$$\text{ims \%} = \frac{(\text{idc}/\text{tedc}) \times (\text{tedc} + \text{tgdc}) \times 100}{\text{TDC}} \%$$

Where:

tedc = the total number of domestic customers of that licensed electricity supplier and of all other licensed electricity suppliers on 31 December preceding the scheme year; and

2.27. All 3 formulae can be compressed into one single formula:

$$\text{ims} = \text{idc}/\text{TDC} + [(\text{idc}/\text{tedc}) \times (\text{tgdc}/\text{TDC})]$$

2.28. For ease of internal administration and calculation, Ofgem may use the formula in paragraph 2.27.

Calculating non-core spending obligations

2.29. The total aggregate non-core spending obligation for each scheme year will be determined by the SoS. This determination notification will take place by 14 February before the start of the scheme year.

2.30. A scheme year's total aggregate non-core spending obligation is calculated by subtracting the SoS estimate for that year's Core Group spending from the total

WHD spending target for that year. It is estimated that the non-core spend for each year will be as follows*:-

- Scheme year 2 - £132 million
- Scheme year 3 - £141 million
- Scheme year 4 - £120 million

* *This may be subject to change due to changes in the annual estimated uptake of the Core Group*

2.31. However, the total WHD spending targets may be adjusted by the SoS to account for any under or over spend in the Core Group in the previous year. This will be done by 14 February prior to the start of the scheme year and remain unaltered for the whole of the scheme year.

2.32. Once the total aggregate non-core spending obligation for a scheme year has been determined and notified to Ofgem, an individual CSES's initial non-core spending obligation can be calculated.

2.33. A CSES's non-core spending obligation is a percentage of the total aggregate non-core spending obligation for that scheme year, where the percentage is that supplier's market share as calculated in paragraphs 2.21 to 2.28.

2.34. An initial non-core spending obligation will be calculated and notified to CSES using the formulae in paragraphs 2.21 to 2.28. However these targets may be adjusted for a supplier to reflect any allowed over or under spend in the non-core obligation during the previous scheme year by that supplier.

Adjustments for under and overspend

2.35. An adjustment can be made to a supplier's initial non-core spending obligation if that supplier has under or over spent on its non-core obligation in the previous scheme year.

2.36. CSESs are permitted to over or under spend on their non-core spending obligation in scheme years 1, 2 and 3. Any underspend greater than 1% will result in the supplier being non-compliant with the scheme's obligations. **For scheme year 3, as a result of Warm Home Discount (Amendment) Regulations 2014, a CSES can overspend up to 34.0%, which will be subtracted from its scheme year 4 non-core obligation (see paragraph 2.37 and 2.38).** No underspend is permitted in scheme year 4.

2.37. Any permitted underspend will be added to the initial non-core spending obligation for that CSES for the following scheme year. This additional obligation will not alter the maximum spend permitted for Industry Initiatives (see paragraphs 2.40 to 2.44 for more details).

2.38. CSESs can overspend on their non-core activities by any amount. However, a CSES can use only overspend generated through the broader group up to **34.0% of scheme year 3's non-core spending obligation to meet its non-core spending obligation for scheme year 4**. Any overspend will be subtracted from a CSES's initial non-core spending obligation calculation to provide an adjusted non-core spending obligation for scheme year 4.

2.39. By 30 September after each scheme year, Ofgem will provide CSES's with confirmation of their actual non-core WHD spend and the amount that can be counted toward or attributed to a CSES's WHD spending obligations. The difference between actual and attributable spend arises from a CSES spending above the allowable cap on Legacy Spending and/or Industry Initiatives for that scheme year. This formal intimation of a CSES's scheme year spend will be followed by any adjustments to the following scheme year's non-core obligation and respective caps and minimum thresholds.

Limits on Legacy Spending and Industry Initiatives

2.40. To allow for a smooth transition from the Voluntary Agreement, the WHD scheme allows CSESs to meet part of their WHD spending obligations by providing discounted and social tariffs and rebates and approved Industry Initiatives.

2.41. Table 2 details the maximum cap for the combined spend for Legacy Spending and Industry Initiatives. Within that cap there are two further sub-caps: one for Legacy Spending, and one for Industry Initiatives. The total of these two sub-caps is less than the overall cap allowed for each element. Therefore CSESs will not be able to spend to the respective maximum sub-caps on both Legacy Spending and Industry Initiatives.

Table 2: Caps on spending on Legacy and Industry Initiatives

	2011- 12	2012-13	2013-14	2014-15
Total Legacy Spend & Industry Initiative Cap	£150m	£85m	£53m	£30m
Legacy Spend Cap	£140m	£70m	£35m	£0m
Industry Initiatives Cap	£30m	£30m	£30m	£30m

2.42. As the table shows, no Legacy Spending can be attributed to a CSES's non-core WHD scheme total in scheme year 4.

2.43. Each CSES will be set an individual maximum limit on how much of its non-core spending obligation can be achieved through measures undertaken in the Legacy Spending, Industry Initiatives and Legacy Spending and Industry Initiatives

combined. The individual maximum limit for each CSES will be in proportion to that CSES's market share for the non-core spending obligation, as calculated in paragraphs 2.21 to 2.28.

2.44. Any spending by a CSES beyond those maximum limits set in the Legacy Spending and Industry Initiatives elements will not be counted as part of its WHD non-core spending.

3. Core Group

Chapter Summary

The suppliers' obligations and processes involved in the administration Core Group are described and signposts provided for participating suppliers to wider support and guidance on the Core Group element of the scheme.

Core Group overview

3.1. The Core Group of the Warm Home Discount (WHD) scheme uses limited data sharing between Government and participating suppliers to better target rebates at low income pensioners who have a high propensity to be fuel poor or at risk of being in fuel poverty.

3.2. The eligibility for the Core Group, is set out in paragraph 2.15.

3.3. The value of the Core Group rebate changes each scheme year and is currently set at the following rate:

- Scheme year 1 - £120
- Scheme year 2 - £130
- Scheme year 3 - £135
- Scheme year 4 - £140

3.4. Value Added Tax (VAT) should be applied to rebate payments when crediting an account or providing the rebate to a customer using a pre payment meter. The values above are inclusive of VAT.

DECC's role

3.5. The Department of Energy and Climate Change (DECC) and the Department of Work and Pensions (DWP) are integral to delivery and take a lead role in administering this element. For further information on this area of the scheme please contact the DECC WHD dedicated email help line at warmhomediscount@decc.gsi.gov.uk.

Ofgem's role

3.6. Ofgem is required to undertake a number of duties and functions in order for the Core Group element to operate. At the beginning of the scheme year Ofgem will provide DECC/Operator with a list of the suppliers who are either obligated to participate in the Core Group, or who have elected to participate, and a market share

determination for each supplier. Ofgem will use the data received from customer data notification to provide a market share calculation for each participating supplier (see paragraphs 2.21 to - 2.28 above). We will then provide a total market share figure for each participating supplier. This process ought to be completed no later than 14 March prior to the commencement of the scheme year. Ofgem also have a role in determining compliance (please see chapter 7 for full details).

Suppliers' obligations

3.7. Once Core Group customers have been identified and matched to a participating supplier (either directly through the data match or by contacting DECC's Helpline after receiving information from DECC) regulation 7 requires participating suppliers to provide a rebate to those customers or return the customer to the SoS in cases where they have been notified to the incorrect supplier.

3.8. Providing a rebate means:

- crediting the amount of the rebate to the customer's electricity account;
- tendering payment of that amount to the customer; or
- providing a customer who pre-pays for electricity with that amount of credit against future electricity use.

3.9. The policy intention with regards to crediting against future use is that this may include using the rebate to reduce debts on electricity accounts.

3.10. When a participating supplier provides a rebate under the Core Group, it must specify on the recipient's bill, or otherwise notify in writing, that the rebate was made under the WHD scheme.

3.11. A participating supplier must provide Core Group rebates by 31 March of each scheme year if they are to be counted towards meeting that supplier's core group spending obligation for that scheme year. The only exception is if the Secretary of State (SoS) notifies participating suppliers to provide a Core Group rebate after 1 March. In this instance a participating supplier will have up to 30 days to provide the rebates to customers and those rebates will still count towards meeting that participating supplier's Core Group spending for the year for which the notification was made.

3.12. If SoS notifies suppliers to provide a Core Group rebate after the scheme year has ended, based on the data match and sweep up exercise which has occurred in the previous scheme year, the notification remains valid but the obligation is transferred to the following scheme year. For example if the SoS provides the notification on 5 April 2012, based on the scheme year 1 sweep up exercise, then the obligation to make rebate payments will transfer to the supplier's scheme year 2 WHD obligation. The conditions outlined in the above paragraph (3.11) still apply.

Regulation 8 exceptions

3.13. In addition, where required, participating suppliers may apply an exception determined by the SoS under regulation 8 of the Regulations. The application of this provision will be determined by Ofgem on a case by case basis. Examples of the exceptions determined for scheme years 1 include circumstances where:

- A customer is deceased and their account is closed. Energy supplier has not been able to contact a relative/executor;
- A customer is no longer living at that property, has closed their account and has no forwarding address.

3.14. These exceptions are determined by the SoS and as such, may be subject to change.

3.15. As set out in regulation 9(6), each supplier must, where they do not provide the rebate to one or more Core Group customers under Regulation 8, notify Ofgem of:

- The number of Core Group customers to whom the supplier has not provided the prescribed rebates;
- The reasons why the supplier has not provided the prescribed rebate to those customers; and
- Any steps taken by the supplier to attempt to provide the prescribed rebate to those customers.

3.16. Participating suppliers will be subject to internal audit processes and could be externally audited to verify that the Core Group rebates have been provided to eligible electricity accounts and these exceptions have been fairly used and applied.

Customer status

3.17. Regulation 6 (2), sets out that the SoS can notify a supplier of a customer where it 'appears' to the SoS that these are domestic customers of a participating supplier.

3.18. For a customer to be matched, participating suppliers must have provided these customer details to DWP. As the disclosure directions only ask for domestic account details to be shared in the matching process then it therefore "appears" to the SoS that these customers are domestic customers and hence should be provided the rebate.

3.19. Successful unmatched customers are also considered to be domestic customers and should receive the rebate. As a letter has been delivered to an address where DWP believe a Pension Credit recipient lives and that recipient has confirmed with DECC's call centre they are eligible e.g. named on the bill with one of

the participating suppliers then they also “appear” to the SoS to be a domestic customer.

3.20. In some cases, the information which the participating supplier has about the customer may not coincide with the information set out above. As it ‘appeared’ to the SoS that these were domestic customers, the expectation is that these rebates would be provided.

3.21. Participating suppliers may however decide to seek further information from the customer to clarify whether they do meet the definition of a domestic customer in the Regulations. In discussion with the customer, a range of situations could be revealed, including, but not limited to, a mistake with the MPAN which the supplier can correct and credit the correct domestic account using the customer address information provided, a domestic property on a commercial tariff (e.g. farmhouse) or customer believed to be of commercial origin.

3.22. If the participating supplier has strong evidence that this customer did not meet the definition of ‘domestic customer’, they may decide not to provide the rebate. A section in Ofgem’s end of year reporting template is available to record these cases. This is not an ‘exception’, but a decision by the participating supplier that the information available about the customer does not meet the ‘domestic customer’ definition. Energy suppliers should keep a detailed record of the discussions, outcome and write to the customer to confirm why they will not receive the rebate.

3.23. A participating supplier may receive a notice from the SoS for a customer who is not a Core Group customer, or the supplier is unable to identify the customer as a Core Group customer. If this happens the supplier must notify the SoS within 30 days of receiving the notice.

Reconciliation

3.24. The WHD scheme assumes that the total cost of Core Group rebates are shared amongst all participating suppliers according to their market share. As such, it is necessary to put in place a reconciliation mechanism in order to balance Core Group expenditures across suppliers.

3.25. The Reconciliation Regulations establish the methodology and processes through which Core Group expenditures will be reconciled across energy suppliers. It also places a requirement, on the SoS to appoint an Operator to carry out the reconciliation functions. DECC have confirmed that Elexon will be the Reconciliation Operator for the duration of the WHD scheme.

3.26. Further information on the Reconciliation Process can be obtained from the Reconciliation Regulations or through contacting DECC (see paragraph 3.5).

4. Broader Group

Chapter Summary

The Broader Group element of the scheme is a rebate provided to a wider group of customers who are fuel poor or at risk of fuel poverty. This section outlines the obligations and conditions, including approval processes, for operating the Broader Group rebate.

Broader Group scheme activities

4.1. The Broader Group allows suppliers to identify and target those customers they believe are in or at risk of fuel poverty, and provide them with a Broader Group rebate.

4.2. As with Core Group rebates, Broader Group rebates must be provided to electricity accounts. They will also be of the same value as the Core Group rebate:

- Scheme year 1 - £120
- Scheme year 2 - £130
- Scheme year 3 - £135
- Scheme year 4 - £140

4.3. Regulations 20(2)(a) and 20(2)(c) detail how Value Added Tax (VAT) should be applied to rebate payments when crediting an account or providing the rebate to a customer using a pre payment meter. The values above include VAT.

4.4. Broader Group payments must be made by 31 March each scheme year to be counted towards a Compulsory Scheme Suppliers' (CSESs') Warm Home Discount (WHD) obligation.

4.5. CSESs can meet all their non-core spending obligations through the broader group element. They can also spend above their non-core spending obligation if they choose. **For year 3 up to a maximum of 34.0% of overspend can be transferred to scheme year 4** (see paragraphs 2.35 to 2.39).

Approval process

4.6. The Regulations require that our prior approval is obtained with respect to any Broader Group proposals which will include eligibility criteria and verification measures. A CSES may "open" their Broader Group schemes prior to approval being in place. However, under no circumstances should any rebates be paid until such time as our approval is confirmed in writing.

4.7. To support CSEs with their Broader Group proposals, we issue a pre-populated notification template (containing the previous year's approved proposal) to review, amend and submit for approval for the following scheme year (please see the Annex for a copy of the blank template). We will aim to issue this template by the end of January prior to the beginning of each scheme year.

4.8. CSEs are expected to submit their Broader Group scheme notifications, detailing their proposals to the WHD inbox (WHD@ofgem.gov.uk) using the notification found in the attached Annex.

4.9. Ofgem will, within 28 days of receiving a scheme notification, approve the proposal, reject the proposal or make a reasonable request for additional information. If additional information is requested, then Ofgem will again provide a determination on the notification within 28 days of receiving the additional information requested. Once approved, an activity should be conducted in line with the notification for spend to be eligible. If there is a problem in undertaking the Broader Group activity in line with the approved notification, the CSEs are advised to contact the Ofgem WHD team as soon as possible to discuss possible resolutions.

4.10. Approval for Broader Group schemes can be requested and given for more than one scheme year. Approval of a CSE's Broader Group, including the estimated spend, does not mean that the spend has been counted as the CSE's Broader Group spend, or toward the CSE's non-core obligation, or that the CSE complies with the Regulations. Once the End of Year compliance checks are complete, CSEs will be informed of their spend and any other adjustments by 30 September.

Broader Group criteria

4.11. CSEs are given the discretion to target vulnerable customers they believe should receive a Broader Group rebate, within the scheme's parameters that support should be given to those in fuel poverty or in a fuel poverty at risk group. In order to target customers for a Broader Group rebate a supplier must set out eligibility criteria which customers must meet if they are to qualify for the Broader Group rebate.

4.12. The Regulations set out a predefined list of Government benefits which suppliers may use subsets of as their eligibility criteria for customers to qualify for Broader Group rebate payments. These benefits are split into four groups:

Table 3: Potential Broader Group qualifying benefits

1. A person who receives Income Support.	and a) has a child under the age of 5 who lives with them.
	or b) receives any one of the following in addition to Income Support -child tax credit which includes a disability or severe disability element; -a disabled child premium; -a disability premium, enhanced disability premium or severe disability premium; -a pensioner premium, higher pensioner premium or enhanced pensioner premium.

2. A person who receives Income-related Employment and Support Allowance which includes a work-related activity or support component	and a) has a child under the age of 5 who lives with them.
	or b) receives any one of the following in addition to Employment and Support Allowance -child tax credit which includes a disability or severe disability element; -a disabled child premium; -a disability premium, enhanced disability premium or severe disability premium; -a pensioner premium, higher pensioner premium or enhanced pensioner premium.

<p>3. A person who receives Income-based Jobseeker's Allowance</p>	<p>and a) has a child under the age of 5 who lives with them.</p> <p>or b) receives any one of the following in addition to Income-based Jobseeker's Allowance</p> <ul style="list-style-type: none"> -child tax credit which includes a disability or severe disability element; -a disabled child premium; -a disability premium, enhanced disability premium or severe disability premium; -a pensioner premium, higher pensioner premium or enhanced pensioner premium.
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4. A person who receives State Pension Credit (either Guarantee only, Guarantee *and* Savings, or Savings only)

4.13. Alternatively suppliers are able to choose different eligibility criteria to target customers in fuel poverty or in a fuel poverty risk group. This could include proposals to pay the partners of those who would be eligible under the criteria set out in Table 3. However in such cases we would look to ensure that appropriate measures were put in place to verify that the customer benefiting from the rebate is actually a partner of someone who would be eligible under one of the criteria set out in Table 3 if they were the account holder.

4.14. If a CSES elects to use these criteria then the Regulations state that the Authority must approve CSES's eligibility criteria. The criteria outlined in the Regulations provide an indication of the fundamentals for any criteria developed by a CSES. That is that the customer has to be both on a low income **AND** vulnerable. This can be either low income from benefits other than those outlined above, or low earned income. Vulnerability can include a wide range of conditions from medical, social or age-related vulnerability. It is for the CSES to determine and be able to show or evidence the vulnerabilities they will include. Ofgem has to be assured or satisfied that customers meeting the criteria will wholly or mainly be persons in or at risk of fuel poverty (regulation 19(5)(b)).

4.15. In scheme years 2 to 4 CSESs must ensure customers "meeting the criteria will wholly or mainly be persons who were not Core Group customers in the previous scheme year" (regulation 19(6)). To minimise the potential for duplication between the Broader Group and the Core Group some CSESs may decide not to include customers on Pension Credit. CSESs should monitor the duplication between the Broader Group and Core Group to satisfy themselves that regulation 19 (6) is being adhered to. The information that a CSES has to provide Core Group rebates, should also be used to reduce the chance that a customer account receives more than one WHD rebate in each scheme year.

4.16. **Low Income:** We will check the proposed eligibility criteria to ensure that the criteria clearly target those on low income, and that the process or methodology adopted by the CSES ensures that the source(s) or indicators of the low income are being recorded and that documentary evidence confirming eligibility is 'readily available'. The low income threshold is aligned to the government's child tax credit threshold.

4.17. **Vulnerability:** CSESs may revert to their Priority Services Register or to criteria developed as part of their Voluntary Agreement. This in itself is not sufficient to evidence vulnerability for the purposes of the WHD scheme. It is preferred that the vulnerability criteria are clearly itemised and specified, with reasons or explanation for their inclusion. For vulnerable older people, the minimum age threshold should be the same as the government's pensionable age (for women) as at April of the relevant scheme year.

4.18. **Fuel Poor:** A CSES may choose to use the 'official' definition of fuel poverty where they can evidence a customer's low income (as above and their energy consumption is greater than 10% of their income.)

Verification measures

4.19. The Regulations also clearly establish and set out the steps that a CSES has to go through to register and verify their customers for the Broader Group. If the CSES complies with the steps set out in regulation 19(7), Ofgem has a duty to approve the supplier's proposed verification measures. Where a CSES has elected to rely on the measures set out at Part 2 of Schedule 2, this requires the following three main steps to be followed:-

- Obtaining from each customer orally or in writing; their name, address and telephone number; a declaration that the customer meets the supplier's eligibility criteria; and an explanation of how the customer meets the criteria;
- Explaining to the customer that they may be asked to provide evidence of their eligibility before receiving the rebate;
- A CSES will have to obtain documentary evidence from a minimum of 5% of their Broader Group Customers prior to paying out the Broader Group rebate to those customers.

4.20. In exceptional circumstances, where a customer may not have or be able to provide a telephone number, under regulation 19 (7)(b) the use of an email address may be considered as effective for verification purposes. We recommend that CSESs collect a statement from the customer that he/she does not use or have a telephone or prefers not to use one.

4.21. The practice the WHD team employ is to check that either the CSES Broader Group scripts or the application forms include information that addresses the requirements of the Regulations.

4.22. In relation to the 5% verification sample, we will check that the sample is generated randomly across the total Broader Group population or customer base, and is at least a 5% sample.

4.23. Should a CSES opt to use their own verification measures, they must evidence that these will be at least as effective as those specified in Part 2 of Schedule 2 to the Regulations.

4.24. Failure to demonstrate any of the above specifications may result in further investigation by Ofgem and a CSES will be at risk of non-compliance if Ofgem is not satisfied that measures to ensure Broader Group payments have been targeted at the right people have been put in place. Similarly Ofgem may investigate and take appropriate actions in the event that the verification measures stipulated in the Regulations, or otherwise agreed, have not been followed correctly.

Payment method and notification

4.25. The required means of providing a rebate are the same as for the Core Group. In this scheme providing a rebate means:

- crediting the amount of the rebate to the customer's electricity account;
- tendering payment to the customer; or
- providing a customer who pre-pays for electricity with credit against future electricity use.

4.26. The policy intention with regards to crediting against future use is that this may include using the rebate to reduce debts on electricity accounts.

4.27. The preferred methods are to directly credit the customer account or provide credit to the prepayment device. Tendering the amount or payment by cheque should be seen as a last resort (minimising the opportunity for fraud).

4.28. Rebate payments can only be made to the CSES's own customers, in line with regulation 18 (1).

4.29. The CSES must specify on the recipient's bill, or otherwise notify in writing, that the rebate was made under the WHD scheme.

4.30. VAT should be applied to rebate payments when crediting an account or providing the rebate to a customer using a pre-payment meter. The values above are inclusive of VAT. As with Core Group rebates, Broader Group rebates must be made through electricity accounts.

Governance and management

4.31. We expect CSES to have robust governance and management processes in place to satisfy themselves that the Broader Group element of the scheme is being complied with in line with the Regulations. We would seek evidence in the notifications from CSESs of the structures in place to:

- Oversee at an appropriate level of senior management the implementation of Broader Group schemes and rebate payments;
- Monitor and report on implementation progress at management level;
- Ensure at an operational level that there is sufficient management and administrative capacity to administer the rebate scheme.

Fraud, misuse and abuse prevention

4.32. We also expect CSESs to have robust fraud management processes in place. Part 2 Schedule 2 of the Regulations set out the minimum requirements that CSESs need to apply to reduce the risk of fraudulent applications and hence awards. In addition, the WHD Fraud and Audit team carry out the following checks:-

- The measures in place to minimise the risk of misuse, abuse and fraudulent payments;
- The measures in place to evidence a rebate is paid to an eligible person/household (for example, this can include validating the account before a payment is provided).

4.33. Further details on audit and fraud prevention measures can be found in Chapter 8.

Amendments

4.34. Any amendments to proposals will need to be submitted to Ofgem. Approval of amendments will generally follow the process outlined above for when proposals are initially received. We are in the process of creating notification amendment templates for both proposals.

5. Legacy Spending

Chapter Summary

Legacy Spending can be counted toward the Warm Home Discount obligation for scheme years one to three. This section describes the criteria and processes for administering this element.

Legacy Spending overview

5.1. Legacy Spending was included under Warm Home Discount (WHD) to provide a smooth transition from the Voluntary Agreement and to allow suppliers to continue providing support to customers who had benefited from social and discounted tariffs and rebates under the Voluntary Agreement. Unlike the Core and Broader Groups, Compulsory Scheme Electricity Suppliers' contributions on Legacy Spending can be made through either a customer's electricity or gas account.

5.2. The main aim of the WHD scheme is to provide assistance through the fixed rebates in the Core and Broader Groups. This is facilitated by reducing the amount CSESs are allowed to count towards the scheme by providing legacy forms of support including discounted and social tariffs. To achieve this decrease, a limit is placed on how much Legacy Spending can count towards a CSES's non-core spending obligation, and this limit is reduced each year (in total £140m in year 1, £70m in year 2, £35m in year 3 and £0 in the final year).

5.3. In addition there is a combined Legacy Spending and Industry Initiative cap, which depending on the CSES's profile of spend across the non-core elements, may impact on the amount of Legacy Spending that can be counted toward a CSES's non-core obligations. Legacy Spending is therefore limited for each CSES according to the calculations detailed in paragraph 2.40 to 2.43 above. Any additional spending a CSES may make above these limits will not count towards that CSES's WHD spending for that year.

Legacy Spending criteria under the WHD Scheme

5.4. **Participation:** A CSES or connected gas supplier can only count the support provided under Legacy Spending if it is a 'relevant supplier'. This is defined as a supplier who provided support to customers under the Voluntary Agreement period 2010-11. If the WHD team considers a CSES or Compulsory Scheme Gas Supplier (CSGS) not to be a relevant supplier, this will be made clear in the letter confirming their status and spending obligations.

5.5. **Criteria:** A CSES may only provide discounted tariffs (including social tariffs) or rebates to customers who meet the same eligibility criteria used by that CSES to

target vulnerable customers in the last year of the Voluntary Agreement (criteria can be narrowed, but not widened).

5.6. **Customer Numbers:** Regulation 21(4) limits the number of eligible customers who can be assisted with discounted tariffs or rebates to the total number of eligible customers who benefited from discounted tariffs or rebates in the last year of the Voluntary Agreement (1st April 2010 to 31st March 2011). This may not be the same number of eligible customers who were actively benefiting from discounted tariffs or rebates on 31st March 2011.

5.7. A CSES may recruit new customers on to its Legacy tariffs or rebates as long as the customer meets the required eligibility criteria and the total number of customers does not exceed the allowable limit. CSESs may choose to provide customers with rebates or discounted tariffs.

5.8. As the WHD scheme progresses towards scheme year 4 the amount a CSES can count towards their non-core spending obligation will decrease, reducing to zero in scheme year 4. A CSES may opt to reduce the number of customers it counts under its Legacy tariffs or rebates, or reduce the value of the discount or rebate applied in order to achieve this.

5.9. In Scheme Year 1, CSESs provided Ofgem with the details of their social and discounted tariffs and rebates, i.e. the eligibility criteria and customer numbers as at March 2011. This information is used annually as part of the end of year compliance assessment, such that we check the allowable customer number thresholds had not been breached and the eligibility criteria remained unchanged.

Valuing discounted tariffs

5.10. Tariffs are valued in line with the valuation process set out in the Regulations. In order to assess how much a supplier has spent on these tariffs, we compare discounted tariffs offered by a supplier with the reference tariff for that supplier. Any spending from 1 April to 31 March or attributable spend that can be clearly shown to have been incurred in the scheme will count towards suppliers' non-core obligation.

- The value of the spending that a relevant supplier incurs on a discounted tariff follows a complex calculation to give an overall figure for each CSES that is annualised, averaged and reflects reasonable weightings.
- Ofgem is responsible for making this calculation when determining how much Legacy Spending a CSES can count.

Reference tariff

5.11. Under regulation 23, we must designate a reference tariff for each fuel type (electricity, gas and dual fuel) and payment method (direct debit, payment on receipt of bill – standard credit – and pre-payment) offered by a relevant supplier. A

reference tariff is a tariff already offered by a CSES or its connected SGS and it is desirable that the tariff meets as many of the following criteria:

- it must be available to all domestic customers;
- it must have been continuously available to new customers for a period not less than one year, or Ofgem must be satisfied that the supplier will make the tariff continuously available to customers for at least one year; and
- it must not be offered with an incentive.

5.12. The designation of the reference tariff is an annual process led by Ofgem. The WHD team with input from Ofgem's Markets division will identify the standard tariffs operated by CSESs. We will consult with CSESs on the proposed reference tariffs, prior to confirming the reference tariff for each fuel type (electricity, gas and dual fuel) and payment method (direct debit, payment on receipt of bill – standard credit – and pre-payment) offered by each CSES. These also have to be itemised in the End of Year report and are an integral element in calculating the value of the Legacy Spending attributed to the CSES's non-core obligation.

Approval process

5.13. Legacy Spending activities do not require our approval. However we advise that suppliers seek confirmation from Ofgem that any proposals for changing existing tariffs or introducing new tariffs meet the scheme requirements (namely the eligibility criteria to be used and the number they are planning to offer remain in line with what had been available in the last year of the Voluntary Agreement).

5.14. If suppliers choose to seek confirmation from Ofgem by 14 February that their proposals for changing existing tariffs or introducing new tariffs meet the scheme requirement, we will aim to provide such confirmation before the start of the new scheme year.

6. Industry Initiatives

Chapter Summary

Industry Initiatives are projects or schemes provided for customers who are fuel poor or at risk of fuel poverty. This section describes the permitted activities, the approval process and the process for administering this element.

Industry Initiatives overview

6.1. Under the Voluntary Agreement, suppliers had undertaken a number of initiatives to provide assistance to customers in fuel poverty or at risk of fuel poverty beyond direct financial support. Under the Warm Home Discount Scheme (WHD) scheme, Compulsory Scheme electricity Suppliers (CSESs) are able to meet part of their non-core spending obligation through Industry Initiatives. Spending on Industry Initiatives can be undertaken by either a licensed electricity or licensed gas supplier. The WHD scheme has a number of criteria that must be complied with to ensure that the Initiative costs can be counted towards the CSESs' non-core obligation. Further details on these restrictions can be found in paragraph 6.17 below.

6.2. Overall spending on Industry Initiatives within each year of the scheme is limited to £30m across all CSESs. Spending on Industry Initiatives is limited for each CSES according to the calculations detailed in paragraphs 2.21 to 2.29 above. In addition there is a combined Legacy Spending and Industry Initiatives cap, see paragraphs 2.35 -2.39, which depending on the CSES's profile of spend across the non-core elements may impact on the amount of Industry Initiatives spend that can be counted toward a CSES's non-core obligation. Any additional spending a CSES makes above these limits will not count towards that CSES's WHD spending for that year.

Approval process

6.3. For all scheme years, a CSES must get or have submitted to Ofgem for approval the Initiative prior to transferring funding or paying for the costs of the initiative. It is advisable that approval from Ofgem is gained prior to the initiative commencing operations to negate any risks associated with carrying out activity not approved by Ofgem. The CSES can seek approval by completing the notification template in the Annex to this document.

6.4. The benefits resulting from Industry Initiatives are required to be targeted to persons in fuel poverty or in a fuel poverty risk group. There are no restrictions in the Regulations which would prevent someone benefiting from a rebate or discounted tariff emanating from other elements of the WHD scheme also benefiting from a particular Industry Initiative.

6.5. Ofgem will, within 28 days of receiving a scheme notification, approve the proposal, reject the proposal or request additional information. If additional information is requested, Ofgem will provide a determination to the notification within 28 days of receiving the additional information requested. Once approved, an activity should be conducted in line with the approved notification for spend to be eligible. If there is a problem in undertaking the Industry Initiative activity in line with the approved notification, the CSES is advised to contact the Ofgem WHD team as soon as possible to agree possible resolutions.

6.6. CSESs should submit their scheme notifications, proposing their activity to the WHD inbox (WHD@ofgem.gov.uk).

6.7. Approval can be requested and given for schemes spanning more than one year, up to and including scheme year 4. For vulnerable older people, the minimum age threshold should be the same as the government's pensionable age (for women) as at 6 April of the relevant scheme year.

6.8. For initiatives seeking approval for Scheme year 4, we will require the CSES to submit evidence to support the End of Year compliance assessment by 26 May 2015. This is because the scheme concludes on 31 March 2015, and therefore compliance with all elements of the scheme for year 4 must be concluded by then.

6.9. This in practice means that an initiative must have to have completed (or nearly completed) delivery of its service in time for the CSES to provide final data or information (including audit reports) that will evidence activity, targeting and value for money by 26 May 2015.

6.10. If a supplier has concerns on how this may impact on their Industry Initiatives, then these must be discussed and agreement reached with Ofgem prior to the End of Year report for scheme year 4 being submitted.

6.11. Joint Industry Initiatives, undertaken by one or more CSESs, are permitted under the WHD scheme. However, the Regulations require each individual CSES to submit their own proposals and end of year report (even if much of the information is duplicated between CSESs). We are able to discuss such initiatives with third parties and advise them on how the proposals can be formulated, once we have received confirmation from one or more CSESs that they wish us to do so.

6.12. In cases where a supplier group operates several or through several CSESs it can elect/choose to determine each CSES's Industry Initiative spend, up to each cap.

Industry Initiative criteria

6.13. The Regulations provide that we must approve a CSES's Industry Initiative proposal if:

- the activity is permitted under Schedule 4 to the Regulations;

- it includes adequate measures to ensure (as far as reasonably practicable), that benefits provided under the initiative are provided wholly or mainly to persons in fuel poverty or in a fuel poverty risk group; and
- it exhibits value for money.

Schedule 4 Activities

6.14. The activities that are permitted under Schedule 4 are:-

- Payments to organisations for referrals;
- Benefit entitlement checks and or assistance to claim;
- Provision of energy, thermal efficiency measures, energy efficient appliances or micro generation;
- Provision of Energy Efficiency Advice;
- Funding training to provide Energy Advice;
- Provision of assistance to reduce or cancel energy debts as part of a package.

6.15. The Industry Initiative can comprise either a single or multi activity initiative. The notification should clearly identify the different eligible activities and provide some information of how that service is to be provided.

6.16. The initiative can involve a single delivery agent or involve a variety of partner organisations with differing roles and responsibilities. The notification should provide as much information as possible to enable the WHD team to understand the 'service' that is being provided and which organisation is responsible for the respective activities or elements.

6.17. One type of delivery organisation favoured by CSESs, especially for debt assistance, is a 'Trust' established for a specific purpose. This type of organisation does not exempt the CSES from its responsibilities, or change the nature of the notification and information required, nor from the checks that the WHD team would conduct to ensure compliance with the Regulations.

6.18. If a supplier has any concerns regarding their obligations when working with third parties or Trusts, they should contact the WHD team to discuss.

6.19. Spending on an Industry Initiative will not count towards the fulfilment of a CSES's non-core spending obligation if the activity is a requirement under the CSES's electricity or gas supply licence, or if the activity is being used by the CSES in order to meet spending obligations or targets imposed in another scheme (e.g. CERT, CESP, and the Energy Company Obligation).

6.20. There is a declaration in the notification that CSESs must complete confirming that the activities undertaken in the Industry Initiative are not also being counted as part of another obligation.

Targeting

6.21. The Regulations state that 'as far as reasonably practicable, that the benefits provided are wholly or mainly to persons in or at risk of fuel poverty'. We define 'wholly or mainly' to mean that **significantly more than half** of the service's customers are fuel poor or at risk of fuel poverty. We don't intend to set a minimum threshold but will expect CSEs to show that a significant proportion of a service's customers are fuel poor or at risk of fuel poverty. We will encourage CSEs to review targeting to optimise the number of fuel poor benefiting from the service. Therefore, we need to be assured that the initiative is targeted in the appropriate way.

Fuel poor are those people or households who are generally either:

- low income (DECC's impact statement shows that 90% of people and households on low income are also fuel poor);
- low income and/or vulnerable; or
- low income and spend more than 10% of their income on energy.

6.22. Those who are in a fuel poverty at risk group could include vulnerable households who because of frailty, particular needs or medical conditions are required to heat their home for longer and/or to a suitable ambient temperature. This is not seen as absolute, therefore if CSEs provide alternative definitions or criteria these will be fully examined and considered.

6.23. We will check the notification to ensure that the CSE has clearly described how the initiative will be targeted and how the evidence will be gathered to support targeting. Many initiatives, as part of their service, conduct a financial assessment; this is one way in which evidence can be collated to show clearly the number of recipients on low income. If this type of information is not routinely collected, then we will look for evidence of proxies e.g. working with organisations that operate in areas of deprivation or with client groups that are likely to be wholly or mainly fuel poor. We would encourage any supplier that chose to randomly sample an initiative for which reporting data was not readily available.

6.24. For training initiatives we would seek to elicit proxies, for example, that trainees were from organisations that would be assisting/providing a service to fuel poor or low income households e.g. charitable organisations working with people with particular vulnerabilities, advice agencies that can show that their customer profile comprises low income or fuel poor clients, organisations operating in geographies with multiple deprivation indices.

Value for money

6.25. The types of information that a supplier should provide to demonstrate value for money depends on the nature and scope of the proposal. But as a rule the following cost breakdown/detail should be provided:-

- Administration costs - This should include the costs (where applicable) of the direct service, central overheads, publishing, advertising, equipment costs, accommodation costs, etc. It is expected that activities like referrals, benefit entitlement checks, energy advice and training should be able to itemise their running costs within this overall heading.
- For Debt Assistance schemes – In addition to the above, there should also be information on the range and average income and awards made to awardees. Information should also be included on the number of applicants and or awardees that receive benefit/financial advice, energy efficiency advice, and other assistance whether this be energy efficient measures, other financial assistance, etc.
- For Energy Efficiency Measures- In addition to providing information separately on the administration of the scheme, information on costs of the individual measures, the number of each type of measure provided, and the number of awardees.

6.26. Often initiatives are based on existing or similar schemes and therefore information or estimates are available. Where this is not the case a CSES should provide best estimates as a basis to the Industry Initiative's costs.

6.27. In assessing value for money the WHD team may take into account the following types of factors:

- The administration cost per applicant and/or per awardee or trainee;
- The average amount of each award/benefit;
- The spend versus the outputs;
- Additional value.

6.28. If the proposal involves a third party, we would expect the CSES to demonstrate that third party is value for money. This will be evidenced either through a tendering process, or explanation of why the organisation is the preferred provider.

Governance and management

6.29. We expect CSES to have robust governance and management processes in place to satisfy themselves that the Industry Initiative element of the scheme is being complied with in line with the Regulations. In this regard, CSESs must provide evidence that they have the following structures in place to:

- Oversee at an appropriate level of senior management the implementation of Industry Initiative schemes and rebate payments;
- Monitoring and reporting on implementation progress at management level;
- At an operational level that there is sufficient management and administrative capacity to administer the rebate scheme.

6.30. For Industry Initiatives that involve third parties the following information is required:-

- That a contract or formal agreement is in place with the 3rd party(ies);
- The frequency and nature of reporting between the CSES and the 3rd party organisation(s);
- Other information e.g. brief information on the internal governance structures of the 3rd party organisation(s).

6.31. Where the CSES provides a donation to a trust fund or charitable trust we would expect :-

- The records of the transfer of the donation(s) or payment(s) to be paid within the relevant scheme year, and details to be recorded and available for audit;
- The trust in administering the initiative(s) should adhere to the similar requirements as laid out in paragraph 6.29.

6.32. Ofgem must be satisfied that a CSES's proposed activity will benefit those in fuel poverty or those at risk of fuel poverty. We recognise that CSESs may appoint third parties or engage in partnerships with organisations to effectively administer Industry Initiative activities. We expect CSESs to demonstrate reasonable caution when choosing a third party to carry out any of their functions. In choosing to engage in such partnerships Ofgem must be satisfied that there are adequate controls and oversight to ensure the money is spent correctly.

6.33. Adequate controls on third party partners must include detailed instructions from CSESs to third party partners as to what the money must be spent on, relevant scheme restrictions, appropriate reporting and confirmation that the money was spent correctly by a suitable representative of the third party partner.

6.34. CSESs must have activities approved by Ofgem before spending can take place. Failure to propose measures that are suitably robust in delivering activities to the right people may mean that the activity is not given approval, as we may not be assured that the money will benefit those suffering from fuel poverty or at risk of fuel poverty.

6.35. For the avoidance of doubt, if a CSES uses a third party, the ultimate responsibility for ensuring adequate controls and compliance of the activity rests with the CSES.

Trusts

6.36. Trusts are a recognised vehicle for administering the Industry Initiatives on a CSESs behalf. The requirement on CSESs in terms of providing information detailing activity, targeting, value for money (please refer to paragraphs 6.13-6.27) do not change because the administration falls under the auspices of the Trust. Similarly

end of year compliance requirements (6.33 to 6.35) do not alter because the Industry Initiative is administered through a trust.

Fraud prevention

6.37. We also expect CSEs to have robust fraud management processes in place. We therefore require CSEs to demonstrate in their proposals how they plan to minimise the risk of misuse of the funding they commit to the proposed Industry Initiative activity and/or misrepresentation of the outcomes delivered from it. The Ofgem Fraud and Audit team need to be satisfied with such fraud prevention measures before an Industry Initiative is approved.

6.38. Further details on audit and fraud prevention can be found in Chapter 8.

Amendments to Industry Initiatives proposals

6.39. Any amendments to Industry Initiative proposals will need to be submitted to Ofgem. Approval of amendments will generally follow the process outlined above.

Preparation for End of Year reporting

6.40. Ofgem will seek assurance from CSEs that the level of spending they declare in their end of year reporting has only been used for the purpose of the activities outlined in Schedule 4 of the Regulations and that 'the benefits provided are provided wholly or mainly to persons in fuel poverty or a fuel poverty at risk group'. The CSE's End of Year Report will provide evidence of this and seek confirmation that double counting with other schemes, such as CERT, or any other type of misreporting has not occurred.

6.41. Failure to provide such evidence may result in spend not being eligible under the WHD scheme and the CSE to be found non-compliant with their obligations.

6.42. For Industry Initiatives (scheme years 1 to 3) that have been counted toward a supplier's scheme year non-core obligation, but where activities have not yet commenced or are at an early state of implementation, Ofgem will seek to complete the full end of year compliance checking at a mutually agreed point later in the following scheme year. This means that the CSE will provide confirmation of:

- The services that have been provided and that these align with Schedule 4;
- The number of or at risk of fuel poverty that have benefitted from services;
- The cost of the service, and if this varies by +/- 5% of the estimates in the notification that explanation is provided for the variance;
- Audit reports.



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6.43. For further information on end of year reporting for Industry Initiatives please refer to Chapter 7.

7. End of Year Reporting

Chapter Summary

The end of scheme year reporting is undertaken as part of compliance checking. This chapter outlines the information required and the process for suppliers to submit end of year reports.

End of year reporting

7.1. Following the end of each scheme year Ofgem will write to all Compulsory Scheme Electricity Suppliers (CSEEs) requesting confirmation of their compliance with their Warm Home Discount (WHD) obligations. This confirmation must be in written form, using the bespoke templates provided by Ofgem and sent to the WHD mailbox (WHD@ofgem.gov.uk) no later than 26 May following the end of the scheme year. We also require scheme gas suppliers to provide confirmation of any WHD activities they have undertaken, and how spending should be allocated to the CSEEs.

7.2. CSEEs must submit accurate and correct information. If we need clarification or additional information we will need it to be provided within 15 working days. This will be used to inform our final determination.

7.3. End of year reporting templates have been created for the following:

- Core Group
- Broader Group
- Industry Initiative
- Legacy Spending tariff
- Legacy Spending rebate
- Non-Core Spending totals

7.4. A copy of these templates can be found in a separate Annex to this document (WHD Supplier Guidance Annex: Notification and End of Year Reporting Templates). CSEEs are required to complete an end of year report for the Core Group element, the Broader Group element, each Industry Initiative, each Legacy Spending tariff, each Legacy Spending rebate and non-core spending totals.

Core Group report

Spend

7.5. Participating suppliers are required to provide Ofgem with their total spend on the Core Group element. Ofgem will check that the spend is in line with the rebates provided.

Rebates

7.6. Ofgem requires each participating supplier to provide details on the total number of Core Group rebates they have provided and a breakdown of how many were provided as a result of the data match and how many were provided as a result of the sweep up exercise. The Secretary of State (SoS) provides Ofgem with details for each participating supplier including how many Core Group customers were provided to each supplier on a notice in that scheme year and how many customers the supplier was unable to identify or was not a Core Group customer on those notices. Ofgem will ensure that the numbers provided by the supplier reconcile with the details provided by the SoS.

7.7. We will also require confirmation that all Core Group rebates were provided within the timescales outlined in the Regulations (by 31 March or, within 30 days of receiving the customer information from the SoS post 1 March). If a supplier cannot confirm that all rebates were provided within timescales Ofgem will require information on the number of late payments and the reasons for these.

7.8. A confirmation will also be required that all customers whom a supplier was unable to identify as a Core Group customer were returned to the SoS within 30 days. If a supplier cannot confirm this we will require details of the number of customers not returned to the SoS either outside of timescales or not at all, and the reasons why.

Exceptions

7.9. Suppliers will be required to provide Ofgem with the total number of Core Group customers where they think a regulation 8 exception should apply (these exceptions have been determined by the SoS). We will require suppliers to explain the efforts they have taken to provide the rebates before the exception was determined.

7.10. In cases where suppliers are unable to provide a rebate and an exception is not available under regulation 8 Ofgem will require a supplier to set out the circumstance, provide us with the number of customers that fall under each circumstance and outline the steps taken in an attempt to provide each of the rebates (as set out in regulation 9(6)). The application or otherwise of any exemption under the Regulations is a matter of discretion for Ofgem.

Payment method and notification

7.11. Ofgem will require confirmation that all rebates were provided by one of the methods listed in regulation 7(3) and that all Core Group customers were notified that the rebate was provided as part of the WHD scheme, in accordance with regulation 7(5). Any such notification is required to be set out in either the customer's bill or otherwise specified in writing.

Broader Group Report

Spend and rebates

7.12. The Broader Group report will require CSEs to provide us with the total spend on this element of the scheme and the total number of rebates provided. Ofgem will also require assurance that the CSEs has met its minimum Broader Group obligation. Ofgem will check that the spend is in line with the rebates provided and that the CSEs's minimum requirements have been met.

Eligibility criteria

7.13. CSEs will need to confirm that the eligibility criteria used for the Broader Group were the same as those outlined in the scheme notification (and any amendments) approved by Ofgem. Ofgem will want assurance also that the quality controls outlined in the notification have been applied.

Verification measures

7.14. Confirmation will be required that the verification measures used were the same as those in the approved scheme notification and any approved amendments. We will require the CSEs to outline the number of Broader Group customers who passed the documentary evidence check and, if available, the numbers that failed or failed to return the documentary evidence. Ofgem will seek confirmation that the verification reaches the minimum 5% requirement.

7.15. Records of all Broader Group applicants must be kept until six months after the end of the relevant scheme year. All records of Broader Group applicants entered into the documentary verification process must be kept until six months after the end of the WHD scheme (i.e. to September 2015). This includes applicants who fail the verification process. Records retained should include applications, documentary evidence submitted, and assessment records by the verifying party.

Payment method and notification

7.16. Confirmation is also required that all rebates were provided on time (by 31 March) using one of the methods listed in regulation 20(2), and that all Broader Group customers were notified that the rebate was provided as part of the WHD scheme, as per regulation 20(4).

Legacy Spending tariffs

7.17. CSEs are required to provide separate end of year reports on each of their and their connected Scheme Gas Suppliers' discounted tariffs.

Spend

7.18. Each report will include the total spend on the discounted tariff. Ofgem will require documentary evidence that the spend was committed or incurred within the scheme year and that collectively the spend on the Legacy Spending element does not exceed the limits set out in the Regulations.

Tariff details

7.19. We will seek confirmation that the tariff works the same as it did in the final year of the Voluntary Agreement. If any changes have been made we require details of those changes. We will review the changes to ensure that the tariff still works in line with the Regulations.

Eligibility

7.20. A CSES will be required to confirm that the eligibility criteria used to target customers is the same as that used in the final year of the Voluntary Agreement. If a supplier has narrowed their criteria we would expect this to be detailed in the report. If new customers were assessed as eligible and added to the tariff during the scheme year we will want to know how many.

Customer numbers

7.21. We will seek confirmation that the number of customers receiving legacy benefits is not larger than those receiving benefits under the Voluntary Agreement. We will also ask CSEs to provide us with breakdowns of the total number of customer accounts that benefited for the year for each fuel type and a monthly breakdown by fuel type and payment method.

Electricity and gas consumption

7.22. Ofgem requires CSEs to provide the average consumption for all customers on the discounted tariff for the scheme year.

Monthly prices

7.23. CSEs are asked to provide the price on the last day of each month for the reference tariff and the discounted tariff. Prices are required for each combination of fuel type and payment type. Ofgem will compare all figures provided with information held within our markets team. CSEs should avoid using rounded figures where possible to ensure the WHD team are able to carry out accurate analyses.

Average annual bills

7.24. We will also require average annual bills data. Bills data are required for each combination of fuel type and payment type. Once again Ofgem will check there is a

correlation between the data provided and the data held by our Markets team. We will also check that the bills data reflects the data provided on monthly prices and consumptions.

Legacy Spending rebates

7.25. CSESs are required to provide separate end of year reports on each of their Legacy Spending Rebates.

Spend

7.26. Each report will include the total spend on the rebate. Ofgem will require documentary evidence that the spend was committed or incurred within the scheme year and that collectively the spend on the Legacy Spending element does not exceed the limits set out in the Regulations.

Rebate details

7.27. Ofgem will seek confirmation that the rebate works the same as it did in the final year of the Voluntary Agreement. If any changes have been made we require details of those changes. We will review the changes to ensure that the rebate still works in line with the Regulations.

Eligibility

7.28. A CSES will be required to confirm that the eligibility criteria used to target customers is the same as that used in the final year of the Voluntary Agreement. If a CSES has narrowed their criteria, we would expect this to be detailed in the report. If new customers were assessed as eligible and added to legacy spending during the scheme year we will want to know how many and that the overall customer limit has not been exceeded. We will also check to ensure that a CSES was also a relevant supplier.

Rebates

7.29. CSESs will be required to provide the detail of the rebate, e.g. number provided, values of the rebate (average, range, and total value), and total number of customer accounts provided with a rebate. This information will be split by gas and electricity accounts.

7.30. CSESs may provide additional Legacy rebates to customers which were not previously offered under the Voluntary Agreement, as long as customers meet the existing eligibility criteria and the customer limit is not breached.

Industry Initiatives reports

7.31. CSEs are required to provide reports for each individual Industry Initiative. All spending figures provided in each report should exclude any Value Added Tax (VAT).

Spend

7.32. CSEs are required to provide details on how much was spent on the Industry Initiative, and how much of that spend is to be attributed to the WHD scheme. Where there is a variance of +/-5% between the spend projected in the notification and the actual spend, Ofgem will require an explanation for this variance. Ofgem will require documentary evidence that the spend was committed or incurred within the scheme year and that collectively the spend on Industry Initiatives does not exceed the limits set out in the Regulations.

Targeting

7.33. Confirmation is required in the report that the targeting is the same as those in the approved scheme notification and any conditions put in place during the approval process have been met. Ofgem will review the number of people benefiting from the activity and the percentage of people evidenced as being in or at risk of fuel poverty.

Activities

7.34. Ofgem will require confirmation that the activity carried out is in line with what was approved in the scheme notification; that the spending was not incurred pursuant to a requirement in any other enactment, or in an electricity supply or gas supply licence; that the spending is not counted towards a spending obligation or target imposed by any other enactment, or by an electricity supply or gas supply licence; and that the activities carried out fall within the first column of the table in Schedule 4 of the Regulations, and do not fall within an exception in the second column.

Value for money

7.35. We will look for evidence that any provisions put in place around value for money during the approval process have been met. We will look at the spend versus the outputs to help us determine that value for money has been delivered. We will also assess any evidence of additional value.

Audit Reports

7.36. We expect each CSE to submit an audit report to accompany their end of year reports by 26 May following the end of the scheme year. This report should outline the audit assurances for the compliance of the activities reported at the end of each scheme year. Each end of year report we receive should include a confirmation that the results reported by the CSEs have been independently checked

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to be accurate and compliant with the Regulations. Ofgem will be specifically looking for confirmation and assurance on the following areas:

Scheme Element	Summary of confirmation required in end of year reporting
All elements	Information submitted is materially accurate.
Core Group	All Core Group rebates provided to all customers instructed by the Secretary of State by the deadline set, subject to any exceptions.
	All Core Group customers were notified, either through their bill or in writing that the rebate payment was made under the WHD scheme.
	Non identified customers returned to SoS within 30 days.
	Exceptions reported in line with those identified by the Secretary of State.
Broader Group	The total number of Broader Group rebates provided by 31 March each year.
	All Broader Group customers were notified, either through their bill or in writing that the rebate payment was made under the WHD scheme.
	The approved eligibility criterion was used and consistently applied across all applications channels throughout the year.
	The approved verification method was used and consistently applied across all applications channels throughout the year.
	The CSES has undertaken a sufficient level of random sampling and at least 5% of Broader Group rebate recipients successfully provided documentary evidence that they met the eligibility criteria, or had their eligibility confirmed via an appropriate third party, before any Broader Group rebates were paid each year.
Legacy Spending	Total number of eligible domestic accounts benefiting from discounted tariffs and rebates.
	Eligibility criteria used to access discounted tariff and rebates are those that existed in the final year of voluntary agreement.
	Calculation methodology has not changed from the previous scheme year.
	Data provided in accordance with Schedule 3 of the Regulations is correct.
	Customer number limit as at beginning of scheme year 1 has not been exceeded in this year.
Industry Initiatives	Total eligible spend.
	Targeting used is as specified within the approved notification.
	Activity cost breakdown and outputs achieved are accurately reported.
	Activities undertaken in line with approval agreement.

7.37. Further explanation of the overall audit process and assurances required for the WHD scheme can be found at Chapter 8.

7.38. Any audit or verification work supporting the end of year report should be carried out by a party that is independent of the company management and of those preparing the report. Ideally this accompanying report should be prepared by those responsible for internal audit of the supplier organisation. To carry out such an audit or verification, a party does not have to hold Consultative Committee of Accountancy

Bodies (CCAB) qualifications; however it needs to be competent to perform such functions. The relevant audit report should accompany the end of year report, and should include details of the results of the verification, the independence and competence of the party who undertook the audit, and when it was undertaken.

End of year reporting process

7.39. Ofgem will review each of the individual reports for completeness (i.e. that the reports contain all the relevant information required to be able to determine compliance). If a CSES's report is considered to be incomplete Ofgem will contact the CSES and request the relevant information. Once Ofgem is satisfied that the information is complete, a confirmation letter will be sent to the CSES.

7.40. After determining completeness, Ofgem will then begin reviewing the reports to determine compliance. If any concerns are identified at this stage Ofgem will raise these immediately with the CSES and attempt to alleviate these concerns.

7.41. After determining the compliance of each of the individual reports Ofgem will determine overall scheme compliance. This will involve ensuring that spending obligations have been met, it will also involve reviewing spending caps and ensuring that where spending caps have been exceeded this excess will not be attributed towards a CSESs' spending.

7.42. Should any activity not be assessed by Ofgem as compliant with the Regulations, Ofgem may determine that a CSES cannot claim that activity under WHD, or dependent on the circumstances, that only a partial claim is appropriate based on the proportionality of compliant activity. Ofgem may also seek to take enforcement action against a CSES deemed to be non-compliant.

7.43. We are committed to conducting End of Year (EoY) compliance checks as quickly as possible and to report this to suppliers as soon as possible. We will keep suppliers informed at the following key stages – receipt of a complete EoY report; date of completion of audit, and date of compliance approval meeting.

8. Audit and Fraud, Misuse and Abuse Prevention

Chapter Summary

Audit activity is a key part of compliance reporting, this section describes the requirements for the Warm Home Discount (WHD) scheme.

Ofgem's audit programme

8.1. Ofgem takes a risk based approach to audit and assurance of the WHD scheme, where the processes applied are appropriate to the potential material impact of non-compliance or fraud, misuse and abuse. Assurances are obtained through a programme of audits; at the mid-year stage of a scheme year and after each scheme year has ended. We are committed to examining at least one aspect of each supplier's WHD activity on an annual basis.

8.2. Following routine risk assessment, Ofgem's audit programme could cover any element of the scheme - Broader Group; Core Group; Industry Initiatives; or Legacy Spend. For these elements our audits would aim to establish that:

- Broader Group rebate payments were provided in accordance with approved eligibility criteria and verification measures;
- Core Group rebate payments were provided to customers identified to Compulsory Scheme Electricity Suppliers (CSEs) by the Secretary of State (SoS);
- Industry Initiatives were carried out in line with the WHD Regulations, and that adequate measures to ensure that benefits were provided wholly or mainly to persons in fuel poverty or in a fuel poverty risk group – and that the initiative exhibits value for money; and
- Legacy Spending was incurred under the requirements of the WHD Regulations and that the amount claimed has been calculated in accordance with the WHD Regulations and the agreed reference tariff.

8.3. To aid our assessment of risk of non-compliance or fraud, the WHD Fraud Prevention and Audit Manager may also request to conduct observation visits, with the agreement of CSEs, to selected CSE scheme activities during the scheme year. CSEs would be notified in advance of any visits and expectations for such an observation would be provided.

8.4. Our auditors will be required to verify the domestic customer numbers provided by CSEs prior to the start of each scheme year. The results of this exercise will be shared with other environmental schemes that require similar verification of domestic customer numbers to set annual obligations, to reduce duplication of effort.

8.5. We will appoint an independent auditor to conduct WHD audits on our behalf. CSEs will be notified at least two weeks in advance when these will take place along with the detail of the scheme activity we intend to audit.

8.6. The following sections outline Ofgem's audit programme and how we will engage with CSEs on work throughout the scheme years.

Ofgem's midyear audit programme

8.7. The purpose of our mid-year audit programme is to minimise the risk of CSE non-compliance at scheme year end. The bulk of our audit programme will be committed to this phase to maximise opportunities for any necessary remedial action before the relevant scheme year end.

8.8. We aim for auditors to visit suppliers or delivery partners in October each year to carry out the mid-year audit programme.

8.9. A wash up meeting will take place between the auditor and the audited party to allow key findings to be shared.

8.10. Key findings will then be highlighted in the audit report, with associated recommendations to mitigate these findings. CSEs will receive a copy of the draft audit report to consider and respond to. It is expected that this response will cover Management's proposed actions to address these recommendations, including timescales and action owners.

8.11. Ofgem aim to provide CSEs with a copy of the draft report for consideration no later than 8 weeks after date of visit by auditors. In advance of this, we aim to highlight and discuss significant audit findings with the CSEs no later than 4 weeks after date of visit by auditors, to allow timely remedial action to be taken.

8.12. Once the finalised audit report has been agreed and issued, we will track achievement of agreed recommendations. This will involve written confirmation of achievement by the action owner and, where appropriate, submission to Ofgem of evidence of action taken by the audited party.

Ofgem's end of year audit programme

8.13. The purpose of our EoY audits is to verify specific information provided by suppliers in their annual reports. This exercise forms part of our annual compliance review.

8.14. We aim for auditors to visit suppliers or delivery partners in June/July during the relevant compliance review period. Issue of reports will follow the same process as that during the midyear programme.

8.15. We aim to provide CSEs with a copy of the draft report for consideration no later than 8 weeks after date of visit by auditors. In advance of this, Ofgem aim to highlight and discuss significant audit findings with the CSEs no later than 4 weeks after date of visit by auditors, to allow timely remedial action to be taken.

CSEs internal audit requirements

8.16. We also expect CSEs to undertake their own internal audit examination to verify the accuracy of the information provided in end of scheme year reports.

8.17. Staff employed on this activity do not have to hold Consultative Committee of Accountancy Bodies (CCAB) qualifications. However they need to be competent to perform such functions. They should also be able to demonstrate their independence from company management and supplier WHD operational staff.

8.18. Through a combination of Ofgem-appointed external audit work and internal audit work, CSEs must ensure that audit assurance can be provided for the accuracy of the information reported for each activity under the WHD scheme in the year, sufficient to support the compliance assessment process.

Ofgem internal assessment assurance

8.19. Ofgem will from time to time, employ external auditors to offer independent assurance of our internal systems and processes that are in place for administering the WHD scheme, to determine that they are sufficient to deliver the scheme in an accurate and efficient manner.

Fraud, misuse and abuse prevention

8.20. Whilst the Regulations do not require suppliers to prevent fraud, misuse and abuse, robust prevention measures are crucial in maximising the benefits for consumers genuinely in or at risk of fuel poverty. It is in the interests of the WHD scheme that CSEs and Ofgem work together to maintain these fraud prevention measures, and simultaneously reduce the risk of reputational damage to both CSEs and Ofgem that would be caused by instances of fraud within a fuel poverty scheme.

8.21. We expect CSEs to satisfy themselves and their internal auditors that Core Group rebate payments are only provided to customers identified by the SoS. CSEs

will also have to assure Ofgem, and any agent acting on its behalf, that they have effective internal management controls in place to allow for such assurance to be reached.

8.22. Design and implementation of appropriate fraud, misuse and abuse prevention controls is a pre-requisite of approval for Broader Group and Industry Initiatives, and it is expected that the risks of inappropriate payments to Core Group and Legacy Spending customers are considered and reasonable measures are taken to prevent these. The WHD Fraud Prevention & Audit team will support CSEs in designing robust controls for the prevention of fraud, abuse and misuse.

8.23. Where Core Group and Broader Group rebates are not provided directly to a customer account (such as for those customers with pre-payment meters) any alternative process to provide the rebate should be robust enough to minimise interception by a person other than the recipient. Ofgem ask all CSEs how they intend to make payments in these cases, and we encourage CSEs to minimise the risk of cheques being fraudulently cashed.

8.24. CSEs should notify the WHD Fraud Prevention and Audit Manager of any significant instances of suspected or identified fraud within the scheme at the earliest opportunity.

9. Dispute Resolution

Chapter Summary

This chapter outlines the complaints process which suppliers can use should they wish to challenge a decision taken by Ofgem.

Complaints about Ofgem

9.1. If a Compulsory Electricity Supplier (CES) is unhappy with the way it has been dealt with or unhappy with the way in which Ofgem has reached a decision or how Ofgem operates, then they should write to:

Ofgem Complaints
Ofgem E-serve
Ofgem
9 Milbank
London
SW1P 3GE

9.2. A complaint will be acknowledged within two working days. Ofgem will write to the complainant within 10 working days to inform it of the outcome. If it is not possible to get back to the complainant in that time, Ofgem will write to update the complainant on the progress within 20 working days.

9.3. If, after this process, a Licensee is still unhappy, it should write to the Senior Information Risk Officer (SIRO) at the address above, who will investigate the complaint further. The Licensee will receive a response within 10 working days.

9.4. If a Licensee is still not satisfied, it should take the complaint to the Parliamentary Ombudsman who carries out independent investigations into complaints about public bodies. If the complaint is found to be justified, the Ombudsman can recommend that Ofgem provides a remedy.

9.5. Details of how to make a complaint to the Parliamentary Ombudsman can be found on their website at www.ombudsman.org.uk.

Appendices

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4	Amended End of Year Template (attached as separate document)	

Please note copies of the notification templates and end of year reporting templates can be found in a separate Annex.

Appendix 1 – Timeline of key WHD scheme dates and deadlines

Responsible Party	Activity	Deadline
Proceeding the scheme year		
All domestic licensed electricity suppliers and domestic licensed gas suppliers connected to a licensed electricity supplier	Provide customer data notification to Ofgem	14 February
All non-compulsory domestic licensed electricity suppliers	Notify Ofgem of their decision whether or not to participate in the Core Group	14 February
DECC	Provide non-core spending obligation for upcoming scheme year	14 February
Ofgem’s External Auditors	Audit of customer data notification	Feb/March
Ofgem	Notify participating suppliers of their non-core market share and initial non-core spending obligation	14 March
Ofgem	Provide the SoS and the Reconciliation Operator with details on suppliers market share and if any suppliers volunteered to participate in the Core Group	14 March
During the scheme year		
All Compulsory Scheme Electricity Suppliers	Submit Broader Group and Industry Initiative notifications and amendments to notifications	Throughout the year
Ofgem	Approve or request additional information on Broader Group and	Within 28 days of receiving the notifications

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	Industry Initiative notifications and amendments to notifications	
Suppliers	Undertake Broader Group and Industry Initiative activity	Throughout the year, note payments can only be made after receiving approval from Ofgem
DECC/DWP/suppliers	Core Group data matching and sweep up exercises	During the scheme year
Reconciliation Operator	Core Group Reconciliation	3 times throughout the scheme year
Suppliers	Provide Core Group rebates	No later than 31 March or, if notified after 1 March, 30 days after receiving the notice from the SoS
Ofgem	Set Legacy Spending Reference tariffs	By December
Ofgem's External Auditors	Mid-year Audit	October/November
Following the end of the scheme year		
All Compulsory Scheme Electricity Suppliers	Submit End of Year Reports	26 May
Ofgem's External Auditors	End of Year Audit	June
Ofgem	Adjust spending obligations	30 September
Ofgem	Provide SoS with the WHD Annual Report	30 September

Appendix 2 - Glossary

C

CCAB

Consultative Committee of Accountancy Bodies

CERT

Carbon Emissions Reduction Target

CESP

Community Energy Savings Programme

CSES

Compulsory Scheme Electricity Supplier

CSGS

Compulsory Scheme Gas Supplier

D

DECC

Department for Energy and Climate Change

DWP

Department for Work and Pensions

E

ECO

Energy Company Obligation

EoY

End of Year

S

SoS

Secretary of State

SGS

Scheme Gas Supplier

V

VAT

Value Added Tax

W

WHD

Warm Home Discount

Appendix 3 – List Amendments to WHD Supplier Guidance Version 2

Chapter	Paragraph(s)
1	1.4; 1.7 to 1.13.
2	2.36; 2.37; 2.38.
4	4.5; 4.10; 4.15; 4.16; 4.17.
6	6.7; 6.21.
7	7.2.
EoY template	Core Group- 3(a),(b),9(f); Broader Group-3(c); Legacy Spend -3 (c).