

Andrej Miller
Department of Energy and
Climate change
3 Whitehall Place
SW1A 2AW

Direct Dial: 0141 331 6023
Email: Barbara.Birrell@ofgem.gov.uk
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Dear Andrej

Warm Home Discount: extension 2015/16

We welcome the opportunity to respond to your consultation '*Warm Home Discount: extension 2015/16*' in our capacity as administrator of the Warm Home Discount (WHD) scheme and we look forward to working with DECC on its delivery.

More widely, Ofgem has a duty to have regard to the interests of Britain's gas and electricity consumers in vulnerable situations. In this respect, we have a strong interest in all the proposals set out in your consultation document.

Our full response is detailed in the attached Annex. However, our main points are set below:

- Your overview highlights some of the wider contextual changes affecting the scheme beyond 2015/16. We think it would be beneficial to consider coordinating these change alongside changes to other schemes eg ECO.
- Your overview also identifies data sharing as an area for further work. As part of this we would also seek an accurate proxy for fuel poverty. This would help to minimise the administrative burden and therefore allow spend to be directed more toward consumer outcomes rather than process. We would be happy to explore this topic with government.

We may provide a further response on other aspects of the consultation at a later date. We will publish this response on our website.

Yours sincerely

Christopher Poulton
Deputy Managing Director, Ofgem E-Serve

ANNEX

Overview

Strategy and definition

The introduction of the new low income high cost (LIHC) indicator means that there will be a different fuel poor definition in England compared with Scotland and Wales. This new definition has the potential to add administrative requirements and therefore costs. The impact of this needs to be minimised so as not to negatively impact on consumers.

In particular the information that may be required to evidence 'high cost' is not readily available. This could present suppliers and third-party providers with additional costs for property assessments. We are concerned that these costs would be passed on to the consumer. Given that this policy is targeted to those who are fuel poor we should, collectively, be seeking to minimise the administration costs associated with the scheme.

Further work is required by government around how the LIHC will operate across the range of government schemes and industry initiatives.

This point is revisited in our response to question 9.

Data Sharing

We agree that the data matching process for the Core Group has worked well. As such, if government determines to extend data matching we would support this. The feedback that we receive from suppliers on the matching process, combined with the year-on-year improvements in match figures, supports the arguments for extending this type of data sharing beyond the Core Group. This process is seen as being cost effective and provides a better customer experience.

We support the focus on more effective use of existing data. This will allow DECC and stakeholders to understand the issues better, identify those most in need of assistance and more efficiently target interventions.

Beyond this formal data sharing, we would welcome discussions with DECC to explore better and more accurate data or proxies that could be used to support targeting, evidencing the fuel poor, and therefore contribute to streamlining and simplifying the administration of the WHD scheme while providing adequate protection to vulnerable and fuel poor customers.

This point is revisited in our response to question 9.

Welfare Changes

The introduction of the Single State Pension and Universal Credit could present barriers to identifying vulnerable customers who could benefit from Warm Home Discount.

At present, eligibility for the Core Group pensioners is identified through direct data matching for the Pensions Credit Guarantee. This process provides a high level of accuracy, low administrative costs and a good end-user experience as eligibility is automatically assessed. But under State Pension Reform, Pension Guarantee will no longer exist and this could result in an increase in administration.

Rationale for energy bill rebates

We support the rationale set out in the consultation for providing a rebate on electricity bills for those households experiencing fuel poverty. However the focus on improving the energy efficiency of the housing stock is critical and should be the primary mechanism for achieving long term results for all consumers. This should be carried out while also providing bill and income support where necessary.

Our principal objective is to protect current and future consumers. In carrying out our work, we take account of the needs of customers in vulnerable situations, including but not limited to those: on low incomes, of pensionable age, who have a disability or who are chronically sick or living in rural areas.

Consultation response to Questions: 1-14

Question 1:

Do you agree with the Core Group eligibility criteria remaining those people in receipt of Pension Credit Guarantee Credit?

We would support the Core Group criteria and administration remaining the same as the current scheme.

With a view to post 2015/2016, we are mindful that as a result of pension and benefit reforms it is likely that the number of people receiving Pensions Credit Guarantee and Savings Credit will fall. It therefore may be helpful to begin to explore alternate triggers which will help identify pensioners who could still be financially vulnerable after the pension reform takes place.

Question 2:

To what extent do the current Broader Group criteria act as a barrier to switching, and if they do how could this be addressed cost effectively?

The key barriers to switching are as follows:

- The barrier to switching between obligated suppliers: Customers who already receive the rebate may be less likely to switch to another obligated supplier, as they may not be eligible for the rebate with the other supplier because its criteria may be different or its obligation may be fulfilled and its process closed.
- The barrier to switching to non-obligated suppliers: Customers who get the rebate are less likely to switch to a non-obligated supplier because the value of the rebate is greater than the financial benefit of switching. This creates a barrier to entry for new suppliers.

We also have some contrary evidence that indicates that availability of Broader Group rebates may encourage switching between obligated suppliers. This occurs when consumers are unable to access a rebate through their current supplier and switch to another supplier whose funding or more appropriate eligibility criteria provide the opportunity to access a WHD rebate.

We believe that energy tariffs and pricing should be the competitive differentiator between energy suppliers and access to a WHD rebate should not influence a customer's decision to switch.

Question 3:

Would the potential benefits of moving to a standard set of compulsory criteria outweigh the potential disadvantages? What could any compulsory criteria be (eg which benefits or tax credits), and why?

Having a standard set of compulsory criteria, to a certain extent, mirrors current supplier practice. All suppliers have adopted three of the eligibility criteria as set out in Schedule 2 of the WHD Regulations. Some suppliers have developed and operate additional criteria.

Ofgem is committed to promoting a competitive market. The current arrangement of variable criteria within the Broader Group may act as a barrier to switching as it could distort a consumer's perception of a supplier's proposition and their eligibility under the new supplier's scheme. Standardisation could remove this particular barrier to switching and promote more competition for consumers.

The benefits of a standard set of criteria would be:

- simpler for customers to understand
- easier for front line advisors and consumer groups to promote support
- government has a clear understanding of who is benefiting and can therefore tailor wider initiatives to plug any gaps
- WHD rebates would not be a competitive differentiator

The disadvantages would be:

- that suppliers have less flexibility to use WHD Broader Group to respond to customer needs they identify
- that the eligibility may not focus on poorest and most vulnerable fuel poor customers.

We have not taken a view whether a set of compulsory criteria outweigh the potential disadvantages.

The research literature included in '*Cutting the cost of keeping warm: a new fuel poverty strategy for England*' gives evidence that families with young children constitute 45% of those most vulnerable to fuel poverty. We therefore support

inclusion of this type of fuel poor household in any revision of eligibility criteria in addition to those already included in the current regulations.

Given the changes involved in welfare and pension reform, we feel that we are not able to comment on the types of benefits that could be used to identify eligible households. Nor are we putting forward a response in relation to the compulsory criteria consultation question.

Question 4:

Do you agree that a higher number of Broader Group applications should be verified? If yes, how could this be done in a cost effective manner?

We are committed to administering schemes efficiently and provide value for money. With the rate of verification currently set at 5%, there is a risk that WHD funds are being wrongly provided to households that are not eligible. In scheme year 3 when Broader Group customers were checked against the eligibility criteria 27% failed to pass. To reduce the likelihood of ineligible households receiving a rebate we would support verification of 100% on a standard set of criteria that could be checked through a process similar to that of the Core Group. This could be supported by the other data sharing processes already in place, which would enable cost effective checking which could minimise the cost of verification.

It is important that any verification sample is statistically representative of the population that it is testing. Therefore, if the rate of verification is increased to any level below 100% we would strongly recommend that these samples are randomly selected as is currently stated in the scheme guidance.

Question 5:

Do you agree with the proposal to reduce future non-core obligations by 5% of the non-core spending obligations in the event of overspend? Do you have any suggestions on the level of overspend?

We support the proposal of 5% flexibility in annual spend. This increase will give suppliers, especially new entrants, the ability to meet any potential shortfall in the following year. We would also support either the existing level of 1% or the proposed of 5% being enabled for the transition between the current scheme and 2015/16.

There is merit in seeking to smooth the total value of rebates provided from one year to the next, so that vulnerable and fuel poor customers are not adversely affected by variations in the availability of funding.

Question 6:

Do you have views on whether there are particular challenges for smaller suppliers in delivering their Broader Group obligations? Would any of the changes proposed above introduce new challenges for smaller suppliers?

We recognise the challenges that are posed to smaller suppliers who become an obligated WHD supplier. There are suppliers whose market strategy may restrict the number of fuel poor customers they have proportionate to their market share.

The following comments are in response to the suggestions outlined in question 6 of the consultation:

Joint Obligations: This proposal brings with it a number of challenges. It could mean that one party would absorb the majority of the collective joint obligation due to their customer profile, internal processes and economies of scale.

In some circumstances smaller suppliers may have a customer base which is geographically biased. This could lead to a distortion in the geographical distribution of Broader Group rebates. The Hills Review details that geographic location is a significant factor for consumers who are vulnerable and/or fuel poor and therefore we would not support an administrative mechanism that further disadvantaged fuel poor consumers.

Central buy-outs: We would support this solution as the preferred option but only once a supplier has evidenced they are unable to meet their obligation through their own customer base. We would also recommend that:

- The organisation administering this function should be independent from suppliers and responsible to government for discharging the obligations of the scheme.
- Processes should be agreed as to how deposited funds should be divested and into which areas. Funds received into this organisation should be ring-fenced for the purpose of WHD Broader Group rebates and be seen to reach additional/more eligible customers. This could be enabled by either data matching with suppliers to ensure that additional eligible customers are reached or to support provision of rebates allied to question 9 below.

Obligations trading: This proposal also presents the following challenges:

- It could increase cost to the consumer because the buyer would need to pay the seller both the value of the rebate and the seller's administration costs.
- In response to question 2 we highlight the benefit to suppliers, in the form of consumer loyalty, of providing the Broader Group rebate to their customers. With 'obligations trading' brand loyalty is attributed to the supplier providing the rebate. This could create further inertia to switching.

Where the agreed cost of administration is above the true cost, incumbent suppliers will benefit from the transfer of revenue. The point of how trading could magnify switching inertia also adds to the barriers for new entrants.

Question 7:

What are your views on the government putting in place a cap on the amount suppliers are able to spend on debt assistance through the Industry Initiatives section of the Warm Home discount scheme? What do you suggest the cap should be?

In scheme years 1 to 3, suppliers spent on average, 63% of the Industry Initiatives spend on debt assistance. We recognise the benefits to fuel poor households of this assistance both in terms of immediate debt relief and the ongoing benefit (circa two thirds of those who received assistance were still debt free a year later). In supporting the proposal to cap debt assistance, we are not recommending that suppliers reduce their support to indebted fuel poor customers but rather the amount that suppliers can count toward their WHD non-core obligation is reduced. We would also seek to strengthen the principle that funding counted toward a supplier's WHD obligation should not be counted towards another obligation.

This would enable suppliers to support the wider range of activities specified in Schedule 4 of the WHD Regulations. Our recent research '*WHD Energy Advice: consumer experiences*' not only evidenced the benefits of advice to consumers, but the individual experiences of consumers highlighted the benefits of some of the measures that they also received as a result of the energy advice service. These activities account for less than 10% of Industry Initiatives spend. Where industry initiatives combine energy advice with other measures they provide ongoing benefits for the consumer.

Question 8:

Do you agree with the proposal of providing a Warm Home Discount rebate to fuel poor and vulnerable park home residents through the Industry Initiatives portion of the scheme? Please provide the details of any solutions you may have on the practicalities of delivery and communications.

We would support the inclusion of WHD rebates for park home residents as part of Industry Initiatives.

In our response to the government's call for evidence we noted that there are barriers to delivery for park home residents to the schemes that we administer. For WHD this is currently prevented by the regulations because an energy customer must have a direct relationship with an obligated supplier.

Through Industry Initiatives there may be an opportunity to pay eligible park home residents Core and Broader Group rebates. One way that this could be delivered would be to for obligated suppliers to develop a joint initiative to encompass, applications for and provision of, WHD rebates. For Core Group rebates this process could be simplified by adapting some of the processes already in place for the exchange of data.

Question 9:

Do you agree that participating energy suppliers should be given the option to deliver Industry Initiatives to help eligible households:

- **Living off the gas grid**
- **With health problems and/or a disability**
- **Living in communities where residents are wholly or mainly in fuel poverty**

We would fully support the inclusion, in Industry Initiatives, of projects that deliver services to households living off the gas grid, have health problems and/or disability or are living in communities where residents are wholly or mainly fuel

poor. Off the gas grid customers are often reliant on more expensive energy sources such as electricity, oil and LPG to heat their homes. DECC analysis shows that these households are twice as likely to be fuel poor as those who use mains gas, and are more likely to be in severe fuel poverty.

We would also support an approach that allows this section of Industry Initiatives to be used to make energy advice a part of a comprehensive package for example provided alongside measures and benefit entitlement checks to fuel poor consumers. Alongside this we would seek clarity around the policy intent and look for mechanisms that would prevent double counting across other obligations. We would welcome the opportunity to work with DECC to look at the potential for linkages and cross-working between the government schemes.

It would be helpful when developing this element that clear, simple and explicit proxies were provided to minimise the administrative burden on third party providers. An example of this would be the use of off gas grid data (currently being compiled) as evidence for off gas grid. For wholly or mainly fuel poor communities multiple deprivation indices above a certain threshold could be used.

We would also seek an accurate proxy for fuel poor to minimise the administrative burden and therefore ensure spend is directed more toward consumer outcomes rather than process. It would also be helpful if for England or areas that wish to target low income/ high cost fuel poor that EPC assessments were an allowed cost in delivering an initiative. We would be happy to explore these suggestions with DECC, suppliers and service providers.

Question 10:

Do you agree that participating energy suppliers in the Warm Home Discount should provide energy efficiency advice alongside other Industry Initiative measures? Please explain your answer.

We would support an approach where energy advice, rather than energy efficiency advice, be integrated and provided as part of all Industry Initiatives. Energy advice would include advice on energy providers, energy consumption and meters, tariffs and switching which may not always be included in energy efficiency advice.

Energy efficiency advice is already stipulated, in Schedule 4 of the WHD Regulations, as part of debt assistance. We know that some of the other types of Industry Initiatives providing benefits advice, referrals and measures also include energy advice.

We would go further and support a more intensive approach, ie rather than just leaflets, that service providers and/or suppliers are encouraged to offer recipients of Industry Initiatives the opportunity of a telephone based, face-to-face or in-home advice session. Our research '*WHD Energy Advice: consumer experiences*' has found this approach to be beneficial and appreciated by fuel poor customers.

Question 14:

How should non-core spending obligations be apportioned where they include an adjustment for an over or underspend in the previous scheme year? Please provide evidence for your answer.

We would support the proposal to apportion over or underspend based upon the previous scheme year's market share. This would reflect the actual market share that the suppliers had in the appropriate scheme year and therefore be proportionate. We would support improvements in Core Group forecasting methods to minimise the potential for carry forward and the operational issues this presents suppliers. We recognise that the resulting variances in Broader Group obligations could impact fuel poor consumers who may access a rebate in year of surplus funding but not in a subsequent year.