Making a positive difference
for energy consumers

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Dear Andrej,

Warm Home Discount consultation 2016/17

We welcome the opportunity to respond to your consultation on the proposed changes to the Warm Home Discount (WHD) scheme in our capacity as the scheme Administrator.

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

- The consultation indicates that DECC are proposing to limit any substantial changes to the design of the scheme in SY6. We agree that, given the abbreviated scheme year and the shorter lead in times, any substantial changes to the design of the scheme that will have a significant administrative impact on suppliers should be delayed until SY7.
- We encourage the introduction of more provisions that allow suppliers to flexibly meet their core and non-core obligations. We believe this added flexibility is of particular benefit to existing obligated smaller suppliers and newly obligated parties.

Yours sincerely,

Christopher Poulton
Managing Director, Ofgem E-Serve

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Annex:

Consultation response to questions

Question 1:

Do you agree that the Core Group eligibility criteria should be retained for those people in receipt of Pension Credit Guarantee Credit in 2016/17?

We agree that the Core Group criteria and administration should be retained for SY6 due to the short lead in times and the proposed abbreviated scheme year. As suppliers issue the largest number of rebates to Core Group customers, we feel any changes to these criteria would be difficult to implement given the timescales and, as a result, place an added strain on suppliers, delivery agents and other third parties involved in the current process. This could also lead to delays in rebates being provided, which are already likely to occur later in the scheme year thereby increasing the risk of missing the winter period when customers are most in need.

However, we would support DECC in reviewing the Core Group eligibility criteria in future scheme years when there is sufficient time for suppliers to implement changes. As such, we would support the introduction of proposed data sharing powers that could enable automated provision of support to low income working-age households.[1]

Question 2:

Do you agree that we should keep the Broader Group element unchanged?

Similar to question 1, we agree that the Broader Group criteria and administration should be retained for SY6 due to the short lead in times and the proposed abbreviated scheme year. We feel any changes to these criteria at this stage would place an added strain on the administrative processes across stakeholders. This may result in delays to the processing of applications and payments for Broader Group customers. These risks are particularly significant for newly obligated suppliers and suppliers whose obligations will increase for SY6.

Our view is that any changes to the mandatory criteria could have a disproportionately large impact on smaller suppliers who generally avoid using discretionary criteria and have limited resources to implement changes. As a result, customers of smaller suppliers are likely to experience delays in receiving their rebate which could have negative reputational impacts for those suppliers and the scheme as a whole. Additionally, we are aware that suppliers issue a significant proportion of Broader Group rebates to applicants that apply each year, which demonstrates that customers are familiar with the scheme and are, to an extent, reliant on the rebate to pay their bills. Suppliers may therefore be faced with difficult messaging in cases where customers who were previously eligible no longer meet the new criteria.

[1] We have responded to the Cabinet Office's consultation on data sharing which can be found at: https://www.gov.uk/government/consultations/better-use-of-data-in-government.

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To mitigate risks associated with a delayed start to SY6 we could provisionally review supplier applications for discretionary criteria prior to any legislation being in place. Given no substantial changes to the Broader Group element are being proposed, we would consider giving suppliers an indication of whether the criteria are in line with DECC's consultation proposals. This would be caveated in order to ensure suppliers are fully aware that discretionary criteria will not be approved until the legislation is finalised and published. By giving suppliers some indication on whether discretionary criteria will be approved for SY6, this may enable them to begin identifying eligible customers at their own risk. This could help to mitigate the risks associated with late payments and reduce any hiatus surrounding the delivery of Broader Group payments.

Similar to question 10 in which you raise possible risks in starting Industry Initiatives activities early, DECC may wish to consider including a provision to authorise spend prior to the legislation being enacted. This will give suppliers clarity that monies spent before approval, but subsequently approved once legislation for SY6 is in place, will count towards the supplier's non-core spend.

Question 3:

Do you agree that the value of the rebate should be £140 in 2016/17?

We agree with the value of the rebate remaining the same in 2016/17. If the value of the rebate decreased suppliers would have to provide payments to more customers, which could result in increased resourcing and marketing costs. Although this would enable more people to benefit from the rebate, customers who currently receive the rebate would be expecting a rebate of at least £140.

We support the rebate value increasing with inflation in future scheme years, in line with the overall scheme budget.

Question 4:

Do you think the current range of activities that count as Industry Initiatives represent value for money? Are there any other activities that should qualify as Industry Initiatives that currently do not? Are there any activities that currently count as Industry Initiatives that you think should not? Please provide evidence to support your answers.

One aspect of our assessment of Industry Initiatives is an evaluation of its value for money, with our requirements outlined in the WHD guidance. This requirement is a key part of an initiative's approval and we will continue to scrutinise outputs when considering spend. We do emphasise however that the assessments of value for money are not based on the type of initiative being proposed, but the approach and management of the scheme. New and more innovative projects may carry high set up costs, however we would expect these to fall over time.

We do recognise however that some approaches to delivering Industry Initiatives have been more successful than others in achieving value for money. In general, we have found greater value where there are multi-supplier schemes, allowing them to achieve economies of scale and reduce management costs as a proportion of total spend. As such, we would encourage suppliers to consider this approach in the next scheme year.

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We also acknowledge that initiatives that offer multiple services at once are particularly effective due to the reduced management and overheads costs. We would further encourage these holistic approaches to not only increase value for money but to maximise benefits to the customer.

We also recommend that Industry Initiatives provide flexibility for new entrants to comply with their obligation. We recognise that some smaller suppliers are at risk of not being able to meet their Broader Group obligation due to higher search costs and increased difficulty when identifying Broader Group customers. An Industry Initiative in which a Broader Group rebate may be delivered to an eligible customer of any supplier via a third party, using either a pot of central funding or project, would provide this flexibility. Additionally, allowing a smaller supplier to provide rebates to a wider group of customers would remove a barrier to supplier switching.

Question 5:

What are your views on suppliers having the option to achieve part of their initiatives spend through contribution to a central pot of funding in future years, which could then be used to fund innovative approaches to reaching and supporting those in greatest need?

We agree that allowing suppliers to contribute to a central pot of funding for third parties to access would facilitate the development of innovative approaches.

However, in order for suppliers to be confident that the spend would contribute towards their obligation we recommend that any funds put into the central pot be deemed to automatically count towards their non-core spending obligation. Where the supplier does not have the certainty of their money being deemed spent they are unlikely to contribute and risk potential underspend.

To ensure there are sufficient projects to fund, as well as addressing DECC's ambition to provide innovative projects, we would recommend Ofgem be able to identify organisations or specific projects that align with the criteria of Schedule 4. Further to identifying new projects, we would want the ability to develop initiatives that would allow targeting of groups that have previously been overlooked. This approach has already been trialled by the successful park homes Industry Initiative. We acknowledge that pilot initiatives developed using this funding pot may have larger start-ups costs. In light of this, DECC may wish to consider capping expenditure on pilot initiatives to ensure that the funding pot is still delivering value for money overall.

There will need to be a new approach to administering these schemes, as suppliers will not be responsible for their delivery. The Administrator of the pot will need flexibility and authority to run it in the best interest of the customers, suppliers and third parties. Should the central funding pot be introduced, the Administrator should engage with stakeholders and produce guidance on how third parties should apply.

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Question 6:

Do you agree that Government should place a cap on the amount of each supplier's Industry Initiative spend that can be spent on debt assistance? What are your thoughts on the cap being set at 50% of each supplier's Industry Initiative spend in 2016/17?

We recognise the benefits to fuel poor households that debt assistance provides both in terms of immediate debt relief and the ongoing benefit. This type of activity has proven to be successful and our supplier end of year reviews have shown that many customers remain debt free following this support.

However, we acknowledge that this type of initiative has been increasingly adopted over time and makes up the majority of all Industry Initiative spending. While we appreciate the extreme vulnerability of families who require large amounts of debt relief, we do not believe these initiatives directly align with the policy intent of the scheme. A cap would also encourage suppliers to support a wider range of activities specified in Schedule 4 of the WHD Regulations.

However, having regard to vulnerable customers, we are not recommending that suppliers reduce their support to indebted fuel poor customers but rather the total amount that suppliers can count toward their WHD non-core obligation is reduced. We would invite DECC to make it more explicit that suppliers are free to continue any such programmes of debt assistance, but any spend over the cap, will not count towards their non-core spending obligation.

We also recognise difficulties in administering a cap on the supplier's actual spend as this figure would not be fixed. Consequently, neither Ofgem nor the supplier will be confident of their position until all spend has been approved. As a result, we would encourage DECC to consider alternative methods of introducing a limit to debt assistance spend. Furthermore, DECC may want to consider how this cap works alongside a possible carryover provision, and whether suppliers would be able to carry over excess spend on debt assistance to the next scheme year.

Question 7:

Do you agree that there should be no provision for any overspend to reduce future non-core obligations?

We have generally encouraged suppliers to put in place contingency measures to minimise risk of supplier non-compliance, which tends to result in some over-delivery. Suppliers may have over delivered in SY5 in expectation of an overspend provision, in line with previous scheme years. We believe that not allowing any overspend would penalise those suppliers taking a pragmatic approach to meeting their obligation.

We understand that the limit to the overspend is due to uncertainty over the design of the scheme. However, in review of DECC's consultation we do not consider to the scheme design changes to be substantial enough to remove the option of limited over-delivery.

We would recommend limiting over-delivery to between 2-5% of a supplier's non-core obligation. This limit would be in line with previous WHD scheme years, and would allow suppliers the flexibility to determine their delivery schedules, particularly if SY6 and SY7 are similar.

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Question 8:

Should spending targets be adjusted so that actual spending reflects the number of PPM customers benefitting from the rebate?

We support the proposal for suppliers to report only on those vouchers which are redeemed and that PPM redemption rates are used to determine whether a supplier has met its obligation.

We do not agree with the proposal for suppliers to over-deliver PPM vouchers to ensure they reach the value of their obligation. This approach does not resolve the issue of inaccurate reporting as it assumes a level of under delivery rather than the current situation where we assume that all rebates are redeemed. In relation to Question 7, we also feel it would be unfair to require suppliers to over-deliver PPM rebates and not be allowed to carry over excess spend to a subsequent scheme year.

As an alternative to this approach, we suggest that the regulations are amended to require rebates to be “delivered” as opposed to “provided”. The Government Electricity Rebate (GER) scheme is a successful example of this approach and confirms that reporting on what suppliers “deliver” is not only possible but that suppliers are already familiar with the administrative processes involved with tracking redemption rates of PPM vouchers. Suppliers have agreed to voluntarily report on voucher redemption rates during SY5 of the WHD scheme. As such, we suggest this is introduced as a mandatory requirement for SY6.

Question 9:

Do you foresee any issues with the scheme year for 2016/17 running from August to May?

We feel that a shortened scheme year could increase the risk of suppliers failing to meet their obligations. Additionally, there may be increased administrative costs associated with suppliers delivering payments within a shorter period. Starting the scheme year in August would result in a reduced lead in period for the suppliers to process Broader Group applications, placing a strain on suppliers’ resources to make payments before or during the winter period.

These concerns are greater for new entrants to the scheme. However, it is worth noting that in questions 4 and 5 we do recommend options for flexible delivery which could alleviate some of these concerns.

If there is an overlap period between scheme years we believe this could create several problems for suppliers. Suppliers may experience budgeting issues as the scheme is normally aligned with the tax year. Smaller suppliers may also experience cash flow problems due to issuing funds for two scheme years during the same period.

An overlap may also cause confusion for organisations involved with Industry Initiatives if they receive funds for SY6 and SY7 at the same time. We would need to issue detailed guidance on how we expect suppliers to deliver two scheme years during an overlap. This would require increased administrative resource.

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Question 10:

Do you foresee any issues or risks associated with allowing suppliers to start Industry Initiative activities before the regulations are in place?

We believe that suppliers and third parties should be given sufficient confidence to deliver their Industry Initiatives as early as possible given the abbreviated scheme year. Furthermore, a hiatus in delivery could have negative effects on fuel poor and vulnerable customers.

Some ongoing projects, which include an element of Industry Initiative funding, are led by third parties and thus suppliers would need some degree of assurance that money spent on such projects would contribute to their eligible spend. However, we will not be able to give certainty in the absence of regulations and it will be up to suppliers to consider the risk that funding committed prior to our approval of the notification may not count.

Given that no significant changes are proposed to the criteria for Industry Initiatives in SY6, we will consider giving suppliers feedback on their proposals based on DECC's consultation response. A provision to give suppliers clarity that their money will count towards their non-core spend where it is spent before approval, but subsequently approved once legislation for SY6 is in place, could reduce the risk of a hiatus in delivery. Such a provision was in place for SY1 in respect of Industry Initiatives, eg see Article 17 of the Warm Home Discount Regulations 2011 (spending incurred before commencement date).

Question 11:

Do you foresee any issues with suppliers having the option to pay the rebate on customers' gas accounts?

We believe this is a good suggestion which has already been implemented by some suppliers. We agree that this gives customers who use gas to heat their homes greater flexibility to apply the rebate where it will have the greatest impact.

However, we would only support this proposal if it did not place any excessive administrative burden on suppliers or ourselves as the Administrator, or lead to significant delays in payments.

Question 12:

If the scheme is made cheaper to deliver from 2017/18, should the participation threshold be reduced below 250,000 domestic customer accounts? What would be the costs and benefits of such a change?

As suppliers obligated under WHD are restricted to providing rebates to their own customers, there is a wider benefit to lowering the customer threshold. We believe this change would allow greater

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opportunity for customers to switch supplier who may previously have been restricted to the suppliers obligated under the current thresholds.

We also believe the move to a wider Core Group, through increased data matching, would align with reducing the threshold as the costs of compliance would be significantly reduced. However, if the administration of the scheme remains the same then we believe it would not be cost effective for obligated parties to deliver very small obligations.

We understand that many smaller suppliers could encounter cash flow problems, and providing rebates on demand may not be possible. Search costs for Broader Group customers or start-up costs for Industry Initiatives may also be high on a per-unit basis for smaller suppliers. Their business models may also mean they have limited numbers of Broader Group customers. However, if DECC were to include the flexibility of a central funding pot for Industry Initiatives we would expect the transition for new entrants to be simpler.

We would also expect DECC to recognise when determining the thresholds that the corresponding increase in obligated suppliers may lead to challenges and increased costs in the administration of the scheme.

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