

Ofgem consultation on spending of energy suppliers voluntary redress money

This is Future Climate's response to the consultation. Below we give our overall views on the issues raised and then our answers to your consultation questions.

Future Climate (futureclimate.org.uk) is a not for profit organisation working particularly on issues related to energy in buildings. Our aim is to improve practice and policy to deliver buildings that are cheaper to heat, warmer and lower carbon. We do that by sharing best practice between local practitioners in energy and buildings and influencing regional and national energy policies and programmes. Thus, for example, in the past few months we have worked on programmes around energy standards in local authority buildings and with social housing providers researching the impact of energy storage technologies on fuel poverty.

A major area of work for us for the past three years has been fuel poverty in private rented sector shared houses (houses in multiple occupation or HMOs). We have undertaken two research studies in this area, with University of Manchester and for NEA and DECC. HMOs house people on the lowest income, vulnerable and younger people and the energy issues are complex (non-standard homes, multiple meters in each property etc). As such, many HMO tenants and landlords are extremely hard to engage with standard energy advice. We would very much like to access funding to start to develop pilot programmes to support HMO tenants and landlords get a better deal in the energy market. But at the moment there is very little – or no - source of funding we can access to do that. Redress funding could play a vital role for organisations like ours doing innovative work with vulnerable energy customers.

Overall views

Future Climate supports Ofgem's proposals for an open bidding process for this funding and believe that this needs to be administered in a way that is favourable to smaller organisations accessing the money. In practice, this means the creation of a long term, stable funding regime which can only be achieved through professional administration of the pooled funds.

We believe it is very important that a greater number of smaller organisations are able to access this funding for the following reasons:

- Smaller organisations often have closer ties to local communities and stronger relationships with vulnerable householders, in particular specific communities or sectors of the population that may be hard to reach with existing advice and support;
- It will enable organisations with innovative approaches to delivering advice and support to energy consumers to access funding to take their programmes forward;
- More organisations working with the public on energy embeds the issue in the fabric of society – ie, the more people are doing it, the better.

We also believe that this is energy consumers' money and that it ought to be spent in a way that is accountable and transparent.

Ofgem's objectives for spending redress funding rightly focus on direct help to consumers. Future Climate suggest these objectives could be slightly broadened to allow a small proportion of the budget to be spent on practical research and innovation into HOW to assist vulnerable and hard-to-reach energy consumers, who are currently failing to access the affordable energy they need. For

example, one way this could be delivered is by directing a ring-fenced, small proportion of funding to existing funders of fuel poverty research such as eaga Charitable Trust.

Response to consultation questions

Question 1: Do you agree with our objectives for the allocation of voluntary redress? If not, please explain why.

Yes, we support the objectives as proposed.

Question 2: Are there any additional objectives or criteria we should consider when making a decision on our forward approach to voluntary redress? Are there things our approach should definitely include or absolutely avoid?

We suggest that an additional objective should relate to “identifying how best to reach and support energy customers, particularly vulnerable customers.”

Energy market and energy technologies are complicated and rapidly evolving. The people who lose out most from a poorly-functioning energy market are often those that are hardest to reach. For those reasons the provision of effective energy advice and support is not a straightforward task. If Ofgem’s objective from voluntary redress funding is to “maximise long term benefits for energy consumers”, some funding should go to finding new ways of helping consumers, through practical research, innovation studies and early-stage pilots of new approaches. There is currently very limited funding available for this sort of practical research. For example, one way that this objective could be fulfilled is by directing a very small proportion of redress funding to existing funders of fuel poverty research such as eaga Charitable Trust.

While it should probably not be a formal objective, we also suggest that Ofgem should have in mind capacity building of the voluntary/third sector working with the public on energy issues. With cuts to most government and local authority funding programmes in this area in recent years, many charities and NGOs working on energy issues are struggling. It is in energy consumers’ long term interests that they have third sector help. By creating a new, stable and effective funding source that is open to smaller organisations, Ofgem can tackle this issue. Such a funding source could also be administered in a way that helps to grow capacity of organisations (eg by helping them with professional monitoring).

Question 3: What are your views on ‘Option 1: Current process with enhanced principles’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?

We do not support Option 1. While we recognise that it is proposed that Option 1 would require energy suppliers to open up voluntary redress funding for open bidding, we suggest that energy suppliers are not best placed to be running effective, professional assessment processes of bids from organisations or charities. Similarly, Ofgem may not be best placed to regulate those processes. We also share the concern raised in the consultation that there would be tension between the need to run an open bidding process and the need for rapid settlement of voluntary redress plans.

Further, as you suggest in discussing Option 2, there are practical problems with suppliers disbursing smaller amounts of funds over a period which is what is required if smaller charities are to benefit from the funding (see Q8 below). This would require new capacity and skills on their part and would make the monitoring complicated – have they spent the redress funds or not? It is far better for

them to hand over the funds to a professionally constituted administrative organisation that can provide a stable funding framework.

Question 4: What are your views on the possible additional principles outlined in ‘Option 1: Current process with enhanced principles’? Are there further additional principles that would help meet our objectives?

We do not support Option 1. However, if Option 1 is pursued, we suggest that suppliers should be required to offer some additional support for practical research, innovation studies and early-stage pilots of new approaches to delivering support to energy customers, in line with our proposed additional objective explained at question 2.

Question 5: What are your views on ‘Option 2: Responsibility given to a third party with appropriate expertise’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?

We support Option 2 and suggest Ofgem’s focus in setting up the system should be in creating a long term stable framework for providing funding that can build the capacity of the energy advice and support sector - which is in the best long term interest of energy consumers.

Question 6: How should the costs of the third party associated with allocating redress be funded?

No view

Question 7: Should the company that made the redress payment have an input into the approval of recipients under this option?

We do not oppose the company that made the redress payment having input and believe that this will help create a more socially responsible attitude among energy suppliers.

Question 8: How can we ensure that smaller potential recipients can bid and are not disadvantaged compared to larger potential recipients?

We suggest Ofgem should speak to Smart Energy GB and perhaps the National Lottery about how best to administer these funds.

Funding needs to be managed through a stable, ongoing, professionally administered framework, rather than through disbursement of large ad-hoc grants.

Grant procedures need to be simple and clear with support available to help applicants make their application.

There should be flexibility about the types of organisations that can apply – registered charities obviously, but also community organisations, not-for-profit companies or even for-profit companies that can demonstrate their work is of effective value.

There should not be onerous compliance rules around (eg) length of time the organisation has been established or paperwork to demonstrate financial and organisational systems required (or at least there should be a small grants programme where such rules are kept to a minimum).

Funding rules should be flexible, not overly proscriptive and open to innovative approaches.

Prompt payment of grants should be standard, with flexibility about how charities can draw down the funding.

There should be a focus on capacity building – eg, by supporting organisations with developing monitoring systems.

Question 9: What are your views on this ‘Variation on Option 2 – Voluntary redress payments go to a charitable trust set up by Ofgem’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider, particularly in relation to the DAF provider model set out above?

We would be happy with this proposal. Please note our response to Question 8 about how such an approach needs to meet the needs of smaller organisations.

Question 10: How should the costs of running a charitable trust set up by Ofgem be funded?

No view

Question 11: What are your views of the idea of using part of voluntary redress payments to support specific schemes? What are the advantages, disadvantages, risks or costs relating to this idea? What existing schemes could be considered under this approach

In line with our answer to Question 2, we suggest some funding should be allocated to the existing funders of fuel poverty research such as eaga Charitable Trust. Funding for fuel poverty research is heavily oversubscribed at present, creating risk for the sector if it is unable to research, monitor, evaluate and learn from its activities.

Question 12: Which of the options in this consultation do you think should be used and why?

We support Option 2 – see our responses to questions 3,5 and 8 above.