



Making a positive difference
for energy consumers

Home and Local Energy
Department for Business, Energy & Industrial Strategy
Orchard 1, 6th floor
1 Victoria Street
London
SW1H 0ET

Email: whd@ofgem.gov.uk

Date: 25 April 2018

Dear Sir/Madam,

Ofgem's response to [Warm Home Discount Scheme 2018 to 2019 - Consultation](#)

Ofgem is the GB energy regulator and a non-ministerial government department. Our principal aim is to protect the interests of current and future energy consumers and energy efficiency is central to this aim. Energy efficiency has many benefits including reducing carbon emissions, reducing the cost of moving to a low carbon energy system, reducing consumers' energy bills, and in particular helping to bring vulnerable consumers out of fuel poverty.

We welcome the opportunity to respond to the BEIS consultation on changes to the Warm Home Discount Scheme for winter 2018 to 2019. We have provided responses to all questions that relate to our administration of WHD and Ofgem's interests more widely.

Ofgem looks forward to continuing to work with the Department for Business Energy & Industrial Strategy (BEIS) to build on the success so far in moving to a cleaner, greener energy system. We see improved energy efficiency as a central pillar of this. Should you wish to get in touch with us please do so by emailing whd@ofgem.gov.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read "David Fletcher". The signature is stylized with a large loop and a long horizontal stroke extending to the right.

David Fletcher
Associate Director, Energy Efficiency and Social Programmes

WHD consultation response

Consultation Questions

1.	Do you agree that the cap on Industry Initiatives spending should increase from £30 million to £40 million in 2018/19?
	<p>We do not have a strong view on this.</p> <p>These proposals may have an impact on the administration of the scheme. If the cap on Industry Initiatives spending increases from £30 million to £40 million for the 2018/2019 WHD scheme there would be added flexibility for suppliers to increase spend on industry initiatives to meet their obligation. In previous scheme years suppliers have used industry initiatives to help manage their obligations and so compliance with the scheme. This flexibility may be particularly beneficial for newly obligated suppliers that are unfamiliar with the scheme.</p> <p>However, there is a possibility that as a result of the proposed increase in Industry Initiatives spending we will receive increased notifications for a number of small industry initiatives, which may attract higher overall overheads and therefore represent less value for money for their beneficiaries. They additionally increase our administrative costs for the scheme.</p> <p>We recognise that larger multi-supplier schemes generally have better economies of scale, and therefore represent the best value for time and money for, suppliers and third parties, as well as us as the administrator.</p> <p>This could be achieved by having a minimum percentage spend limit on industry initiatives.</p> <p>Given the potential downsides to small industry initiatives, irrespective of any decision to increase the cap we intend to continue with the current cap of £300k/pilot scheme. We believe this provides the best scenario to balance innovation whilst ensuring value for money.</p>
2.	Do you agree that a Local Authority declaration under ECO Flexible eligibility should count as evidence that a household is “wholly or mainly” in fuel poverty and therefore would be eligible for support under Industry Initiatives?
	<p>We do not have a strong view on this. However, this proposal may affect our administration of the scheme.</p> <p>As the administrator of ECO, the use of a Local Authority (LA) declaration under ECO flexible eligibility to evidence eligibility for support under Industry Initiatives would not have a significant effect on our administration of the scheme. This is because we are not required to carry out checks into whether the methodology that is used by a LA to determine if a property meets the criteria is robust. However, we would like clarity regarding de-duplication and prevention of cross-counting of funding across the ECO and WHD schemes. We will continue to develop and implement any necessary checks to ensure the local authority declaration evidence is being applied as intended.</p>

Finally, we would suggest this could be acceptable as one of the optional criteria listed under the Broader Group, provided it was compliant with the GDPR regulations that are due to come into force in May.

3.	Do you agree that the cap on debt write-off should reduce from £12 million to £10 million in 2018/19?
	We do not have a strong view on this. This proposal does not affect our administration of the scheme.
4.	Do you agree that the cap on debt write-off should continue to reduce by 5% in each subsequent scheme year?
	<p>We do not have a strong view. This proposal does not affect our administration of the scheme.</p> <p>We suggest that for consistency, the reduction of the cap on debt write-off should either be expressed in percentage reduction or total cash amounts. We would also welcome clarification that this proposal refers to 5% of the Industry Initiative cap rather than 5% of the debt limit.</p>
5.	Do you agree that Government should expand the list of activities allowed under Industry Initiatives to include the provision of financial assistance with energy bills, including rebates, to households that are particularly at risk of fuel poverty?
	<p>Implementation of this proposal will affect our administration of the scheme.</p> <p>While we understand and appreciate the policy intent behind this proposed amendment to the scheme, the current lack of detail raises administration questions for us. For example, we can anticipate targeting and the need to provide evidence of targeting will add complexity to scheme administration for Ofgem, the obligated suppliers and third-party participants or delivery bodies.</p> <p>Although it is clear that this proposal is not intended to repay energy debt, in practice this may prove difficult to differentiate and evidence as a separate activity.</p> <p>Given it is proposed that the activity is to be implemented through Industry Initiatives, suppliers may, in fact, deliver support to customers of other suppliers, including those who would have met Core Group or Broader Group eligibility criteria but are supplied by non-obligated licence holders. As such, it may unfairly discriminate against these potential recipients of WHD support by excluding consumers who would have been eligible for those rebates were their supplier an obligated party.</p> <p>There is no mention in the consultation document of linkage between this proposal and that of using Local Authority declarations under ECO Flexible Eligibility but there appears to be overlap.</p> <p>Given these issues and the possible difficulty in assessing compliance, we will need to give careful consideration to development and provision of guidance on this proposed amendment should it be included in the future scheme.</p>

6.	<p>Do you agree that spending on the provision of financial assistance with energy bills should be capped at £5m, or 12.5%, of industry initiatives spending? If you think an alternative cap should be set, please provide your reasons.</p>
	<p>We do not have a strong view. This proposal will have minimal impact on our administration of the scheme.</p> <p>From our view as scheme administrator, it is the cap itself that requires additional oversight in terms of assessment and compliance and not the size of it. However, there may be value in aligning the size of the cap to that of debt relief for ease and simplicity of administration for both Ofgem and the energy suppliers.</p> <p>This might depend, though, on government's view of the future of this element of scheme. If it wants "to ensure this new activity does not take over Industry Initiatives funding", i.e., reduce it over time, then that consideration may override any alignment with debt relief assistance.</p> <p>However, the proposed cap should not present difficulties in guidance development or compliance assessment.</p>
7.	<p>Do you agree that financial assistance with energy bills per household should be equivalent to the amount of the WHD rebate (£140)?</p>
	<p>We do not have a strong view. This proposal does not affect our administration of the scheme.</p> <p>If the size of the financial assistance per household is not limited, we would encourage BEIS to set parameters outlining minimum and maximum levels of financial assistance.</p>
8.	<p>Do you agree that Government should issue Regulations covering the scheme until 2020/2021 with the proposed review clauses?</p>
	<p>We agree with the proposal that the Government should issue Regulations covering the scheme until 2020/2021 with the proposed review clauses.</p> <p>This proposal has significant administrative benefits, as we will be able to approve multi-year Industry Initiative schemes, which significantly reduces the administrative resource needed to assess notifications of Industry Initiatives. There would also be a reduction in administrative resource for the Broader Group approval process, as we would be able to approve Broader Group criteria for multiple years, as opposed to currently every scheme year.</p>
9.	<p>Do you agree that the Core Group eligibility criteria should be retained in 2018/19 for those people in receipt of Pension Credit Guarantee Credit?</p>
	<p>Yes, given the implementation timetable of the regulations for 2018/19.</p>
10.	<p>Should the Government consider further reform to the Core Group eligibility in future?</p>
	<p>Yes, especially given the potential powers under the Digital Economy Act that may facilitate alternative targeting of the Core Group.</p>

11.	<p>Do you agree that we should amend the Broader Group standard criteria to include UC recipients in work or self-employed with monthly net earnings not exceeding £1,349, and maintain the other qualifying criteria (i.e. in receipt a limited capability for work element, or a disabled child element, or parental responsibility for a child under the age of 5)?</p>
	<p>Yes. Implementation of this proposal will help to reduce the administrative burden across stakeholders.</p> <p>Closer alignment of the eligibility criteria in the future ECO and WHD schemes will ease scheme administration for both Ofgem and obligated suppliers, and promotes understanding across the supply chain.</p>
12.	<p>Do you agree that we should amend the Broader Group standard criteria for 2018/19 to include ESA recipients who are in a Work-Related Activity Group, and UC recipients in the Limited Capability for Work (LCW) group?</p>
	<p>Please see our response to Question 11.</p>
13.	<p>Do you agree that the standard criteria for the Broader Group cover the right benefits and take the right approach across the benefits covered, but with the potential for reform from 2019/20?</p>
	<p>Please see our response to Question 11.</p>
14.	<p>Do you agree that the value of the rebate should be £140 in 2018/19?</p>
	<p>We do not have a strong view. This proposal will have minimal impact on our administration of the scheme.</p> <p>The amount of the rebate has minimal impact on our administration of the scheme. However any change to the rebate would need to be considered in our administrative processes.</p>
15.	<p>Do you agree with the current supplier obligation threshold?</p>
	<p>Any change to the supplier obligation threshold would have an impact on our administration of the scheme.</p> <p>Assuming that the threshold would be decreased there would be an increase in the number of suppliers obligated on the scheme.</p> <p>We recognise that this may allow more consumers to receive WHD benefits but given the scheme timings, lowering the threshold at this point could bring in several new suppliers who would not have long to set up and run the scheme. This increases their risk of non-compliance. Whilst this could be partially mitigated if the scheme year was extended, their ability to deliver in time for winter would be hindered.</p> <p>Additionally, our experience is that newly obligated suppliers require greater amounts of assistance than those who have been obligated for some time, and as such increases our administrative burden.</p>

	<p>If the government wishes to increase supplier participation our suggested approach would be to lower the threshold for participation in the Core Group alone, but leave the obligation threshold for Broader Group and Industry Initiatives elements at the current levels. This would introduce more suppliers to the scheme helping to spread out the costs more evenly and may also reduce the barrier to switching for consumers.</p> <p>A phased participation would help to reduce the apparent cliff edge of responsibility that crossing the current threshold creates. By reducing the administrative effort that these newly obligated suppliers would need to make it will likely lead to less complications in meeting their obligations as well as reduce their administrative costs. This will also reduce the burden on us as the administrator.</p>
16.	<p>How do you think we should deal with the circumstances described above in order to provide a quality, fair service to households?</p>
	<p>We have some concerns over this proposal.</p> <p>From an administrative perspective, we require further clarification on this proposal. In particular, we would ask BEIS to provide a detailed explanation on how this is incorporated into the Core Group Reconciliation mechanism, as effectively the rebates will be paid for by currently obligated suppliers. In addition, any such changes are likely to bring an increased administrative burden.</p>
17.	<p>Do you agree that the 2018/19 scheme year should end in March 2019?</p>
	<p>We do not have a strong view on this proposal, however experience tells us this places administrative pressure on newly-obligated suppliers, especially if the regulations are not in force until September.</p>
18.	<p>Do you agree that if suppliers spent up to 5% more than their non-core obligation in Scheme year 7 of the scheme, then their non-core obligation should be reduced by a corresponding amount in 2018/19?</p>
	<p>We agree with this proposal. Administratively this is consistent with previous years.</p>
19.	<p>Do you foresee any issues or risks associated with allowing suppliers to start Industry Initiative activities before the regulations are in place?</p>
	<p>Yes, we see some risks with this proposal.</p> <p>Industry Initiatives are more complex to ensure they are in line with the underpinning legislation compared to the core or broader group rebates. Established industry initiatives should be able to continue, provided they take note of any findings from audit/compliance activity undertaken as part of SY7.</p> <p>There are often innovative initiatives which bring their own set of challenges. Without regulations in place the basic framework underpinning these initiatives, there may be occasions where the spend committed by suppliers may not subsequently be deemed eligible. Whilst we can mitigate this to some degree through early discussion prior to delivery of anything new/novel, it does not remove it entirely.</p>

20.	Do you agree that the deadline for suppliers to submit a request to Ofgem to transfer some of their non-core obligation to Industry Initiatives is set to three and a half months before the end of the scheme year?
	We agree with this proposal. From an administration perspective, the flexibility this provides is beneficial.
21.	Do you agree that any undelivered rebates in scheme year 7 should be added to a suppliers' non-core obligation in 2018/19?
	Under normal circumstances the simple solution of adding undelivered rebates to the supplier's non-core obligation in 2018/19 makes sense. However, it is unclear what happens to these undelivered rebates if the supplier is no longer obligated in the following year.
22.	Do you agree the timeframe for Ofgem to respond to notifications should be amended from 28 calendar days to 20 working days?
	We agree with this proposal. For administration purposes, this is a lot simpler for Ofgem. Although, if the number of obligated suppliers were to increase due to threshold changes, we may require additional resource to meet the reduced timeframe as notifications are often submitted in batches at the same time.
23.	Do you have any other comments you would like to provide?
	Specified activities do not appear to have been used, and suppliers have a mechanism for innovation through our use of "pilot" industry initiatives. Can Specified Activities be removed?