



Making a positive difference
for energy consumers

Energy licensees, consumer groups, third sector organisations and other interested parties

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Date: 30 November 2016

Dear stakeholders

Decision on allocation of voluntary redress in the context of enforcement cases

This letter explains the decision Ofgem has recently taken on how best to allocate voluntary redress payments that energy companies pay to charitable bodies in lieu of a penalty following wrong-doing or a failure which impacts consumers negatively. We have decided that we will procure an independent third party organisation to manage and allocate these funds to charitable organisations. This is an important decision given the potential for consumers across Great Britain to benefit from support provided by organisations funded by this money. Nearly £20 million was delivered during the financial year 2015-16 alone as a result of compliance and enforcement investigations.

Between June and August this year we consulted on options to improve allocating voluntary redress in the context of enforcement investigations conducted using our Gas and Electricity Act powers. We did this consultation because although the existing framework was working well, we wanted to review the allocation process to determine if we could make it even better to maximise the long-term consumer benefit for energy consumers. We sought views from stakeholders on improvements to the allocation process, and after considering them along with information from our stakeholder engagement, we made our decision.

We expect that having a third party to manage and allocate funds will make sure that funding is well targeted. This is the best way to maximise the long-term positive impact of voluntary redress payments for energy consumers across Great Britain, and in particular consumers in vulnerable circumstances. We intend to procure an independent third party with expertise in the charitable sector, fund management and fund allocation. This party will be responsible for assessing bids from organisations to use redress funding, awarding funds to successful bids and monitoring how they are used.

Consultation responses

We engaged extensively with charitable bodies, public bodies and consumer groups to make our decision. It is also supported by the responses we received to our consultation. The majority of the 76 responses¹ received favoured the appointment of a third party to

¹ The non-confidential responses to the consultation are published on our website at <https://www.ofgem.gov.uk/publications-and-updates/allocation-voluntary-redress-payments-context-enforcement-cases>.

manage and allocate redress funds. Only a small minority (22%) favoured the other options presented in the consultation document.

Key themes that emerged from the consultation included:

- the importance of thorough planning and development for redress schemes
- allowing organisations of all sizes to access redress funds
- ensuring there is a proportionate geographic spread of redress funds throughout Great Britain
- that Ofgem continues to link at least some of the redress funding to the harm to consumers identified in enforcement investigations
- that a variety of schemes, including innovative projects, receive funding.

Several responses were from local authorities. They expressed the view that they should be allowed to apply for funding as they are well placed and experienced in delivering energy schemes that benefit consumers in vulnerable circumstances. We'll consider this when we design the future redress allocation process.

Our December 2015 open letter, *Guidance on the allocation of voluntary redress payments*², outlined that a company under investigation "should not gain benefit, financial or other, from voluntary redress". In keeping with this principle we have decided that charities or trusts established by a licensee and/or whose name includes, or is similar to, the name of the licensee, will be precluded from bidding for redress funds, both in the interim period and under the future allocation process.

Next steps

We will initiate an open procurement process in early 2017 to choose an appropriate third party. We plan to announce the result in summer 2017.

We are aware that there are risks associated with the allocation of potentially significant sums of money. That is why we are preparing to run an open and robust procurement process and are already thinking about what the third party will have to deliver so that we get the best outcome for energy consumers.

In the interim period our *Guidance on the allocation of voluntary redress payments*, subject to the exclusion of charities or trusts established by a licensee, will continue to apply to the allocation process.

If you would like to discuss the content of this letter, please contact us at Redress@ofgem.gov.uk.

Yours sincerely,

Pamela Taylor
Partner, Compliance and Enforcement

² See our December 2015 open letter at <https://www.ofgem.gov.uk/publications-and-updates/open-letter-guidance-allocation-voluntary-redress-payments>.