

Response of Eaga Charitable Trust to Ofgem consultation on spending of energy suppliers' voluntary redress money

22 August 2016

This is our response to Ofgem's consultation on "Allocation of voluntary redress payments in the context of Enforcement cases".

The term "voluntary redress" refers to payments made by energy suppliers direct to charities, trusts or organisations instead of paying penalties to HM Treasury when they (the suppliers) fail to comply with Ofgem rules regulating the consumer energy market.

The Eaga Charitable Trust grant-funds research into the causes of fuel poverty in the UK, funding seminal work in areas such as hard to treat homes, rural fuel poverty and the links between health and fuel poverty. Our research has contributed knowledge and solutions which are making a difference to people's lives in households all over the UK. Examples of such impactful research include:

- Three short animated stories showing examples of people saving energy at home;
- Finding that far more children live in bad housing at some stage than single-year surveys suggest: 4% of all children, but 19% of children in private-rented accommodation, persistently live in inadequately heated housing;
- On the back of an Eaga Charitable Trust-funded project on insulating heritage properties, an award-winning demonstration project was established in Edinburgh's Old Town, a World Heritage Site where many residents were at severe risk of fuel poverty. The demonstration project installed solar water heating systems. The grant-holder went on to develop and trial guidance on using solar photovoltaic (PV) systems to help tenants maximise their financial benefits to alleviate fuel poverty;
- An examination of how different groups bear the costs of the transition to a low carbon economy, using a method to assess the distributional effects now used by DECC;
- An investigation of the relationship between disability and fuel poverty, with recommendations to alleviate any negative and unintended consequences of policy changes; and
- Development of a new tool for assessing high cost, low income households in accordance with Professor Hills' recommended measure of fuel poverty in order to identify households in fuel poverty.

Our 2016 grants programme is built around themes of health and wellbeing, policies & energy systems, low-carbon policies, behaviours & practices and rural communities.

The consultation proposes more transparent administration and regulation of how voluntary redress money – tens of millions of pounds a year - is spent. In particular, Ofgem proposes to open up access to this funding to a much wider range of organisations working with the public on energy issues, by requiring suppliers to transfer redress payments to an administrator and then setting up an open bidding process for the funding.

We support Ofgem’s proposal for an open bidding process for this funding and believe 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 more organisations, including 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; and
- If there are more organisations working with the public on energy matters, especially matters revolving around fuel poverty, this will have the effect of embedding the issue in the fabric of society.

In addition, we agree with the thrust of the consultation that this is energy consumers’ money and that it ought to be spent in ways that are accountable and transparent.

Ofgem’s objectives for spending redress funding rightly focus on direct help to consumers. We suggest that these objectives should be broadened to allow a 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 not accessing affordable energy they need.

For example, one way this could be delivered is by directing a ring-fenced, small proportion of funding to ourselves, Eaga Charitable Trust. Our Trust is widely recognised as the premier funder of research in the field of fuel poverty both nationally and internationally, and our research has repeatedly provided a valuable evidence base for policy-makers and practitioners. As the only remaining grant-giving trust that is dedicated to supporting fuel poverty research, we combine research, policy and practice in a unique manner.

We would urge Ofgem not to accept a modified version of the status quo. In the main the suppliers to whom redress payments have applied so far have not been effective in meeting Ofgem’s objectives – and to date the suppliers’ actions on this have not been sufficiently transparent and open to scrutiny. We have not found energy companies to be amenable to our argument that research represents an important component in the delivery of solutions to entrenched fuel poverty problems. It is important that Ofgem sets a framework in which research is seen to be part of the solution.

The following are our responses to the 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.”

As research we have funded over the past two decades shows, energy market and energy technologies are complex and subject to frequent and sometimes unforeseen changes in economic, environmental and political contexts. Technological developments can be rapid and hugely significant. The people who lose out most from a poorly-functioning energy market are often those who are fuel poor to begin with, including those in isolated locations or otherwise hard to reach. What research findings have taught us is that this makes the provision of effective energy advice and support very challenging for front-line support services. If Ofgem’s main objective is for the voluntary redress funding to “maximise long term benefits for energy consumers”, then some funding should go towards finding new ways of helping consumers. Ways to help include through practical applied research, innovation and implementation science studies and early-stage pilots of new approaches. These are all areas where Eaga Charitable Trust can make a difference – as our track record to date demonstrates. There is currently very limited funding available for this sort of practical research and our own resources are modest and far from limitless.

Ofgem ought also to consider the importance of capacity-building within the voluntary/third sector where much of this immensely important energy advice and support service is delivered. Local authority funding has been massively reduced by central government and this in turn has caused local authorities to cut back on its funding of local organisations providing this service. Many charitable and other not-for-profit organisations working on energy issues are struggling and some have had to close down and leave the scene. This can only be detrimental to energy consumers’ long-term interests. By creating a new stable and effective funding source that is open to smaller, more local, organisations, Ofgem would be contributing to the maintenance of a network of providers of support services to fuel poor households and vulnerable individuals and families. The administration of such a funding source could also help to grow capacity of organisations in terms of their expertise and reach, for example with access to training, networks and available evidence.

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.

We recognise that Option 1 would require energy suppliers to open up voluntary redress funding to open bidding, but we suggest that energy suppliers are not best placed to be running effective, professional assessment processes of bids from organisations or charities. We do little else and we offer a low-cost, speedy and effective way of assessing bids and administering them in the research arena – we would expect that other small organisations have similar expertise in other relevant energy arenas.

Ofgem may not be best placed to regulate these processes and we 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 Ofgem suggests 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 that 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. We strongly suggest that this 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?

We have no view on this matter, and would be content to leave this to Ofgem to determine.

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?

Funding needs to be managed through a stable, ongoing, professionally administered framework, rather than through disbursement of large ad-hoc grants. We believe that organisations like Smart Energy GB would be well placed to advise on best ways of achieving this.

From our experience of managing grant procedures over more than 20 years, we can say that grant procedures need to be, and can and should be, simple and clear, with support available to help applicants make their applications.

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.

Procedures and compliance requirements should be proportionate and ought not to be so complex as to deter applicants. Flexibility in funding rules and supportive payment schedules would also be helpful features.

It would also be welcome if Ofgem were specifically to focus on capacity-building, for example by supporting organisations meet energy sector standards of training, networking and use of evidence.

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?

This would be an acceptable way of proceeding.

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?

We have no view on this matter, and would be content to leave this to Ofgem to determine.

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 ourselves, Eaga Charitable Trust. This is most effective way to ensure that there is dedicated research in the energy sector on issues relating to fuel poverty and related issues of health and wellbeing, vulnerability and hard to reach households. We can definitely help with commissioning research into new and innovative approaches to tackling fuel poverty but currently our resources are low and dwindling whereas our grant rounds are always heavily oversubscribed.