

## Ofgem – Allocation of voluntary redress payments in the context of enforcement cases - response

Organisation: Lancashire Energy Officers Group

**Q 1.**

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

Yes in principle, but we would like to see a broader scope beyond just advice etc. Many of the vulnerable households who have experienced harm caused by a breach lack basic heating and/or the means to pay for it, advice alone will not change that. There is a lack of convincing evidence that those most in need are being accessed by the existing method.

If Local Authorities could bid directly alongside charitable organisations for funds, they could use them to assist those households currently held on LA lists of “vulnerable households”, not all of whom will be on benefits or known to existing agencies. This would help achieve the primary objective *‘maximise long term benefits for energy consumers by ensuring that funding is well targeted’*.

The money would need to be correctly allocated and used in the appropriate context by a third sector organisation. The use of monitoring and reporting on how the resource is used is also an important element.

**Q 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?**

There needs to be careful consideration on the use of redress compared to enforcement action. More assessment on the impact of enforcement compared to voluntary payments.

It would appear that enforcement activity has reduced whilst redress has significantly increased. It would appear that redress is the preferred option to utility companies and OFGEM. However the impact of negative publicity on the utility company cannot be underestimated. It depends how OFGEM want to regulate the sector and strike a balance between lengthy legal cases and “out of court” payments.

**Q 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?**

This risks funds being allocated to recipients who may not be best placed to deliver effectively. Also if the supplier is to ‘bear the brunt’ of the costs, there is a likelihood that these costs will be passed on to consumers.

**Q4**

**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?**

The additional principles would help improve the current process, especially regarding precluding charities or trusts associated with the company under investigation. However, the process as a whole lacks transparency and has a feeling of ‘self-interest’. This does not encourage trust in the sector and our feeling the whole process should be divorced from the organisations that carried out the breach.

## Q5

**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?**

This seems to be a fairer option offering a more independent allocation process. The importance of appropriate expertise in assessing bids to allocate funding where it will maximise impact cannot be understated. However the third party organisation must be completely independent to achieve this. There is a risk of delays in decision making, however, if the decisions are fairer in the long run on balance this may be still be a better option than the current process or Option 1.

## Q6

**How should the costs of the third party associated with allocating redress be funded?**

As outlined in the consultation document, the third party could be funded by investments and/or interest on the 'yet-to-be-allocated money in the fund. It would be crucial to have enough expertise to oversee any investments to ensure good a return. If this does not completely cover all costs a percentage from the redress payments could make up the shortfall. Whilst this would reduce the amount of funding allocated and reduce resource to the recipients, it is still preferable to passing on costs to consumers.

## Q7

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

Yes.....

No.....X

The company is paying a financial redress for wrong doing within the market. It would not be appropriate for them to specify where and who should receive this payment. In addition this negates the impartial and independent status of the third party.

## Q8

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

This may be difficult to achieve. One possibility is to run 2 schemes. One scheme for larger recipients and a smaller scheme for small finance based on scope of delivery with the resource available to them. The larger scheme should have greater reporting and monitoring. And the smaller scheme should be easy to administer with only limited reporting to minimise the burden on limited resources.

Another option could be to predetermine a range of grant sizes (similar to how NEA do currently)

i.e. X number @ £10k, X number @ £100k, X number at £1mil etc .... Also provide regional allocations in fair measure to levels of fuel poverty.

However either possibility could impact on cost of funding the third party in administration.

## Q9

**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?**

As question 5. Would a new charitable trust set up by Ofgem have sufficient knowledge or expertise to fulfil the role? Also there are risks to time delays and administration costs.

What would be the need to set up a new charitable trust? It seems an unnecessary expense when there is an existing organisation competent to do this. NEA would be a trusted and knowledgeable organisation to fill this role under ‘Option2’.

## Q10

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

Is it possible that it should be paid for by Ofgem, as Ofgem are using the redress scheme as a method of reduced enforcement (and therefore cost saving in time and resource).

If costs came from the redress funding, this removes money that should be benefiting individuals affected and vulnerable households. This should be avoided as much as possible as is not what the intended use of fund.

## Q11

**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?**

This is a possible consideration, however, there needs to be a fair geographical split.

Schemes like BESN grants are small and not all organisations are able to match fund/subsidise, therefore smaller organisations are disadvantaged.

As question 8 schemes may require various grant sizes.

Promoting more partnership bids may be a way forward, e.g. Local Authority/Charities

## Q12

**Which of the options in this consultation should be used and why?**

Option 2: Responsibility given to a third party with appropriate expertise would be an independent option allowing more transparency which would promote a feeling of equity and fairness. This would also allow more flexibility in allocation. NEA would be a good candidate for the third party organisation; the expertise is already in place with committed members and it eliminates “re-inventing the wheel”

**Q 13**

**Should any other options be considered? If so, please provide an outline explanation of your suggested alternative option(s). Please also outline any associated benefits and costs with the alternative option(s).**

None