

Oxford City Council - Response to Ofgem consultation: Allocation of voluntary redress payments in the context of enforcement cases

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1) General comments

Oxford City Council is pleased to be offered the chance to respond in order to make the allocation of voluntary redress payments more transparent and equitable.

As the existing mechanism mainly allowed the energy companies considerable freedom to decide who to allocate funding to under voluntary redress, a change is clearly required. Clearly where the funding comes about due to their own wrongdoing, no positive publicity should be attributed to the charitable work as a result of it.

More transparency is needed over how grants are distributed and there needs to be a fair and equitable approach that is structured with guidance centrally.

Local authorities have a great deal to offer in terms of supporting vulnerable energy consumers and are often best placed to target them. Examples of excellent council schemes include affordable warmth advice and information provision and/or the installation of energy efficiency measures in vulnerable consumers' homes. Many excellent affordable warmth projects have been carried out by local authorities, but the increasing challenge they face is that there is inadequate funding available.

It is hoped that the new proposals will offer new project funding opportunities for local authorities. However, the consultation document is not clear at all about whether local authorities can receive any funding under the new proposals. Local authorities are not specifically mentioned anywhere. This is a major concern.

Ofgem's intention to introduce open bidding for voluntary redress funding is a very positive move, and local authorities would be pleased to be able to compete on a level playing field alongside other interested organisations. Therefore Oxford City Council strongly present that this should be made the case.

2) Responses to questions

Chapter 2: What we want to achieve

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

The consultation document does not provide a precise definition of which organisations will be able to receive voluntary redress funding. There are ambiguities throughout the document about this.

Lacking in this document is clarification that 'charities, trusts and organisations that help energy consumers' is used as standard, removing any reference to charities only. Ideally this would include local authorities for the reasons mentioned above. Local authorities should be given equal access to voluntary redress funding. Disappointingly there is not one single reference to local authorities throughout the entire document.

The objectives are supported if local authorities will be able to contribute to fulfilling them. They are not supported if local authorities are to be excluded.

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?

Firstly, any criteria needs to explicitly state that local authorities can bid for voluntary redress funding alongside other interested organisations. It should also:

- Give equal priority for funding to improve the energy efficiency of vulnerable consumers' homes. Whilst the provision of advice and information should also be supported, funding for insulation and heating measures would help to offset the reductions made under the Energy Company Obligation.
- Share information obtained through monitoring the delivery and value for money of funded projects widely.
- Include controls to manage how funding might be passed to subsidiary or associated organisations.
- Ensure mechanisms are in place to prevent charities already receiving excessive benefits from the funding to keep being re-funded.

Chapter 4: Overview of options

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?

This is not supported due to the fact that the decision about who to allocate funding to remains with the energy company. Recent experience shows this has not worked effectively and has also not enabled local authorities, who are well placed to do appropriate work, to benefit.

As with earlier parts of the document, the ambiguous descriptions used here leave the reader unclear if local authorities would even be considered for voluntary redress funding under Option 1. For example, one of the principles is that 'the number of charitable recipients should be proportionate to the size of the penalty', whilst the description of the open bidding principle says that the process will be 'accessible to applications from all suitable charities, trusts and organisations that help energy consumers'.

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?

Option 1 could only be supported if the following additional principle was applied:

The energy company will give equal consideration to bids submitted by local authorities, and will provide explicit evidence to Ofgem and all bidders to clearly justify the decision(s) made to allocate funding to a particular organisation in preference to others.

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?

Subject to local authorities being able to participate in all open bidding processes, Option 2 would be preferred. This also needs local authority bids to be given equal consideration by the third party and Ofgem.

It is preferred that the third party should assess the bids submitted and then propose funding allocations to Ofgem, with the final decision being made by Ofgem.

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

As discussed, where possible these should be covered through investment returns and interest earned, but be supplemented by payments from the energy companies that have been investigated.

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

No, the energy companies should definitely not have any influence over the choice of recipient. There are benefits to energy companies to be supporting good causes rather than just sending to the HM Treasury, even though they won't be able to choose the organisations involved.

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

Separate pots of money could be allocated, with each pot having a different maximum amount that can be awarded. It would make sense for there to be limitations on organisations' capacity/size to be aligned with these.

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?

Using an existing third party rather than establishing a new charitable trust would have more advantages and less limitations.

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

If a trust were to be established, the costs would have to be either met by Ofgem, the energy companies, or by using money that would otherwise be allocated to assist vulnerable customers. None of these seem palatable options.

Chapter 5: An additional consideration

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?

This idea is not supported. It will potentially replicate one of the worst features of the current approach to voluntary redress, preferential treatment of certain organisations over others. Fair and open competition in all cases for funding would be the best and fairest option.

Chapter 6: Overall view

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

Option 2 should be used as the bidding process will be much fairer than the existing approach. However local authorities should be able to participate and be given equal opportunity, energy companies should not influence allocation decisions. Also, unsuccessful bidders need clear reasons why other bids were preferred. Match funding should not be the reason some organisations are prioritised over others.

Question 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).

No other options are suggested.