

Warm Home Discount **Annual Report** **2015-16**

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November 2016



Foreword

I am pleased to present our fifth annual report on the Warm Home Discount (WHD) scheme. The report covers the support provided to vulnerable consumers through the WHD scheme from 1 April 2015 to 31 March 2016. We also explain how the scheme works to help vulnerable consumers with their energy bills. We then highlight the main achievements from the last year and take a look at some important changes to scheme activities brought in for 2016-17 and beyond.

The government has extended the scheme until at least March 2021, as a key part of the Fuel Poverty Strategy. Having reviewed the scheme delivery up to the end of scheme year (SY) 5, the Department for Business, Energy & Industrial Strategy (BEIS) introduced some changes to the regulations to further improve delivery to consumers and encourage more innovation in supporting customers in or at risk of fuel poverty.

Due to customers switching supplier to smaller companies, more suppliers are reaching the threshold to be full participants in the WHD scheme. In scheme year 5 Ovo Energy and Utilita Energy were obligated for the first time. We supported both to establish their new scheme activities and delivery processes. One example of this is the assistance provided to Ovo Energy to work with established scheme participants to deliver a joint-funded Industry Initiative. All obligated suppliers in 2015-16 complied with their spending obligations for the year.

We are pleased to report that together the participants met the overall scheme spending obligations for scheme year 5, providing over £320 million of support to vulnerable consumers including £140 rebates to nearly 2.2 million vulnerable consumers.

For 2016-17, one new supplier has passed the threshold for full participation, and I am delighted to note that for the first time, suppliers have voluntarily chosen to participate in the scheme to support their customers. These three volunteer suppliers bring the total number of scheme participants to 15 for scheme year 6. We are working to support these new suppliers in the same way as those who joined in SY5.

Reducing fuel poverty is a priority for the UK government and devolved administrations. We recognise the contribution that the WHD scheme makes to tackling fuel poverty in Great Britain so we are working to improve the scheme wherever we can. As we progress with the sixth year of the scheme, we look forward to working with policy-makers as they consider the future of the WHD and wider support for vulnerable consumers.

Additionally, given Industry Initiatives allow innovative ways of supporting consumers, we will continue to encourage suppliers to continue to investigate new ways to help through the scheme, such as the Mobile Homes support scheme described in this report.

Chris Poulton

Managing director, E-Serve

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Associated Documents

- The Warm Home Discount Regulations 2011 (as amended), the Warm Home Discount (Reconciliation) Regulations 2011, and the Disclosure of State Pension Credit Information (Warm Home Discount) Regulations
<http://www.legislation.gov.uk/all?title=warm%20home%20discount>
- The Warm Home Discount: Guidance for Suppliers (published 2 September 2016)
https://www.ofgem.gov.uk/system/files/docs/2016/09/final_whd_supplier_guidance_sy6.pdf
- The Warm Home Discount: Annual Report Scheme Year 4 (published 2 November 2015)
<https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-annual-report-scheme-year-4>
- Department of Energy & Climate Change (DECC), *Consultation on the Warm Home Discount* (published 2 December 2010)
<http://www.decc.gov.uk/assets/decc/Consultations/warm-home-discount/956-consultation-warm-home-discount.pdf>
- DECC, *Warm Home Discount Scheme 2016/17* (published 8 April 2016)
<https://www.gov.uk/government/consultations/warm-home-discount-scheme-201617>

Executive Summary

The Warm Home Discount Scheme requires participating domestic energy suppliers to provide support to those who are in or at risk of fuel poverty. The support may be direct, through rebates to eligible customers, or indirect, through support to third parties who help customers by offering them services to reduce fuel poverty and the associated impact.

The scheme has been running for over five years now, and our reports summarise the outcomes achieved each scheme year. We are publishing this report in discharge of our duty to keep under review the operation of the scheme, and suppliers' compliance with it¹. **This report covers the fifth year of the scheme - 1 April 2015 to 31 March 2016.**

During scheme year 5, obligated suppliers provided the budgeted £320m worth of eligible support to consumers in total, meeting each of their individual obligations. This comprised direct support through the Core Group and Broader Group, and indirect support through Industry Initiatives.

Low income pensioners received over 1.35m rebates through the Core Group, of £140 each. Nearly 95% of these rebates were provided to customers who were automatically identified through joint working by suppliers and the Department for Work and Pensions, without taking any action themselves.

Other customers who were on a low income and vulnerable to fuel poverty received over 836,000 rebates, also worth £140. These customers received their rebates by applying directly to their supplier and providing evidence that they were eligible for the rebate.

Suppliers funded around £14.7m of other Industry Initiative activities to support consumers, which provided services such as energy advice, help to reduce and manage energy debts, and helping consumers find additional benefits and sources of income to pay for their energy. For the first time, customers living in mobile homes and park homes could access similar support to those in traditional housing.

We found that all 11 of the obligated suppliers complied overall with the requirements of the WHD Regulations in the scheme year. We identified a few minor contraventions by suppliers, but these were limited to less than 0.2% of rebates provided. We are confident that consumers were not significantly affected and that each of these suppliers will comply with all future obligations.

The government has announced that the WHD scheme will continue until at least March 2021. The scheme is expected to evolve over this period to refine the targeting methods used to identify eligible customers and allow more innovation in the ways that suppliers can support their customers. In this report we look at the main outcomes from the past year, the changes to the scheme which took effect in the fifth year, and how the scheme has evolved for the sixth and seventh years.

¹ Section 13 of the Energy Act 2010.

1. Regulatory Context

Chapter overview

This chapter describes the background to the WHD scheme. It summarises the Regulations which underpin it, outlines the obligations set across participating suppliers and explains the structure and content of this report, including our reasons for producing it.

The Warm Home Discount (WHD) scheme

- 1.1. The Warm Home Discount (WHD) scheme requires obligated domestic energy suppliers to provide support to those who are in or at risk of fuel poverty. This support may be direct, through rebates to electricity accounts of eligible consumers, or indirect, through support to third parties who help consumers in or at risk of fuel poverty.
- 1.2. Originally, the scheme was intended to last for four years: 1 April 2011 to 31 March 2015. It was intended to provide support worth £1.13 billion across this period. The original period has now finished, but the Regulations were amended to extend the scheme to March 2018, with a budget of £320 million to be delivered in the fifth year. This report looks at the delivery of support to consumers by suppliers in scheme year (SY) 5: 1 April 2015 to 31 March 2016.
- 1.3. All energy companies with over 250,000 domestic customers are obligated to offer the WHD scheme to their customers, providing support to eligible consumers through the Core Group, Broader Group and Industry Initiatives. Each supplier's obligation is proportionate to their share of the total of all obligated parties domestic energy customers.
- 1.4. Suppliers with fewer than 250,000 customers may volunteer to participate in the scheme. Voluntary participants are only required to provide rebates through the Core Group. No suppliers volunteered in the fifth year of the scheme, however three suppliers have chosen to volunteer for the sixth year and we will report on their delivery in next year's report.
- 1.5. Customers of participating suppliers may be eligible for direct rebates on their electricity accounts if they receive certain Pension Guarantee credits (the Core Group) or by meeting eligibility criteria set by their supplier (the Broader Group). Their supplier must target customers in or at risk of fuel poverty – those who are on a low income and vulnerable to fuel poverty. Direct rebates accounted for more than 95.4% of the support provided by suppliers in SY5.
- 1.6. The remaining support – Industry Initiatives - was provided through indirect means to alleviate fuel poverty, such as advice on managing energy use, energy efficiency measures, and help to reduce energy debts. Again, this support was targeted at

consumers in or at risk of fuel poverty. Suppliers were responsible for delivering this support to customers, and had discretion about balancing between direct Broader Group rebates and indirect support, within certain limits set by the WHD Regulations.

Introduction of the WHD scheme

- 1.7. The WHD Regulations 2011 were introduced with effect from 1 April 2011. They set the thresholds for obligation under the scheme, a standard rebate value for Core and Broader Group customers, arrangements for phasing out the use of subsidised tariffs in favour of easy-to-understand rebates, and eligible activities to indirectly support customers with their energy bills.
- 1.8. The scheme has been implemented successfully over the five years so far. The WHD Regulations 2011 have been subject to amendments during the period as necessary, to ensure effective and continued delivery of the scheme. In summary, the amendments have:
 - Increased flexibility of non-Core spending in scheme years 3 and 4;
 - Initially extended the scheme to March 2016, introduced minimum mandatory eligibility criteria in the Broader Group, and new Industry Initiatives;
 - Further extended the scheme to March 2018, placed additional responsibility on suppliers to ensure customers receive their rebate, and introduced new powers for the Secretary of State to propose eligible activities to help fuel poor customers.

Roles and responsibilities

- 1.9. The Energy Act 2010 sets out that the Secretary of State may make regulations which introduce support schemes for reducing fuel poverty, this led to the creation of the WHD Regulations 2011 to establish the WHD scheme. The WHD scheme is an important part of the government's strategy for helping households in or at risk of fuel poverty, as it directly reduces eligible customers' energy bills.
- 1.10. As part of the WHD Regulations 2011, The Department for Business, Energy & Industrial Strategy (BEIS)² is responsible for WHD policy and legislation. BEIS set:
 - the overall scheme budget,
 - the methods for determining obligations placed on participating suppliers and
 - the types of support that can be attributed to a supplier's obligation in a scheme year.
- 1.11. Where the regulations have been amended during the life of the WHD scheme, BEIS was responsible for consulting on policy changes and delivering the amendments through parliament.

² Previously this responsibility was held by Department of Energy and Climate Change (DECC)

- 1.12. Throughout the scheme, BEIS has worked with the Department for Work and Pensions (DWP) to administer the delivery of the Core Group and provide the data matching service which identifies the majority of customers eligible to receive a Core Group rebate.
- 1.13. The WHD regulations give the Ofgem³ the task of delivering certain aspects of the scheme. This includes:
- administering the non-core elements of the scheme,
 - monitoring suppliers' compliance with their obligations in the Core and non-core elements.
- These duties are carried out by E-Serve, Ofgem's delivery arm. E-Serve administer a range of government environmental and social programmes, working with suppliers and stakeholders to get the best result for energy consumers.
- 1.14. Beyond our statutory duties, we support suppliers in delivering eligible support to customers through:
- engaging with new participants before their obligations begin,
 - facilitating discussions between all stakeholders throughout the scheme year,
 - identifying and sharing best practice through our monitoring of scheme progress and regular process audits.
- 1.15. The Energy Act 2010 puts Ofgem and E-Serve under a statutory duty to review the operation of the WHD scheme, as well as the participating suppliers' compliance with it. To achieve this, we prepare an annual report detailing suppliers' performance against their obligations, with an overall review of the outcomes achieved by the scheme as a whole.
- 1.16. This report is prepared to update the Secretary of State on supplier performance against obligations and to input to future policy development of the scheme by BEIS. The report also informs participating suppliers of the overall progress of the scheme and interested stakeholders of the outcomes achieved.
- 1.17. For Ofgem E-Serve, transparency is an important part of our statutory duties and a core governance principle to support the predictable, authoritative decision-making which is key to independent economic regulation. By publishing our reports on WHD externally, we adhere to the principle of transparency through providing clear, consistent, comparable and accessible information.
- 1.18. We prepare the report based on information submitted by suppliers in their end-of-year compliance reports for each scheme year that they participated in. We have reviewed these reports and supporting evidence. We have required suppliers' internal auditors to verify the reports' accuracy and have additionally conducted our own audits to provide additional verification.

³ The Energy Act (and other associated legislation) gives powers and responsibilities to the Gas and Electricity Markets Authority ("GEMA" or "the Authority"), whose day-to-day functions are performed by their office, Ofgem. In this document, the terms "GEMA", "the Authority" and "Ofgem" may be used interchangeably.

WHD scheme budget and obligations

- 1.19. The WHD Regulations 2011 set an overall target for each year of the scheme, to be shared among the participating suppliers for that year. The size of the Core Group is estimated by BEIS each year before the start of the scheme year, with the remaining obligation forming the non-core obligation.
- 1.20. The non-core obligation can be met through a combination of Broader Group and Industry Initiative spending. However the regulations place a maximum cap on the amount that could be spent on Industry Initiatives, which effectively creates a minimum obligation of Broader Group spend.
- 1.21. The scheme budget rises with inflation, so is maintained in real terms. Over the life of the scheme, the cap on Industry Initiative spending each year has remained consistent at £30m per year, and this will continue to scheme year 7. However, in scheme years 6 and 7, spending on writing off customer debt will be limited to encourage innovation in other types of support.
- 1.22. The development in scheme budget can be seen in this table:

	SY4	SY5	SY6	SY7
Overall non-core scheme year target	£144m	£128m	£143m	TBC
Overall scheme Industry Initiative limit	£30m	£30m	£30m	£30m
Overall scheme Industry Initiative debt write-off cap	N/A	N/A	£15m	£12m
Overall Broader Group minimum	£114m	£98m	£113m	TBC
Overall spending target	£310m	£320m	£323m	£329m
Core and Broader Group rebate value	£140	£140	£140	£140

- 1.23. In SY5, there were 11 participating suppliers in the WHD scheme. This has increased from six suppliers who participated in the first year of the scheme, as the domestic supply market has developed and additional suppliers have more than 250,000 customers. The participating suppliers are listed in Appendix 1.

Vulnerable customers

- 1.24. Ofgem's statutory duties to energy customers include a specific focus on vulnerable consumers. Ofgem has a Consumer Vulnerability Strategy that explains how we protect consumers in vulnerable situations and the success of the WHD scheme makes a key contribution to this strategy.

1.25. We have also published our Social Obligations report⁴ on supplier performance in 2015 on debt, disconnection, prepayment meters (PPMs) and services for consumers in vulnerable situations. Monitoring this performance, and seeking continuous improvement from suppliers in these areas, also feeds into our strategic goal to protect vulnerable consumers.

⁴ Domestic Suppliers' Social Obligations 2015 annual report
https://www.ofgem.gov.uk/system/files/docs/2016/10/social_obligations_report_2015.pdf

2. Compliance in Scheme Year 5

Chapter overview

This chapter presents the overall achievements of suppliers against their obligations in Scheme Year 5, explaining the obligations and what suppliers did to meet them. We also outline any areas of concern.

Our assessment of compliance with WHD regulations

- 2.1. Under the WHD scheme, participating suppliers in SY5 had an obligation across three elements of the scheme: Core Group, Broader Group and Industry Initiatives. In May 2016, suppliers each submitted a report summarising the support they had provided to consumers during SY5, which they intended to attribute to meeting their obligations.
- 2.2. The Core Group element is administered and targeted differently to the other elements (which are collectively known as the 'non-core' elements). Suppliers are obligated to provide rebates to all customers identified by the Secretary of State as meeting the eligibility criteria. A data matching exercise is used between suppliers and DWP so that suppliers can automatically provide rebates to these customers.
- 2.3. We assess whether suppliers have provided all Core Group rebates in line with the requirements of the WHD scheme, in order to determine that they comply with this part of the scheme.
- 2.4. The non-core elements, the Broader Group and Industry Initiatives, have a collective spending obligation for each supplier to provide a minimum value of eligible support to customers in or at risk of fuel poverty. Suppliers must provide a certain proportion of this support (about 77%) through the Broader Group rebates, and may choose whether to provide the remaining c.23% through additional Broader Group rebates or eligible Industry Initiatives, or a combination of both. Customers apply for these types of support direct to their supplier or to an organisation working with the suppliers.
- 2.5. We assess whether the support each supplier has provided can be attributed to the scheme and whether the combined value of their activities for the year is sufficient to meet their overall non-core spending obligation.
- 2.6. Having made these assessments, we make an overall determination of a supplier's compliance with the WHD scheme for the year, taking into account any minor infringements of the WHD Regulations 2011 and the impact these infringements may have had on customers.

- 2.7. Minor infringements indicate that the supplier has, in some cases, failed to comply with all of the requirements of the WHD Regulations 2011. These infringements relate to not providing support to a customer or customers in an efficient way. For each infringement, we checked that the customer had not been significantly affected, nor had the administration or delivery of the scheme been affected as a whole, and the supplier has resolved the issue within a reasonable timescale. If a supplier has kept the number of minor infringements reasonably low, we did not determine that the supplier was non-compliant overall.
- 2.8. We have assessed all supplier activities reported to us by suppliers relating to SY5. We then determined that all 11 of the participating suppliers in SY5 were compliant with their obligations, with a small number of minor contraventions.
- 2.9. Supplier compliance in SY5 is summarised in Figure 2.1 below:

Figure 2.1: Supplier compliance with Scheme Year 5 obligations

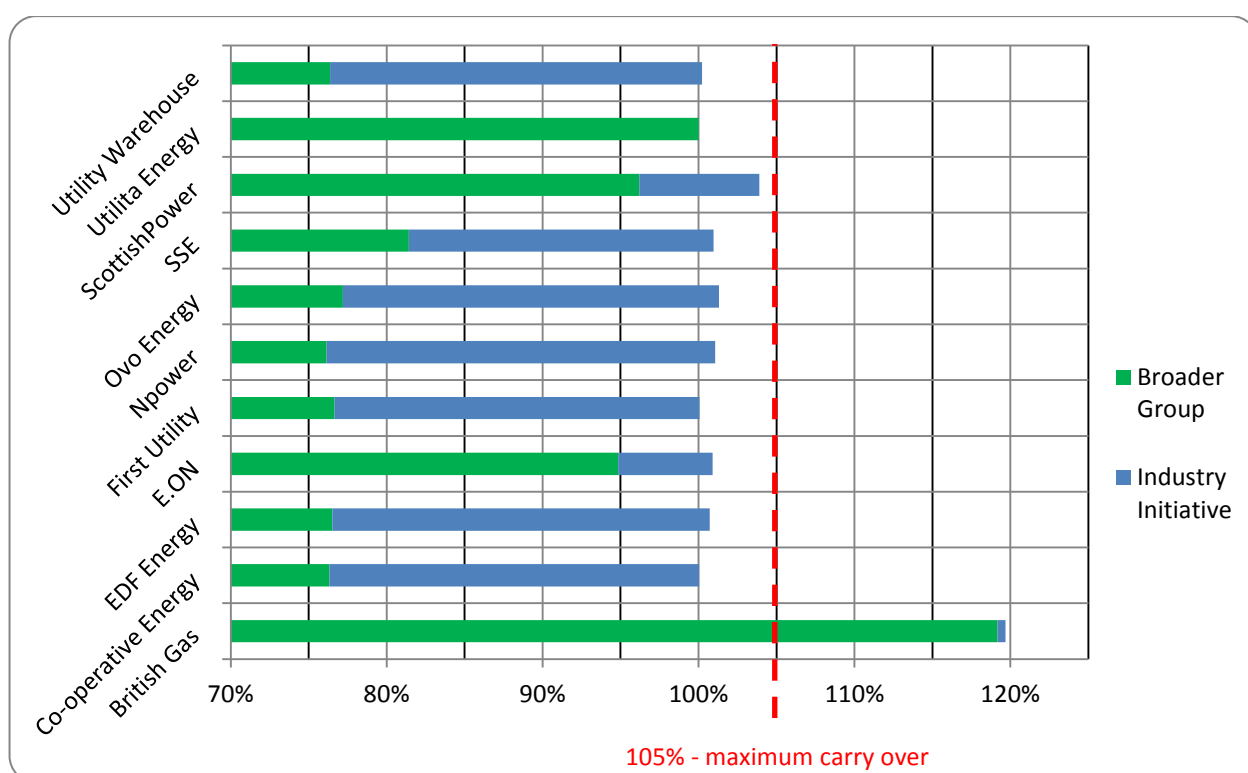
	Overall compliance	Core Group	Broader Group	Industry Initiatives
British Gas	Compliant	✓	✓	✓
Co-operative Energy	Compliant	✓	✓	✓
EDF Energy	Compliant	∅	✓	✓
E.ON	Compliant	✓	✓	✓
First Utility	Compliant	✓	✓	✓
Npower	Compliant	∅	✓	✓
Ovo	Compliant	✓	✓	✓
SSE	Compliant	✓	✓	✓
ScottishPower	Compliant	✓	✓	✓
Utilita	Compliant	✓	✓	N/A
Utility Warehouse	Compliant	✓	✓	✓

Key to symbols			
✓	∅	X	N/A
No infringements	Minor contraventions	Contravention	Did not deliver this element

Supplier spend against non-core spending obligations

2.10. Suppliers who exceeded their obligation are able to carry over part of their spending to SY6, where it will be attributed to the spending obligation that year. The amount a supplier can carry over is limited to 5% of the value of their obligation for SY5. All suppliers reported spend in SY5 which allowed them to carry over some eligible spend. We show supplier spend against their obligation, and how suppliers chose to split their spend between the non-core elements, in Figure 2.2 below:

Figure 2.2: Supplier spend against non-core spending obligations



2.11. We note that the amount that could be carried forward to SY6 was not decided until late in SY5, by which time most suppliers had already finalised their plans to support customers for the year, and therefore this may have affected decisions regarding whether to spend above obligations.

2.12. Despite this uncertainty and the limit on how much could be carried forward, British Gas chose to significantly exceed its obligations, and spent more than 5% over its obligation value in SY5. It has carried the maximum 5% to SY6. Our assessment indicated that the spend beyond this 5% maximum was effectively provided to those in or at risk of fuel poverty.

2.13. As noted earlier, each supplier had a maximum value of eligible Industry Initiatives which could be attributed to their non-core obligation. Suppliers split their spending between Broader Group and Industry Initiatives in many different ways, and the

figure above illustrates the proportion of each supplier's chosen spend. This ranged from exclusively focusing on Broader Group (Utilita Energy) to maximising the use of Industry Initiatives (eg Ovo Energy) alongside the Broader Group. Both approaches, and others in between, are acceptable under the regulations and show the flexibility of delivery models available to suppliers.

- 2.14. The WHD Regulations 2011 set specific requirements on how support through each element should be provided to customers. For the direct rebates of the Core Group and Broader Group, these requirements primarily related to the timing of rebate payments, how the rebates can be provided, and how customers are told they have received their rebate.
- 2.15. For Industry Initiatives, the WHD Regulations 2011 allow more variety in the activity funded, as long as suppliers carry out an eligible activity which is appropriately targeted and achieves reasonable value for money. This means there are fewer specific technical requirements of the activities.
- 2.16. In SY5, and across the whole period of the scheme, participating suppliers have met these requirements in the vast majority of cases, but we have found a small number of failures this year.
- 2.17. As part of our assessment, we monitor any infringements by suppliers, including how many have occurred in a particular scheme year, and the reasons they occurred. We work with suppliers to prevent further infringements by improving their scheme administration processes.
- 2.18. In SY5, two of the 11 suppliers committed some minor infringements, but we were pleased to note that the other nine suppliers met all requirements of the regulations. The number of minor infringements by each supplier is below:

	Core Group	Broader Group	Industry Initiative
British Gas	0	0	0
Co-operative Energy	0	0	0
EDF Energy	2586	0	0
E.ON	0	0	0
First Utility	0	0	0
Npower	3	0	0
Ovo Energy	0	0	0
SSE	0	0	0
ScottishPower	0	0	0
Utilita Energy	0	0	N/A
Utility Warehouse	0	0	0

- 2.19. We are pleased to see that the majority of obligations across suppliers was met with no infringements of the WHD Regulations 2011.
- 2.20. Although two suppliers infringed, this should be viewed in the context of the entire scheme. The total of 2,589 infringements in the Core Group represents less than 0.2% of the 1,350,403 rebates provided.

- 2.21. From the above assessment we have concluded that, despite minor problems with delivery, the scheme has generally been delivered very successfully by the participating suppliers in SY5.
- 2.22. We have talked to the suppliers that had made minor infringements in one of their obligations to ensure that customers were not adversely affected and that the infringements have been resolved.
- 2.23. We do not expect to see these infringements repeated in SY6 or any future scheme years, and will continue to monitor what suppliers do to prevent them from recurring.**

3. Core Group

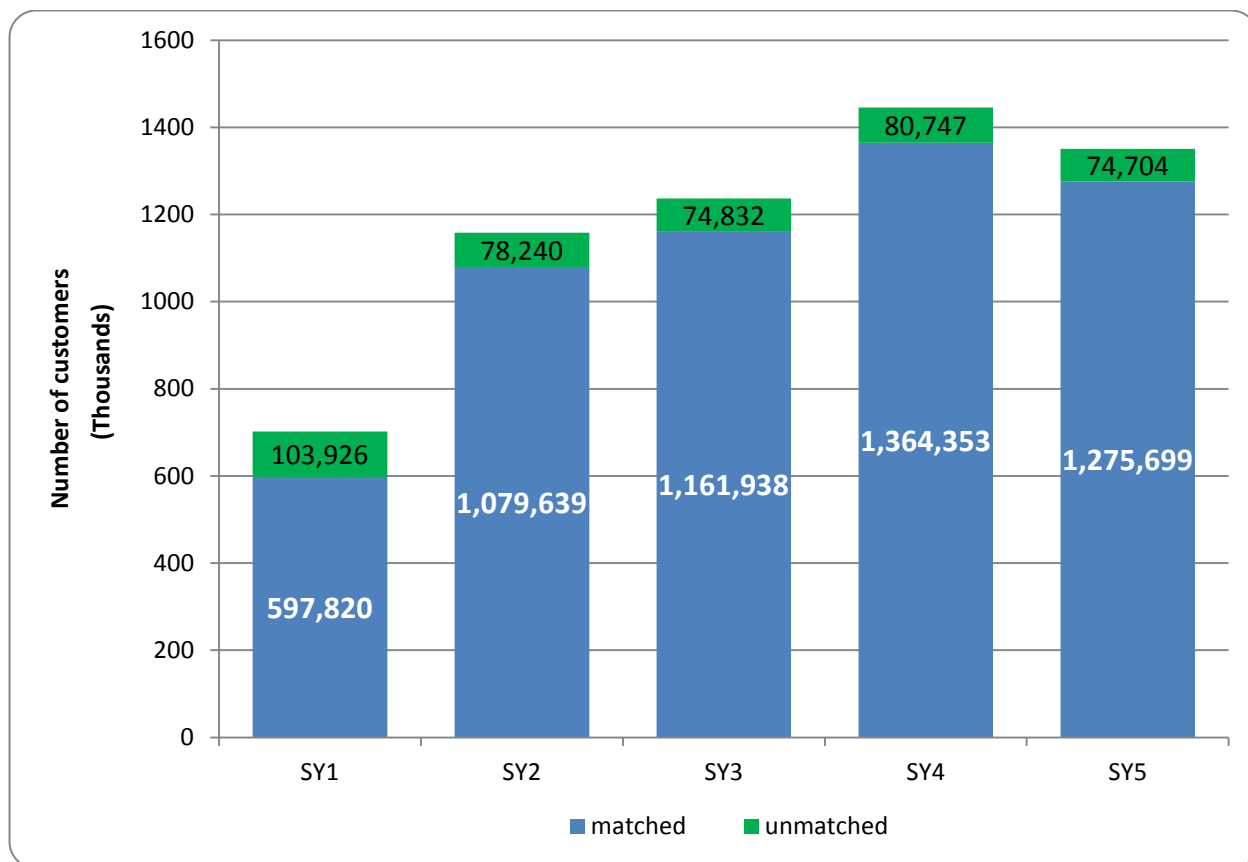
Chapter overview

This chapter summarises the delivery of support to low income pensioners through the Core Group, including the success of data matching to improve the service to these consumers.

Introduction

- 3.1. The Core Group element of the WHD scheme is administered by BEIS, which works closely with the Department for Work and Pensions (DWP) and participating suppliers to identify eligible Core Group customers.
- 3.2. In WHD Scheme Year 5, the eligibility criteria for the Core Group remained the same as in the previous year. All customers of participating suppliers who received Pension Credit Guarantee Credit were eligible for a rebate of £140 each.
- 3.3. In SY5, two new suppliers (Ovo Energy and Utilita Energy) became participants in the scheme, which widened access to the WHD scheme to customers of more suppliers. All suppliers with at least 250,000 domestic customers on 31 December 2014 were required to participate in the WHD scheme in SY5.
- 3.4. In total, 1,350,403 customers received a Core Group rebate in SY5. This was 76,705 fewer the previous scheme year, however there was a similar increase in Broader Group rebates so overall a consistent amount of rebate support has been provided to consumers.
- 3.5. Figure 3.1 below illustrates the number of customers supported for each year of the scheme. The graph also shows the increased success of the data matching process used to identify customers, which is explained further in the following section.

Figure 3.1: Core Group rebates provided, SY1 to SY5



Data matching

- 3.6. To identify customers eligible for the Core Group, suppliers share a limited amount of customer data with the DWP, who matches this against records of Pension Credit recipients. If there is enough information for the customer to be 'matched', the relevant supplier receives an instruction to pay a rebate to this customer in the scheme year. For SY5, 94.47% of Core Group customers received their rebate this way, without needing to take any action (94.41% in SY4).
- 3.7. The remaining eligible customers who could not be matched automatically were asked to provide further information to a government call centre, to confirm their electricity supplier. 74,704 of these 'unmatched' customers (5.53% of the total) needed to do this.
- 3.8. Suppliers are expected to fulfil each rebate instruction they are sent. However, the WHD Regulations 2011 recognise that there can be certain specific situations where this isn't possible. Regulation 8 allows the Secretary of State (SoS) to determine situations where it would not be practical to provide the rebate.
- 3.9. Currently, the SoS has determined that if a customer has died and their estate cannot be contacted, or if the customer has otherwise closed their account and

cannot be contacted by any means, these instructions may be treated as **exceptions** and the supplier is not required to pay a rebate.

3.10. There may be other reasons why it was impossible to provide a rebate to the named domestic customer. If suppliers provide an explanation and we agree it is justified, these may also be treated as exceptions.

3.11. In total, suppliers treated 45 instructions as exceptions in SY5. We are satisfied in all cases that reasonable efforts were made to provide the rebate and that the treatment as exceptions was justified.

4. Broader Group

Chapter overview

This chapter summarises the delivery of support to low income and vulnerable customers through the Broader Group in SY5.

Introduction

- 4.1. The Broader Group element of the WHD scheme requires suppliers to provide a minimum number of rebates to a wider group of fuel poor customers. Rebates are provided at the same value as the Core Group throughout the duration of the scheme, which was £140 in SY5.
- 4.2. Broader Group rebates form part of the non-core spending obligation for suppliers. The other part of the non-core obligation, Industry Initiatives, are capped at a maximum value, so there is a de facto minimum spend on Broader Group for each supplier.
- 4.3. In SY5, Industry Initiatives were capped at £30m, therefore the Broader Group minimum spending obligation across all suppliers was £98m, 76.6% of suppliers' total non-core spending obligation of £128m. We reported last year that demographic changes had led to the Broader Group in SY4 being increased to meet the scheme budget over a four-year period. The Broader Group budget is slightly lower in SY5, but we expect this will increase again as the total scheme budget increases over time.

Banking of SY4 spending

- 4.4. Suppliers who spend more than their minimum non-core obligation in a scheme year may attribute this, up to a defined limit, to their non-core obligation in the following scheme year. This flexibility helps suppliers manage their support to customers over successive scheme years, in a process called "banking". Excess spending is banked for use in a future year.
- 4.5. In aggregate, suppliers banked around £4.6m of extra Broader Group spend during SY4. They were allowed to attribute this to SY5 obligations, reducing the amount they were required to spend, and therefore the minimum number of Broader Group rebates they were required to deliver, during SY5.
- 4.6. Once these banked amounts were taken into account, suppliers needed to provide at least 667,080 rebates to customers (equivalent to £93.4m).

- 4.7. In SY5, suppliers provided 836,201 rebates, for a total value of around £117.1m. Added to the banked amounts from SY4, the total Broader Group spending attributable to SY5 is c. £121.7m, which is 130% of their minimum spend.
- 4.8. The £117.1m spend in SY5 made up around 89% of non-core spending in SY5, with the remaining attributable £14.7m being spent on Industry Initiatives. We look at Industry Initiatives in more detail in Chapter 5.
- 4.9. As well as collectively meeting the scheme minimum Broader Group obligation, all of the 11 suppliers met their individual obligation and in each case exceeded their obligation (as described in Chapter 2). Where suppliers went beyond their minimum Broader Group obligation, this meant that they did not have to spend the full amount allowed on Industry Initiatives to meet their overall obligation.

Broader Group eligibility

- 4.10. Eligibility criteria for the Broader Group are set by individual suppliers to best match their customer profile, however the criteria must be approved by Ofgem before being used. This ensures that the support is being targeted at customers who are on a low income and are vulnerable in a specific way to the impact of fuel poverty.
- 4.11. From Scheme Year 5 onwards, the WHD Regulations 2011 include a mandatory set of criteria which all suppliers must use as a minimum, although they may add further criteria if they wish. A supplier may elect to use only the mandatory criteria in a scheme year. We reviewed all sets of criteria in use during the scheme year, and were satisfied that each set was consistent with the requirements of the WHD Regulations 2011.
- 4.12. One supplier used this mandatory set and successfully met their Broader Group obligation. One other supplier initially used on the mandatory set, but later sought (and was given) approval to expand their eligibility to include more of their customers. The remaining suppliers all included additional criteria in their initial Broader Group submissions, mostly in line with those used in previous years before a minimum mandatory set was included in the WHD Regulations 2011.
- 4.13. As well as setting clear eligibility criteria which target low income and vulnerable consumers, suppliers must ensure that rebates are provided only to people who are eligible, and protect the scheme from fraud and abuse. In particular, the WHD Regulations 2011 require suppliers to obtain documentary evidence from a minimum of 5% of customers who receive a Broader Group rebate to verify the eligibility information on their application to the scheme.
- 4.14. Suppliers take a random selection of applicants and seek documentary evidence from each applicant selected, confirming their eligibility before paying the rebate. If an applicant cannot provide the evidence, the rebate is withheld.
- 4.15. All suppliers achieved this requirement for SY5. In all, 92,399 applicants to Broader Group schemes were asked to provide evidence to support their application, and

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81.5% of the sample successfully passed the check. We are satisfied that suppliers made reasonable efforts to minimise the risk of fraud or abuse of the scheme during the scheme year.

5. Industry Initiatives

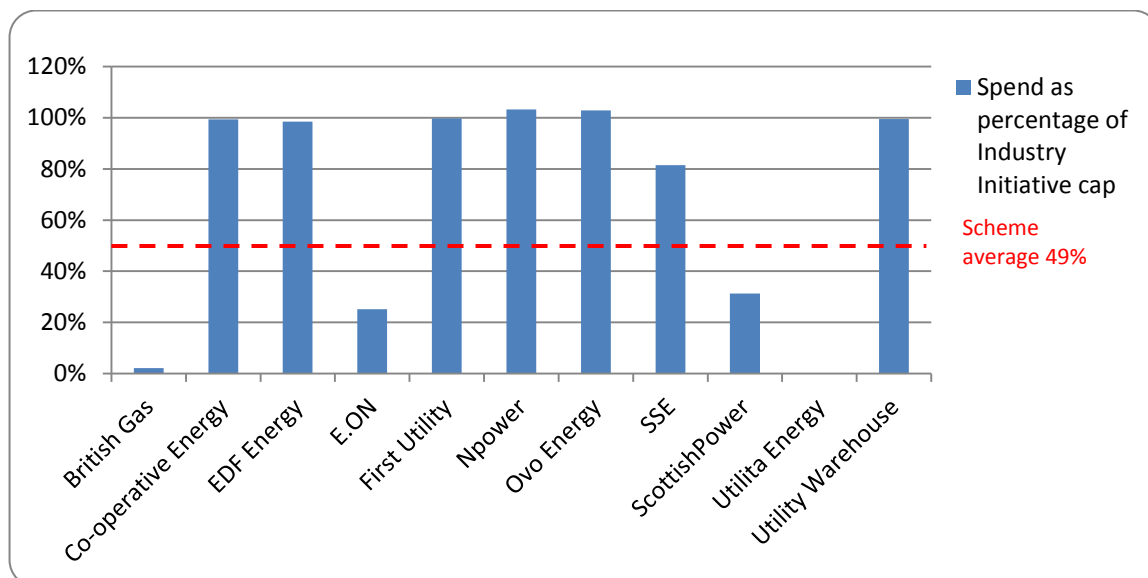
Chapter overview

This chapter summarises the activity funded through the Industry Initiatives element of the scheme in SY5, and explains which activities which are deemed eligible for support by the WHD scheme.

Introduction

- 5.1. Industry Initiatives can be used to contribute to meeting suppliers' non-core spending obligations, in conjunction with their spend on Broader Group rebates. Suppliers do not have any minimum spend on Industry Initiatives, and do not have to carry out any Industry Initiative activity if they choose not to. However in SY5, all but one supplier did attribute some Industry Initiative spend towards their obligations to supplement the Broader Group rebates.
- 5.2. For this scheme year, as in all years of the WHD scheme, suppliers had a combined maximum attributable spend of £30m, divided among them according to their market share.
- 5.3. Suppliers are required to submit notifications to Ofgem E-Serve outlining their Industry Initiative plans each scheme year, which must be approved by Ofgem before suppliers begin the activity. We approve the Industry Initiative if the proposal is in line with the requirements of the WHD Regulations 2011, and has clear robust plans to deliver the activity successfully.
- 5.4. In total, suppliers spent £14.5m on attributable Industry Initiative activities in SY5. Two suppliers spent more than their individual Industry Initiative cap, so although the activities delivered were eligible for the scheme, we only attributed the value of the cap to their SY5 obligation.
- 5.5. Suppliers' approach to using Industry Initiative allowances varied. Some focused their SY5 spending on the Broader Group (in one case exclusively on Broader Group), and so used relatively little of their Industry Initiative allowance, while others used the majority or all of their allowance to provide customers with different types of support. All approaches are acceptable, and Figure 5.1 below summarises each supplier's approach with a comparison to their maximum allowance and the average across the scheme in SY5.

Figure 5.1: Supplier spend compared to Industry Initiative cap



Industry Initiative activities in SY5

5.6. The WHD Regulations 2011 allow for spending on Industry Initiatives to be attributed to a supplier's WHD obligation, however this spending must be on certain types of activity to be eligible. Broadly, these activities fall under eight types:

1. Funding referral services to sources of support	2. Providing benefit entitlement checks and assistance to claim
3. Providing energy efficiency measures and energy efficient appliances	4. Providing energy advice
5. Funding training for other organisations to provide energy advice	6. Providing assistance to reduce or cancel household energy debts
7. Funding payments for home energy use to residents of mobile homes	8. Funding the provision of energy advice or energy efficiency measures to consumers in particular fuel poverty risk groups.

5.7. The last two activity types were added to the list of eligible types at the start of Scheme Year 5 – suppliers could fund these new types of activities from this year onwards.

5.8. We facilitated the startup of one of these new types, an Industry Initiative to support residents of mobile homes, which provided payments equivalent to the value of Core and Broader Group rebates for mobile home residents to use against

their energy costs. During the year, seven suppliers funded these payments. We discuss this activity further in Chapter 7.

- 5.9. Suppliers can fund any of these types of activities, and may fund more than one activity of the same or different types. Funded activities may offer more than one type of support at the same time.
- 5.10. Suppliers may also collaborate on Industry Initiatives – an activity can be funded by more than one supplier to provide a joint service. Each supplier then attributes the value of the funding they provided to their own obligation, and the activity is assessed as a whole through Ofgem’s compliance checking. Four Industry Initiatives in SY5 were collaborative projects.
- 5.11. In SY5, suppliers funded a total of 21 different Industry Initiatives, four of which were collaborations between suppliers. Six of the eight types of activity were directly funded in at least one of the initiatives, although there was a range of values of funding and numbers of consumers helped with each type of activity.
- 5.12. We are aware from supplier reporting that referral services were in some cases offered at no additional cost alongside the advice services. We are also aware that supplier methods for identifying customers in need of support took risk groups into consideration, although the focus was on individuals as in previous years.
- 5.13. We have summarised the outcomes and spending on each type of activity in this table:

Industry Initiative type	Spend attributed (£)	%	No. consumers helped	%
Referrals	0	0	0	0
Benefit checks	1,365,226	9.29	28,024	21.37
Energy efficiency	1,585,845	10.79	25,706	19.60
Energy advice	1,921,579	13.07	41,741	31.83
Training	882,523	6.00	6,819*	5.20
Debt assistance	8,612,509	58.60	27,669	21.10
Mobile homes	330,000	2.25	1,668	0.89
Risk group support	0	0	0	0

* This is the number of people trained to provide energy advice

Meeting the WHD requirements

- 5.14. The WHD Regulations 2011 place three conditions on approval of Industry Initiatives – before receiving approval at the notification stage, the proposed activity must demonstrate plans to meet each of the three conditions, and at the end of the scheme year, suppliers must be able to provide evidence that each of the conditions was achieved.

5.15. The three conditions can be summarised as follows:

- The activity funded must be one, or a combination of more than one, of the activities listed in the WHD Regulations 2011 (and summarised at paragraph 5.6)
- The activity must benefit target groups who are wholly or mainly in fuel poverty, or in a fuel poverty risk group
- The activity should demonstrate value for money.

5.16. We found that all the activities funded in SY5 were eligible.

5.17. We are satisfied that the 124,310 consumers who received support through the Industry Initiatives were wholly or mainly in or at risk of fuel poverty. We are also satisfied that the 6,819 people who were trained to provide energy advice would go on to assist people who were wholly or mainly in or at risk of fuel poverty.

5.18. We are generally satisfied that activities were delivered at a reasonable cost. We compared the costs reported to us against industry benchmarks, confirming that all delivery costs were necessary to providing and managing the service effectively, and that indirect delivery costs were kept acceptably low.

5.19. We noted in many cases that suppliers had chosen to absorb indirect management and administration costs, meaning that the full value of their activities went direct to services helping consumers.

Trends in Industry Initiative activity

5.20. In comparison to the previous scheme year (SY4), the main differences in the funding provided and the outcomes achieved are:

- A greater proportion of funding (13%) was used to offer energy advice services than in SY4 (11%). We have seen an increase in tailored, in-home advice services which, although more expensive, are generally more effective for the consumer.
- The proportion of funding used to help consumers manage and repay energy debt decreased, although around 21% of consumers helped received some form of debt assistance, the same as in SY4. Suppliers are increasingly providing advice on managing debt which helps reduce debt in the long run, and is cheaper than simply writing off existing debts which have accrued over time.
- Benefit checks represented an increased proportion of both money spent and consumers helped, continuing a trend seen in previous years: suppliers are helping consumers find ways to pay for energy as well as manage their energy use, often as a holistic one-stop service.

- The new SY5 activity to provide rebates to mobile home residents was started, initially as a small pilot and therefore a low proportion of spending this year, but we anticipate this will increase in future years now the pilot has completed.

5.21. We have seen throughout the scheme that the lowest cost eligible activity is providing energy advice and other advice such as benefit checks and advice on managing debt. It can be brought to a wide group of consumers and suppliers generally make efforts to link it to other services. This means consumers can receive advice on managing their future energy bills and make better use of their energy, on top of other more immediate types of support.

5.22. We also note that the largest proportion of funding is made to provide debt assistance, although this proportion (58.6% in SY5) has decreased compared to the previous year (71% in SY4). Debt assistance tends to focus on the most vulnerable consumers who find it most difficult to pay for heating, as they are trying to pay back existing debts as well as the costs of ongoing usage. Consumers being helped with debts are also given advice and support to manage their debts in future. The immediate improvement in ability to pay heating costs justifies the funding provided to individuals, and we have found over the course of the scheme that more than half of consumers given debt assistance manage to remain debt-free for at least 12 months after receiving help.

5.23. However, our reporting in each scheme year of the WHD has noted that debt assistance has accounted for the majority of Industry Initiative spend. BEIS consulted on changes to the WHD scheme during SY5, and noted in this consultation that it was keen to encourage more innovation and a wider range of support for consumers beyond simply writing off energy debt.

5.24. To this end, the WHD Regulations 2011 were amended to introduce a cap on the amount of Industry Initiative spending that could be used for writing off energy debt. This limits debt write off to 50% of the maximum industry initiative spend in SY6, and 40% in SY7. We discuss future changes to the scheme, including this new cap, later in Chapter 8.

Supporting consumers

5.25. As well as added flexibility in approach, Industry Initiatives differ from the other elements of the scheme in that suppliers can use them to assist vulnerable consumers who are not their own customers. This means that all consumers can access some of the support through the WHD scheme, even if they are not a customer of a participating supplier.

5.26. This different targeting approach means suppliers can work with other organisations who already have ways to identify consumers who are low income and vulnerable, without having to confirm who their energy supplier is, making the process more efficient and effective.

5.27. Another benefit is that the support can be offered to consumers who may not have a direct relationship with any energy supplier at all; one example identified is consumers who live in Mobile Homes. As mentioned previously, a new activity to support these consumers was introduced in SY5 to take advantage of the Industry Initiative flexibility. We look at this new activity in Chapter 7.

6. Audit Programme

Chapter overview

This chapter summarises the audit work that helps ensure suppliers use good practice in delivering their WHD activities.

- 6.1. Ofgem has a duty to keep under review the operation of any support scheme it administers. As part of this, we must make sure that suppliers are complying with their obligations effectively and efficiently. One way we do this is through an annual audit programme that provides assurance that information is being reported accurately. It also helps suppliers follow best practice in delivering the support and reduces the risk of them not complying with obligations. This helps suppliers protect consumers by minimising the risk of fraud in the scheme.
- 6.2. We work with suppliers to provide the assurance using Ofgem-appointed external auditors and suppliers' own independent internal audit and quality assurance teams. Ofgem-appointed auditors focus on the highest risk areas of each supplier's activities, while supplier teams verify reporting data and effective processes.
- 6.3. As part of year-end reporting, all 11 participating suppliers had completed the required audit testing, and submitted the results and any findings. Suppliers agreed actions to mitigate any points of concern raised.
- 6.4. Our appointed auditors covered three areas of scheme activities, carrying out a total of 33 audits across the scheme year. The three types of audit were:
 - Verifying market share data (used to set scheme obligations)
 - Testing supplier support delivery processes during the scheme year
 - Verifying selected supplier reporting information after the scheme year end
- 6.5. The breakdown of results of our audits is shown here:

	Good / Satisfactory	Weak	Unsatisfactory
External Audit ratings	31	2	0

- 6.6. The results of audits are shared with the suppliers, including the overall rating and an explanation of any points of concern. This allows the supplier and us to confirm that the report is accurate and to agree actions to address any findings.
- 6.7. We have discussed the two processes that were judged 'Weak' with the suppliers, and agreed how they will prevent similar problems in the future. We are pleased to note that no processes were rated "Unsatisfactory" during SY5.

- 6.8. Our guidance document for suppliers⁵ sets out our requirements for audit of scheme activities. We will continue to work with suppliers to ensure that their internal audits meet these requirements, and that they continue to strive for best practice in supporting consumers through their own quality assurance, as well as our audit work and compliance reviews.

⁵Warm Home Discount Guidance for Suppliers SY5
https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/whd_supplier_guidance_sy5_0.pdf

7. Looking back: SY5 outcomes

Chapter overview

The WHD scheme, launched in 2011, was originally planned to last four years, and provide £1.13bn of support to consumers in that time. The scheme was extended to a fifth year with a budget of £320m for that year, with some refinements made to the scheme activities. This chapter looks at the key outcomes of the scheme year, and in particular how the refinements have been implemented.

Participating suppliers

- 7.1. Utilita Energy and Ovo Energy participated for the first time in SY5, along with the nine other suppliers who have provided support in earlier years of the scheme.
- 7.2. When a new supplier joins the scheme, they are required to set up new processes to provide direct rebates to customers, and carry out Industry Initiatives should they choose to. We are aware that this can involve significant effort for the suppliers who do not have experience of participating in government schemes to support consumers. One of Ofgem's priorities as administrator of the scheme is to engage with each new supplier and help them to understand and deliver their obligations effectively.
- 7.3. In part thanks to our engagement, each new supplier has complied with their obligation in the first year of joining, and over five years there has only been one instance of a supplier not complying with their overall obligation for a scheme year.

Compliance with obligations

- 7.4. In SY5, we were pleased to see that all suppliers complied with their obligations.
- 7.5. We have noted in each year a small number of technical breaches of the requirements of the WHD Regulations 2011, mainly related to timely processing of customer information. However these have been kept to less than 1% in each scheme year, and we have ensured that suppliers took remedial action in each case to avoid vulnerable consumers losing out on support.
- 7.6. Where we found problems with delivering support to consumers, we have sought assurances from suppliers that they have improved processes, before beginning delivery in the next year. This helps to avoid these problems in future.

Core Group

- 7.7. The Core Group is an example of effective joint working between government departments and stakeholders. As described earlier, BEIS, DWP and energy suppliers share data to identify low income pensioners and provide Core Group rebates against their electricity, in most cases without the customer doing anything.

- 7.8. In the first year of the scheme, when the data matching process was introduced, government and suppliers successfully identified 85.2% of eligible Core Group customers automatically. By continuously seeking process improvements, this success ratio increased every year for the first four years, reaching 94.4% in the fourth year and this level was maintained in the fifth year. All other eligible customers were able to contact a central call centre on a single number to provide extra information, regardless of who their supplier was.
- 7.9. Eligibility for the Core Group has remained the same for SY5 as with SY4. The Core Group has generally been delivered successfully by suppliers across the length of the scheme, and provides consistent and predictable help to low-income pensioners.
- 7.10. We have also seen five new suppliers participate in the WHD scheme since the first scheme year, meaning customers of a wider group of suppliers can benefit from the scheme.
- 7.11. The data matching process to confirm customer eligibility has been extended to the Broader Group to assist the verification requirement, and has again streamlined the eligibility process and made it easier for customers.

The Broader Group

- 7.12. The total value of the Broader Group has increased each year of the scheme. Customers of participating suppliers receive a predictable and equitable rebate through the scheme, and these rebates make up around 80 - 90% of the value of the non-core spending.
- 7.13. One change brought in to the WHD scheme in SY5 was to introduce a mandatory set of criteria for all suppliers to include in their Broader Group each year. The mandatory criteria include groups thought to be most likely to be in fuel poverty or particularly at risk from the effects of fuel poverty. This was done to help make the criteria more consistent across all scheme participants.
- 7.14. Previously, it may not have been clear to customers who received a Broader Group rebate whether they would still be eligible should they switch to a different participating supplier. This may have led to customers being unwilling to switch suppliers because of the risk of losing their rebate in future.
- 7.15. The introduction of the mandatory criteria means that customers in the key risk groups can choose to switch to a different supplier and be confident that they will still be able to apply for the Broader Group rebate.
- 7.16. The WHD Regulations 2011 have retained flexibility for suppliers allowing them to add extra criteria to target those customers in or at risk of fuel poverty in their own customer base. All suppliers have incorporated the mandatory criteria into their approved Broader Group for SY5, and in most cases already offered the majority of the criteria so that the change was made without significant difficulty.

7.17. Suppliers have successfully delivered the Broader Group in the scheme year, with a total amount of support through the Broader Group in the year of around £117m.

Industry Initiatives

7.18. Support for consumers through the Industry Initiatives has generally remained reasonably consistent throughout the scheme period. Although individual suppliers have varied the value and type of activities offered in different scheme years, overall the value across the scheme remained quite static in the first four years.

7.19. As a result of suppliers increasing their Broader Group support year-on-year, we have noted a drop in the value of industry initiative spending which was attributed to SY5. Through discussion with suppliers, we are aware that some previously reported activity has continued in the year, but has not been reported because suppliers have reported sufficient Broader Group and other support already.

7.20. Attributed spend in SY5 was £14.7m, compared to £20.1m in SY4. However as noted above, we believe that further spend has been made by suppliers, beyond that reported to us formally, which has helped consumers during the year.

7.21. We have found the most common activity offered has generally been providing energy advice, which can help a large number of consumers and makes it possible for consumers to make long-term changes to behaviour which will save them money for a number of years.

7.22. In financial value terms, the majority of funding each year has been used to assist customers to reduce or clear household energy debt – this is due the high cost per customer, as these customers have often been struggling with the impacts of fuel poverty for a long time and built up a sizeable debt. Each customer assisted also receives a wider package of measures, such as debt advice and energy advice, which helps to stop them falling back into debt.

7.23. We have monitored the effectiveness of debt assistance, and we are pleased that in general customers manage to remain debt-free for at least 12 months following this assistance.

7.24. Industry Initiatives allow suppliers to carry out a range of different types of activities to support consumers, and can work with different delivery partners and approaches to find the best ways to help consumers. We are working to make full use of this flexibility by encouraging suppliers to set up pilot activities to test new ideas, and engaging with wider groups of stakeholders to help set up new partnerships. We describe these in more detail in the next chapter, and one example that has already happened is the project to support residents of Mobile Homes.

Mobile Homes

- 7.25. The WHD scheme introduced a new eligible activity for SY5, “Making, or funding the making by other persons of, payments to eligible occupiers of mobile homes⁶.” This activity was designed to allow some residents of less traditional homes similar access to the WHD scheme.
- 7.26. The government issued a call for evidence⁷ of energy issues affecting residents of Park Homes in July 2014, which acknowledged that residents are often older, likely to be vulnerable to cold weather, and have lower than average incomes. The homes themselves not energy efficient and are often reliant on expensive heating sources.
- 7.27. The key issue for delivery of any WHD support is that these customers are generally not a direct customer of an energy supplier, and instead pay a site owner who is the direct account holder. As such, therefore they could not qualify for the Core or Broader Group elements which are only provided to the customers of obligated energy companies.
- 7.28. As the activity targets consumers who are not registered with any of the participating suppliers, a different approach was required to other projects under the scheme in order to reach the right consumers. For instance, payments cannot be applied directly to customer energy accounts, as these accounts do not exist.
- 7.29. We worked closely with suppliers, government and representatives of the mobile home residents during the scheme year to identify ways to successfully carry out the new activity. E-Serve’s development team took the lead in setting up a framework for activity that suppliers and delivery partners could follow, and helped the suppliers work together on an equal footing. Separately, our compliance staff ensured that the activity would meet the same requirements for reaching vulnerable consumers and providing an effective service.
- 7.30. Seven of the 11 participating suppliers collaborated to fund the pilot activity which made payments to residents of mobile homes during SY5. The delivery was carried out by an independent third party organisation, using the funding provided by the suppliers. This collaboration meant that consumers had a single point of contact and were provided with a consistent service.
- 7.31. As a pilot, the activity was initially given a limited budget to ensure that delivery could be completed within the scheme year, however uptake was sufficiently high and delivered effectively that the budget was increased after the start of the project. By the end of the pilot, suppliers had funded payments to 1,668 consumers.

⁶ Mobile Homes are defined in the Mobile Homes Act 1983

⁷ Call for Evidence on Energy Issues Affecting Park Homes:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332939/call_for_evidence_on_energy_issues_affecting_park_homes.pdf

- 7.32. We reviewed the delivery of the project as part of year-end compliance assessment, to check that it had been delivered in line with the requirements of the WHD Regulations 2011 and had effectively supported consumers in or at risk of fuel poverty. We are satisfied that the activity was eligible for the scheme, although we noted that the project incurred high start-up costs which had a bearing on the value for money of the scheme.
- 7.33. Our early engagement with suppliers had highlighted that start-up costs were likely to be significant in the first year, which we accepted were necessary given the innovative nature of the activity. However we anticipate that in future some of these start-up costs will not be required again, and that planned expansion of the activity will achieve economies of scale which mean a greater proportion of the funding for the activity will go directly to fuel poor consumers.

8. Looking forward: Future of WHD

Chapter overview

We look at the main areas of interest about the future of the WHD scheme, both in the short and longer term.

The Warm Home Discount Scheme

- 8.1. We reported last year that the WHD scheme had completed its original four-year plan, with suppliers achieving eligible spend of £1.139bn to support consumers against an original budget of £1.13bn, and have again achieved their obligated spend for the additional fifth year.
- 8.2. The government announced in the Spending Review and Autumn Statement 2015 that the scheme would be extended to 2020-21 with the same real terms budget, rising with inflation.
- 8.3. Since this announcement, the government has amended the WHD Regulations 2011 to extend the scheme to March 2018, which allows the scheme to run for a further two scheme year periods. The scheme structure has remained largely intact, although BEIS continues to look to improve the effectiveness of delivery. BEIS will keep the scheme under review and consult in future on proposed regulatory amendments, including any further scheme extension and making any further appropriate changes.
- 8.4. The threshold for participating has not changed for Scheme Years 6 and 7 and there is a new compulsory participant in Scheme Year 6. Extra Energy has grown sufficiently to be a full participant and deliver the Core and non-Core group elements to customers, becoming the 12th supplier to join the scheme.
- 8.5. Three other suppliers have joined the scheme on a voluntary basis – Bristol Energy, GB Energy and Our Power. Each of these suppliers will participate in the Core Group element only, delivering rebates to their customers in receipt of Pension Credit Guarantee Credit. This is the first year in which suppliers have chosen to participate in the scheme despite not yet passing the threshold, and will benefit extra consumers this year.
- 8.6. We are engaging with a number of energy suppliers in Great Britain who are growing and anticipate that there may be more new suppliers in SY7. We would encourage any other suppliers whose business growth might indicate that they will also be obligated to engage with Ofgem e-serve to ensure they are prepared for mandated participation within WHD and other obligations.
- 8.7. Scheme Year 6 sees the introduction of some new elements of the scheme, to make the scheme more effective and widen access to it.

- 8.8. The regulatory amendments have made it possible for customers who get their electricity and gas from the same supplier to request that their Core or Broader Group rebate is applied to their gas account instead of their electricity account. This is designed to help customers, who mainly use gas for heating make best use of the rebate to offset the cost of keeping warm.
- 8.9. Additionally, the regulatory amendments introduced a requirement for suppliers to monitor whether customers have redeemed a rebate provided as a voucher or cheque payment, or other method which is not automatically credited against a customer account. Suppliers now need to make reasonable efforts to ensure customers are able to redeem their rebate.
- 8.10. Suppliers must report the value of rebates which customers do not redeem. They will be required to use this unclaimed money for other spending under the scheme in a future year.
- 8.11. We welcome this move as this ensures that more customers will receive the benefits of a rebate. We recognise that this means that suppliers handling of exceptions (where a rebate is not redeemed) will be a particular focus for our compliance and monitoring over the next year.
- 8.12. E-Serve was responsible for delivery of the Government Electricity Rebate (GER) scheme, which also focused on providing energy bill rebates to consumers and required suppliers to ensure customers could collect their rebate. We will draw on our expertise gained from delivering the GER scheme to drive best practice among suppliers providing WHD rebates in future.
- 8.13. The regulatory amendments introduced a new type of activity to the scheme, which is intended to increase innovation in the WHD scheme and encourage activities which support the Fuel Poverty Strategy. 'Specified Activities' may be endorsed by the Secretary of State which are expected to help achieve the aims of the Fuel Poverty Strategy but do not clearly fall under the existing list of eligible activities in the WHD Regulations.
- 8.14. Suppliers may choose to fund the Specified Activities as part of their allowance under Industry Initiatives. We are working with BEIS to provide guidance to suppliers and delivery organisations who are interested in providing these activities. Specified Activities are being developed under the Industry Initiative framework, therefore we are providing input to the BEIS guidance using our expertise in administering Industry Initiatives for the first five years.
- 8.15. Finally, the new regulations introduced a cap on the value of Industry Initiative spending that can be used to write off consumer debts which have built up over time; in SY6 this cap is set at £15m, and in SY7 will reduce to £12m. This is to encourage suppliers to consider other types of support that can be provided through the scheme.
- 8.16. BEIS and E-Serve engaged with suppliers ahead of the introduction of the cap, and this proposal was part of the consultation to extend the scheme. As can be seen in

Chapter 5, suppliers have already reduced the proportion of funding being used for debt write-off, demonstrating that stakeholders are working together to achieve the scheme policy.

E-Serve's engagement with stakeholders

- 8.17. As part of bringing in the new types of activity and encouraging innovation, E-Serve has introduced new processes to increase our engagement with the participating suppliers and scheme stakeholders.
- 8.18. E-Serve published a refreshed Guidance for Suppliers⁸ document in September 2016, which reflects the changes to the scheme brought in by the regulatory amendments. As part of this update, we describe a new process for assessing Pilot Industry Initiatives as part of the WHD scheme. This is a result of engaging with suppliers around encouraging innovative new support schemes for consumers.
- 8.19. Under the pilot process, suppliers who seek approval for a new type of Industry Initiative activity may designate these as pilots, where they are being trialled on a low value basis and have a degree of uncertainty about the results of the project. Where we are satisfied that supplier proposals are made with an aspiration that they will achieve the targeting and value for money outcomes expected of Industry Initiatives, and that they have been carried out with reasonable attempts to achieve these aspirations, we will generally recognise the pilot nature of the project when determining whether to take any action if the project does not fully deliver the expected outcomes due to circumstances outside the supplier's control.
- 8.20. This process is intended to reduce the compliance risk of funding new projects, which will give suppliers greater freedom to work with new partners on innovative types of support.
- 8.21. In parallel with this greater freedom, we are encouraging suppliers to engage with stakeholders who work with vulnerable consumers and who are seeking funding to introduce or extend projects to help these consumers.
- 8.22. In 2016, we held two stakeholder events in Glasgow and Birmingham which invited participating suppliers and third parties working with vulnerable consumers to discuss potential future projects. The format of the events allows suppliers to discuss how to take projects forward, with guidance from E-Serve about how the activities should be set up to be eligible for WHD funding.
- 8.23. These events have already resulted in a number of new partnerships between suppliers and third parties, and we expect to see some of these projects taken forward in SY6 as Industry Initiatives.
- 8.24. We intend to continue this extra stakeholder engagement to help suppliers find new projects which they can support in SY7 and beyond.

Devolution

⁸ https://www.ofgem.gov.uk/system/files/docs/2016/09/final_whd_supplier_guidance_sy6.pdf

- 8.25. Following the referendum on Scottish independence, an agreement was reached between the UK and Scottish governments to transfer additional powers to the Scottish Government. This agreement, proposed by the Smith Commission, included giving the Scottish Government powers to set obligations for the WHD and Energy Companies Obligation (ECO) schemes in Scotland.
- 8.26. Discussions are currently underway between the UK and Scottish governments and key stakeholders in the scheme to take this agreement forward, and Ofgem E-Serve is assisting with discussions by providing the benefit of our experience in administering the scheme for the first five years.

The Warm Home Discount: Extension to 2017/18 consultation

- 8.27. The UK government consulted on plans to extend the WHD scheme beyond the first five years, following the government announcement that the scheme would continue to at least 2020-21. This consultation asked for feedback on various aspects of the scheme and on planned changes to the scheme for the scheme year 2016-17 and beyond.
- 8.28. Ofgem E-Serve responded to the consultation on areas which we had direct involvement in the administration of the scheme⁹. We broadly supported the proposed changes, although we noted that the short time available to embed change for SY6 suggested that change should be minimised until at least SY7.
- 8.29. A key objective for the scheme is to make sure it achieves value for money in delivery, which has been carefully scrutinised throughout the scheme. In our consultation response, we explained the steps we take to monitor value for money in scheme activities and suggested ways that suppliers could collaborate on activities to achieve economies of scale to assist more customers.
- 8.30. We support suppliers being given flexibility in the approach to meet their non-core obligation, as we recognise that energy companies have different business models and customer bases. In our response, we discussed some areas which may help suppliers achieve compliance with their obligations, including allowing some overspend in a scheme year to be carried forward to a future year, and new ways to set up Industry Initiatives to encourage innovation in these activities.

Data matching

- 8.31. One of the main successes of the WHD scheme has been in using data matching to identify eligible Core Group customers. Collaboration between BEIS, the DWP and the participating suppliers has meant eligible customers can, in most cases, be identified without having to take any action, and receive a rebate from their supplier against their energy bill.
- 8.32. In consultation with stakeholders, BEIS has received feedback that it would be good to extend this data matching to other groups in or at risk of fuel poverty,

⁹ E-serve response to WHD consultation 2016: <https://www.ofgem.gov.uk/publications-and-updates/response-deccs-warm-home-discount-consultation-2016-17>

streamlining the process to provide rebates. This would be expected to reduce administration costs and improve the customer experience as fewer customers would need to complete an application form and provide documentary evidence in order to receive their rebate.

- 8.33. DWP already works with suppliers to provide some data matching of customers in the documentary verification process, however this is not yet consistent across the scheme.
- 8.34. The UK government recently consulted on plans to make use of data matching in a number of areas, one of which explored extending the use of data matching beyond the current Core Group. Ofgem E-Serve provided our response to this consultation, and has engaged with BEIS on the possible administration of this further data matching in the WHD scheme.

Links to other schemes

- 8.35. E-Serve administers a variety of energy industry schemes on behalf of government. One of these, the ECO scheme, has similar policy intentions to support consumers in fuel poverty by promoting energy efficiency improvements for these consumers' homes. At present, both the WHD and ECO schemes involve the same group of participating suppliers.
- 8.36. Government intends to focus future ECO delivery on consumers who need it most. As the administrator of both schemes, E-Serve is working with BEIS to ensure that the schemes can be delivered effectively and customers can access both easily.
- 8.37. The recent consultation by BEIS, "ECO: Help to Heat"¹⁰, explained the proposed changes to the ECO scheme which will help to target fuel poor and low income households with support.
- 8.38. This will give suppliers opportunities to align their eligibility criteria for both schemes, which will reduce the total costs of identifying customers for each scheme, but also mean a range of assistance can be offered to these customers to provide immediate and longer-term help with the effects of fuel poverty, through helping with current bills and reducing future bills.
- 8.39. In particular, BEIS has proposed aligning part of the ECO Affordable Warmth criteria with the main Core Group eligibility criterion, Pension Credit Guarantee Credit, which is currently automatically identified by DWP. We encourage suppliers to consider how they can make this as simple as possible for consumers to access both schemes.
- 8.40. Both schemes aim to help consumers make their homes more affordable to heat through providing energy efficiency measures. While the WHD scheme Industry Initiatives have a smaller scope than the ECO scheme, the flexibility allows greater

¹⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531964/ECO_Help_to_Heat_Consultation_Document_for_publication.pdf

innovation and the ability to test methods of helping consumers mitigate the cost of heating their home, through the Pilot approach described earlier.

- 8.41. This encouragement of innovation gives suppliers opportunities to provide small scale efficiency measures which are carefully targeted at low income and vulnerable consumers, that may not otherwise be feasible on the larger scale ECO scheme. E-Serve's expertise across both the ECO and WHD schemes will support the development of these types of projects where obligated suppliers identify innovative solutions for consumers.

Appendix 1: Participating suppliers

WHD compulsory scheme electricity suppliers

Supplier Group	Licensed Supplier	Participation Scheme Years
British Gas	<ul style="list-style-type: none"> British Gas Trading Limited 	1, 2, 3, 4, 5
Co-operative Energy	<ul style="list-style-type: none"> The Co-operative Energy Ltd. 	4, 5
EDF Energy	<ul style="list-style-type: none"> EDF Energy Customers Plc 	1, 2, 3, 4, 5
E.ON	<ul style="list-style-type: none"> E.ON Energy Solutions Limited 	1, 2, 3, 4, 5
First Utility	<ul style="list-style-type: none"> First Utility Limited 	3, 4, 5
Npower	<ul style="list-style-type: none"> Npower Limited Npower Northern Supply Limited Npower Yorkshire Supply Limited Npower Direct Limited 	1, 2, 3, 4, 5
Ovo Energy	<ul style="list-style-type: none"> Ovo Electricity Limited 	5
ScottishPower	<ul style="list-style-type: none"> ScottishPower Energy Retail Limited 	1, 2, 3, 4, 5
SSE	<ul style="list-style-type: none"> SSE Energy Supply Limited 	1, 2, 3, 4, 5
Utilita Energy	<ul style="list-style-type: none"> Utilita Energy Limited 	5
Utility Warehouse	<ul style="list-style-type: none"> Electricity Plus Supply Limited 	1*, 2*, 3, 4, 5

* Utility Warehouse was, until SY3, connected to the Npower supplier group and met its obligations as a part of that supplier group. From SY3 onwards, Utility Warehouse met its obligations as a distinct supplier group entity.

A list of suppliers' subsidiary companies is on the BEIS website

<https://www.gov.uk/the-warm-home-discount-scheme/eligibility>