

Consultation on the Warm Home Discount

2 December 2010

Purpose of this Consultation

This consultation seeks views on:

- the design of the Warm Home Discount scheme; and
- the associated regulatory framework which will set out the level and form of benefits which scheme suppliers will be required to deliver to vulnerable consumers.

The consultation is aimed at energy suppliers, the Gas and Electricity Market Authority (Ofgem), consumer groups and groups representing the interests of those living in fuel poverty. A list of those organisations and individuals invited to respond is at Annex 3. We would welcome suggestions of others who may wish to be involved in this consultation process.

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Respond by: 14 January 2011

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Ministerial Foreword

For over five years the battle has been lost against fuel poverty. Since 2004 fuel poverty numbers have risen, with projections for England indicating there are likely to be around 4.1m fuel poor households in 2009. We need a radical new approach.

The Coalition Government is committed to tackling fuel poverty and supporting vulnerable consumers to heat their homes at an affordable cost. We have built our new approach on the key elements of fairness, focus and value for money.

Energy performance

Key to our goal is improving the energy performance of homes across Britain. The Coalition Government will ensure that help to improve household thermal efficiency goes to more of the most vulnerable. We have already announced that we will fund a smaller, targeted Warm Front programme in England for the next two years. In the longer term, we will help to improve household energy performance through the Green Deal.

The Green Deal is a radical new commercial offer that has the potential to improve the energy efficiency of the country's homes, unlocking tens of billions of investment in the household sector alone. It will provide households and businesses with energy efficiency improvements, with bill-payers repaying through the savings they make on their energy bills. Additional support will be available for those who need it, including low income vulnerable households and those in 'hard to treat' homes, through a new Energy Company Obligation.

Targeting support

To ensure the available resources are focused most effectively in tackling the problems underlying fuel poverty, the Coalition Government intends to initiate an independent review of the fuel poverty target and definition before the end of this year.

Support with energy bills

Upgrading the housing stock is a long term project. So while these mechanisms are being put in place, and as they are being rolled out, vulnerable households will continue to face problems paying for their energy needs. The Warm Home Discount scheme will require energy suppliers to provide direct financial assistance with energy costs to more of the most vulnerable households in a targeted and effective way.

In the context of our wider welfare programme, we make annual Winter Fuel Payments to pensioner households and Cold Weather Payments (triggered by extended periods of cold weather) to a defined group of means-tested vulnerable households, targeted through the benefits system.

This consultation on the Warm Home Discount scheme focuses principally on the second strand, support with energy bills, and sets out how we intend to use data matching to improve the targeting of the available support. In this document we set out our vision for how we think the scheme should work, and we ask for your views on whether this is the best way to deliver and target the support.

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line that ends in a small upward curve.

Chris Huhne
Secretary of State
Department of Energy and Climate Change

Vulnerable Households and Energy Costs

1. The Coalition Government recognises that across the UK, there are vulnerable households who are struggling to pay their energy costs and to adequately heat their homes, and we are committed to tackling this problem.
2. Our current Fuel Poverty Strategy¹ sets out the range of measures we have in place to combat fuel poverty though addressing income levels, improving the energy performance of the nation's homes and by assisting vulnerable consumers with their energy bills.
3. A household is considered to be fuel poor if it would need to spend at least 10% of its income in order to heat the house to an acceptable level of warmth (recommended by the World Health Organisation to be 21°C for the main living area, and 18°C for other occupied rooms). In practice many fuel poor households tend to under heat their homes often because of the financial constraints they face, meaning that they live in cold conditions.
4. The annual report on fuel poverty statistics², based on this measure of fuel poverty, was published in October 2010 and show that around 4.5 million households in the UK (18% of all households) were in fuel poverty in 2008. Of these, 3.75 million households were classed as vulnerable (meaning households with elderly occupants, those containing children and the long term sick and disabled). The projections published in this report³ estimate the number of households in fuel poverty in England would be 4.1 million in 2009 and 4.0 million in 2010.
5. Recent rises in energy prices have made the target for fuel poverty eradication, as far as reasonable practicable by 2016, even more challenging than before. This upward pressure on prices is unlikely to reverse in the coming years, in part because of the cost of tackling climate change.
6. Government believes that the proposed Warm Home Discount scheme has a role to play in assisting vulnerable households by providing them with direct support towards their energy costs. This consultation asks for views on how such help can best be delivered to more of the most vulnerable energy consumers.

¹ Further information on the Government's Fuel Poverty Strategy can be found via:

http://www.decc.gov.uk/en/content/cms/what_we_do/consumers/fuel_poverty/strategy/strategy.aspx

² The Fuel Poverty Statistics are available from the DECC website via:

http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx

³ Fuel poverty figures are measured independently by each of the Devolved Administrations. The UK figure for each year is a combination of these national headline figures. DECC use their own detailed data to produce projections for England only.

Tackling Fuel Poverty

7. Factors which influence whether a household will be able to afford its energy costs include: their income, the energy performance of their home and the price they pay for energy. Government has policies in place to tackle fuel poverty on all of these fronts.
8. The Warm Home Discount, the subject of this consultation, will assist eligible consumers in England, Scotland and Wales. It is important to note that the Welsh Assembly Government and the Scottish Government have their own targets related to fuel poverty and specific policies in place to tackle it⁴. Fuel Poverty policy is fully devolved to the Northern Ireland Executive and they have their own targets and policies in place to tackle it⁵.

Energy performance

9. Government has a number of programmes to improve the energy performance of households in the UK. This includes efforts to improve the energy efficiency of the fabric of buildings to reduce household emissions (for example through better insulation) and efforts to improve householders' ability to heat their homes affordably (for example through upgrading households to efficient gas heating systems).
10. Through the Carbon Emissions Reduction Target (CERT), Government requires suppliers to promote energy saving measures to households with a proportion of the target delivered in low income or vulnerable households, known as the Priority Group. In the extension of CERT, from March 2011 to December 2012, a Super Priority Group of households containing people who are both vulnerable and on low incomes has been introduced to ensure a fair proportion of support reaches those who need it most. The Community Energy Saving Programme (CESP), which runs until December 2012, promotes similar measures, and some more innovative technologies such as solid wall insulation, in some of the most deprived communities across the country.
11. Warm Front provides grants for packages of heating and insulation improvements, including central heating systems. Since its inception in June 2000 it has assisted over 2 million households, across England. On average, each household receiving Warm Front assistance including insulation and heating measures has the potential to save approximately £653⁶ per year on energy bills.
12. The Government announced in the Spending Review 2010 that DECC will fund a smaller, targeted Warm Front programme for the next two years. In the longer term, the Green Deal is a radical new commercial offer that has the potential to improve the energy efficiency of the country's homes, unlocking tens of billions of investment in the household sector alone. It will provide households and businesses with energy efficiency improvements, with bill-payers repaying through the savings they make on their energy bills and additional support available for those who need it, including low income vulnerable households and those in 'hard to treat' homes, through a new Energy Company Obligation. The new Obligation will

⁴ Further information on policies to tackle fuel poverty in Wales can be found via:
<http://wales.gov.uk/topics/environmentcountryside/energy/fuelpoverty/?lang=en>

Further information on policies to tackle fuel poverty in Scotland can be found via:
<http://www.scotland.gov.uk/Topics/Built-Environment/Housing/access/FP>

⁵ Further information on policies to tackle fuel poverty in Northern Ireland can be found via:
http://www.dsdni.gov.uk/fuel_poverty

⁶ Connecting with Communities, The Warm Front Scheme Annual Report, 2009/10, Eaga plc

take over from the current CERT and CESP schemes which expire at the end of 2012, and will run in parallel with the Green Deal. The Government expects energy companies to play a greater role than through current supplier obligations to ensure that more of the poorest and most vulnerable can afford to heat their homes adequately. This could include offering support towards a wider range of measures to improve energy performance, such as heating systems.

Incomes

13. In the context of our wider welfare programme, the Government makes annual Winter Fuel Payments to pensioner households⁷ and Cold Weather Payments⁸ (triggered by extended periods of cold weather) to a defined group of means-tested vulnerable households, targeted through the benefits system.

Energy Prices

14. Energy suppliers already contribute to tackling climate change, for example through CERT and CESP, and policies to promote renewable energy generation and other low carbon technologies. It is likely that the additional costs of delivering such policies are passed through to energy consumers, increasing the price households pay for energy. Our analysis suggests that this will often hit the poorest hardest.
15. Support delivered through household energy bills is one means of providing immediate support to low income and vulnerable households. We recognise that in the long term measures to improve home energy efficiency and heating systems will make a more sustained difference to a household's ability to heat their home affordably. However, Government also recognises that policies to roll these measures out across the country will take a number of years to deliver. In the interim, it will therefore be important to provide energy price support to a significant number of vulnerable households at risk of fuel poverty. Government currently has in place an agreement with the six biggest energy suppliers to help provide this support (see the Voluntary Agreement case study below for more information).

⁷ Further information on Winter Fuel Payments, including eligibility and payment levels is available from: http://www.direct.gov.uk/en/Pensionsandretirementplanning/Benefits/BenefitsInRetirement/DG_10018657

⁸ Further information on Cold Weather Payments, including eligibility and payment levels is available from: http://www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/On_a_low_income/DG_10018668

Case Study : Tackling energy prices through the Voluntary Agreement

Government has a voluntary agreement with the six biggest energy suppliers through which they have agreed to provide funding to help their vulnerable consumers with their energy bills.

Under this Voluntary Agreement, the six biggest energy suppliers (Centrica, EDF, e.on, RWE Npower, Scottish and Southern Energy and Scottish Power) agreed to increase spending on their social programmes between April 2008 and March 2011, with the aim to help consumers who are fuel poor or vulnerable to fuel poverty. Suppliers agreed to spend an aggregate £100million/£125million/£150million on their social programmes between 2008/9-2010/11. This voluntary agreement will come to an end in March 2011.

Ofgem estimate⁹ that over 1.3 million consumer accounts benefitted from some form of support in the first year of this Voluntary Agreement and this increased to 1.6 million in the second year. This agreement has been an important first step in demonstrating how suppliers can give financial support directly to their consumers.

Under this agreement, suppliers have discretion over how to administer and disburse this funding - including who among their consumers receives support and the type and amount of the benefit they receive. Suppliers offer a range of support including social and discounted tariffs, rebates, help and advice and also provide funding to organisations involved in tackling fuel poverty. In 2010, the energy suppliers also worked in partnership with Government on the Energy Rebate Scheme as part of the Voluntary Agreement (for further detail on this scheme see page 30).

Consumers vulnerable to fuel poverty

16. The Government's Fuel Poverty Strategy¹ set out the risks that arise from fuel poverty and those groups who are particularly susceptible to these risks: the elderly, long term sick and disabled and those households containing children. This section summaries the information on the groups particularly at risk from fuel poverty. The diagrams below show our estimates for both the proportion of all fuel poor households that contained members of these groups, and the proportions of those groups who are fuel poor¹⁰.
17. Fuel poverty can damage quality of life and health, as well as impose wider costs on the community. The likelihood of ill health is increased by cold homes, with illnesses such as influenza, respiratory problems, heart disease, and strokes all exacerbated by the cold. The impact of cold homes on mental health has also been explored in recent studies and evidence has been found that raising indoor temperatures can lead to reductions in stress

⁹ Monitoring Suppliers Social Spend 2009-10 -

<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Monitoring%20Suppliers%20Social%20Spend%202009-10.pdf>

¹⁰ Figures are based on 2008 figures, as published in the 2010 Fuel Poverty Statistics -

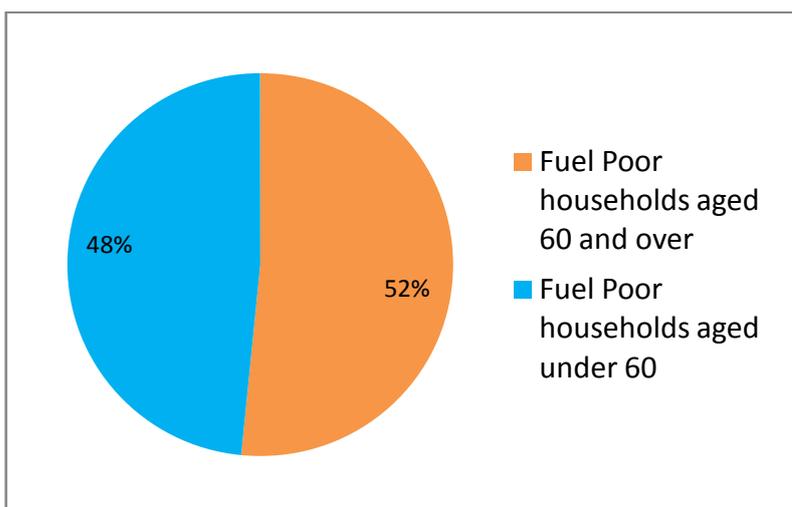
<http://www.decc.gov.uk/assets/decc/Statistics/fuelpoverty/610-annual-fuel-poverty-statistics-2010.pdf>

levels among adult household members (further information on these studies is available in the Specific Health Impact Test which accompanies this consultation document as part of the main Impact Assessment).

18. For people of working age, ill health may lead to enforced absences from work, and certain types of illness, such as respiratory disease, may restrict the choice of potential employment for those without work.
19. For householders where much of their time is spent in the home, for example pensioners who no longer work, the need to spend a large portion of income on fuel may also mean these households have less available income to spend on other household essentials or on activities which allow them to interact more widely with society. This could lead, for example, to poor diet or withdrawal from the community¹¹.

Older people

20. Those householders aged 60 years or more make up a large proportion of the fuel poor - over half of all the fuel poor households in England contain someone over 60 (see diagram below¹²).
21. Cold housing is likely to be a contributing factor in the higher excess winter deaths we observe amongst pensioners relative to non-pensioners. This risk of winter death increases with age¹³. Research indicates that domestic accidents, including fatalities, are more common in cold homes in winter. Periods of prolonged immobility can result, making it even more difficult for older people to keep warm. People may need to go into residential care because of their injuries, or because they can no longer live in their cold home.
22. Fuel poverty can also exacerbate the social isolation felt by many older households; they cannot afford to go out; or are fearful of going out knowing they will come in, already feeling cold, to a cold home; or are reluctant to invite friends into a cold house. These factors can diminish the social well-being and quality of life of older households.



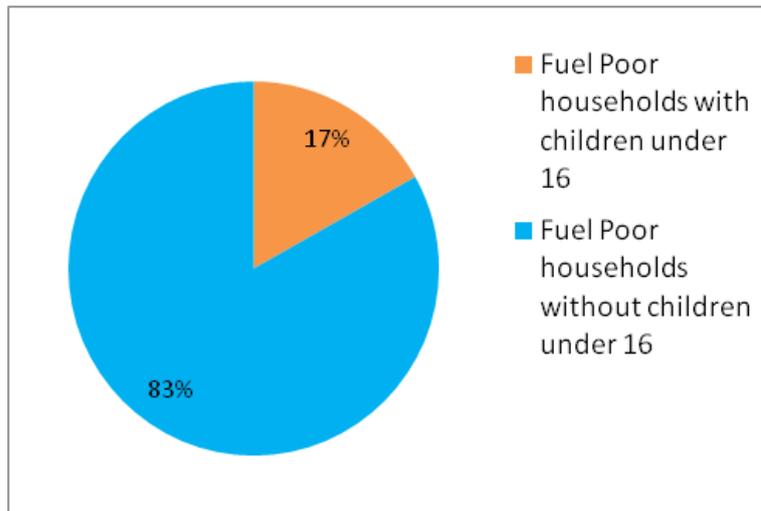
¹¹ Qualitative examples of the isolation felt by those experiencing fuel poverty were highlighted in the recent publication "Health and Winter Warmth" Nicola McGonnell, Eaga plc/South East Public Health Group

¹² Figures based on fuel poverty statistics for England in 2008, further information is available via the DECC website: http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx

¹³ www.statistics.gov.uk/statbase/ssdataset.asp?vlnk=7089

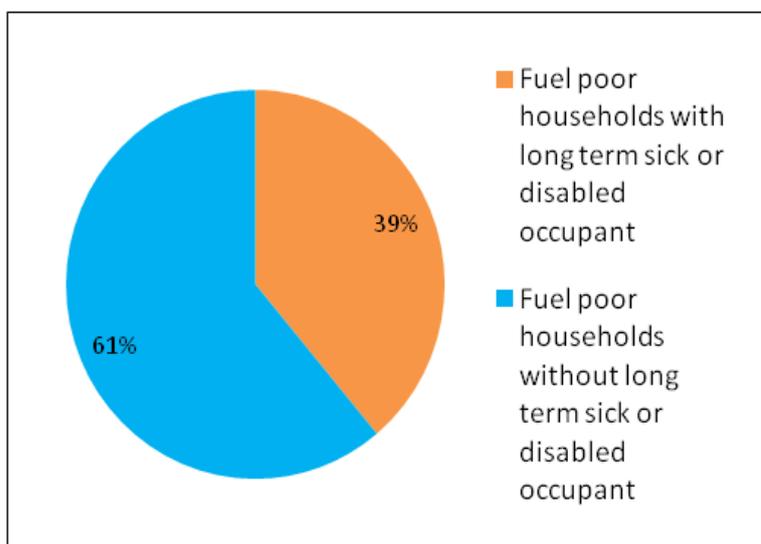
Households with Children

23. Families with children under 16 account for 17% of fuel poor households in England (see diagram below¹²). Children are particularly vulnerable to respiratory conditions such as asthma, which have been linked to cold and damp homes. Cold homes also increase the time taken to recover from other illnesses so that children may be off school more, affecting their education and development. Homework may also suffer if the family is squeezed into a small part of their home that they can afford to heat, and there is nowhere for the children to study in quiet. Fuel poverty can therefore impair the opportunities available for children.



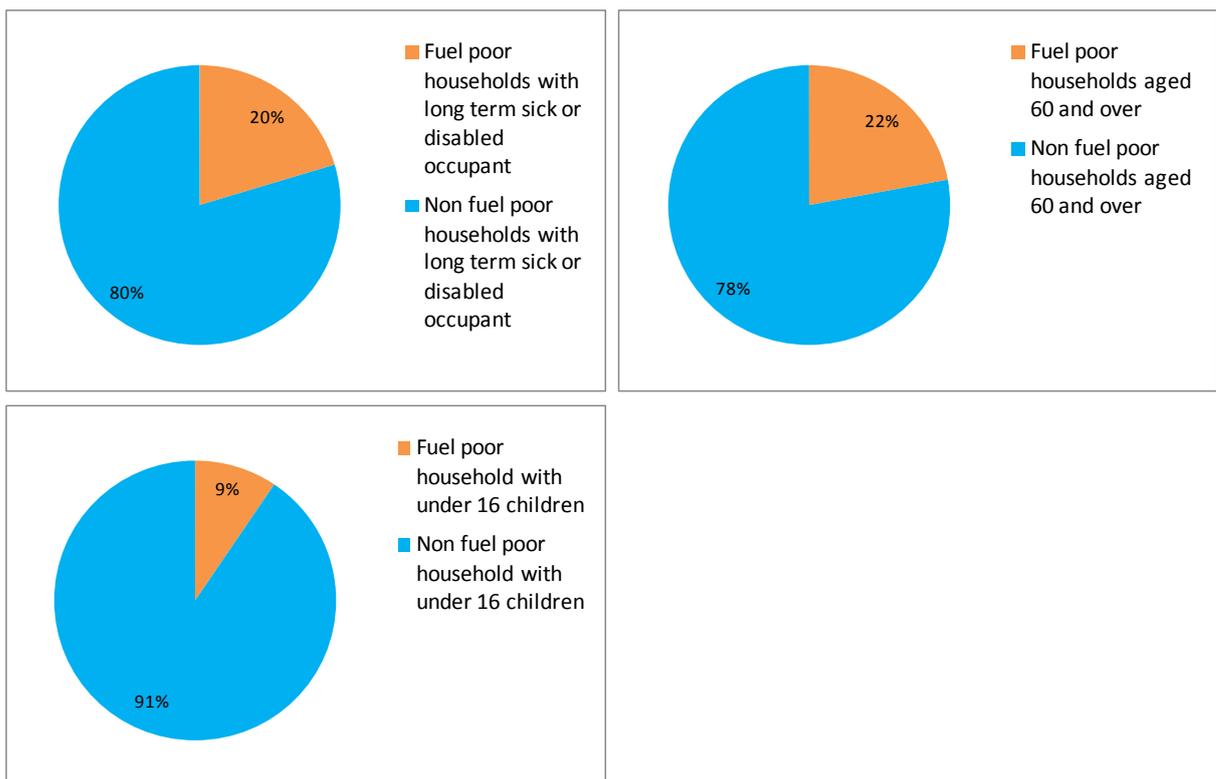
People who are disabled or have a long-term illness

24. Households where an occupant has a long term sickness or disability account for 39% of the fuel poor (see diagram below¹²). Fuel poverty may compound the ill health and suffering of those who are disabled or have a long-term illness. It is likely to exacerbate existing conditions and may lengthen recovery time. Cold homes may make it more difficult for carers to look after acutely or chronically sick people, more of whom may therefore have to go into hospital or permanently into a nursing home. Thus the cost of cold-related ill health can be counted in more than the misery caused to the individuals affected. Increased illness adds to the existing pressures on health and social care services.

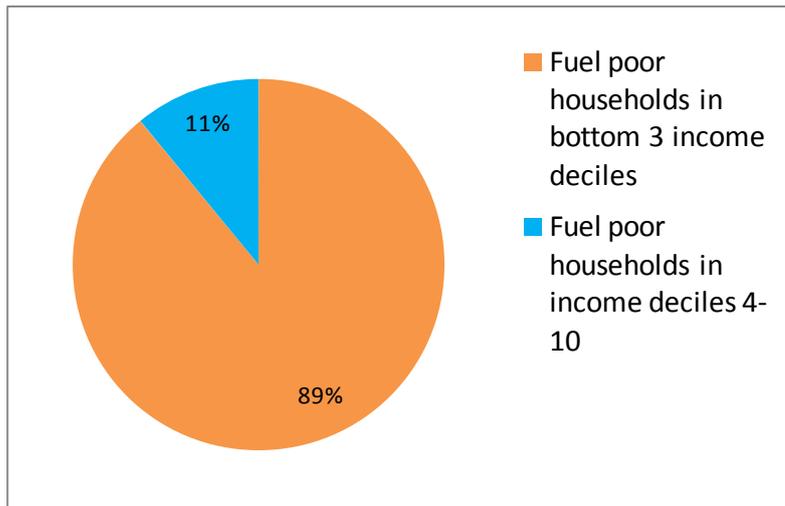


Finding the Fuel Poor

25. We understand the factors which can affect whether households will struggle to pay their energy costs and experience fuel poverty – income, energy prices and household energy performance – but finding these individual households and delivering the available assistance to them is much more challenging. This is because the circumstances which place a household in fuel poverty can change rapidly. Energy prices fluctuate and a household’s income can change month by month as people move in or out of employment, and as household members leave the home or move in. In addition when people change where they live, the differing energy performance of the new property could result in a change in their ability to afford their energy needs.
26. We believe that one of method to target support is to use proxies which indicate whether a household is likely to be fuel poor. The sections above demonstrated the type of vulnerable households who are likely to suffer from fuel poverty (those over 60, with children under 16 and those with an occupant who has a long term sickness or disability). In using these household types as proxies to target support it is also important to consider the proportion of all households within those groups who are fuel poor. The three diagrams below illustrate this:



27. We also know that over 89% of those in fuel poverty in England are in the lowest three income deciles (see diagram below¹²) and over 51% are in the lowest income decile. By using this information in combination with detail on the types of households likely to be fuel poor, for example through means-tested benefits aimed at older people, disabled or sick people, or families, we can identify groups with an even higher propensity to be fuel poor. This offers a methodology for identifying lower income households, vulnerable to fuel poverty, who may need assistance in a way that is robust and verifiable.



28. When developing targeting methodologies, we also need to take into account the level of flux in and out of fuel poverty, for the sort of reasons described in paragraph 26. Certain groups are more likely to move in and out of fuel poverty from year to year, particularly non-disabled adults of working age – as they have greater opportunities to increase their income through finding employment. Others, particularly the elderly, tend to have more stable circumstances and once in fuel poverty they are more likely to remain fuel poor in future years.

Principles: Warm Home Discount

Warm Home Discount Key Principles

29. Government believes that more needs to be done to support the most vulnerable consumers with their energy costs as part of its wider efforts to tackle fuel poverty. The Energy Act 2010 enables Government to put in place regulations which require energy suppliers to provide support to vulnerable consumers. Warm Home Discount policy will be implemented using these powers.
30. The Warm Home Discount will address one of the major drivers of fuel poverty, energy prices, by ensuring the cost of energy is reduced for more of the most in need.
31. The Warm Home Discount will be an important element in the Government's strategy for addressing fuel poverty going forward and this consultation seeks views on how the policy may best be implemented. Within our over-arching objective of tackling fuel poverty, we have sought to develop the Warm Home Discount scheme in line with the following five principles:



32. Guided by these principles, we have developed a proposed scheme for delivering the Warm Home Discount, once the Voluntary Agreement has come to an end. In this chapter we outline and invite views on the overall shape of the proposed Warm Home Discount scheme.

Summary of the proposed Warm Home Discount scheme

33. The Warm Home Discount will build on the success of the current Voluntary Agreement to provide more of the most vulnerable consumers with direct assistance on their energy bills. Our proposals for the Warm Home Discount scheme encompass the best elements of this agreement, while at the same time looking to address the concerns that stakeholders have raised with us.
34. Warm Home Discount will be a mandatory scheme under which energy suppliers would be required to provide financial support with energy bills to fuel poor and vulnerable low income households. The costs of the policy would be shared fairly between participating suppliers, in proportion to their share of the domestic energy market. Suppliers would be required to spend annually, in aggregate, £250million in 2011/12 rising to £310million in 2014/15 over the four years covered by the Warm Home Discount Regulations (draft scheme Regulations at Annex 1). The scheme would be reviewed after this four year period, unless the Secretary of State determines that it is necessary to conduct a review at an earlier point following a significant change in the circumstances surrounding the scheme (further detail on the requirements to review the scheme is in the chapter on Implementing the Warm Home Discount Scheme).

Core Group

- A specified financial benefit will be provided to households in the Core Group, deemed by the Government to be most at risk of fuel poverty and most likely to suffer detriment as a result of cold housing. Eligible households with participating energy suppliers would be found through data matching and sweep-up.

Broader Group

- The same financial benefit specified for the Core Group will be provided to a broader group of households who are fuel poor or vulnerable to fuel poverty. Suppliers will be able to assess who most needs this support among their customers.

Legacy Spending

- To provide a smooth transition from the Voluntary Agreement, suppliers will be able to continue providing discounted tariffs to vulnerable consumers. The amount of spending by suppliers on these tariffs will decrease over the course of the scheme, as the amount of spending on rebates for the Core and Broader Groups increases.

Industry Initiatives

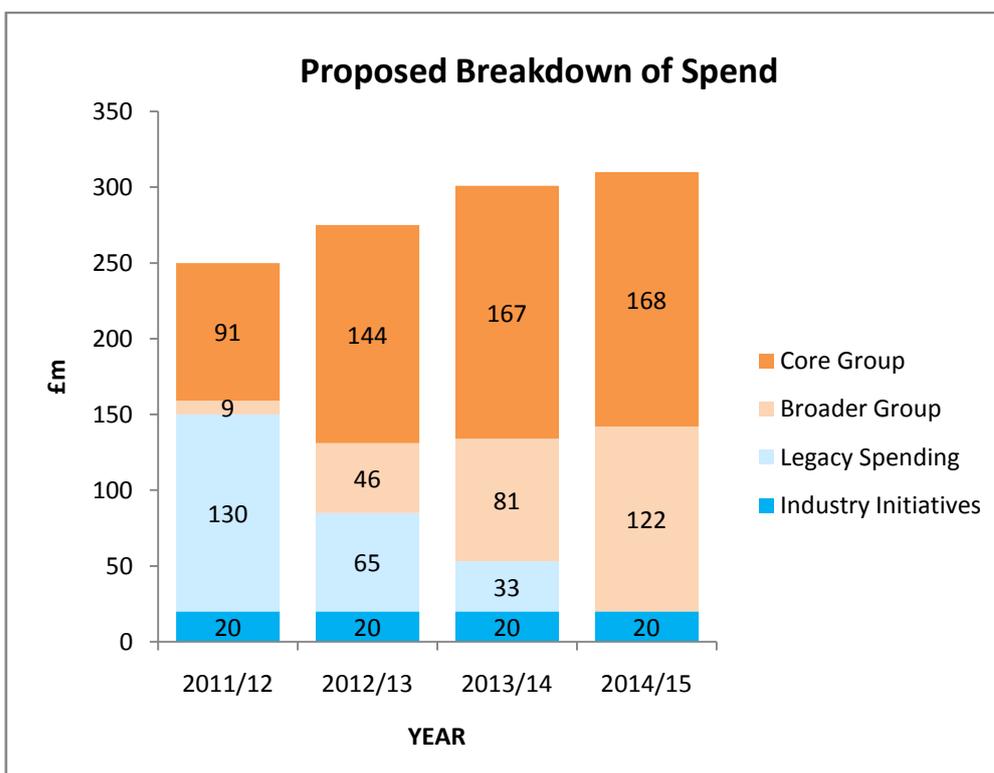
- Suppliers will be able to provide some non-financial benefits to vulnerable households. Within given guidelines, this may include activities which improve targeting of the available support or those which provide energy advice to consumers.

35. Government's vision for the Warm Home Discount scheme is based on four key elements – these are set out in the diagram above. We intend that the first year of the scheme should

be implemented in April 2011, when the current Voluntary Agreement between suppliers and Government comes to an end. Timescales are tight and our key priority is to have an effective scheme operational by April 2011 including a smooth transition for those who have been assisted under the Voluntary Agreement. Against this background, we will therefore carefully consider, drawing on evidence from the consultation process, which elements of the scheme are practicable for implementation in year one and which may, for practical delivery reasons, have to be phased in from year two of the scheme

Spending on each of the key components

36. The Core Group is the heart of the scheme, and, of the four components, we propose that it should account for the most significant level of total spending over the course of the scheme.
37. We propose that suppliers should have some flexibility in how they choose to structure their contributions across the other components of the scheme: the Broader Group, Legacy Spending and Industry Initiatives. We have proposed maximum caps for spending each year on the Legacy Spending and Industry Initiative elements of the model. The diagram below sets out what these caps would be. It also shows the proposed level of spend for the Core Group and what the level of spend for the Broader Group would be if spending on the Legacy and Industry Initiatives sections was at the level of their respective caps.
38. In principle, suppliers could meet their obligation in full through providing rebates to the Core Group and spending of all of the allowance for the Broader Group, Legacy Spending and Industry Initiatives on the Broader Group only. In practice, we expect that expenditure will be spread across all four components for the first three years of the scheme. In the final year of the scheme it would be spread across three components as we have proposed reducing the cap on Legacy Spending to zero.



39. The following section discusses the type of benefit which should be paid and sets out Government's view that energy bill rebates best fit with the principles guiding Warm Home Discount policy. The diagram above illustrates how, under our proposals the scheme would require the balance of suppliers' contributions to move in favour of providing the specified rebates under the Core and Broader Groups rather than discounted tariffs under Legacy Spending. Each of the components of the scheme will be outlined in more detail in the next chapter.

Type of benefit

40. Under the proposed Warm Home Discount scheme, the financial benefits specified for households in the Core and Broader Groups would take the form of a fixed rebate off electricity bills. The level of these rebates will be set by Government to ensure that all consumers receive the same benefit.

Why fixed rebates?

41. Government considers that rebates are the form of financial benefit that fit most closely with our guiding principles:
- **Principle 1: Clear benefit for consumers**
Rebates provide certainty for the consumer on the absolute level of support that they will receive, allowing them to plan and budget for their energy costs.
 - **Principles 2 and 3: Targeted support and good value for money**
Fixed rebates enable us to calculate the exact cost of providing a given benefit to a certain number of households. This has two benefits. First, it enables Government to design a Warm Home Discount scheme within a given spending envelope which includes a carefully targeted Core Group who will be eligible for a rebate if they meet all of the eligibility criteria. Second, it enables each supplier to predict their spending requirements and as such, ensures that the cost of the benefits can be reconciled among the energy suppliers. This is important so that no one supplier is required to fund a disproportionate number of benefits (more information on the rationale and mechanics of this reconciliation process is included in the chapter on Warm Home Discount: the role of Energy Suppliers, page 27).
 - **Principle 4: Competitive energy markets**
By leaving the underlying tariff structure intact, rebates minimise distortion to the energy market by maintaining the incentive for consumers to seek out the best tariff available, and for suppliers to compete across the entire market.

Why not other financial benefits?

42. In reaching the view that fixed rebates were the form of financial benefit that best fit our principles, we considered the relative merits of other forms of financial benefit, including 'social' or discounted tariffs and rebates linked to energy consumption.
- **Rebates linked to energy consumption**
While these would not disincentivise switching and thus would meet our principle relating to competitive energy markets, such rebates would not meet our other principles. As the level of the benefit would fluctuate depending on changing patterns of energy usage, it would provide less of a clear and consistent benefit for consumers. In addition, it would be more difficult for suppliers to predict spending

on benefit provision for the Core Group and providing a legally robust reconciliation mechanism between suppliers would be more complicated if rebates of different levels were provided to eligible consumers.

- **Social and discounted tariffs**

Ofgem have defined a social tariff as the lowest enduring tariff offered by a supplier in that region, on any payment method. Many suppliers also offer discounted tariffs to vulnerable groups as part of the voluntary agreement which are cheaper than their standard tariffs. However, this form of unit price discount does not meet our principles. It does not provide a clear or targeted benefit, as different suppliers may offer different benefits to different groups of customers, depending on their tariff regime. This can make it difficult for consumers to compare and switch energy supplier to ensure they are receiving the best deal, and difficult for Government to reconcile costs between suppliers as they will depend on a number of variables including the level of tariff and level of usage. It is therefore inconsistent with the principle of maintaining competitive markets.

43. **Principle 5** is to provide a **smooth transition** from current arrangements both for suppliers and consumers. To facilitate this in the proposed scheme, we propose to allow the continuation of certain arrangements similar to those which were provided through the Voluntary Agreement. Social and discounted tariffs will be included as a transitional measure only, as, for the reasons outlined above they do not present the most effective way to deliver support to vulnerable consumers.

Eligibility for the Warm Home Discount

44. The Core Group is at the heart of the Warm Home Discount scheme. We propose to set clear eligibility criteria to ensure this group includes those households who have a high propensity to fuel poverty and are at risk of detriment if they live in cold housing. Our proposal is that this group should be composed of those in receipt of certain types of the means-tested benefit, Pension Credit. As set out in Regulation 8 of the draft scheme Regulations at Annex 1, energy suppliers will provide the rebate to those identified as being eligible. Government intends to use a system of secure data matching and a supporting administrative process to identify members of this group.
45. We recognise that in addition to those who will be assisted through the Core Group, other groups are also at higher risk of fuel poverty than the population average, with greater vulnerability to detriment if they live in cold housing. The benefits of providing rebates to a wider group need to be weighed against the costs of the policy, which we expect will ultimately be passed on by the energy suppliers through consumer bills. We therefore consider that it is proportionate to allow rebates to be offered to a Broader Group of vulnerable households at risk of fuel poverty, through the second component of the scheme. This structure will ensure that a portion of spending by energy suppliers within the scheme is dedicated to households, beyond those eligible for the Core Group, who are vulnerable and have a propensity to be fuel poor.
46. We propose that energy suppliers should be required to provide the Core and Broader Group benefits through customers' electricity bills, rather than any other energy bill. A key reason for this is to ensure that the vast majority of consumers have access to the scheme, if they meet the eligibility criteria. In particular, this ensures that those living off the gas grid,

including those in rural areas, could receive the same help with their fuel costs as households on the gas grid.

47. The Legacy Spending portion of the scheme is intended to provide a smooth transition from the Voluntary Agreement. Energy suppliers have provided social and discounted tariffs to vulnerable customers and low income customers under the agreement since 2008⁹. The Legacy Spending portion of the scheme would encompass this type of expenditure.

Consultation Questions: Principles of Warm Home Discount policy and scheme structure

1.	Do you agree that Warm Home Discount policy should be implemented in line with the principles outlined in this chapter? Please explain your answer.
2.	Do you agree with the structure of the proposed Warm Home Discount scheme, including the target groups, type of benefit and distribution of funding between the four sections of the scheme? Please explain your answer.

Warm Home Discount and Vulnerable Energy Consumers

As set out in the previous chapter, there are four components of our proposed Warm Home Discount scheme: the Core Group, the Broader Group, Legacy Spending, and Industry Initiatives. This chapter further explains each of these elements, including what they offer to consumers, which consumers we propose would be eligible for different types of support and the level of rebates which would be provided to the Core Group and Broader Group. This chapter also sets out what types of activities funded by energy suppliers will count under Industry Initiatives and how they will benefit consumers.

Core Group

48. The Core Group is at the heart of the Warm Home Discount scheme and is designed to fulfil each of the following scheme principles by:
 - offering a **clear benefit for consumers**;
 - providing **targeted support** for households vulnerable to fuel poverty and acting as a gateway for energy suppliers to target other policies;
 - delivering **good value for money** as a cost-effective tool for tackling fuel poverty, without undue administrative costs; and
 - being consistent with a **competitive energy market** structure.
49. We propose that the support available through the Core group should be focused on those who are most likely to be persistently fuel poor. This is key in delivering good value for money, and making the best use of the available resources in tackling fuel poverty. Part 3 of the draft scheme Regulations (Annex 1) contain information on how we propose to put systems in place to find these consumers and how energy suppliers will be required to make payments to them.

Eligibility

50. We propose that the Core group should be focused on older pensioner households on low-incomes. This group has been chosen as low income pensioners have a high propensity to fuel poverty and are also likely to suffer health detriments linked to cold temperatures. They are also past working age and have relatively stable economic status, e.g. their incomes – and therefore propensity to be fuel poor – are likely to remain consistent. The rationale and evidence base for these criteria are set out under Option 3 of the Impact Assessment published alongside this consultation document.
51. These older poorer pensioner households will be targeted through a benefit proxy. The benefit proxy used will be receipt of a subset of Pension Credit. Pension Credit is made up of two elements. The Guarantee Credit works by topping up the income of people who have

reached State Pension age for women to their guarantee level¹⁴ (the standard minimum guarantee is £132.60 a week for single people and £202.40 for couples). It can be more for people with a severe disability, caring responsibilities or certain housing costs. The Savings Credit rewards pensioners aged 65 and over who have low or modest second pensions or savings. The Savings Credit is worth up to a maximum of £20.52 a week for a single person and £27.09 for couples. People can receive any combination of the elements of Pension Credit. The group receiving only Guarantee Credit represents the poorest pensioners on Pension Credit.

52. We propose that the eligibility criteria for the Core group should expand to include additional Pension Credit recipients each year of the four years of the scheme (as set in the table below on eligibility criteria for consumers in the Core Group). In the first year all recipients of Guarantee Credit only will be eligible for support. It is then proposed that for future years this should be expanded, with a decreasing age threshold, to those receiving Guarantee Credit *and* Savings Credit, as well as those in receipt of Guarantee Credit only. We believe that these eligibility criteria will be relatively simple to communicate. The age threshold applies to either or both the Pension Credit customer or their partner. The intention of this proposal is to ensure that with a limited amount of money available to pay rebates, we are able to prioritise the pensioners on the lowest incomes as a primary factor and the oldest pensioners as a secondary factor.

Scheme Year	Proposed eligibility criteria for consumers in the Core Group
2011/12	In receipt of Pension Credit Guarantee only (i.e. no Savings Credit) ¹⁴
2012/13	In receipt of Pension Credit Guarantee Credit only (i.e. no Savings Credit). 80 and over and in receipt of Pension Credit Guarantee Credit and Savings Credit.
2013/14	In receipt of Pension Credit Guarantee only (i.e. no Savings Credit). 75 and over and in receipt of Pension Credit Guarantee Credit and Savings Credit.
2014/15	In receipt of Pension Credit Guarantee Credit only (i.e. no Savings Credit). And all in receipt of Pension Credit Guarantee Credit and Savings Credit.

53. In addition, we would propose that customers who are living permanently in a care home or were in hospital for more than a year will not be included as their fuel bills will have been paid through these organisations.
54. Government proposes to work with energy suppliers to help them identify as many eligible households as possible in the Core Groups through a system of data-matching (for further

¹⁴ The minimum qualifying age for Pension Credit is based on, and will be rising in line with, Women's State Pension age. Under the legislation as it presently stands, women's state pension age is gradually increasing from 60 to 65 between April 2010 and April 2020.

information see the chapter on Warm Home Discount Scheme: Targeting Eligible Consumers, page 30).

Rebate payment

55. Eligible Core Group members would be paid a lump-sum rebate off their household electricity bill. We are minded that the value of this rebate should be £130 per year for the first two years of the scheme, rising to £135 in the third, and to £140 in the final year of the scheme. These represent a significant reduction on the household energy bill and comparable to the average value of the discounted and social tariffs available to consumers under the first and second years of the current voluntary agreement.
56. As set out in Regulation 8 of the draft scheme Regulations (see Annex 1), energy suppliers would be required to credit this rebate to the accounts of customers with standard credit or direct debit accounts and put alternative arrangements in place to pay the rebate to those customers on pre-payment meters (PPM). We propose that this should be paid according to how refunds are normally made to PPM customers by their supplier. Energy suppliers' refund methods vary and, as Government does not wish to place undue administrative burdens on suppliers, we do not intend to suggest that a single method should be used to provide rebates to pre-payment meter customers. This approach worked effectively in the Energy Rebate Scheme exercise (further detail on the Energy Rebate Scheme is on page 30).
57. In line with our principle of providing clear benefits to consumers, we are also considering requiring energy suppliers to use common names in describing the rebates on household bills. We believe that this would help consumers to understand the purpose of rebate, as they could connect it to this scheme. We propose that this should work in the same way for the Core and Broader Groups, where proposed recipients will receive the same type and level of benefit. We would be grateful for views on whether this would be beneficial for consumers.

Broader Group

58. Under our proposals, the Broader Group would be used by energy suppliers to target support in the form of a set rebate to households who were fuel poor or vulnerable to fuel poverty. We propose that the Broader Group rebates would be offered at the same level as those for the Core Group: £130 in each of the first two years of the scheme, rising to £135 in the third, and £140 in the final year of the scheme.
59. Government recognises that the proposed eligibility criteria for the Core Group, while offering many advantages in terms of targeting and effective use of resources, would mean that many other types of vulnerable households beyond low income pensioners would not be eligible for support through it.
60. Therefore the Broader Group has been included within the proposed scheme, giving energy suppliers flexibility to provide support to a wider group of vulnerable households who lie outside the Core Group. For example, suppliers may choose to target groups such as low income families and those with long-term illnesses and disabilities through this portion of the model. In an earlier section of this document (see page 9) we outlined the vulnerable groups who have a high propensity to be fuel poor, and the reasons why these types of vulnerable households suffer detriment from fuel poverty.

61. In this section of the model there is a balance to be struck between ensuring money goes to the right people, and the administrative burdens associated with identifying and verifying eligibility. We believe the right balance can be struck through our proposals which would require energy suppliers to meet the aims of the Broader Group by taking reasonable steps to provide benefits under this section wholly or mainly to households who are in or are at risk of fuel poverty, and who are not eligible for the core group.
62. We anticipate that as well as using their own networks and information, energy suppliers will utilise links with voluntary organisations and consumer groups to help identify those vulnerable consumers who would be eligible for this support, for example through referrals.

Legacy Spend

63. This element of the scheme has been included to provide a smooth transition from the existing Voluntary Agreement between energy suppliers and Government. In their report on the second year of the Voluntary Agreement, Ofgem estimated that at least 1.6 million accounts were benefiting from some form of financial support. This support makes a real difference to the lives of those being helped, and Government therefore wants to ensure that this model includes provision for energy suppliers to continue helping those receiving support under the existing Voluntary Agreement.
64. As the costs of the policy are likely to be recovered by energy suppliers through increases on energy bills, it is important to consider the value for money of spending of this sort. The Voluntary Agreement provides real help to people, but based on our modelling the number of people removed from fuel poverty is less than in the Core group. The types of spend provided under the Voluntary Agreement (generally social and discounted tariffs on electricity and gas accounts) are also much less predictable and consistent than the rebates we are proposing for the Core and Broader Groups.
65. As such we believe it is appropriate that the support given with the Legacy Spending portion of the scheme is part of a transitional arrangement. This is reflected in the restrictions which would be placed on spending by energy suppliers under this section of the scheme. These are set out in Part 4, Chapter 3 of the draft scheme Regulations (Annex 1) and include:
 - A limit to providing social or discounted tariffs.
 - Tariffs offered only to the same categories of households as a supplier had assisted under the final year of the Voluntary Agreement.
 - The maximum number of tariffs a supplier could offer (in terms of number of accounts assisted) would be the same number of accounts they had assisted in the final year of the Voluntary Agreement.
66. Energy suppliers would also be required to manage down spending in this section over several years, decreasing the amount that they spend on this group each year at a significant but steady pace. Spending would be transferred to Core and Broader Groups - ensuring we can help as many people as possible who are fuel poor or vulnerable to fuel poverty in an effective and efficient manner.
67. We are proposing that energy suppliers should be allowed to collectively spend up to £130m in the first year (as this is close to the amount spent in previous years under the Voluntary Agreement). This number will be halved in the second year (reducing maximum collective

spend to £65m), halved again in the third year (reducing maximum collective spend to £33m), before dropping to 0 in the final year.

Industry Initiatives

68. The Warm Home Discount scheme has been designed to deliver predominantly direct financial assistance with energy costs to fuel poor and vulnerable consumers. We believe that there is a strong rationale to also allow energy suppliers to spend a limited portion of their contribution to the scheme on other forms of support which would also benefit fuel poor and vulnerable consumers.
69. This type of support is currently being delivered by energy suppliers through the Voluntary Agreement. They spent just over 17% (£26 million) of their combined contributions in the first year of the agreement, and around 16% (£25 million) in the second year, on industry initiatives other than providing social or discounted tariffs to consumers. This has included activities such as: providing rebates; carrying out benefit entitlement checks; supporting consumer referrals from 3rd parties; and funding the Home Heat Helpline run on suppliers' behalf by the Energy Retail Association.
70. Government proposes that energy suppliers should be able to count against the Industry Initiatives component of the scheme funding of activities to assist fuel poor and vulnerable consumers which improve targeting of the available support; deliver energy efficiency measures; offer energy advice, and provide certain types of fuel-debt relief. Examples of the types of activity that would count are:
 - working in partnerships to support referrals from 3rd parties which identify those eligible for assistance;
 - funding benefit entitlement checks for consumers – which can result in increased household income and access to other forms of support;
 - funding services which deliver energy advice for consumers (for example the Home Heat Helpline¹⁵); training advisory staff, community and health workers on energy matters.
71. We believe that it is important that energy suppliers would be required to demonstrate that these activities were in addition to those they are required to carry out under other Government obligations such as CERT or CESP and are in addition to their licence obligations. Further information on how suppliers will gain approval for such activities is set out in the chapter on Monitoring the Warm Home Discount Scheme (page 40).
72. Fuel debt relief can bring valuable assistance to low income families and energy suppliers are obliged through their licence conditions to help struggling consumers to manage their debts. Ofgem have published key principles to identify activities above and beyond suppliers' business as usual debt management processes in their reports on the Voluntary Agreement. Ofgem consider that additional fuel-debt relief should be well targeted at the fuel poor, part of a holistic package of measures and not related to any billing errors etc where the

¹⁵ This service is funded by the six largest energy suppliers and run on their behalf by the Energy Retail Association, further information on the Home Heat Helpline can be found via:
<http://www.homeheathelpline.org.uk/>

customer would not have been responsible for the debt in the first instance. If energy suppliers wish to include fuel debt relief within their contributions to the scheme, we propose that they should be required to demonstrate that it is in line with these principles.

73. Further details on our proposals for allowable activities, and limitations on them, are set out in Part 4, Chapter 4, and Schedule 2 of the draft scheme Regulations (Annex 1).

Level of Spending on Industry Initiatives

74. The Warm Home Discount would be a transitional measure, designed to help a large number of vulnerable consumers with their energy costs while programmes such as the Green Deal are being rolled out to improve the energy performance of consumers' homes. During this transition it will be important to ensure that the majority of the funding is available for direct support to consumers with their energy costs. Therefore we propose that a cap of £20million per annum should be set on the amount energy suppliers can spend on these initiatives.
75. In addition we are considering whether it would be appropriate to have an additional cap on the level of spending by energy suppliers on fuel debt relief, as is the case under the current Voluntary Agreement, and would welcome views as to whether this would be useful.
76. Benefit entitlements checks (BEC) assist consumers by assessing their income and circumstances to determine whether they are eligible for any additional help from Government. Under the current Voluntary Agreement a range of costs has been associated with such checks, dependent on their form which varied from £10 for telephone consultations to up to £40 for face to face meetings and assistance in claiming the additional benefits identified. We propose that energy suppliers should be able to claim similar amounts for provided comparable services and would welcome views and supporting evidence as to whether this is an appropriate range of costs for such services.

Consultation questions on the scheme structure:

Consultation Questions: Core Group	
3.	Do you agree with the suggested eligibility criteria for the Core group as set out in the table on page 21 and in paragraphs 51- 55? Please provide evidence to support your views.
4.	Do you agree with the proposals on how benefits are provided to PPM consumers (e.g. that energy suppliers will use the means that they currently use for that group)? Please provide evidence to support your views.
5.	Do you agree that it would be helpful for consumers if energy suppliers are required to use common language to describe rebates provided through the Core (and Broader) Group on consumer bills? Please provide evidence to support your views.

Consultation Questions: Broader Group

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| 6. | Do you agree with the suggestion that energy suppliers should have discretion to target the Broader Group support at those vulnerable households they can identify who fall outside the Core Group? Please provide evidence to support your views. |
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Consultation Questions: Legacy Spending

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| 7. | Do you agree with the proposed arrangements for legacy spending? Please provide evidence to support your views. |
| 8. | Do you agree that it is appropriate for energy suppliers to retain discretion over the level and type of benefit they give to people where they are continuing with an agreement already in place? Please provide evidence to support your views. |
| 9. | Do you agree that requiring energy suppliers to manage down any spending on Voluntary Agreement commitments is appropriate, and that reducing as set out above (£130m in year 1, £65m in year 2, £33m in year 3, £0 in year 4) is an appropriate way to do this? Please provide evidence to support your views. |

Consultation Questions: Industry Initiatives

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| 10. | Do you agree that energy suppliers should be able to include funding of the type of activities identified in paragraphs 71-74 within their Warm Home Discount contributions? Please provide evidence to support your views. |
| 11. | Do you agree that the cap on this form of spending should be set £20m? Please provide evidence to support your views. |
| 12. | Do you consider there should be a cap on the amount energy suppliers can spend on providing debt relief? Please provide evidence to support your views. |
| 13. | Do you believe there should be additional caps within this section on particular types of spending? Please provide evidence to support your views. |
| 14. | Do you agree that the proposed level of costs for different benefit entitlement checks outlined in paragraph 77? Please provide evidence to support your views. |

Warm Home Discount: the Role of Energy Suppliers

The Warm Home Discount scheme will be funded by the participating energy suppliers. A core principle of the policy is to ensure that the scheme does not act to distort the competitive energy market. In particular, this relates to how the costs of supporting vulnerable households are shared across participating energy suppliers. This chapter discusses proposals relating to scheme participation and how the costs of the policy would be spread across energy suppliers.

Energy Supplier Participation in the Warm Home Discount Scheme

77. As is the case with other DECC schemes, such as the Carbon Emissions Reduction Target and the Community Energy Savings Programme, Government is minded that energy suppliers would only be required to participate in the Warm Home Discount scheme if they are above a certain size – determined by their number of domestic energy customer accounts. The threshold used by current DECC policies is 50,000 customer accounts. A consultation on this threshold will be conducted shortly by Government on what this threshold should be, following concern that this current figure of 50,000 is too low. We would like to invite people with an interest in this area to respond to that consultation, the results of which will inform our final decision on the threshold for this scheme (please note that we have therefore not included a threshold figure in the draft scheme Regulations at Annex 1 for mandatory participation in the scheme).
78. We propose that energy suppliers below the threshold for mandatory participation would be able to give benefits to the Core Group on a voluntary basis if they wished to and, in line with our proposals on targeting, therefore be able to take part in the data match process to identify consumers eligible for the Core Group. This would allow energy suppliers, concerned that they may lose consumers if they are not part of the scheme, to participate and for those for who consider the costs of participation too high and likely to hinder competition to remain outside the scheme.

Fair Funding for the Warm Home Discount Scheme

79. It is important to ensure that the costs of the Warm Home Discount scheme are shared between energy suppliers in an equitable manner. If a situation arose where a energy supplier (or suppliers) had to bear a disproportionate share of the costs of the policy, this would have a number of negative impacts on competition and on vulnerable households. For example, affected energy suppliers may become uncompetitive in their wider tariff offerings and, at the extreme, could stop competing for customers who are eligible for support under the policy.
80. The current voluntary agreement ensures an equitable split of costs across the big six energy suppliers by calculating contributions on the basis of relative market shares. Energy suppliers' market shares are based on the number of domestic gas and electricity accounts that each energy supplier serves.

81. We propose to continue to use this metric to allocate share of the policy between energy suppliers. Shares of customer accounts is a straightforward approach that could make use of data that is already collected and used across a number of other DECC policies (e.g. CERT, CESP).

Possible Under-Spend in the Core Group

82. The total cost of paying rebates to households in the Core Group will predominately depend on: (a) the number of households that are potentially eligible to receive support; and (b) how many of the households that are located through any data-matching mechanism and any sweep-up mechanism that is put in place (see the next chapter on targeting eligible consumers for further information). In order that the level of expenditure under the scheme does not exceed the funding envelope, the size of the eligible core group of households will need to be set on the basis of an expectation of how many customers will be found through the data match and any subsequent confirming of their eligibility where needed. If this is less successful than anticipated, then we would see a level of under-spend against the overall funding envelope. We are interested in your views on how best to deal with any such under-spend by the Core Group.

Reconciliation Mechanism

83. It is not possible to know in advance how the costs of providing rebates to any eligible Core Group customers will be spread across energy suppliers as suppliers would not know in advance how many eligible households they had among their customer base.
84. This means that a particular energy supplier (or suppliers) may face a disproportionate share of the costs of supporting this group if they are required to support more than their market-share's worth of households.
85. The Government believes that it will be necessary, therefore, to have a *reconciliation mechanism* alongside the scheme to ensure that the costs of supporting households in the Core Group are shared fairly across energy suppliers. The reconciliation process would occur in the following way:
- The operator of the reconciliation mechanism receives information on the number of Core Group households that they have paid a benefit to.
 - The reconciler would calculate whether any of the energy suppliers had over or under-spent based on their share of the market.
 - The reconciler would then make the necessary transactions take place to ensure that the overall costs of the policy were shared across all energy suppliers in an equitable way.
86. In order to avoid creating cash-flow difficulties (which may arise if a firm is required to make a significant number of payments and then face a long delay before costs are reconciled) it is envisaged that the reconciliation process would take place at least three times per year, with provisions for further reconciliations as the need arose (see chapter on Implementing the Warm Home Discount for more details).
87. Government is minded to use powers in the Energy Act 2010 (under Section 12 – reconciliation mechanism: licence modifications) to allow Elexon (the Balancing and

Settlement Company) to be the operator of the reconciliation mechanism. Elexon is established under the Balancing and Settlement Code (BSC) and manages the systems and services that balance and settle wholesale electricity markets. All licensed electricity suppliers are required to be members of the BSC and are bound by the rules and procedures of the Code. Elexon have significant experience of reconciliation mechanisms (as well as existing processes for balancing costs across suppliers), and it is therefore well placed to run the reconciliation mechanism under the Warm Home Discount scheme.

88. The activities of Elexon to balance and settle electricity markets are set out in the BSC. Requiring Elexon to act as the operator of the reconciliation mechanism for the Warm Home Discount scheme we consider will therefore require the BSC to be amended to permit Elexon to carry out this function and may also require changes setting out how Elexon operates the reconciliation mechanism.
89. The BSC itself is established in accordance with the conditions of Electricity Transmission Licence, so it is likely that any changes to the BSC would first require a modification to the Transmission Company's (National Grid) Transmission Licence and a direction to National Grid to change the BSC. Draft regulations setting out the reconciliation processes and any draft amendments to the: (i) the Transmission Licence; and, (ii) the Balancing and Settlement Code that may be necessary to enable Elexon to carry out this function will be published shortly and will be available on the DECC website.

Consultation Questions: Funding for the Warm Home Discount Scheme

15.	Do you agree that energy suppliers below the customer account threshold should be allowed to participate providing benefits to the Core Group through the scheme on a voluntary basis? Please provide evidence for your views.
16.	Do you agree that the costs of the Warm Home Discount scheme should be split between energy suppliers based on their share of customer accounts (as is the case under the current Voluntary Agreement)? Or would it be appropriate to use an alternative metric? Please provide evidence for your views.
17.	What do you consider to be the best way to deal with any potential under-spend in the Core Group? Please provide evidence and examples of how any proposals may work.
18.	Do you agree that Elexon would be an appropriate operator of the reconciliation mechanism for the Warm Home Discount scheme? Please provide evidence for your views.

Warm Home Discount: Targeting Eligible Consumers

This chapter sets out our proposals for finding eligible consumers in the Core Group.

Targeting the Core Group

90. As set out in the section on Core Group eligibility on page 20, the Core Group rebate will be targeted at those in receipt of Pension Credit. These proposals are based on the success of the 2010 Energy Rebate Scheme pilot data matching scheme which will have provided rebates to over 200,000 households in receipt of the Guarantee Credit element only of Pension Credit aged 70 and over and proved that data matching between Government and six different private sector organisations can work. Details of this are set out in the box below. We have been able to incorporate lessons learned from the Energy Rebate Scheme into our proposals for the Core Group.

Case Study: Energy Rebate Scheme

DECC, DWP and the six major energy suppliers (British Gas, EDF Energy, eon, nPower, ScottishPower, and Scottish and Southern Energy and their subsidiary companies) worked together on the Energy Rebate Scheme. This was a one-year exercise to provide an £80 energy supplier funded rebate on electricity bills for the poorest pensioners. The scheme was also an opportunity to review the contribution data sharing could make to help target assistance at fuel poor households in the future.

Customers were eligible for the rebate if they, or their partner were 70 or over; receiving the Guarantee Credit only element of Pension Credit; and living at home. In addition, this person (or their partner) had to be responsible for paying the electricity bill at the place where they lived and not in receipt of a social or discounted tariff from their energy supplier.

Data matching was used to identify eligible customers. DWP benefit information was compared against information from energy suppliers about their customers. This match was carried out on DWP's behalf by DWP's IT provider. Energy suppliers were only provided with information about who among their own customers was eligible for the benefit.

Over 182,000 households (53% of those who were eligible) were 'matched' so received the benefit automatically without having to make a claim. In addition, over 160,000 letters were sent out from DWP to those customers who needed to provide additional information to confirm their eligibility. Many of these customers would not have been eligible. These customers then had until 31st August 2010 to provide further information and claim their rebate if they were eligible. Of these 'unmatched' customers, over 23,000 provided enough information to confirm their eligibility. Rebates were credited to consumers accounts from July 2010 onwards. Separate arrangements were in place to provide the rebate to those on

pre-payment meters etc.

In addition, the scheme also provided an opportunity to review the contribution data sharing could make to help target assistance at fuel poor households. The project undertook a formal lessons learned process which highlighted that any future scheme should consider reducing the number of customers who had to confirm their eligibility rather than receiving an automatic benefit, simplifying and better communicating scheme eligibility and reducing the cost of dealing with eligibility queries and better build in the time needed for the tight security requirements for handling personal information.

Warm Home Discount and Data Matching

91. We believe data matching could have an important role in locating households eligible for support as part of the Core Group. As the draft Regulations at Annex 1 set out, the Secretary of State may allow a data matching process to take place. This would work by getting agreement from the Parliament to Regulations under Section 142 of the Pensions Act 2008 as set out in paragraphs 102-103 which would allow the Department for Work and Pensions to pass name and address information about a specific group of people on Pension Credit. The draft scheme Regulations attach then set out that the Secretary of State may give a direction to scheme suppliers asking them share certain information about their customers. The information that the Secretary of State must include in that direction and when by is set out in Regulation 6. (3) of the draft scheme Regulations.
92. A data-matching organisation would be contracted to carry out the match of this information from DWP and the six energy suppliers. Where the data matches, the draft scheme Regulations set out that a 'list' of this information would be provided back to the relevant energy supplier. This would only be the energy suppliers own data, e.g. with an indicator, i.e. a tick against those that qualify for a credit. No other identifiable personal or benefit information would be passed on. However, we recognise that not all eligible customers would be found through this automatic match process. For example, the spelling of names or address format may differ between Government's data and the energy suppliers' data and some people who are eligible for the Department for Work and Pensions benefit may not be a customer of the participating energy suppliers.
93. One option to address this would be use a method similar to that chosen for the Energy Rebate Scheme in which letters were sent to all those in the eligible group who did not match automatically, asking them to contact a call centre to provide the missing information. Once eligibility had been confirmed, energy suppliers were then informed of who else among their customers was eligible for the rebate. This process, which was resource intensive, is described in the case study on the Energy Rebate Scheme on page 30. In the light of these challenges we would welcome views on any alternative solutions which could be used to provide benefits to those who do not match automatically. The passing of this information would also be in the form of a 'list' as outlined in Regulation 7 of the draft scheme Regulations at Annex 1.
94. Regulation 8 of the draft scheme Regulations sets out that the scheme supplier must then credit the rebate to those found and provided on 'lists' as set out above. This section also sets out the arrangements for crediting those on pre-payment meters. Regulation 8 (5) then sets out the process through which scheme suppliers would be able to manage any cases inadvertently sent to them. In our experience from the Energy Rebate Scheme (see box case

study above), this did not happen often. For those matched automatically there were very few exceptions. For customers who had to contact the call centre to provide their information (as set out above), there were some more exceptions, for example where a customer had switched energy supplier since the eligible date and provided information about their current energy supplier. In these cases the incorrect supplier returned that information to the Secretary of State who contacted the customer to find out what had happened.

95. Regulation 8 (6) would be an even rarer occasion where a supplier was unable to credit a customer. If that happened we would expect them to provide a report to the Authority documenting how many cases this applied to, the reasons why they had not been able to and the steps they had taken to manage this.
96. Due to Data Protection principles, Government has deemed that it would not be proportionate to share an individual's data with an energy company unless a material benefit will accrue. Under our proposals, this material benefit under the Core Group would be a rebate of £130 in the first two years of the scheme, £135 in year three, and £140 in the final year.

Qualifying Date

97. In order to make a decision on who qualifies for the scheme we need to select a qualifying date on which we assess whether a Department for Work and Pensions benefit recipient meets the criteria described in the section on Core Group eligibility on page 20. A date will also need to be set for which energy suppliers will be required to provide information on their customer base, so that the match process can determine which energy supplier provides a particular benefit recipient's electricity supply. We would propose, as far as is possible with the practicalities of delivery, having a single qualifying date for both energy suppliers and Government. This will be the easiest to explain to customers and reduces the risk that a customer's circumstance changes between the qualifying dates if they are different.
98. We recognise that some people may be disappointed because they miss the qualifying date. However, for the scheme to work, a qualifying date is necessary to establish who is eligible. We do not propose to identify those whose award of Pension Credit is made after the data is collected or who are given a retrospective award that covers the qualifying date. This would entail significant cost and bureaucracy and mean that we were passing data to energy suppliers over a number of months.

Focus on: Data matching methods

Data matching works by taking data from DWP and energy suppliers and matching it together (see paragraph 92-93). The technical processes used for the match and the level of detail required for an exact match to take place can be varied. Regulation 7.(2) (a) of the draft scheme Regulations attached at Annex 1 set out one proposed option, the same approach used for Energy Rebate Scheme where the level of detail required for an exact match will be aimed at ensuring that only customers, or their partner, who are on the relevant Pension

Credit eligibility and the customer of a supplier (e.g. they pay their own electricity bill) would be eligible for the rebate. This is not intended to be a definitive proposal, but just provide an indication of how this approach could be outlined in Regulation.

The type of technical processes which can be applied to improve the match rate include processes to automatically cleanse the data. We would propose using address cleansing software to cleanse the data, for example to standardise the data for typical abbreviations, spelling and typing errors, such as 'st.' and street. We may also look at whether technical approaches to match data (often called 'fuzzy matching'), could be a cost effective means of improving the match rate.

In addition, we will also set what data would go into the match and what our requirements are to class it as an exact match. As mentioned at paragraph 93 only the minimum amount of data needed to undertake the match will be shared, for example just name and address data. Within this we could choose to require a very tight match where full first name and surname and all elements of the address are the same to class it as an exact match, or we could just require that the postcode and Delivery Point Suffix¹⁶ matched. This gives an indication of the range of options available. Varying the match routines like this has advantages, but also come with associated risks. For example improving the match rate could mean that more vulnerable households receive the benefit automatically, but may also increase the risk that some households who are not eligible still receive the rebate.

We would like your views on the complexity of the match versus ease of the claim process. Some examples are set out below:

- A. A tight match criteria such as address, postcode, Delivery Point Suffix, surname, forename or first initial

This means that automatic payments can be made when both sets of data match on postcode, delivery point suffix, surname and forename or first initial. The advantage of this type of rigorous match criteria is that in most cases the rebate will be paid to the Pension Credit recipient or their partner and not someone else in the household. . The disadvantage is that we will get a lower automatic match rate (eligibility for the ERS was slightly different, so we cannot make exact comparisons, but only about 53% of the eligible group were matched automatically using a similar match to this in the 2010 exercise). The 'unmatched' some of whom were eligible and others whom were not, were all sent a letter and those who were eligible were encouraged to call. This means many customers had to confirm their eligibility. This had high delivery costs, particularly in handling calls from customers to confirm their eligibility. In addition, some vulnerable customers may have found it difficult to understand the letter asking them to confirm their eligibility by contacting the call centre and providing the correct information. This may have meant that they did not manage to confirm their eligibility and receive the rebate.

- B. Reduce the match criteria slightly and hope to increase the automatic match rate, for example matching on postcode, Delivery Point Suffix and surname.

By removing the requirement to match against first initial, for example, we would expect that

¹⁶ The unique code for any delivery point (e.g. an individual property) within a postcode.

the match rate would increase. Although it is not directly comparable, analysis from the ERS suggests the match rate could increase by about 14%. The advantage of this would be that we could make an automatic payment to more households. This would mean fewer customers would have to provide information to confirm their eligibility. This would reduce delivery costs and is also likely to mean that some of the most vulnerable customers who may have struggled with the process would receive the rebate without having to do anything. The disadvantage of this is that we would be likely to make payments to customers who are not bill payers of the energy suppliers, for example where bills were paid by family members with the same surname. This would have the effect of letting the bill payer know that someone who did receive Pension Credit lived at this address. This may be unwelcome for some customers. By matching on surname we would also not make payments where the bill payer had a different surname, whatever their relationship to the eligible Pension Credit customer.

It would also be possible to loosen the match requirements even further, for example just to Delivery Point Suffix and post code.

We would like your views on how tight the data matching criteria should be given the advantages and disadvantages of the different options and if there are other means of carrying out a data match. Consultation questions on these issues are set out on page 36.

Wider Benefits of Data Matching

99. A key benefit of data matching is that for most customers the rebate will be credited automatically, e.g. they do not have to make a claim. This is particularly valuable when dealing with vulnerable groups who may not respond to traditional communications, such as letters. For example our experience with the Energy Rebate Scheme was that some customers found contacting the call centre and providing the information difficult and had to make several calls. It is also likely that some of the most vulnerable customers were not able to respond to the letter at all.
100. Once a rebate had been paid to consumers, their energy suppliers would be able to target further offers to them. When an energy company customer is matched with Government data, the customer receives a rebate and the supplier finds out that a customer is low income and vulnerable. The supplier may then use that information for certain reasons to better target other (energy efficiency and heating) measures or offering to place them on the Priority Services Register. The reasons for making this contact need to be set out in Regulations under Section 142 of the Pensions Act 2008 (see paragraph 103).

Legal Basis for Data Matching

101. Data matching requires a legal gateway. The Pensions Act 2008 Section 142 gives the Secretary of State power to make regulations regarding disclosing social security information on Pension Credit recipients to energy suppliers and vice versa. It prescribes that the Regulations must specify the purpose for which that information that is supplied, which must be in connection with enabling the provision of assistance to persons in receipt of State Pension Credit. In addition it gives the power to make regulations about offences for wrongful disclosure of information and the recovery of the cost of supplying and using shared information.

102. This primary legislation gives the power to prescribe certain details in affirmative Regulations which are concerned with the rules governing data disclosure rather than details of the scheme. These Regulations will set out exactly what the eligibility each year for the Core Group will be (see section on Core Group eligibility on page 20). This is to ensure that only the minimum amount of personal data is extracted. The first set of these Regulations under Section 142 of the Pensions Act 2008 will be drafted and put (through the affirmative procedure) to both Houses of Parliament in 2011. We expect these will set out:

- the Pension Credit customer eligibility and qualifying date;
- the customer data which may be shared by the Department for Work and Pensions and the energy supplier;
- the purposes for which that data can be used – including the specific reasons which an energy supplier may contact a customer who has received a rebate to provide additional assistance, for example to include energy efficiency measures (such as CERT), for an energy supply company to flag up vulnerable customers to help avoid them being disconnected in the event of bills not having been paid for a long time and offering the customer the chance to be on their Priority Services Register;
- the legal safeguards which would create a criminal offence of unlawful disclosure of the data by any party; and
- the liability of Directors.

Data Security

103. Government will ensure that the sharing of personal data held by the Department for Work and Pensions complies with existing safeguards and follows statutory and best practice guidance. All administration of data sharing regardless of the parties involved is subject to these standards. Data transfers must accord to the Departmental Secure Data Transfer Strategy. Energy suppliers will also be required to have secure measures in place for handling and transferring data to the data-matching organisation. In addition, as set out at paragraph 103, we plan to include an offence for anyone who unlawfully discloses data under this scheme.

Consultation Questions: Targeting the Warm Home Discount

- | | |
|-----|--|
| 19. | Do you agree energy suppliers and Government should use data matching to help find eligible members of the Core Group? Can you think of alternative proposals for how to do this, including how, if we use data matching we could find people who do not match? |
| 20. | As set out at paragraph 103, the reasons for which energy suppliers can use the information from the data match will be set out in detail in Regulations under Section 142 of the Pensions Act 2008. Are there any reasons you think suppliers should or should not be able to use this information? Please provide evidence to support your answer. |
| 21. | <p>On the data matching methods</p> <ul style="list-style-type: none">• What is your view on using software to cleanse the address data and ensure customer details are recorded in the same way? Do you have any proposals for how to do that better?• Do you have a view on using techniques (often called ‘fuzzy matching’) in the match process. Do you think we should apply them? What do you see as the advantages and disadvantages? Do you have examples, supported by evidence of approaches that work well.• We have outlined some possible options for the automatic match routines above and set out one possible proposal in Regulation 7 of the draft scheme Regulations. We have suggested some advantages and disadvantages of tightening or loosening the match routine. Do you have any views on which match routines we should use? Do you have a preference between the options we have set out or have ideas for others? Can you see any other arguments for or against such an approach? Could you support any example with what you see as the advantages and disadvantages of them? |

Implementing the Warm Home Discount Scheme

This chapter sets out in detail our proposals how the scheme will function, including the reconciliation. It also sets out our proposals on the length of the scheme and the under what circumstances under which the scheme Regulations could be amended. In keeping with the scheme principle of minimising distortions to the energy market - Government recognises the importance of providing certainty to energy suppliers through a clear and stable scheme structure.

Warm Home Discount Annual Cycle

104. The first stage of the process would be to determine which domestic energy suppliers were required to participate in the scheme. Ofgem proposed to use processes similar to those already in place for existing supplier obligations such as CERT, to determine which suppliers will be required to participate and their respective market shares. This will be based on the number of electricity and gas consumer accounts that a supplier is serving on a specified date.
105. Suppliers below the threshold for mandatory participation, but who wish take part in providing benefits to the Core Group (see paragraphs 78-79) would also need to inform Ofgem that they wished to take part in the scheme and of their customer numbers.
106. Ofgem would use this information on customer numbers to calculate market share and determine the scale of each suppliers' financial obligation under the scheme. This information would also be the basis for reconciliation calculations.
107. Ofgem would inform participating energy suppliers at the beginning of the scheme year of their obligation for spending on the elements of the scheme other than the Core Group. Spending on the Core Group will be determined following the data match as suppliers would be required to provide benefits to all of their customers identified as eligible for the Core Group (eligibility for this group is described above and has been proposed at levels which will ensure spending by suppliers on the Core Group, in addition to that on the Broader Group, legacy spending and Industry Initiative elements will not exceed the overall envelope for that scheme year).
108. The following sections set out how each element of the scheme would run over the course of the annual scheme cycle.

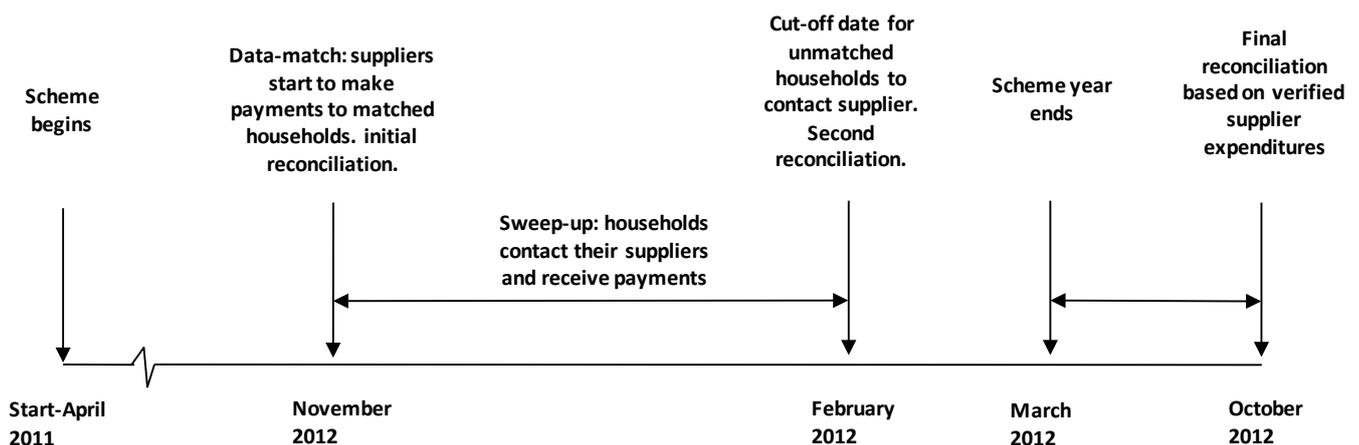
Core Group and Reconciliation

109. Government proposes that the Core Group should proceed through the following steps (the figure below sets out illustrative timings for activities in the Core Group).
 - **Data-match and initial reconciliation:** The scheme Regulations would require the Secretary of State to let energy suppliers know, by a date when they will be required to extract data and what data they will be required to extract. The data matching process would then compare consumer account data of participating suppliers with

Government data on which households are in receipt of the requisite subsets of Pension Credit. Where there is a match the energy supplier would be informed and required to give the matched household a rebate off the household electricity bill of £130 in years one and two, £135 in year three, and £140 in year four. At this point there would be the initial reconciliation between suppliers based on the number of households that had been identified through the data match.

- **Second reconciliation:** Following any sweep-up, the second reconciliation would be run amongst suppliers based on the number of households that were identified through that process.
- **Final reconciliation:** a final reconciliation may be necessary if the number of payments that are made diverges from the number of households initially identified. This final reconciliation would take place after Ofgem have undertaken their audit of payments that suppliers made in the Core Group.

Illustrative timeline for activities in the Core Group



Broader group

110. Energy suppliers would gain approvals for their proposals from Ofgem and would report at the end of the year of the level of spending. Government proposes that the timings of expenditure in the broader group should be at suppliers' discretion. However, the Government would expect energy suppliers to take reasonable steps to reduce the risk of paying benefits to households through the broader group where that household was later identified as eligible for support under the Core group. This will be important in ensuring that support is distributed fairly and is available to more of the most vulnerable households.

Legacy Spending

111. The benefits received by consumers under this section of the model would be in the form of discounted tariffs, which will be applied consistently to consumer bills throughout the year. Energy suppliers will report to Ofgem at the end of the year on the level of spending on these tariffs according to the agreed methodology set out in the scheme Regulations.

Industry Initiatives

112. The annual cycle for this section of the scheme would be similar to that for the Broader Group. Energy suppliers would gain approvals for their proposals from Ofgem and would then report at the end of the year of the level of spending.

Length of the Scheme

113. We have proposed that the Warm Home Discount Regulations should run for a period of four years from April 1st 2011. This four year period begins at the natural conclusion of the current voluntary agreement and is in line with the current spending review cycle across Government.

Review of the Warm Home Discount Regulations

114. The Energy Act 2010 requires the Secretary of State to state in the scheme Regulations how long the scheme will remain place, during this period the scheme cannot be revised, except under the circumstances set out in the regulations. This provision was included in the primary legislation to give energy suppliers the certainty they need to plan ahead, and eligible consumers will have greater confidence in the level of support they would receive during the scheme period to heat their homes to an adequate level.
115. During the scheme period, Regulation 22 (draft scheme regulations at Annex 1) would require the Secretary of State to review the scheme, if he considers it desirable, following a significant change in circumstances since the commencement of the scheme. The Secretary of State would also be required to review any aspect of the operation of the scheme if he considers that it is not operating effectively or if its effectiveness could be improved. Following such a review, and if he feels it is appropriate, the Secretary of State could then amend the Regulations accordingly. For example, should we determine that it is necessary to provide energy suppliers with further direction on who support should be targeted at in the Broader Group, the Secretary of State would be able to review and then revise the Regulations under these powers.

Consultation Questions: Implementing the Warm Home Discount Scheme

22.	Do you agree with the proposed annual cycle for the scheme? Please provide evidence to support your views
23.	Do you foresee any circumstances where it would be desirable for the Secretary of State to amend the scheme which would not be covered by the current wording of Regulation 22? Please provide evidence to support your views

Monitoring the Warm Home Discount Scheme

The Energy Act 2010 provides for the requirements of the scheme to be enforced as a relevant requirement of energy suppliers' licence conditions and gives Ofgem responsibility for reviewing compliance with the scheme in its role as the Gas and Electricity Markets Authority. In fulfilling its duties under the Energy Act 2010, Ofgem would collect and verify information on energy suppliers' contributions to the Warm Home Discount scheme. The Act gives Ofgem powers to require information from energy suppliers that it needs. In fulfilling its role under the scheme, Government believes that Ofgem should consider the Social and Environmental Guidance issued to it by the Secretary of State¹⁷.

The Annual Energy Statement 2010 set out the Department's intention to consider how best to streamline delivery of the functions needed to meet its objectives. The delivery of this scheme, along with the Department's other social and environmental programmes is being considered as part of this work.

Ensuring Compliance with the Warm Home Discount Scheme Requirements

Licence Conditions and the Warm Home Discount

116. The powers in the Energy Act 2010 provide for the Secretary of State to require energy suppliers to participate in the Warm Home Discount scheme as a relevant requirement of their gas or electricity licence. The six largest suppliers at whom this policy is aimed hold both gas and electricity licences. These licences are reviewed and enforced separately by Ofgem.
117. Government is minded that the regulations should be structured to place the financial obligation under the Warm Home Discount scheme on energy suppliers through their electricity licence. This would also encompass the requirements to provide benefits in the manner specified by the scheme regulations (for example to the Broader Group).
118. The financial obligation on the electricity licensee would be split according to its parent company's share of the domestic energy market, covering gas and electricity and measured through the number of customer accounts they hold. The draft regulations (at Annex 1) set out in detail how this would be put into practice and how obligations would be structured if a parent company held more than one electricity licence.

¹⁷ Sections 3B of the Electricity Act 1989 and 4AB of the Gas Act 1986 provide that the Secretary of State shall give the Gas and Electricity Markets Authority guidance as to the contribution the Authority should make towards the attainment of social and environmental policies. The Authority is required to have regard to the Guidance when discharging its statutory functions, but the guidance is not a means to direct Ofgem. A copy of the guidance is available via:
http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/markets/regulation/regulation.aspx

119. Energy Suppliers would be required to state on an annual basis their number of consumers in order to allow Ofgem to determine whether they should be included in the scheme and what their annual financial contribution should be to the scheme.
120. Spending by a gas licensee of the same parent company would be offset against the electricity licensee's financial obligation. Government has proposed this structure for the financial obligation as, under the scheme proposals, suppliers would be required to deliver Core and Broader benefits through electricity accounts. If suppliers chose to, they could deliver their full obligation through electricity accounts and industry initiatives set up by the electricity licensee. Therefore as no part of the scheme requires spending on gas accounts, it does not appear proportionate to place a financial obligation on gas licensees.
121. Under the proposed Warm Home Discount scheme suppliers would also be required to provide information to Ofgem on the scale and type of spending they have undertaken to fulfil their obligations under the scheme requirements. The requirement to provide information, as and when requested by Ofgem, would be placed on both gas and electricity licensees (described as scheme suppliers in the draft regulations). This would ensure that if suppliers chose to provide benefits on gas accounts as well as electricity accounts under the legacy spending section of the scheme, Ofgem would be able to adequately monitor this spending.
122. This would be similar to the existing arrangements by which energy suppliers submit information to Ofgem on the nature of their contributions to the voluntary agreement. Guidance produced by Ofgem on the Warm Home Discount scheme would set out the timeline for submitting this information and the format in which it should be submitted.

Ensuring energy suppliers meet their individual Warm Home Discount obligations

123. Ofgem would have responsibility for ensuring energy suppliers meet their spending obligations in accordance with the scheme requirements under our proposals and have indicated that they would issue guidance to suppliers on how they can best meet these requirements. The following sections provide examples of how Ofgem may monitor the scheme – the final decision on how to monitor the scheme in accordance with the scheme Regulations will be taken by Ofgem following consultation.
124. Ofgem will publish an annual report detailing energy suppliers' activities under the Warm Home Discount scheme and the level of spending by suppliers to confirm whether suppliers have met their annual obligation in full.

Core Group

125. Ofgem could require energy suppliers to provide them with an internally audited record of the number of rebates which had been credited to eligible consumers' accounts as a result of the data match and sweep up exercise and details of any exceptional cases where it has not been possible to credit those rebates (see Regulation 8 of the draft scheme Regulations).

Broader, Legacy Spending and Industry Initiatives

126. Under the current Voluntary Agreement, energy suppliers submit detailed records at the end of the year to demonstrate how they have met their voluntary spending targets. Under our proposals for the mandated scheme, we recognise that it will be important for suppliers, Ofgem and Government to be clear, before suppliers commit to spending against specific

activities, that the expenditure will count towards their obligation. We have therefore proposed a system by which energy suppliers would be required to submit notifications to the Authority for approval in advance of spending on these activities. In assessing proposals from a supplier, it will be important for all parties to consider how best to balance the need to gain the necessary assurances that suppliers' spending would meet the requirements of the mandated scheme alongside the administrative burdens which could be associated with demonstrating this.

127. For example, as set in the Broader Group section on page 22, we believe the right balance can be struck for this element of the scheme through our proposals which would require energy suppliers to meet the aims of the Broader Group by taking reasonable steps to provide benefits under this section wholly or mainly to households who are in or are at risk of fuel poverty, and who are not eligible for the Core Group.
128. The Part 4 of the draft scheme Regulations (at Annex 1) sets out the types of notifications suppliers would need to provide to Ofgem detailing their proposals under the Broader Group and Industry Initiatives. They also contain the requirements suppliers need to meet under the Legacy Spending element of the scheme. A summary of proposals on how this process could work is outlined in the box below. As outlined above, such proposals would be consulted on by Ofgem and are without prejudice to any further information that Ofgem may require from suppliers in order to be confident they had met their obligations.

Approval process for Warm Home Discount spending by energy suppliers	
Broader Group	<p>Ofgem would assess whether energy suppliers' processes for the Broader Group were sufficient to meet the requirements of the Regulations.</p> <p>At the end of the year, suppliers would provide Ofgem with an internally audited record of the number of rebate payments made and an audited assurance that the pre-approved processes had been followed.</p>
Legacy Spending	<p>Under our proposals, energy suppliers would be able to continue offering the same discounted tariffs as under the final year of current voluntary agreement, if they wish to do so. This is because this section of the model is designed to provide continuity for suppliers and vulnerable consumers from the voluntary agreement.</p> <p>Energy suppliers will be restricted to offering these tariffs only to the same groups as they had in the final year of the Voluntary Agreement and the number of tariffs offered under this scheme by a supplier must not exceed the number they offered in the final year of the Voluntary Agreement. These restrictions have been put in place to reflect the transitional nature of this part of the scheme – it has been designed to provide continuity for those who received assistance through the Voluntary Agreement</p> <p>At the end of the year, suppliers would provide Ofgem with an internally audited record of the spending on these tariffs, valued in accordance with the methodology set out in the scheme regulations (draft scheme regulations at Annex 1). Consultation questions related to this methodology are set out below.</p>

Approval process for Warm Home Discount spending by energy suppliers

Industry Initiatives	Ofgem would review activities proposed by energy suppliers under the Industry Initiatives section of the Warm Home Discount scheme against the criteria set out in the scheme Regulations (draft scheme Regulations at Annex 1). Consultation questions related to these criteria are set out below. At the end of the year, suppliers would provide Ofgem with an internally audited record of the spending on these proposals.
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Discounted Tariff Valuation

129. The Regulation 17 and Schedule 1 of the draft scheme Regulations (at Annex 1) set out how spending by energy suppliers on discounted tariffs would be valued. This methodology has been based largely on that used by Ofgem during the Voluntary Agreement. In essence, the value of suppliers' spending is determined by comparing the discounted tariff against a reference tariff (which it is assumed the customer would otherwise have had to pay).
130. We have proposed that Ofgem should determine this reference tariff for each energy supplier against the following principles:
- The tariff should be available to all domestic customers;
 - The tariff should have been available for a long period; and
 - The tariff should not be offered with an incentive (such as cashback, or discounts on other products).
131. We would be grateful for views as to whether these principles will allow Ofgem to identify a suitable reference tariff for each energy supplier, against which to value that supplier's discounted tariff.
132. In addition, we have proposed a further modification to the methodology which was used in the Voluntary Agreement: that is to determine average tariff values (where tariffs vary across regions) using weightings by customer numbers within each region, this is set out in detail in Schedule 1 of the draft scheme Regulations (at Annex 1).

Industry Initiative Criteria

133. The Schedule 2 of the draft scheme Regulations (at Annex 1) set out the criteria which Ofgem would review energy suppliers' proposals for Industry Initiatives against. These specify the types of activities which suppliers may carry out under this section of the scheme and any conditions which would also need to be adhered to, to ensure that suppliers could count the spend towards their contributions.
134. We would be grateful for views as to whether these criteria encompass a suitable range of activities which should be included in the Warm Home Discount scheme.

Consultation Questions: Monitoring the Warm Home Discount Scheme

24.	<p>Do you have any suggestions on how Ofgem should monitor the scheme or the proposed approvals process? This information will be passed to Ofgem for their consideration.</p>
25.	<p>We propose that it is important for all parties to consider how best to balance the need to gain the necessary assurances that suppliers' spending would meet the requirements of the mandated scheme alongside the administrative burdens which could be associated with demonstrating this.</p> <p>We welcome views on this issue, in particular what a reasonable level of assurance would be for verifying eligibility in the Broader Group and what the associated costs would be. Please provide suggestions and evidence as to how this balance can best be achieved.</p>
26.	<p>Do you agree with the proposed methodology for calculating the value of suppliers' spending on discounted tariffs?</p> <p>In particular:</p> <ul style="list-style-type: none">• Will the principles set out in paragraph 131 (see Regulation 17 and Schedule 1 of the draft Regulations for further detail) allow Ofgem to identify a suitable reference tariff for each supplier, against which to value that supplier's discounted tariff?• Do you agree that average tariff values (where tariffs vary across regions) should be determined using weightings by customer numbers within each region? <p>Please provide evidence to support your views.</p>
27.	<p>Do you agree that the proposed criteria for Industry Initiatives encompass a suitable range of activities which should be included in the Warm Home Discount scheme? Please provide evidence to support your views.</p>

Annex 1: Draft Regulations

Draft Regulations laid before Parliament under section 31(2) of the Energy Act 2010, for approval by resolution of each House of Parliament.

DRAFT STATUTORY INSTRUMENTS

2011 No.

ELECTRICITY

GAS

The Electricity and Gas (Scheme for Reducing Fuel Poverty) Regulations 2011

Made - - - - *2011*

Coming into force - - *in accordance with regulation 1*

The Secretary of State makes these Regulations in exercise of the powers conferred by sections 9, 10, 14(4) and 31(5) and (6) of the Energy Act 2010⁽¹⁸⁾.

The Secretary of State has consulted the Gas and Electricity Markets Authority, licensed electricity suppliers, licensed gas suppliers and such other persons as the Secretary of State thinks appropriate.

PART 1

Introduction

Title and commencement

1.—(1) These Regulations may be cited as the Electricity and Gas (Scheme for Reducing Fuel Poverty) Regulations 2011.

(2) These Regulations come into force on the day after the day on which they are made.

Interpretation

2.—(1) In these Regulations—

“the Act” means the Energy Act 2010;

“compulsory scheme electricity supplier” has the meaning given in regulation 5(1);

⁽¹⁸⁾ 2010 c. 27.

“discounted tariff” means a scheme supplier’s tariff for the supply of electricity or gas to domestic customers which is cheaper than the supplier’s reference tariff;

“domestic customer” means an owner or occupier of domestic premises in Great Britain who is supplied with electricity or gas at those premises wholly or mainly for domestic purposes;

“dual fuel” means the supply to a domestic customer of both electricity and gas, by a person who is both a licensed electricity supplier and a licensed gas supplier;

“group of companies” means a holding company and the wholly-owned subsidiaries of that holding company; and “holding company” and “wholly-owned subsidiary” have the same meanings as in section 1159 of the Companies Act 2006⁽¹⁹⁾;

“industry initiative” has the meaning given in regulation 18(1);

“non-core spending obligation” has the meaning given in regulation 9(3);

“the prescribed benefit” means—

- (a) £130 in scheme years 1, 2;
- (b) £135 in scheme year 3; and
- (c) £140 in scheme year 4;

“reference tariff” means a tariff designated by the Authority under regulation 17(2);

“relevant SPC claimant” means a person in receipt of state pension credit about whom section 142 regulations permit the Secretary of State to provide information to electricity suppliers;

“scheme electricity supplier” means a compulsory scheme electricity supplier or a voluntary scheme electricity supplier;

“scheme gas supplier” has the meaning given in regulation 5(6);

“scheme supplier” means a scheme electricity supplier or a scheme gas supplier;

“scheme year” means a period—

- (d) from the later of—
 - (i) 1st April 2011; or
 - (ii) the commencement of these Regulations,to 31st March 2012; or
- (e) of 12 months commencing on 1st April in any of the years 2012 to 2014,

and “scheme year” followed by a number from 1 to 4 means the scheme year commencing in 2011, 2012, 2013 or 2014 as the case may be;

“section 142 regulations” means regulations under section 142 of the Pensions Act 2008⁽²⁰⁾;

“voluntary commitment” means a commitment made by a licensed electricity supplier or a licensed gas supplier to the Secretary of State, in respect of the period 1st April 2008 to 31st March 2011, to provide financial benefits and carry out other initiatives to assist poor or vulnerable customers;

“voluntary scheme electricity supplier” has the meaning given in regulation 5(5).

(2) For the purposes of these Regulations, an electricity or gas supplier (A) is connected to an electricity or gas supplier (B) if A and B are companies belonging to the same group of companies.

(3) For the purposes of these Regulations, a scheme supplier’s number of domestic customers is the number of domestic customers to whom it supplies—

- (a) electricity;
- (b) gas; or
- (c) dual fuel,

with a supply of dual fuel being treated as a supply to two domestic customers.

⁽¹⁹⁾ 2006 c. 46.

⁽²⁰⁾ 2008 c. 30.

PART 2

The Scheme

Scheme for reducing fuel poverty

- 3.—(1) These Regulations establish a scheme for reducing fuel poverty.
- (2) The scheme is to be known as [].
- (3) The scheme has effect from 1st April 2011 to 31st March 2015.

Notification by suppliers

- 4.—(1) Paragraph (2) applies to every—
- (a) licensed electricity supplier; and
 - (b) licensed gas supplier which is connected to a licensed electricity supplier.
- (2) A supplier to which this paragraph applies must notify the Authority by:
- (a) 15th April 2011;
 - (b) 14th February in each of the years 2012, 2013 and 2014,

of the number of that supplier's domestic customers on the preceding 31st December.

(3) If, before the commencement of these Regulations, a supplier has notified the Authority of the number of that supplier's domestic customers on 31st December 2010, the Authority shall treat that as the supplier's notification for the purposes of paragraph (2)(a).

(4) If a supplier does not notify the Authority in accordance with paragraph (2), the Authority shall determine the number of that supplier's domestic customers on the preceding 31st December.

Scheme suppliers

- 5.—(1) In relation to any scheme year, a person is a compulsory scheme electricity supplier if—
- (a) that person—
 - (i) is a licensed electricity supplier; and
 - (ii) supplied electricity to domestic customers on the 31st December preceding the start of the scheme year; and
 - (b) either the condition in paragraph (2) ("Condition 1") or the condition in paragraph (3) ("Condition 2") is satisfied.

(2) Condition 1 is that the supplier had at least [] domestic customers on the 31st December preceding the start of the scheme year.

(3) Condition 2 is that—

- (a) the supplier; and
- (b) any licensed electricity suppliers or licensed gas suppliers which were connected to it on the 31st December preceding the start of the scheme year,

together had at least [] domestic customers on that date.

(4) For the purposes of paragraphs (2) and (3), a supplier's number of domestic customers is the number—

- (a) notified by the supplier to the Authority in accordance with regulation 4(2) (or treated under regulation 4(3) as being so notified); or
- (b) determined by the Authority under regulation 4(4).

(5) In relation to any scheme year, a licensed electricity supplier which is not a compulsory scheme electricity supplier is a voluntary scheme electricity supplier if the supplier gives notice to the Authority—

- (a) in relation to scheme year 1, by 15th April 2011;
- (b) in relation to scheme years 2, 3 and 4, by 14th February preceding the start of the scheme year,

that the supplier wishes Part 3 of these Regulations to apply to it.

- (6) In relation to any scheme year, a person is a scheme gas supplier if that person—
- (a) is a licensed gas supplier;
 - (b) supplied gas to domestic customers on the 31st December preceding the start of the scheme year; and
 - (c) was, on the 31st December preceding the start of the scheme year, connected to a licensed electricity supplier which in the scheme year is a compulsory scheme electricity supplier.

PART 3

The Core Group

Disclosure directions

6.—(1) This regulation applies only if section 142 regulations are in force which permit—

- (a) the Secretary of State (or a person providing services to the Secretary of State) to provide electricity suppliers with information about—
 - (i) persons in receipt of state pension credit, or
 - (ii) persons in receipt of state pension credit who meet conditions specified in the section 142 regulations,for use by those suppliers in connection with the provision of a benefit under these Regulations (or for use in connection with that purpose and other purposes); and
- (b) electricity suppliers to provide the Secretary of State (or a person providing services to the Secretary of State) with information about their domestic customers for the purpose of helping the Secretary of State to identify which of a supplier's customers are relevant SPC claimants (or for that purpose and other purposes).

(2) The Secretary of State may give a direction (“a disclosure direction”) to scheme electricity suppliers to provide information to the Secretary of State (or a person providing services to the Secretary of State) about their domestic customers.

(3) If a disclosure direction is given, it—

- (a) must be given to all scheme electricity suppliers;
- (b) must be given on or before *[insert date]* in the scheme year to which it relates;
- (c) must specify the information to be provided, which must be information which scheme electricity suppliers are permitted by section 142 regulations to provide;
- (d) must specify a date on which, or by which, the information is to be provided, which must be not later than *[insert date]* in the scheme year to which it relates; and
- (e) may specify the form in which the information is to be provided.

(4) A scheme electricity supplier must comply with a disclosure direction.

Identification of customers

7.—(1) This regulation applies in any scheme year in which a disclosure direction has been given.

(2) The Secretary of State may, in relation to each scheme electricity supplier which has provided information about its domestic customers—

- (a) take steps to identify customers of that supplier who are relevant SPC claimants; and
- (b) give the supplier a list of its customers whom the Secretary of State has identified as relevant SPC claimants.

(3) The Secretary of State may give more than one list under paragraph (2)(b) to a scheme electricity supplier in a scheme year.

(4) Any list under paragraph (2)(b) must be given to a scheme electricity supplier not later than *[insert date]* in the scheme year to which it relates.

(5) The Secretary of State must, in respect of each scheme electricity supplier, notify the Authority not later than the end of each scheme year of the number of that supplier's customers on lists given to that supplier during the scheme year.

Provision of the prescribed benefit

8.—(1) A scheme electricity supplier to whom the Secretary of State has given a list of customers under regulation 7(2)(b) must, subject to paragraph (5), provide the prescribed benefit to those persons in accordance with paragraphs (2) to (4) by 31st March in the scheme year in which the list is given.

(2) If a customer has an account with the supplier, the supplier must credit the prescribed benefit to the customer's account.

(3) If a customer pre-pays for electricity, the supplier must—

- (a) pay the prescribed benefit to the customer; or
- (b) give the customer credit against future electricity payments to the value of the prescribed benefit.

(4) If a person included in the list was a customer of the scheme electricity supplier when the supplier provided information pursuant to a disclosure direction, but has ceased to be a customer since that date, the supplier must pay the prescribed benefit to that person.

(5) A supplier is not required to provide the prescribed benefit to a person included on a list given to it under regulation 7(2)(b) if—

- (a) the person was not a customer of the supplier at the date on which the supplier provided information pursuant to a disclosure direction; or
- (b) the supplier has made reasonable endeavours to provide the prescribed benefit to the person and, by reason of exceptional circumstances, has been unable to do so.

(6) A supplier must—

- (a) where paragraph (5)(a) applies, notify the Secretary of State of all the persons included on a list which were not its customers on the date mentioned in that paragraph; and
- (b) where paragraph (5)(b) applies, notify the Authority of—
 - (i) the number of persons to whom the supplier has been unable to provide the prescribed benefit;
 - (ii) the reasons why the supplier has been unable to do so; and
 - (iii) the steps taken by the supplier to endeavour to provide the prescribed benefit to those persons.

PART 4

Non-core spending

CHAPTER 1

General

Notification of spending obligations

9.—(1) In relation to each scheme year, the Secretary of State must by *[insert date]*—

- (a) determine the aggregate amount to be spent by scheme suppliers on the provision of benefits under Part 4 of these Regulations (“the aggregate non-core spending obligation”); and
- (b) notify that amount to the Authority.

(2) In relation to each scheme year, the Authority must determine, in respect of each compulsory scheme electricity supplier—

- (a) the supplier's non-core spending obligation; and
- (b) the maximum amounts of spending on—
 - (i) discounted tariffs; and
 - (ii) industry initiatives,

which the supplier may count towards meeting its non-core spending obligation.

(3) The non-core spending obligation of a compulsory scheme electricity supplier for a scheme year is the relevant percentage of the aggregate non-core spending obligation.

(4) The Authority must notify each scheme supplier of the amounts determined for that supplier under paragraphs (1)—

- (a) for scheme year 1, by *[insert date]*;
- (b) for scheme years 2, 3 and 4, by *[insert date]* preceding the start of the scheme year.

Non-core spending obligation

10.—(1) In each scheme year a compulsory scheme electricity supplier must provide benefits in accordance with this Part to the amount of its non-core spending obligation.

(2) The benefits to be provided by a compulsory scheme electricity supplier under this Part—

- (a) must include expenditure under Chapter 2;
- (b) if Chapter 3 applies to the supplier, may in scheme years 1, 2 and 3 include expenditure under Chapter 3 subject to the limits in regulation 16(2) and (3); and
- (c) may include expenditure under Chapter 4 subject to the limits in regulation 18(4) and (5).

(3) Subject to paragraph (4), a compulsory scheme electricity supplier (“C”) may count towards meeting its non-core spending obligation any benefits provided under Chapter 3 (discounted tariffs) or Chapter 4 (industry initiatives) by a connected scheme gas supplier.

(4) If C is connected to one or more scheme gas suppliers and one or more compulsory scheme electricity suppliers, it may count towards meeting its non-core spending obligation Z% of any benefits provided under Chapter 3 or Chapter 4 by each connected scheme gas supplier, where Z is C’s number of domestic customers as a percentage of the combined number of domestic customers of C and its connected compulsory scheme electricity suppliers.

Interpretation

11.—(1) In this Part, “the relevant percentage”, in relation to a compulsory scheme electricity supplier (“C”) and a scheme year, is X/Y % where—

- (a) X is C’s number of domestic customers, unless sub-paragraph (b) or (c) applies;
- (b) if C is connected to one or more scheme gas suppliers but not to any other compulsory scheme electricity suppliers, X is the combined number of domestic customers of C and its connected scheme gas suppliers;
- (c) if C is connected to one or more scheme gas suppliers and one or more other compulsory scheme electricity suppliers, X is equal to Z% of the combined number of domestic customers of C and its connected scheme gas suppliers and connected compulsory scheme electricity suppliers, where Z is C’s number of domestic customers as a percentage of the combined number of domestic customers of C and its connected compulsory scheme electricity suppliers;
- (d) Y is the total number of domestic customers of all compulsory scheme electricity suppliers and scheme gas suppliers.

(2) In paragraph (1)—

- (a) references to a supplier’s number of domestic customers are to the supplier’s number of domestic customers on the 31st December preceding the start of the scheme year, as—
 - (i) notified by the supplier to the Authority in accordance with regulation 4(2) (or treated under regulation 4(3) as being so notified); or
 - (ii) determined by the Authority under regulation 4(4); and
- (b) a supplier is to be treated as connected to another supplier if those suppliers were connected on the 31st December preceding the start of the scheme year (but not otherwise).

CHAPTER 2

The Broader Group

Eligibility criteria

12.—(1) In respect of each scheme year, a compulsory scheme electricity supplier must provide the prescribed benefit to domestic customers (“broader group customers”) meeting eligibility criteria determined by the supplier and approved by the Authority in accordance with this Chapter.

(2) A supplier is not required to provide the prescribed benefit to every domestic customer who meets its eligibility criteria.

(3) A supplier’s eligibility criteria must be such as to ensure that the supplier’s broader group customers are wholly or mainly—

- (a) persons in fuel poverty, or in a fuel poverty risk group; and
- (b) persons other than relevant SPC claimants.

(4) Subject to paragraph (5), a supplier may only count towards meeting its non-core spending obligation the amount of benefits provided in accordance with a notification under regulation 13, after that notification has been approved by the Authority.

(5) In scheme year 1, where the Authority approves a supplier’s notification under regulation 13, the supplier may count towards meeting its non-core spending obligation the amount of any benefits provided in accordance with the notification, before or after its approval.

Notification of proposed eligibility criteria

13.—(1) A compulsory scheme electricity supplier must notify the Authority of—

- (a) its proposed eligibility criteria; and
- (b) the measures which it proposes to take, before providing the prescribed benefit to a customer to ascertain that the customer meets the proposed eligibility criteria.

(2) A supplier may make—

- (a) a notification for the purposes of one scheme year, or for the purposes of more than one scheme year; and
- (b) more than one notification in respect of a scheme year.

(3) A notification to the Authority must be in such form, and contain such information, as the Authority requires.

(4) The Authority must not approve a supplier’s notification unless it is satisfied that—

- (a) the supplier’s proposed eligibility criteria comply with regulation 12(3); and
- (b) the supplier proposes to take adequate—
 - (i) measures to ascertain that customers meet those criteria; and
 - (ii) fraud prevention measures.

(5) The Authority must notify a supplier of its decision upon a notification within 28 days of the later of—

- (a) the date on which it receives the notification; or
- (b) if it requires further information from the supplier before determining the notification, the date on which it receives that information.

(6) If the Authority refuses to approve a supplier’s notification—

- (a) the Authority must give reasons for its refusal; and
- (b) the supplier must within 28 days of receiving notice of the refusal (unless the supplier has already had another notification approved) submit a different notification to the Authority.

Provision of the prescribed benefit

14.—(1) Before providing the prescribed benefit to a broader group customer, a supplier must take the measures specified in its notification to ascertain that the customer meets the supplier’s eligibility criteria.

(2) Where a compulsory scheme electricity supplier provides the prescribed benefit to a broader group customer, it must do so in accordance with paragraphs (3) and (4).

(3) If a customer has an account with the supplier, the supplier must credit the prescribed benefit to the customer's account;

(4) If a customer pre-pays for electricity, the supplier must—

- (a) pay the prescribed benefit to the customer; or
- (b) give the customer credit against future electricity payments to the value of the prescribed benefit.

CHAPTER 3

Discounted tariffs

Scope

15.—(1) This Chapter applies to scheme suppliers which—

- (a) made a voluntary commitment; and
- (b) as part of that commitment, provided tariffs to customers in the period 1st April 2010 to 31st March 2011 at a lower price than would otherwise have applied to those customers.

(2) This Chapter applies in scheme years 1 to 3 only.

Discounted tariff spending

16.—(1) Subject to paragraphs (2) to (4), a compulsory scheme electricity supplier may count towards its non-core spending obligation for a scheme year the value of discounted tariffs provided to eligible customers in the scheme year (“discounted tariff spending”) by—

- (a) that supplier; and
- (b) any connected scheme gas supplier, to the extent that the compulsory scheme electricity supplier is permitted to count that value under regulation 10(3) or (4).

(2) The maximum amount of discounted tariff spending which a compulsory scheme electricity supplier may count towards its non-core spending obligation is—

- (a) the relevant percentage of £130 million in scheme year 1;
- (b) the relevant percentage of £65 million in scheme year 2;
- (c) the relevant percentage of £33 million in scheme year 3.

(3) The number of customers to whom a supplier provides a discounted tariff must not exceed the number of customers to whom in the period 1st April 2010 to 31st March 2011 the supplier provided a tariff mentioned in regulation 15(1)(b) for the purposes of a voluntary commitment.

(4) In this regulation, an “eligible customer” of a compulsory scheme electricity supplier is a customer meeting criteria which were—

- (a) set by that supplier for eligibility for a tariff mentioned in regulation 15(1)(b) in the period 1st April 2010 to 31st March 2011; and
- (b) treated by the Authority as counting towards the supplier's fulfilment of its voluntary commitment for that period.

Calculation of discounted tariff spending

17.—(1) The Authority must, in respect of each scheme year, calculate the amount of discounted tariff spending incurred by each scheme supplier.

(2) For the purposes of that calculation the Authority must, for each combination of—

- (a) fuel type supplied by the scheme supplier; and
- (b) payment type accepted by the scheme supplier,

designate a tariff offered by the scheme supplier as a reference tariff.

(3) In designating a tariff as a reference tariff, the Authority must take account of the desirability of a reference tariff meeting as many as possible of the criteria specified in paragraph (4).

(4) Those criteria are that a reference tariff should—

- (a) be available to all domestic customers;
- (b) have been available for a long period; and
- (c) not be offered with an incentive (such as cashback, or discounts on other products).

(5) The Authority must consult a scheme supplier before designating a tariff offered by that supplier as a reference tariff.

(6) Schedule 1—

- (a) specifies in Part 1 the information which scheme suppliers must provide to the Authority to enable it to make calculations under paragraph (1);
- (b) specifies in Part 2 the method of calculating a scheme supplier's discounted tariff spending; and
- (c) contains supplementary provisions in Part 3.

(7) Paragraph (6)(a) and Part 1 of Schedule 1 are without prejudice to the Authority's power to request information under regulation 21.

(8) In this regulation, and in Schedule 1—

“fuel type” means—

- (a) electricity;
- (b) gas; or
- (c) dual fuel; and

“payment type” means—

- (d) standard credit;
- (e) direct debit; or
- (f) pre-payment.

CHAPTER 4

Industry Initiatives

Limit on spending on industry initiatives

18.—(1) Subject to paragraphs (2) to (5), a compulsory scheme electricity supplier may in respect of any scheme year count towards its non-core spending obligation any spending on an activity of a kind listed in the first column of the table in Schedule 2 (an “industry initiative”) by—

- (a) that supplier; or
- (b) any connected scheme gas supplier, to the extent that the compulsory scheme electricity supplier is permitted to count that spending under regulation 10(3) or (4).

(2) Subject to paragraph (3), paragraph (1) only applies in relation to an industry initiative which has been approved by the Authority for the purposes of this scheme.

(3) In scheme year 1, where the Authority approves a supplier's notification under regulation 19, the supplier may count towards meeting its non-core spending obligation any spending on an industry initiative in accordance with the notification, before or after its approval.

(4) The amount of spending on industry initiatives which a compulsory scheme electricity supplier may count towards its non-core spending obligation in any scheme year may not exceed the relevant percentage of £20 million.

(5) A compulsory scheme electricity supplier may not count towards its non-core spending obligation in any scheme year spending on debt relief measures of more than []% of its non-core spending obligation.

Approval of industry initiatives

19.—(1) A compulsory scheme electricity supplier wishing to count spending on industry initiatives towards its non-core spending obligation must notify the Authority of the industry initiatives which it proposes to carry out.

(2) A supplier may make—

- (a) a notification for the purposes of one scheme year, or for the purposes of more than one scheme year; and
- (b) more than one notification in respect of a scheme year.

(3) A notification to the Authority must be in such form, and contain such information, as the Authority requires.

(4) The Authority must not approve a supplier's notification unless it is satisfied that the supplier's proposal—

- (a) meets the criteria specified in an entry in the first column of the table in Schedule 2, and does not fall within an exception specified in a corresponding entry in the second column of the table;
- (b) includes adequate monitoring and fraud prevention measures; and
- (c) will provide value for money.

(5) The Authority must notify a supplier of its decision upon a notification within 28 days of the later of—

- (a) the date on which it receives the notification; or
- (b) if it requires further information before determining the information, the date on which it receives that information.

(6) If the Authority refuses to approve a supplier's notification, the Authority must give reasons for its refusal.

Calculation of spending on industry initiatives

20.—(1) The Authority must, in respect of each scheme year, calculate the amount of spending on industry initiatives incurred by each compulsory scheme electricity supplier which is to count towards its non-core spending obligation.

(2) Spending on industry initiatives is not to count towards a supplier's non-core spending obligation if it—

- (a) is incurred pursuant to a requirement in any other enactment, or in the supplier's electricity or gas supply licence;
- (b) is counted by the supplier towards a spending obligation or target imposed on the supplier by any other enactment, or by the supplier's electricity or gas supply licence; or
- (c) falls within an exception in the second column of the Table in Schedule 2.

PART 5

Supplementary

Provision of information to the Authority

21.—(1) The Authority may request from a scheme supplier such information as the Authority requires for the purpose of carrying out any of—

- (a) its functions under these Regulations; or
- (b) its functions under section 13 of the Energy Act 2010⁽²¹⁾, insofar as they relate to the scheme established by these Regulations.

(2) A request under paragraph (1)—

- (a) must specify the date by which the information is to be provided; and
- (b) may specify the form in which the information is to be provided.

(3) A scheme supplier must comply with a request under paragraph (1).

⁽²¹⁾ 2010 c.27.

Reviews of the scheme

22. The Secretary of State must conduct a review—

- (a) of the scheme, if the Secretary of State considers that a review would be desirable because of a significant change in circumstances since the commencement of the scheme;
- (b) of any aspect of the operation of the scheme, if the Secretary of State considers that a review would be desirable because that aspect of the scheme is not operating effectively or its effectiveness could be improved.

Commencement: supplementary

23.—(1) Paragraphs (2) and (3) apply if these Regulations come into force after 1st April 2011.

(2) These Regulations apply subject the following modifications—

- (a) in regulation 3(2), for “1st April 2011” substitute the date on which these Regulations come into force;
- (b) in regulations 4(2) and 5(4), for “15th April 2011” substitute the date 14 days after the date on which these Regulations come into force;
- (c) [*may also need to modify other dates yet to be inserted*].

(3) In scheme year 1, a compulsory scheme electricity supplier may count towards its non-core spending obligation any spending which—

- (a) was incurred between 1st April 2011 and the date on which these Regulations come into force; and
- (b) would have counted towards its non-core spending obligation by virtue of Chapter 3 (discounted tariffs) or Chapter 4 (industry initiatives) of Part 4, if these Regulations had come into force on 1st April 2011.

Date

Name
Minister of State
Department of Energy and Climate Change

SCHEDULE 1

Regulation 17(6)

Calculation of Discounted Tariff Spending

PART 1

Information to be provided by scheme suppliers to the Authority

24. The mean annual household electricity consumption in the scheme year of all discounted tariff customers supplied with electricity (whether or not also supplied with gas).

25. The mean annual household gas consumption in the scheme year of all discounted tariff customers supplied with gas (whether or not also supplied with electricity).

26. For each combination of fuel type and payment type—

- (a) the number of discounted tariff customers on the last day of each month in the scheme year;
- (b) the price of the discounted tariff on the last day of each month in the scheme year;
- (c) the price of the reference tariff on the last day of each month in the scheme year;

27. For each combination of fuel type, payment type and month,—

- (a) the total annual cost of fuel for a customer with a discounted tariff account (“D”), and
- (b) the total annual cost of fuel for a customer with a reference tariff account (“R”),

on the assumptions that (in each case)—

- (i) the customer’s rate of consumption of each fuel supplied to that customer is the mean rate of consumption of all the supplier’s discounted tariff customers;
- (ii) the customer remains on that tariff for a year; and
- (iii) the price of the tariff on the last day of that month remains unchanged for that year.

PART 2

Method of calculation

28. In relation to each month in a scheme year—

- (a) for each combination of fuel type and payment type, multiply (R – D) by the number of discounted tariff accounts on the last day of the month;
- (b) for each fuel type, add together the amounts calculated under sub-paragraph (a) for different payment types.

29. For each fuel type—

- (a) in relation to each quarter, multiply the mean of the amounts calculated under paragraph 1(b) for the months in that quarter by the relevant weighting; and
- (b) add the amounts calculated under sub-paragraph (a) for each quarter in the scheme year.

30. Add the amounts calculated under paragraph 2(b) for each fuel type.

PART 3

Supplementary

31. If a supplier charges different prices in different regions for a discounted tariff or a reference tariff—

- (a) under paragraph 3(b) or 3(c) of Part 1 (as the case may be), the supplier must notify the Authority of the mean price charged to customers on that tariff; and
- (b) in calculating the total annual cost of fuel under paragraph 4(a) or 4(b) of Part 1 (as the case may be), the price of the tariff must be taken to be that mean price.

32. For the purposes of Part 1, all prices and costs are to be notified excluding Value Added Tax.

33. In this Schedule—

“fuel type” and “payment type” have the meanings given in regulation 17(8);

“quarter” means—

- (a) 1st April to 30th June;
- (b) 1st July to 30th September;
- (c) 1st October to 31st December;
- (d) 1st January to 31st March;

“relevant weighting”, for a fuel type and a quarter, means the percentage specified in the following table—

<i>Quarter</i>	<i>Electricity</i>	<i>Gas</i>	<i>Dual fuel</i>
1st April to 30th June	20%	15%	20%
1st July to 30th September	20%	10%	15%
1st October to 31st December	30%	35%	30%
1st January to 31st March	30%	40%	35%

SCHEDULE 2

Industry Initiatives

Regulations 18(1) and 19(4)

<i>Type of initiative</i>	<i>Exceptions</i>
<p>Payments to organisations which refer to electricity or gas suppliers customers who—</p> <ul style="list-style-type: none"> (e) are in fuel poverty or in a fuel poverty risk group; and (f) are, or may be, eligible for a benefit under these Regulations or for any other assistance from the supplier. 	
<p>Funding the provision of—</p> <ul style="list-style-type: none"> (g) benefit entitlement checks; or (h) benefit entitlement checks and assistance in claiming benefits. 	<p>A supplier may not count spending in excess of—</p> <ul style="list-style-type: none"> (i) [<i>insert amount</i>] per consumer for the provision of benefit entitlement checks; (j) [<i>insert amount</i>] per consumer for the provision of benefit entitlement checks and assistance in claiming benefits.
<p>Providing to domestic energy consumers, or funding the provision to domestic energy consumers, of—</p> <ul style="list-style-type: none"> (k) energy efficiency measures; (l) energy efficient appliances; or (m) microgeneration. 	<p>A supplier may not count spending which—</p> <ul style="list-style-type: none"> (n) it incurs pursuant to a requirement in any other enactment; or (o) it counts towards a spending obligation or target imposed on it by any other enactment
<p>Providing, or funding the provision of, energy advice to domestic consumers.</p>	
<p>Training persons, or funding the training of persons, to provide energy advice to domestic consumers.</p>	<p>A supplier may not count costs of training its own employees or contractors, or the employees or contractors of a company in the same group of companies as the supplier.</p>
<p>Measures to reduce or cancel debts for household electricity or gas supply which are—</p> <ul style="list-style-type: none"> (p) targeted at customers in fuel poverty, or in a fuel poverty risk group; and (q) provided as part of a package of measures aimed at providing those customers with long-term relief from fuel poverty. 	<p>A supplier may not count costs arising from a billing error by the supplier</p>

Annex 2: How to Respond

Territorial Extent

The Warm Home Discount scheme would extend to England, Wales and Scotland.

The Northern Ireland Executive has devolved powers regarding energy policy. Further information on efforts to tackle fuel poverty in Northern Ireland can be found at:

http://www.dsdni.gov.uk/fuel_poverty

Consultation Responses

Your response will most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

The closing date for responses is 14 January 2011. When responding please state whether you are responding as an individual or are representing the views of an organisation. If responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

Where possible we would like to receive consultation responses electronically. Email responses should be submitted to: warmhomediscount@decc.gsi.gov.uk

Hard copy responses can be sent by post to:

Warm Home Discount Team
Department of Energy & Climate Change,
1st Floor Area C,
3 Whitehall Place,
London, SW1A 2AW

Additional Copies

You may make copies of this document without seeking permission. Further copies of the document can be obtained from:

Warm Home Discount Team
Department of Energy & Climate Change,
1st Floor Area C,
3 Whitehall Place,
London, SW1A 2AW

An electronic version can be found at via the consultation section of the DECC website:

<http://www.decc.gov.uk/en/content/cms/consultations/warmhome/warmhome.aspx>

Other versions of the document in Braille, other languages or audio-cassette are available on request.

Confidentiality and Data Protection

Individual responses and information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004. If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department. The Department will process your personal data in accordance with the DPA. In the majority of circumstances, this will mean that your personal data will not be disclosed to third parties

Help with Queries

Questions about this document can be addressed to:

Warm Home Discount Team
Department of Energy & Climate Change,
1st Floor Area C,
3 Whitehall Place,
London, SW1A 2AW

E-mail: warmhomediscount@decc.gsi.gov.uk

If you have comments or complaints about the way this consultation has been conducted, these should be sent to:

Consultation Co-ordinator
Department of Energy & Climate Change,
3 Whitehall Place,
London, SW1A 2AW

Email: consultation.coordinator@decc.gsi.gov.uk

Annex 3: List of Organisations invited to respond to the consultation

Age UK

All licensed domestic gas and electricity suppliers²²

Association Conservation of Energy

Balancing and Settlement Code Company, Elexon

Citizens Advice Bureau

Consumer Focus

Energy Retail Association

Fuel Poverty Advisory Group

Local Government Association

Macmillan Cancer

National Energy Action

National Grid/Transco

Ofgem

Right to fuel

Right to warmth

UKBCSE

Which?

²² Electricity licensees are listed on Ofgem's website and can be viewed via:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Licensing/Work>

Gas licensees are listed on Ofgem's website and can be viewed via:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=101&refer=Licensing/Work>

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