



Department for
Business, Energy
& Industrial Strategy

Warm Home Discount Scheme 2021/22

Closing date: 11 November 2020

October 2020



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Any enquiries regarding this publication should be sent to us at: warmhomediscount@beis.gov.uk

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General information

Why we are consulting

This consultation proposes to issue regulations to extend the Warm Home Discount scheme to winter 2021/22 in Great Britain. It also proposes a number of changes to the Warm Home Discount Scheme for winter 2021/2022. Considerations around the future of the scheme following winter 2021/2022 is covered in the Scheme Post 2021/22 section of this document. The consultation is aimed at all those with an interest in fuel poverty policies, especially those interested in the Warm Home Discount. In particular we seek views from affected individuals, energy suppliers and organisations that represent low income and vulnerable households.

Consultation details

Issued: 14 October 2020

Respond by: 11 November 2020

Enquiries to: Please do not send enquiries by post to the department at the moment as we may not be able to access them.

Email: warmhomediscount@beis.gov.uk

Consultation reference: Warm Home Discount Scheme 2021/22.

Audiences:

The consultation is aimed at all those with an interest in fuel poverty policies, especially organisations representing energy customers and energy suppliers.

Territorial extent:

The proposals in this document are written and quantified on the assumption that they will apply to England, Wales and Scotland (unless stated otherwise).

How to respond

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

Your response should be submitted online using the dedicated online portal:

beisgovuk.citizenspace.com/home-local-energy/warm-home-discount-scheme-2021-22

Alternatively, email your responses to: warmhomediscount@beis.gov.uk

Please do not send responses by post to the department at the moment as we may not be able to access them.

When responding, please state whether you are responding as an individual or representing the views of an organisation.

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

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the Government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Executive Summary

The Regulations for the Warm Home Discount (WHD) scheme come to an end in March 2021.¹ This consultation document describes and seeks views on proposals for a one-year extension of the scheme.

This consultation comes at a time of unprecedented economic and social impacts of the Coronavirus (COVID-19) pandemic. The impact of COVID-19 on incomes, poverty levels and people's ability to pay their bills are likely to be felt beyond this winter. Therefore, by consulting on this one-year extension, we propose to continue to provide energy bill support through the WHD scheme for over 2 million low income and vulnerable households into winter 2021/22. Our proposals will also enable the continuation of vital Industry Initiatives support from April 2021. We have decided not to consult on wider policy reforms, which would affect millions of households, during the pandemic. Should Government decide to extend the scheme in future, we would plan to consult on reforms, to improve the fuel poverty targeting and expand automatic bill rebates. This has long lead-in times and we would plan to consult on this in 2021.

The COVID-19 lockdown has highlighted how households living in less efficient homes are likely to spend more on their bills compared those living in better insulated homes. Energy efficiency remains the most effective way of tackling fuel poverty. Good progress is being made to improve the energy performance of fuel poor homes through the GB wide Energy Company Obligation and the private rented sector minimum energy efficiency standard. Moreover, the recently announced Green Homes Grant, available in England only, worth £2bn, will enable thousands of fuel poor households to make their homes warmer and more energy efficient. The devolved administrations have also taken action to improve domestic energy efficiency for lower income households. However, it takes time to roll out energy efficiency at scale, and energy bill rebates continue to be needed to tackle fuel poverty. The WHD continues to contribute to the Government's fuel poverty objectives. It also continues to address broader distributional concerns across low income households arising from energy prices and the impact of our energy and climate change policies funded through bills.

For 2021/22 we are proposing to keep the major elements of the scheme unchanged. We propose to maintain the current spending levels, rising with inflation to £357m for England, Wales and Scotland. We propose to keep the eligibility for the Core Group and Broader Group the same, so that over 1.1 million Pension Credit Guarantee Credit recipients would continue to receive £140 off their bills, and around 1.2 million low income households would continue to be supported through the Broader Group. We are proposing to keep the rebate level at £140, to help more households, as the eligible pool for the rebate is likely to be larger as a result of the pandemic.

We will maintain but keep under review the current energy supplier participation threshold of 150,000 domestic customer accounts, as there would not be sufficient time for smaller energy suppliers to adjust their tariffs and prepare to deliver the WHD in time for April 2021.

We propose to make small changes to better deal with increased volatility in the energy market by facilitating the Supplier of Last Resort (SoLR) honouring a failing energy supplier's WHD obligations.

¹ [The Warm Home Discount Regulations \(2011\)](#).

Proposed changes to Industry Initiatives will ensure they can better support those most in need in the context of COVID-19. These proposals include:

- removing certain eligibility restrictions for the provision of energy bill support, especially for fuel poor households with a health condition or prepayment meter customers at risk of self-disconnection;
- advising vulnerable and hard-to-reach customers of the benefits of smart metering by making the provision of smart meter advice a mandatory requirement alongside other Industry Initiatives;
- continuing to allow up to £6 million debt write-off and introducing a cap for individual debt write-off so that debt reduction can go further;
- and introducing customer protections for boilers and central heating installations under WHD.

We invite your views on this consultation by 11 November 2020.

The Current Scheme

The Warm Home Discount (WHD) is a key policy in alleviating fuel poverty. The Regulations which underpin the WHD were amended in 2018 to extend the scheme to April 2021.² Now in its tenth year, the scheme continues to provide £140 off electricity bills to over 2 million households low income and vulnerable households each winter, when they need it the most.

Over the past nine years of the scheme, over £2.7 billion of direct assistance has been provided by participating energy suppliers under the scheme.

Energy suppliers with over 150,000 domestic customer accounts are required to participate in the scheme and provide rebates to Core Group customers. Energy suppliers with over 250,000 customer accounts are also required to deliver rebates to Broader Group customers and can spend up to £40 million each year providing additional energy support to vulnerable households through Industry Initiatives. In its first 2 years, only the 6 largest energy suppliers were part of the scheme, whereas in scheme year 2020/21 there are 23 obligated and 2 voluntary energy suppliers participating. This illustrates the increased level of competition in the domestic energy supply market and more consumer choice for people who qualify for the scheme.

The WHD is made up of three elements:

- The Core Group – people in receipt of Pension Credit Guarantee Credit (this includes customers who also receive the Savings Credit element of Pension Credit). Energy suppliers provide £140 off electricity bills to their eligible customers, most are provided automatically on bills.
- The Broader Group – energy suppliers provide £140 off electricity bills to low income and vulnerable customers who met the eligibility criteria and successfully apply.
- Industry Initiatives – energy suppliers provide a range of measures including debt assistance, benefit entitlement checks, energy advice and energy efficiency measures to domestic customers in or at risk of fuel poverty. Through Industry Initiatives the WHD is encouraging more innovative solutions to support vulnerable households with their energy bills, regardless of whether that households' energy supplier takes part in the scheme.

These three elements are explained in further detail below. The rebates are provided to customers regardless of payment type. Rebates are applied on electricity bills. This ensures that those living off the gas grid can receive the same help with their fuel costs as households on the grid. For customers with a dual fuel account, participating energy suppliers can, at their discretion and if requested by the customer, credit customers' gas accounts rather than their electricity accounts.

The Core Group

The WHD Core Group is made up of households in receipt of the Guarantee Credit element of Pension Credit, including those who also receive Savings Credit. Energy suppliers with over

² [Warm Home Discount Regulations 2011](#) and [Warm Home Discount \(Reconciliation\) Regulations 2011](#).

150,000 customer accounts provide £140 off electricity bills to their eligible Core Group customers. In scheme year 2019/20, over 1.1 million households received a £140 rebate off their energy bill, with approximately 1 million receiving this automatically through data matching.

All participating energy suppliers have to provide rebates to all their Core Group customers, who are their customers on the qualifying date, which is set each scheme year, usually in mid-July, and who meet the eligibility criteria. They are required to provide a rebate even if the customer switches to another energy supplier during the scheme year. Smaller energy suppliers, who are not yet obligated to participate in the scheme, can volunteer to offer rebates to their Core Group customers. Once they volunteer for a scheme year, they are obligated like other energy suppliers to provide the rebate to their Core Group customers.

DWP informs energy suppliers which customers should be paid a Core Group rebate, through a system of data matching, described below. As a result, more than one million low income pensioners currently receive an automatic energy bill discount each winter, without needing to apply and with very low costs for energy suppliers. Data matching works by taking Government name and address data for households in receipt of Pension Credit Guarantee Credit (held by DWP) and matching this with energy supplier customer records. DWP informs the energy suppliers which of their customers meet the eligibility criteria, and the energy suppliers then automatically provide these customers with energy bill rebates.

Data matching means that most households eligible under the Core Group receive their rebate without having to take any action. This is a very cost-effective process which ensures the rebate reaches those (particularly the most vulnerable) who might otherwise miss out because they fail to apply. It also provides an excellent customer journey.

The data matching which takes place under the WHD Core Group is almost universally popular with stakeholders. The vast majority of Core Group customers receive a letter telling them their data has been matched and they will receive a rebate by 31 of January without having to take action, although in many cases it will be paid earlier.

Not all pensioners in receipt of the qualifying benefit are eligible or receive the rebate automatically as described above. There are two main reasons for this. Firstly, customers who are not with a participating energy supplier or who are not named on the electricity account are not eligible. Secondly, there are instances where customers are eligible for the rebate but are not identified in the data matching process, because the name and address details held by DWP and the energy suppliers are different, for example when a customer's maiden name is used. To try and capture this second group of people, Government sends letters to everyone who has not been matched but is in receipt of the qualifying benefit. This letter requests that they call the WHD Helpline to verify their eligibility. Once this process has been completed successfully, they too receive a rebate, usually before 31 March. Around 55,000 customers receive the rebate through this process.

All eligible Core Group participants identified on the qualifying date as part of the two processes described above are entitled to a rebate for that scheme year and their participating energy supplier is obliged to provide it to them.

The Broader Group

Energy suppliers with over 250,000 customer accounts provide £140 off electricity bills to low income and vulnerable customers who met the eligibility criteria and successfully apply.

The Broader Group forms part of the 'non-core' spending obligation and, as a result of the Core Group size reducing year on year, it has become the largest element of the WHD scheme. Energy suppliers are required to spend a minimum amount on the Broader Group; the minimum is set by Ofgem based on energy suppliers' market share, once the size of the Core Group obligation for a given scheme year has been calculated. Energy suppliers often spend beyond this required minimum and are permitted to adjust their spend on other voluntary non-core spending (Industry Initiatives) or simply spend beyond their obligation (only 5% of non-core group additional spend can be carried forward into next scheme year).

The current standard eligibility criteria that all participating energy suppliers have to adopt for their Broader Group schemes, allowing for consistency across energy suppliers and making it more easily accessible to applicants.³ The standard criteria are based on a variation of the Department for Work and Pensions' Cold Weather Payment scheme eligibility group and low-income working families in receipt of in work benefits and with a child under 5 or a disabled child. Alongside this, energy suppliers are permitted to have additional criteria, subject to Ofgem approval. Data matching is not applied to the Broader Group. Customers have to apply directly to their electricity supplier for the WHD rebate each year, and it is usually awarded on a first-come first-served basis.

Industry Initiatives

Within the non-core obligation, obligated energy suppliers can spend up to £40m on other forms of support to benefit fuel poor and vulnerable households; they are not restricted to helping their customers. The amount that energy suppliers can spend on this element is based on their market share.

The WHD Regulations set out approved activities⁴ that energy suppliers are permitted to carry out under the Industry Initiatives section of the scheme which are displayed in the table below. Recipients of Industry Initiatives are wholly or mainly persons in fuel poverty or in a fuel poverty risk group.

Energy suppliers are allowed to work with other organisations, such as charities, to deliver this element of the scheme, as long as the activities remain within the scope of those listed above. In addition, households identified by Local Authorities under the ECO LA Flex mechanism⁵ are treated as eligible for support under Industry Initiatives and can receive energy efficiency measures under ECO.

Energy suppliers must obtain approval from Ofgem before commencing activities to ensure that their industry initiatives spending counts towards their obligations.

³ The list of mandatory criteria can be found in Table 3 of Ofgem's WHD Supplier Guidance: <https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-whd-guidance-suppliers-version-61>.

⁴ Schedule 4 of The Warm Home Discount Regulations (2011).

⁵ More information on the ECO LA Flex can be found in the Local Authority Flexible Eligibility Guidance, available here: <https://www.gov.uk/government/publications/energy-company-obligation-eco-help-to-heat-scheme-flexible-eligibility>.

In recent years, as a result of action taken by Government and Ofgem, more innovative projects providing more holistic, longer-lasting help to households have been funded. We will continue to work with Ofgem, energy suppliers and third parties to encourage more activities like this to occur under this element of the scheme.

Table 1: Industry Initiative Activity in scheme year 2018/19

Industry Initiative Type	Spend Attributed	% of Total Industry Initiative Spend
Provision of, or funding the provision of, energy efficiency measures, thermal efficiency measures, energy efficient appliances or microgeneration	£9,409,944.85	31.0%
Provision of, or funding the provision of, Energy Efficiency Advice (including training)	£6,034,627.09	19.9%
Provision of assistance to reduce or cancel energy debts as part of a package	£8,113,949.97	26.7%
Benefit entitlement checks and/or assistance to claim	£2,327,593.55	7.7%
Provision of financial assistance with energy bills including rebates, up to £140 per household	£357,656.46	1.2%
Rebate payments to eligible occupiers of mobile homes	£659,540.00	2.2%
Payments to organisations for referrals	£439,671.35	1.4%
Management / administration costs	£3,003,024.88	9.9%
Total	£30,346,008.15	100%

Rationale for energy bill rebates

The long-term solution to reducing energy bills and alleviating fuel poverty is to make the homes of low-income households more energy efficient, primarily by improving the building or the heating system in it. Good progress has been made to improve the energy performance of fuel poor homes, through ECO reform and minimum energy efficiency standards introduced in the private rented sector. In addition, devolved administrations have and will continue to take action to improve domestic energy efficiency for lower income households.⁶ This Government has also acted to protect 11 million households from excessive prices through the default tariff (price) cap, helping many in fuel poverty. These measures have all contributed to maintain the average energy bills broadly stable in the last few years, with average household dual fuel bills

⁶ For example, this includes the Welsh Government's Warm Homes Programme which has helped more than 61,000 lower income household since its launch in 2011 and the Warmer Homes Scotland scheme in Scotland.

in 2019 broadly similar to 2010. From September, low income households in England will be able to claim up to £10,000 under the Green Homes Grant to fully fund energy efficiency measures, saving hundreds of pounds per year on their energy bills.

In addition, a voluntary agreement between the Department of Business, Energy and Industrial Strategy (BEIS) and energy suppliers was signed in March to specifically support prepayment meter customers during the COVID-19 pandemic. This will also ensure that any energy customer in financial distress will be supported by their energy supplier, which could include debt repayments and bill payments being reassessed, reduced or paused where necessary, while disconnection of credit meters will be completely suspended.

Whilst we are making progress in upgrading the energy efficiency of the housing stock, this takes time. For households with the lowest disposable incomes, energy costs continue to represent a higher proportion of total household expenditure. This affects particularly those who have the overlapping problem of high energy requirements, as for them spending on energy already accounts for a disproportionately high share of their annual outgoings.⁷ Moreover, engagement in the energy market tends to be lower for some groups of consumers who are at greater risk of being vulnerable. This means that consumers in vulnerable circumstances are likely to be paying more for their energy than is necessary.

Therefore, this policy continues to contribute to both the Government's fuel poverty objectives and address broader distributional concerns across low income households arising from energy price rises and the impact of energy and climate change policies funded through bills.

Energy bill rebates can act as the immediate relief from fuel poverty that many households need. As well as reaching millions of people each year, rebates are simple to deliver and consumer friendly. Under the WHD, eligible households can get money off their bills at the time when they need it most, having to take no or very little action to receive them.

⁷ Energy Spend as a Percentage of total Household Expenditure, Ofgem: <https://www.ofgem.gov.uk/data-portal/energy-spend-percentage-total-household-expenditure-uk#:~:text=In%202016%2C%20households%20in%20the,well%20above%205.5%25%20in%202004.>

Proposals for Scheme Year 11 (2021/22)

Regional coverage

Since it began in 2011, the WHD has covered Great Britain, with the policy being identical across England, Wales and Scotland.⁸ The proposals for the one-year extension of the Warm Home Discount scheme in this document are written and quantified on the assumption that they will apply to England, Wales and Scotland (unless stated otherwise) to allow for smooth continued delivery for winter 2021/2022.

Section 58 of the Scotland Act (2016) transfers certain powers to Scottish Ministers in relation to support schemes applying to gas and electricity suppliers for the purpose of reducing fuel poverty in Scotland. These powers commenced on 1 December 2017. These powers allow for Scottish Ministers to design a fuel poverty scheme for Scotland, for example setting the eligibility criteria for the WHD in Scotland and the types of support provided, including the amount of individual rebates provided to customers in Scotland. The Scotland Act requires the Scottish Ministers to obtain the consent of the Secretary of State in order to make such a scheme. Other powers relating to aspects of the WHD remain reserved to the Secretary of State, including energy supplier participation thresholds and the overall costs of the scheme to energy suppliers. The Secretary of State can also exercise the powers transferred to the Scottish Ministers with the consent of the Scottish Ministers and in certain other circumstances set out in the Scotland Act.

To enable the Scottish Government to assess responses to this consultation and determine their future approach, we will share them with the Scottish Government, subject to confidentiality requests.

Scheme Funding for scheme year 2021/22

The scheme is funded by participating energy suppliers. There is a significant advantage to the WHD being supplier-delivered as the recipients receive a direct reduction in their energy bills which has a greater impact on alleviating fuel poverty than increasing incomes by the same amount. However, energy suppliers pass the costs on to their customers. We estimate that this adds around £14 to the average annual domestic energy bill.⁹

In the 2015 Spending Review, Government set the Warm Home Discount scheme spending levels at £320m per year, rising with inflation. The spending target for the current scheme year 2020/21 will be £351m.

We propose to continue this approach of calculating the spending target for the one-year extension to year 2021/22, rising with inflation. Therefore, the spending target for 2021/22 is estimated to be £357m.¹⁰

⁸ The WHD does not extend to Northern Ireland, where the structure of the electricity and gas supply markets is different.

⁹ For more detail on the impacts on energy bills see the accompanying Impact Assessment.

¹⁰ Based on CPI forecasts from OBR, Economic and Fiscal Outlook – March 2020.

	Scheme Year 2019/20	Scheme Year 2020/21	Scheme Year 2021/22
Spending Target (£millions)	£347	£351	£357

Size of the rebate

The value of the rebate, £140, has remained the same for several years. As energy prices have remained broadly stable, consecutive Governments have decided to keep the value the same to provide rebates to more households.

Average energy prices have slightly increased in 2019 compared to 2018 (a 4% increase). In 2019 the average electricity bill across all payment types rose by £38 to £679 compared to 2018 and the average gas bill across all payment types rose by £17 compared to 2018, to £610.¹¹ In 2019, the Default Tariff (Price) Cap was introduced to protect over 11 million customers on more expensive 'default' and 'standard variable' tariffs.

In assessing the level of the rebate there are trade-offs. Increasing the level of the rebate would go further to help some households, but it would mean fewer households will receive the rebate. Whilst we recognise there has been a slight increase in energy costs, we propose that the level of the rebate should remain the same, at £140 in 2021/22. This, coupled with a slight increase in the overall spending target, will enable us to help more households, given the pool of benefit claimants has increased sharply. The level of the rebate will be kept under review and reconsidered as part of a potential future scheme reform.

- 1. Do you agree the size of the rebate should remain at £140 for 2021/22? If not, what size do you think the rebate should be, and why?**

The Core Group

We propose to keep the current rules in relation to the Core Group unchanged. As a result, approximately 1.1 million Pension Credit Guarantee Credit recipients would continue to receive the energy bill rebate automatically under the Core Group.

Current forecasts are that the number of people in receipt of Pension Credit Guarantee Credit will remain roughly the same between the current and next Scheme year.¹² Of those, not everyone will be eligible, primarily because they are not the electricity account holders for their households, and a small proportion because they are not with an obligated energy supplier. All energy suppliers with over 150,000 customer accounts are obligated to provide rebates to their Core Group customers and smaller energy suppliers can voluntarily participate in the Core Group obligation.

¹¹ BEIS (March 2020), Annual domestic energy bills, QEP 2.2.1; QEP 2.3.1, measured at 3,600 kWh/year for electricity and 13,600 kWh/year for gas: <https://www.gov.uk/government/statistical-data-sets/annual-domestic-energy-price-statistics>.

¹² Benefit expenditure and caseload tables 2020: <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2020>.

Pensioners are a vulnerable group and are susceptible to the effects of living in a cold home, therefore this proposal would protect pensioners on the lowest incomes who have come to rely on the rebate in winter months, when they need it most.

- 2. Do you agree that the Core Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to scheme year 2021/22?**

The Broader Group

To provide continuity from the current scheme, we propose to keep the Broader Group element of the scheme unchanged for scheme year 2021/22.

We are also interested in gathering information from energy suppliers on their Broader Group recipients. Recent analysis, carried out by Citizens Advice Scotland, shows that energy suppliers make extensive use of the ability to get additional eligibility criteria approved by Ofgem and therefore there is significant variability on Broader Group eligibility criteria between energy suppliers.¹³ We are interested in collecting quantitative information on Broader Group recipients and in understanding the extent to which individual recipients change year on year. This will help to evaluate the impacts of a potential future reform.

Questions:

- 3. Do you agree that the Broader Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to year 2021/22?**
- 4. For energy suppliers only: how many of your Broader Group recipients were eligible under the mandatory criteria and how many under additional criteria approved by Ofgem in scheme year 9? How many of your Broader Group recipients in scheme year 9 were also Broader Group recipients in scheme year 8 and scheme year 7? We have provided a template for this.**

Industry Initiatives

Within the non-core obligation, obligated energy suppliers can spend a maximum of £40m cumulatively on other forms of support to benefit fuel poor and vulnerable households; they are not restricted to helping their own customers. This element is called Industry Initiatives.

Under Industry Initiatives, energy suppliers can fund a range of activities that offer support to customers who are at greater risk of fuel poverty. This includes those who have a health condition that makes them more vulnerable to the effects of living in a cold home or live off the gas grid and hence are more at risk of fuel poverty, and customers who are not on the benefits system who therefore may not receive a rebate under the scheme.

We estimate that around 52% of fuel poor households in England¹⁴ are not on the benefits system. Industry Initiatives can help reach these customers with some support, as well as providing rebates to park homes residents who can't be reached by the Core Group and

¹³ Mind the Fuel Poverty Gap (Citizens Advice Scotland): <https://www.cas.org.uk/publications/mind-fuel-poverty-gap-warm-home-discount-scottish-context>

¹⁴ Fuel Poverty by benefits receipt, 2018, Table 36, Fuel Poverty Detailed Tables 2018 data: <https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2020>

Broader Group rebates. Moreover, Industry Initiatives support can be provided to any domestic energy customer regardless of whether that household's energy supplier takes part in the scheme.

Debt Write Off

Historically, spending on debt write-off has been high under industry initiatives, reaching 72% of the total in scheme year 5. Government therefore took the decision to limit the spending on debt write-off under Industry Initiatives from 50% of the overall Industry Initiatives spend in scheme year 2016/17 (or £15 million) reducing to 15% in scheme year 2020/21 (or £6 million).

This cap has been implemented to widen the type of help customers can access under the Industry Initiatives. This also reasserts the energy suppliers' responsibility to check a customer's ability to pay and put in place reasonable repayment plans for customers, which they are required to do under their licence conditions.¹⁵

Whilst Government previously indicated it intended to continue to review and reduce the cap on energy debt write-off, we do not believe that it is appropriate to continue to reduce the cap in the current circumstances, particularly given the uncertain impacts of COVID-19 and during a difficult time for some households on low incomes. Many customers have deferred their energy costs to a later point to cope with reduced incomes and debt levels are growing, leading to more self-disconnections. Therefore, we propose to maintain the debt write-off cap at 15% for scheme year 2021/22 (or £6 million). We believe this will also provide an important vehicle to engage with the harder to reach customers and a way-in to offer more holistic support, such as debt assistance and energy advice.

We have seen evidence that some energy suppliers are using this measure to write-off historic or bad debt, including over £15,000 per customer in some instances. The policy intention of debt write-off under Industry Initiatives is to help customers out of fuel poverty, where other mechanisms are not available. This is linked to the requirement under energy suppliers' licence conditions to ascertain a customer's ability to pay and have affordable repayment plans. It is not meant to help energy suppliers writing-off bad debt or balancing their books.

We propose implementing an individual customer cap of £2,000 for debt write-off. This cap level would enable energy suppliers and delivery partners to assist customers who have a debt which is likely to be less than 4 years old, even if they have a higher than average level of debt.¹⁶

This proposal will help to reduce the level of historic debt which is written off under the scheme, whilst maintaining simple administration for debt write-off. Those customers who have over £2,000 of energy debt, as explained above, are likely to require holistic assistance to address more complex financial circumstances and should be addressed under energy suppliers' licence conditions.

¹⁵ Domestic energy suppliers have a responsibility to help support vulnerable customers through obligations in their licences and other legal requirements.

¹⁶ The average repayment per week for Prepayment Meter customers with the largest energy suppliers on their electricity bill is £5.50 per week and the average take-on debt when a customer starts a repayment plan is around £600. Using these figures, we estimate that the average repayment plan lasts for around 2 years. Electricity prepayment meter customers: Average weekly debt repayment rates (GB), Ofgem: <https://www.ofgem.gov.uk/data-portal/electricity-prepayment-meter-customers-average-weekly-debt-repayment-rates-gb>. Average debt level where there is no arrangement to repay the debt (arrears), Ofgem: https://www.ofgem.gov.uk/data-portal/all-charts?search_api_views_fulltext=debt#thumbchart-of_highcharts_block_view-n85785.

This allows energy suppliers and delivery partners to provide smaller amounts up to this cap for an agile response to individual customer needs, whilst increasing the number of customers who can benefit for this type of assistance, limiting the use of Industry Initiatives for historic debt.

Questions:

- 5. Do you agree that the cap on debt write-off should remain at £6 million for scheme year 2021/22?**
- 6. Do you agree that there should be a cap on individual debt write-off at £2,000 for scheme year 2021/22? If not, provide evidence for alternative levels.**

Financial Assistance

Under the current scheme, the list of activities allowed under Industry Initiatives includes the provision of financial assistance, up to £140 per household, to be spent towards energy bills, including rebates, to households that are particularly at risk of fuel poverty, and may struggle to get support under other policies.

Currently, there are eligibility criteria in place to ensure that financial assistance is well targeted. In order to capture customers who would not otherwise be eligible for a rebate, recipients of financial assistance must not be eligible for the Core Group of Broader Group rebate. They must be wholly or mainly in fuel poverty and be:

- customers living in homes off the gas grid,
- customers living in a household with a person who has significant health problems or a disability,
- living in communities wholly or mainly in fuel poverty, or
- customers who are supplied with gas or electricity through a Pre-Payment Meter.

Within these groups, there is an encouragement to focus on households in emergency situations such as households in one of the risk groups described above who don't have sufficient credit, or where a heating system is broken and households are forced to use more expensive temporary heating.

Financial Assistance was introduced with a £5 million spending cap, or 12.5% of overall Industry Initiative spending, to ensure that financial assistance spending did not dominate Industry Initiatives and allow for more innovative approaches to take place. In scheme year 8, the most recent data we have for the WHD scheme, £357,656 was spent on financial assistance, well below the cap.¹⁷

Anecdotal evidence suggests that the low level of uptake was due to the restrictions around providing financial assistance to customers who were also eligible for Core or Broader Group rebates. Energy suppliers and delivery partners have been unable to provide rebates to some customers in crisis, as the customer was unsure about whether they will be receiving a rebate in that scheme year. Consumers may decide to renounce immediate support in a crisis situation in order to apply for a Broader Group rebate in the longer-term, without the certainty

¹⁷ Warm Home Discount Scheme Year 8 Annual Report, Ofgem <https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-annual-report-scheme-year-8> .

that they will receive a rebate, or in order not to lose the chance of a Core Group rebate. This requirement also introduces a risk, for organisations who deliver support on the ground, that the activity will not be compliant, e.g. if the customer provides incorrect information.

Households who are eligible for financial assistance are also at higher risk of COVID-19 and are particularly vulnerable to cold. For example, people with significant health problems or people using pre-payment meters (PPMs) who have been hit particularly hard by the impacts of the pandemic. In a COVID-19 context, we intend to facilitate the provision of emergency help, rather than restraining it, therefore we propose to enable the provision of financial assistance to the current list of fuel poor and vulnerable customer groups who also are eligible for the Core Group or the Broader Group rebate.

Whilst we appreciate some customers may end up receiving two payments under the scheme, we are reassured that those customers will be in groups of particular need (i.e. it is not the intention of this policy to become a route for energy suppliers to provide rebates to their unsuccessful Broader Group applicants).

We will also retain the £140 financial assistance cap. Therefore, the likelihood of a customer receiving double the rebate value is reduced due to the agile and customer-specific approach that most energy suppliers and delivery partners take to providing financial assistance. If a customer does receive the rebate amount twice, this would be equal to £280, which would still be £54 below the average fuel poverty gap.¹⁸

Government is aware that the existing criterion including customers living in communities wholly or mainly in fuel poverty can help to provide an agile response to fuel poor customers who are not captured by the other categories listed above. However, we welcome views on whether this could lead to confusion for the customer, as they are unsure whether they are eligible, and could dilute the fuel poverty targeting of this Industry Initiative, as it is not customer specific. We are therefore seeking views on whether to keep this criterion and whether there are alternative criteria that could be used.

Questions:

- 7. Do you agree that the restriction on providing financial assistance to Core Group and Broader Group recipients should be removed?**
- 8. Do you agree that the £5 million cap for financial assistance (12.5% overall industry initiative spend) should be maintained for the scheme year 2021/22?**
- 9. Should Government keep the financial assistance eligibility criterion of customers living in communities wholly or mainly in fuel poverty? If not, please provide reasons.**

Smart Metering

In the current Warm Home Discount scheme energy advice should be provided, so far as is reasonably practicable, to every customer benefitting from an Industry Initiative. Energy advice includes thermal efficiency advice and energy efficiency advice.

Smart meters are replacing traditional gas and electricity meters as part of an essential infrastructure upgrade that will make our energy system cheaper, cleaner and more efficient,

¹⁸ Annual Fuel Poverty Statistics Report 2020 (2018 data), National Statistics, <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2020>.

helping us achieve net zero emissions by 2050. Energy suppliers are rolling out smart meters to their customers, and at the end of March 2019 there were 21.5 million operating across Great Britain.¹⁹

Smart meters are modernising the energy system by ending manual meter reads and delivering accurate bills, while the In-Home Display (IHD) gives households near real-time information about their energy use in pounds and pence. Consumers who may be vulnerable or at risk of fuel poverty can benefit from smart meters in several ways. With smart prepayment, consumers can use their IHD to quickly see how much credit is available and can top-up without leaving their homes, over the phone or using online channels. Where available, low credit and high consumption alerts can be shown on the IHD, which can also be used to activate emergency credit.

Additionally, smart meters are providing energy suppliers with opportunities to offer support for consumers who may be in more challenging financial situations or prone to self-disconnection.²⁰ The ability to add credit automatically and remotely to smart prepayment meters allows support to be provided quickly. Where appropriate, data from smart meters can help energy suppliers identify households which may benefit from targeted support, enabling earlier intervention that engages customers and reduces the risk of debt build-up or repeated self-disconnection.

If the consumer already has a smart meter, this presents an opportunity to re-engage and provide advice on how the consumer can effectively use their smart meter and IHD to make informed decisions about their energy use.

Consumers are at the heart of the smart meter rollout. The Government has put in place measures to ensure they are protected and able to realise the benefits of smart metering, including: a Code of Practice setting out the steps required during installation; robust data privacy rules; and an obligation on energy suppliers to identify vulnerable consumers and take their needs into account. In light of these consumer benefits, as part of the Warm Home Discount reform, we propose that the stipulation for energy advice to be provided alongside all Industry Initiatives should, as far as reasonably practicable, include advice about the benefits of smart meters.²¹

Whilst we propose that advice on the benefits of smart meters be provided, smart meter installations themselves will not count towards Industry Initiative spend, as there is already an obligation placed on energy supplier to install smart meters outside of the scheme.

¹⁹ <https://www.gov.uk/government/statistics/smart-meters-in-great-britain-quarterly-update-march-2020>

²⁰ Self-disconnection occurs when prepayment meter customers experience an interruption to their gas and/or electricity supply because the credit on the meter has been exhausted or the credit is not easily accessible. Even though the term 'self-disconnection' can imply a voluntary choice the customer makes, this is not always the case.

²¹ Smart Energy GB is responsible for the national smart meter consumer engagement campaign for the rollout. Their activities include raising awareness of smart meters, driving behaviour change, and helping consumers benefit from smart metering. They have developed a wide range of materials and resources (including those in alternative formats and language iterations) which can be used to deliver advice about the benefits of smart meters. Smart Energy GB is a not for profit organisation funded by energy suppliers. Further information is available at: <https://www.smartenergygb.org>.

Case Study: Using smart meter data to help customers at risk of self-disconnection (E.ON)

E.ON is using smart meter data in innovative ways to identify customers who may benefit from additional support from their Extra Care Team.

To reduce self-disconnections, smart meter data can be combined with a historical view of behaviour to establish whether a customer could benefit from being contacted by E.ON. If a smart meter is not topped up, or has been disconnected for a long period, the account can automatically be referred for a manual review so appropriate action can be taken, such as proactively contacting the customer to check in.

This has allowed E.ON to begin differentiating between customers who deliberately disconnect and are not struggling and customers who may be more vulnerable and could benefit from an intervention. For example, if a customer's disconnection is out of character, this may indicate that they need urgent help.

E.ON's Extra Support Team reviews a list of customer accounts every weekday that have been referred for possible assistance and uses the following criteria to identify those most in need of support:

- the ability of a customer to top-up;
- the need of that customer to have a reliable gas or electricity supply;
- whether the customer is currently off-supply;
- whether they have repeatedly disconnected, even for short periods.

E.ON's Extra Support Team attempt to contact these customers on the day that they are identified and assess whether the customer needs additional support from E.ON and appropriate support is provided.

(Source: E.ON)

Question:

10. Do you agree that, in addition to energy advice, advice about the benefits of smart meters should be provided, so far as is reasonably practicable, to every customer benefiting from an Industry Initiative?

Consumer Protection for Heating Measures

In scheme year 2018/19, around £9m was spent on energy efficiency measures installed under Industry Initiatives. These included emergency boilers, heating controls, central heating systems, energy efficient lightbulbs, repairs to current equipment and draught proofing.

It is the Government's ambition that energy efficiency measures installed under a Government scheme will be carried out to a high standard by reputable companies and that, where things do go wrong, they are remedied quickly, and adequate consumer protections are in place.²²

²² This is in line with the recommendations from the "Each Home Counts: Review of Consumer Advice, Protection, Standards and Enforcement for Energy Efficiency and Renewable Energy": <http://www.eachhomecounts.com/>. Quality assurance standards applied to home energy efficiency improvement schemes funded by the devolved administrations are a matter for the relevant Governments.

In October 2018, TrustMark was launched as the new Government-endorsed quality scheme, providing greater consumer protection for energy efficiency measures. From 1 January 2020, all measures installed under the Energy Company Obligation must be completed by a TrustMark registered business and under the recently announced £2bn Green Homes Grant scheme measures will need to be installed by a TrustMark registered businesses.²³ Under these schemes, installations will also need to adhere to relevant Publicly Available Specification (PAS) installation standards.

Trustmark

To ensure consistency between Government schemes, we propose that installers and repairers of boilers and central heating systems under Industry Initiatives will have to be TrustMark registered businesses from 1 April 2021. This will provide greater consumer protection and quality assurance. Installations and repairs will need to be lodged in the Trustmark Data Warehouse. Consumers will be covered by guarantees as per the TrustMark Framework, which requires that guarantees provide cover for 2 years post-installation and consumers will be protected under the TrustMark Customer Charter and Code of Practice.²⁴

We do not propose that other measures installed under WHD, such as energy efficient lightbulbs or draught-proofing, will be covered by TrustMark. These measures are typically delivered alongside other Industry Initiatives such as energy debt or income maximisation advice. Organisations delivering this type of support are unlikely to install energy efficiency measures outside of the scheme. By requiring these organisations to be TrustMark registered, it may lead to these additional energy efficiency measures not being provided, as it may not make commercial sense for these groups to register with TrustMark with its associated costs.²⁵ Other energy efficiency measures, such as insulation, are not typical under WHD Industry Initiatives and so have not been considered in this proposal.

Standards

We propose that PAS 2030:2019 and PAS 2035:2019 standards should be a requirement for central heating systems installed under Industry Initiatives in all properties from 1 April 2021.²⁶ We also propose that PAS 2030:2019 and PAS 2035:2019 standards will be required if a single distress boiler installation is done under Industry Initiatives in a high-risk property, i.e. homes which are high-rise, mobile 'park' homes or are protected buildings, such as listed buildings or in a conservation area,²⁷ as this reflects the increased complexity of installing in these buildings types. Where the property is not high-risk, we propose that the PAS standards will not apply for single boiler installations. This will ensure that heating installation or repairs can be provided swiftly in fuel poor homes, especially those that have significant vulnerability to cold, such as those with a health condition, which are experiencing heating emergencies.

²³ Exceptions include certain District Heating Systems and measures classed as demonstration actions. For more information, please see the Government response to the ECO 3 consultation:

<https://www.gov.uk/government/consultations/energy-company-obligation-eco3-improving-consumer-protection>.

²⁴ Measures installed by TrustMark registered businesses would receive a standardised route to recourse for faulty installations which are logged on the TrustMark Data Warehouse, as per the TrustMark Framework, and will be protected by the TrustMark Code of Conduct and the Customer Charter. More information on dispute resolution under TrustMark can be found here: <https://www.trustmark.org.uk/consumers/if-things-go-wrong>. More information on Financial Protections under TrustMark can be found here: <https://www.trustmark.org.uk/ourservices/financial-protection>.

²⁵ TrustMark has a one-off £2,000 sign-up cost, with an additional annual fee of £40 per business.

²⁶ PAS 2035:2019 covers how to assess dwellings for retrofit, identify improvement options, design and specify Energy Efficiency Measures (EEM) and monitor retrofit projects. Meanwhile PAS 2030, which was redeveloped in conjunction with PAS 2035, covers the installation, commissioning and handover of retrofit projects

²⁸ Where an energy supplier supplies dual fuel to a domestic customer, it is treated as a supply to two domestic customers for the purposes of the threshold.

This reflects the Government's intention that Industry Initiatives' funding is used to provide heating only in emergency distress circumstances and for particularly vulnerable households. We will keep this provision under review.

We considered using PAS 2030:2019 on its own to cover single boiler installations under the WHD when they are not done in high-risk homes. However, PAS 2030:2019 would not work in isolation from PAS 2035:2019.

We are aware that the PAS 2035:2019 'whole house approach' can add additional costs, making the installations of single measures more expensive. However, these requirements are proportionate when considering the complexity of the design and installations of central heating systems alongside boilers, or for single boiler installations in high-risk buildings. Where other measures, such as insulation, are identified as part of the 'whole house' assessment, we envisage they will be more suitable for funding through the Energy Company Obligation, and therefore there will be referrals into that scheme as a result (though measures cannot be counted under both schemes).

There is currently a transition period in place for ECO until 30 June 2021, during which installers can install in accordance with PAS 2030:2017 standards or PAS2030:2019 and PAS2035:2019 standards. After this date all energy efficiency measures within scope of these standards must be installed in accordance with PAS 2030:2019 and PAS 2035:2019. Whilst the current transition period for ECO runs into the proposed extension scheme year 2021/22, for simplicity we do not intend carry the same transitional arrangements forward into WHD.

We also propose to introduce technical monitoring of boilers and central heating systems installed or repaired under WHD, to ensure that these measures are installed or repaired in accordance with the standards, where these will be required. TrustMark are currently undertaking a pilot to develop a risk-based technical monitoring model for the ECO scheme. We will work with TrustMark to explore a similar arrangement for WHD following the completion of this pilot.

We will keep these requirements under review and will work closely with stakeholders to consider requirements for the scheme post 2021/22.

Questions:

- 11. Do you agree that businesses installing and repairing boilers and central heating systems under the WHD Industry Initiatives should be TrustMark registered from 1 April 2021? Please provide reasons for your answer.**
- 12. Do you agree that the installations of boilers, in high risk properties, and central heating systems in all homes, should be installed in accordance with PAS 2030:2019 and PAS 2035: 2019 from 1 April 2021? Please provide reasons for your answer.**
- 13. Do you agree with the introduction of technical monitoring for boilers and central heating systems installed or repaired under WHD from 1 April 2021? Please provide reasons for your answer.**

Energy Supplier Participation in the Warm Home Discount Scheme

Energy Supplier participation thresholds

Currently electricity suppliers with at least 150,000 domestic customer accounts²⁸ (or who are part of a group of electricity or gas supply companies which together have 150,000 or more electricity or gas domestic customer accounts) are obligated to deliver Core Group rebates, with 23 meeting that criterion in 2020/21, and two additional smaller energy suppliers that voluntarily participate in the scheme. The threshold for the non-core obligations is instead set at 250,000 domestic customer accounts, given the higher costs of delivering Broader Group rebates and Industry Initiatives which would disproportionately impact smaller energy suppliers, given their smaller customer base.

When the scheme was introduced, in 2011, the threshold was intended to limit barriers to entry in the energy retail market and encourage competition at a time when the largest six energy suppliers had around 99% market share. Since then, the market has undergone a substantial transformation, and the largest energy suppliers' market share has fallen to 73%, with the number of domestic energy suppliers increasing to around 57.²⁹

Currently around 97% of domestic customer accounts are with energy suppliers above the 150,000-participation threshold, based on the most recent data.³⁰ This is a significant proportion, but, while thresholds are in place, some consumers who currently receive WHD may be less likely to consider switching to mitigate the risk of losing the rebate. Therefore, thresholds can create a barrier to switching that can be detrimental to those customers. The Government believes that all consumers, especially those at risk of or experiencing fuel poverty, should benefit from good value and innovative deals and not face additional barriers to engaging in the energy market.

In considering participation thresholds, competition is an important factor, as obligated energy suppliers bear the cost of participation, energy suppliers which are not obligated may have a competitive advantage leading to an uneven playing field for energy suppliers, disrupting price signals. On the other hand, start-up and operating costs for recent market entrants remain higher per rebate for smaller energy suppliers with a smaller customer base, creating disproportionate cost pressures. Reducing thresholds requires careful consideration of the proportionality of the administrative costs of the scheme.

The Government is committed to removing thresholds, noting that any changes to thresholds would need to be facilitated by expansion of data matching, which would reduce the burden for energy suppliers.³¹ This will be part of a consultation on WHD reform, with a view to implementing in future scheme years.

For the one-year extension, starting in April 2021, smaller energy suppliers would have limited time to adjust their tariffs and set up systems and processes to deliver the scheme. There are tight timescales for putting adequate systems in place for the delivery of rebates. Should the threshold be removed without sufficient time for smaller energy suppliers to prepare, this could

²⁸ Where an energy supplier supplies dual fuel to a domestic customer, it is treated as a supply to two domestic customers for the purposes of the threshold.

²⁹ Data correct as of June 2020, Ofgem Data Portal: Electricity supply market shares by company: Domestic (GB) - Q1 2020; Number of active domestic energy suppliers by fuel type (GB) – March 2020.

³⁰ Based on the number of obligated customer accounts in December 2019, data provided by Ofgem.

³¹ <https://www.gov.uk/government/consultations/flexible-and-responsive-energy-retail-markets>

increase the risk of non-compliance and energy suppliers exiting the energy retail market. Non-compliance may also risk WHD eligible consumers not receiving the support they are eligible for. However, we are proposing to mitigate some of these impacts with proposals to facilitate the Supplier of Last Resort volunteering to issue rebates to these customers.

We therefore propose to keep the thresholds unchanged for the one-year extension and will continue to consider how they could be removed in the future. To support future decisions, we would welcome evidence of the administrative cost of the obligation, especially for the smallest suppliers participating in the scheme. In addition to the costs of delivering rebates, for both the Core Group and Broader Group, we are also interested in the cost of delivering Industry Initiatives. The ability of energy suppliers to contribute to multi-supplier schemes suggests the costs of delivery may have decreased.

Questions:

14. Do you agree that the supplier participation thresholds should remain unchanged for scheme year 2021/22?

15. Can you provide evidence of the administrative costs of delivering the Warm Home Discount rebate and the Industry Initiatives scheme? We have provided a template for this.

Supplier of Last Resort

There are 3 possible scenarios when an energy supplier fails: (i) a trade sale; (ii) supplier of last resort regime; (iii) energy supply company administration order. The proposals below focus on the Supplier of Last Resort regime. Government will also consider whether similar provisions could apply in the context of an energy supply company administration order.

The WHD obligations are placed on the electricity supply licence. Therefore, when a participating energy supplier fails and their licence is revoked, the WHD obligations on the licence falls, and there is no requirement on the Supplier of Last Resort (SoLR) to take on the obligation.³²

In previous scheme years, SoLRs who were themselves WHD participants, have chosen to voluntarily honour the obligations to pay rebates of the failing energy suppliers. The process, however, was complicated as data on WHD customers from the failing energy supplier was not always easily accessible.

The absence of a requirement on the SoLR to take on WHD obligations mean that WHD eligible customers are at risk of not receiving the rebate they were expecting to receive, and Industry Initiatives schemes may be at risk of not receiving sufficient funding. .

We do not intend to make WHD obligations mandatory on the SoLR to avoid interfering with the wider SoLR process. However, we propose the measures below which would facilitate the SoLR to voluntarily deliver the obligations of the failed energy supplier.

Reporting by the failing energy supplier

³² The Supplier of Last Resort process ensures that, when an energy supplier fails, customers have continuity of energy supply. The process, run by Ofgem, allows for the orderly transfer of the failing energy supplier's customers to a different energy supplier, the Supplier of Last resort.

In order for the rebates paid by the SoLR to count as Core Group rebates, the Secretary of State for BEIS (or DWP on his behalf) will have to issue a new instruction to pay the rebate to that energy supplier.

Once the instructions to pay are issued, they will create a legal obligation on the SoLR to pay the Core Group rebate to that customer in line with the current rules of the scheme, and the rebate will be counted in the reconciliation process.

To facilitate DWP to issue these instructions to pay, we propose to introduce a requirement for the failing energy supplier to provide to DWP data in relation to their unpaid Core Group rebates.

We propose to keep the same qualifying date for these customers, so customers who were with the failed energy supplier on the original qualifying date (typically in July) would be eligible for the rebate, including customers who have since switched to another energy supplier, as they would otherwise lose out.

We propose to require the failing energy supplier to provide information on individual unpaid Broader Group customers and Industry Initiatives spending by activity to the SoLR, and to provide aggregate counts of unpaid Core Group and Broader Group, and Industry Initiatives spending to Ofgem.

Additional overspend on non-core obligations

In order to facilitate the SoLR taking on the failed energy supplier's non-core group obligations, we propose to increase their overspending allowance into the following scheme year, from 5% to 10%. This will only apply to the undelivered non-core obligations of the failed energy supplier, therefore the SoLR will only be able to count unpaid Broader Group rebates or unspent Industry Initiatives expenditure towards their own obligation and this additional 5%. The proposed reporting from the failed energy supplier (suggested above) will help with the separate reporting of this additional overspend.

It is the Government's intention to consult on the future of the scheme in 2021, which should give energy suppliers some reassurance that their overspend will be carried over into the future scheme.

Questions:

- 16. Do you agree with the requirement for the failing energy supplier to report on their paid and unpaid Core Group and Broader Group customers and Industry Initiative spending incurred? If not, please explain your reasons. We welcome views on potential alternative arrangements.**
- 17. Do you agree that an SoLR and WHD participant who volunteers to pay non-core obligations of a failing WHD participant should be allowed 10% non-core overspend? If not, why not? If you think a different % should be applied, please explain your rationale.**

Operational Changes

Timing of the scheme year

The current scheme year will run from 1 April 2020 to the end of March 2021. Government expects to lay Regulations in Parliament to extend the scheme in early 2021.

When the scheme was previously extended (in Scheme year 6 and 8), the Regulations came into force after 1 April (which is the usual start of a scheme year).

Given uncertainties with parliamentary time, we propose that, if the Regulations were delayed and came into force after 1 April, a similar approach to Scheme year 8 extension will be adopted.

In order to avoid a hiatus in the delivery of Industry Initiatives, Government proposes that any spending incurred by energy suppliers on Industry Initiatives from 1 April 2021 will count towards their obligations, providing the spending is subsequently determined by Ofgem to meet the scheme's requirements. Where initiatives have been approved for scheme year 10, and they have been delivered well and have not changed, we would expect them to be eligible for 2021/22.

Similarly, we propose that energy suppliers would be able to start Broader Group delivery, providing their Broader Group is subsequently determined by Ofgem to meet the scheme's requirements.

We propose that energy suppliers will be required to notify Ofgem of their customer numbers and, if applicable, whether they intend to volunteer to take part in the scheme no later than 14 days after the Regulations come into force. The notification of non-core obligations should be provided within 20 days.

For continuity, we propose to maintain the scheme year end date at the end of March (i.e. 31 March 2022).

Reconciliation

Currently there are three reconciliations during the course of a scheme year. These reconciliations, which are operated by Ofgem, allow energy suppliers to rebalance their cash-flows and ensure spending is distributed proportionately to their market share.

The first, and larger, reconciliation is typically carried out in December, based on the customer volumes identified as a result of DWP's data matching with energy suppliers. The second, following the Helpline closure, is carried out in April/May and it covers the number of rebates claimed through the helpline. The third one, carried out in October/November, balances the remaining spending based on end of year reporting.

In order to reduce the administrative burden on both energy suppliers and Ofgem, we propose to reduce the number of reconciliations during a scheme year by removing the second reconciliation, as rebates issued to customers who claim through the Helpline are a small proportion of the total (currently this is around 4% of the Core Group rebates). We recognise this may have cash-flow impacts, especially for smaller energy suppliers. However these impacts may be counter-balanced by the reduced burdens.

In addition, we propose that the first reconciliation should be delayed to January, to bring it closer to when energy suppliers will have paid most of the rebates under the scheme (we expect data matching to cover the significant majority of rebates issued).

Questions:

18. Do you agree with removing the second reconciliation?

Voluntary or smaller energy suppliers' undelivered rebates

Under the current scheme, fully obligated energy suppliers are required to make a distinction between the 'provision' and 'delivery' of rebates where 'delivery' means that the customer actually benefitted from the rebates, by redeeming their voucher rather than just receiving it. This is particularly relevant for Pre-Payment Meter customers who typically receive the discount as a voucher from their energy supplier. Any undelivered rebates will then be added to an energy suppliers' non-core obligation in the following scheme year.

If a voluntary or a 'compulsory smaller scheme supplier' pass the 250,000 customer account threshold and become fully obligated suppliers the following scheme year we believe that the same rule should apply. Therefore, for these energy suppliers, like for fully obligated energy suppliers, we propose that undelivered rebates from the previous year (X-1) would be carried forward and added to their non-core obligation for the scheme year they become fully obligated (X+1).

Question:

19. Do you agree with the proposal to carry forward voluntary and compulsory smaller energy suppliers' undelivered rebates and add the value of these rebates to their non-core obligation for the scheme year when they become fully obligated? Please provide reasons for your answer.

Administrator of the scheme

Ofgem has been the administrator of the scheme since it began in 2011. Given the WHD is an obligation on energy suppliers which are also licensed and regulated by Ofgem, this has been, and continues to be, a convenient and efficient arrangement as compliance and enforcement can be dealt with by the same organisation. The administration of WHD has also been low cost, running at around 0.1% of the total annual value of the scheme.

Since 2017/18 Ofgem has also run the reconciliation mechanism for the scheme. The Energy Act 2010 provides the option for the appointment of Ofgem, through the Reconciliation Regulations, as the operator of the reconciliation process. BEIS considers the reconciliation process has been run effectively by Ofgem over the last three years.

Their appointment made data management more efficient regarding energy supplier market share information and reduces the number of bodies with which energy suppliers interact with in relation to the administration of the scheme. Therefore, changing the administrator of the reconciliation, could only introduce very small savings in theory, whilst introducing more risk during a time of volatility in the energy market. Therefore, we propose to keep Ofgem as the administrator of the reconciliation mechanism for the duration of one-year extension to the scheme.

Scheme post 2021/22

Beyond the 2021/22 extension, we will consider the future of the Warm Home Discount in the context of a renewed Fuel Poverty strategy for England, to be published later this year, and in light of the broader impacts of the COVID-19 pandemic. As Government develops its approach to achieve the net-zero targets, we will also consider implications of energy and climate change policy costs on energy bills and fuel poverty.

Given the distributional implications of energy bills increases, it will be even more important in future that any energy bill rebates are well targeted to those who are in fuel poverty. We estimate that around 20% of WHD rebates currently go to households living in fuel poverty.³³ Using Government data, we can improve the targeting of the scheme and allocate rebates based on a household's risk of being in fuel poverty.

Should the scheme be extended beyond 2022, we would consult on reforms which would focus on two main objectives: i) remove the first-come first-served application system for working-age households, by expanding the provision of automatic rebates through data matching and ii) increase the number of recipients who are at risk of fuel poverty. A consultation on future reforms would take place in 2021.

Devolution

As discussed in the main body of this consultation, we propose that the one-year extension will continue to cover the whole of Great Britain. We will work with our counterparts in the devolved administrations to design the future of the Warm Home Discount in a way that improves fuel poverty targeting.

In designing a new scheme in future, WHD could be directed towards fuel poor households with far greater accuracy by designing eligibility criteria which take account of property characteristics, as well as low income. We have made progress in testing the use of Government held datasets to identify fuel poverty, using DWP and HMRC data for low income, and VOA data for identifying properties with higher energy requirements in England and Wales.

We welcome early views on the implications for stakeholders were there to be different scheme designs in England and Wales and in Scotland. In particular, we would welcome stakeholder views about the opportunities and risks that this may create. We are also interested in early views about whether energy supplier thresholds should be the same in England and Wales and Scotland, and at what level. We recognise that respondents cannot make a detailed assessment in the absence of further detail but views about delivery challenges now would help inform a future scheme should one be implemented.

³³ Around 15% of Core Group recipients and 22% of Broader Group recipients are in fuel poverty.

Questions:

- 20. How might changes to scheme design result in costs to suppliers, for example if eligibility were different in different national schemes, and how could these impacts be prevented or mitigated?**
- 21. Should supplier thresholds for separate schemes be the same in England and Wales and Scotland? Please provide your reasons.**

Next steps

Government is planning to publish the Government Response and lay Regulations in early 2021. Given uncertainties with parliamentary time, Regulations may not come into force by 1 April 2021, so we are consulting on measures that will enable activities to start in April and count towards the obligation if they are later approved by Ofgem.

Consultation questions

1. Do you agree the size of the rebate should remain at £140 for 2021/22? If not, what size do you think the rebate should be, and why?
2. Do you agree that the Core Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to scheme year 2021/22?
3. Do you agree that the Broader Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to year 2021/22?
4. For energy suppliers only: how many of your Broader Group recipients were eligible under the mandatory criteria and how many under additional criteria approved by Ofgem in scheme year 9? How many of your Broader Group recipients in scheme year 9 were also Broader Group recipients in scheme year 8 and scheme year 7? We have provided a template for this.
5. Do you agree that the cap on debt write-off should remain at £6 million for scheme year 2021/22?
6. Do you agree that there should be a cap on individual debt write-off at £2,000 for scheme year 2021/22? If not, provide evidence for alternative levels.
7. Do you agree that the restriction on providing financial assistance to Core Group and Broader Group recipients should be removed?
8. Do you agree that the £5 million cap for financial assistance (12.5% overall industry initiative spend) should be maintained for the scheme year 2021/22?
9. Should Government keep the financial assistance eligibility criterion of customers living in communities wholly or mainly in fuel poverty? If not, please provide reasons.
10. Do you agree that, in addition to energy advice, advice about the benefits of smart meters should be provided, so far as is reasonably practicable, to every customer benefiting from an Industry Initiative?
11. Do you agree that businesses installing and repairing boilers and central heating systems under the WHD Industry Initiatives should be TrustMark registered from 1 April 2021? Please provide reasons for your answer.
12. Do you agree that the installations of boilers, in high risk properties and central heating systems in all homes, should be installed in accordance with PAS 2030:2019 and PAS 2035: 2019 from 1 April 2021? Please provide reasons for your answer.
13. Do you agree with the introduction of technical monitoring for boilers and central heating systems installed or repaired under WHD from 1 April 2021? Please provide reasons for your answer.
14. Do you agree that the supplier participation thresholds should remain unchanged for scheme year 2021/22?

- 15.** Can you provide evidence of the administrative costs of delivering the Warm Home Discount rebate and the Industry Initiatives scheme? We have provided a template for this.
- 16.** Do you agree with the requirement for the failing energy supplier to report on their paid and unpaid Core Group and Broader Group customers and Industry Initiative spending incurred? If not, please explain your reasons. We welcome views on potential alternative arrangements.
- 17.** Do you agree that an SoLR and WHD participant who volunteers to pay non-core obligations of a failing WHD participant should be allowed 10% non-core overspend? If not, why not? If you think a different % should be applied, please explain your rationale.
- 18.** Do you agree with removing the second reconciliation?
- 19.** Do you agree with the proposal to carry forward voluntary and compulsory smaller energy suppliers' undelivered rebates and add the value of these rebates to their non-core obligation for the scheme year when they become fully obligated? Please provide reasons for your answer.
- 20.** How might changes to scheme design result in costs to suppliers, for example if eligibility were different in different national schemes, and how could these impacts be prevented or mitigated?
- 21.** Should supplier thresholds for separate schemes be the same in England and Wales and Scotland? Please provide your reasons.

This consultation is available from: www.gov.uk/government/consultations/warm-home-discount-scheme-2021-to-2022

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