




Department
of Energy &
Climate Change

Warm Home Discount: Flexibility for higher spending



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The consultation and Impact Assessment can be found on DECC's website:
[link]

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Introduction

This consultation is on a proposal to allow participating energy suppliers to spend more money on the Warm Home Discount this scheme year (2013/14) than they are currently required to spend. We are proposing to change the scheme Regulations to give these suppliers the flexibility of spending up to 34% more this year on their non-core spending than the £100m they have been instructed to spend in total and, by spending more, to reduce their non-core spending obligation for 2014/15.

This simple measure is intended to ensure that more of the total £300m Warm Home Discount spending target than currently projected is spent in 2013/14, rather than in the next scheme year. The proposed measure would not place additional legal requirements on suppliers and they would not be required to spend more. However, it is likely to result in more discounts being provided to vulnerable consumers this winter than would be the case otherwise. Should the suppliers choose to spend more this year they would be able to 'bank' the spending, reducing their spending in 2014/15 by the same amount.

We welcome views on this measure from all interested parties, particularly from the seven energy suppliers participating in the Warm Home Discount Scheme this year (British Gas, EDF, Eon, First Utility, RWE Npower, Scottish Power and Scottish and Southern Energy).

General information

Purpose of this consultation

To gather the views of interested parties on the proposal described in this document. The proposal would give participating energy suppliers the flexibility to spend more than required under the scheme in this scheme year and offset that spending against their non-core spending obligations next scheme year.

Issued: 30 September 2013

Respond by: 25 October 2013

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Consultation reference: URN 13D/253 – Warm Home Discount: Flexibility for Higher Spending

Territorial extent:

The Warm Home Discount is a policy which applies to Great Britain.

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.

Please e-mail your responses to: andrej.miller@decc.gsi.gov.uk and charlotte.dann@decc.gsi.gov.uk

Hard copy responses should be sent to:

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Additional copies:

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Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. 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 by us as a confidentiality request.

We will summarise all responses and place this summary on our website at www.decc.gov.uk/en/content/cms/consultations/. This 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 which can be found here:

<https://www.gov.uk/government/publications/consultation-principles-guidance>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
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Email: consultation.coordinator@decc.gsi.gov.uk

The proposal

Background

The Warm Home Discount began in April 2011 and provides assistance annually to around 2 million low income and vulnerable households in Great Britain. The assistance is currently provided by the seven largest energy suppliers, each of which has over 250,000 domestic customers. The majority of spending by suppliers is on electricity bill rebates and last winter around 1.5 million households received £130 off their bill.

The Warm Home Discount is a Government-led scheme, established in Regulations, and is a key component of our commitment to tackle fuel poverty. That is why we announced in June that we have committed to a continuation of the scheme beyond its current 31 March 2015 end date, with a £320m spending target for 2015/16. In total, that will mean spending of over £1.4 billion in 5 years to help those at risk from fuel poverty.

The majority of spending each year is on electricity bill rebates paid to low income pensioners who are on a subset of Pension Credit. This is known as the Core Group. The remainder, known as non-core spending, is divided into three elements (Broader Group, legacy spending and industry initiatives). Through the Broader Group, suppliers provide electricity bill rebates to a variety of low income vulnerable people, including those of working age. Legacy spending and industry initiatives provide a more varied level of assistance to those in or at risk of fuel poverty.

The issue

The scheme has annual spending targets and the spending target for 2013/14 is £300m. Participating suppliers have to provide specified electricity bill rebates to all their Core Group customers whereas they do not have to pay all customers eligible for the non-core spending element of the scheme. On the basis of our estimate of how many people will qualify for the Core Group, we estimate how much non-core spending suppliers have to carry out in order to meet the annual spending target. For example, we estimated that Core Group spending would be £200m in 2013/14 so, given a total spending target of £300m, we instructed Ofgem, the scheme administrator, that non-core spending should be £100m. Ofgem in turn instructed suppliers how much non-core spending they would each be required to carry out, based on their share of domestic customers. As required by the scheme Regulations, the suppliers were informed by 14 March 2013 of their non-core spending obligations for 2013/14.

Since participating suppliers were informed about their non-core spending obligations, Government estimates of the number of people on Pension Credit who could qualify for the Core Group have reduced significantly, from 1.8m to below 1.5m. Consequently, this means that our estimate of Core Group spending in 2013/14 is now £166m rather than £200m.

Government is seeking to reduce the chance of this type of change in estimate happening in future scheme years. However, we also want to ensure that this year participating suppliers spend as much of the £300m total spending target for 2013/14 as possible, in order to provide

help to more fuel poor households this year. If we did nothing then scheme spending would likely be £266m this year with a consequently higher spending target next scheme year.

Proposed solution

Having considered several options, we believe the best solution is to allow, but not require, participating suppliers to carry out more non-core spending this year than the £100m they have been instructed to spend in order to offset it against next year's spending. Section 14 of The Warm Home Discount Regulations 2011 requires Ofgem to adjust an individual supplier's non-core spending obligation in the next year if it has spent more or less than its obligation in the current year. However, Ofgem can only adjust this by a maximum of 1% of the supplier's non-core spending obligation for the scheme year in which they overspend or underspend. For example, if an energy supplier was instructed to have non-core spending of £20m this year but spent £20.2m, its non-core spending obligation for the next year would be reduced by £0.2m.

Given the scheme annual spending target of £300m in 2013/14 and the current spending estimate of £266m, we want suppliers to spend more than the current flexibility of 1% would allow; it only allows a maximum £1m extra being offset against next year's spending obligation. Therefore, we are proposing to change the Regulations to give suppliers flexibility to spend up to 34% more than their non-core spending obligation this year and offset next year's non-core spending obligation by the same amount.

We are not proposing to allow suppliers greater flexibility to spend 34% *less* than currently required and increase their spending obligation for next year, as we do not want to risk lower spending than estimated. The change in Regulations would only allow greater flexibility to reduce next year's non-core spending obligation by higher spending this year.

We are also not proposing to increase the spending caps set out in the Regulations for the legacy spending and industry initiative elements of non-core spending. We estimate that the majority of any additional spending would come from more Broader Group discounts. The Broader Group is the most effective element of non-core spending at getting a consistent level of help to low income vulnerable people and we want the extra spending to be focused on that.

Furthermore, we are not proposing to make any further changes to the scheme Regulations at this time, given the need to make this change quickly. We will be consulting on a scheme for 2015/16 early in 2014 and that will allow the opportunity to make more wide-ranging changes to the scheme.

Of course, it is important that suppliers are in a position to spend more under the Warm Home Discount in this scheme year than currently required. That is, we need to be sure that this approach is practicable and compatible with supplier systems and processes. Our understanding is that this is the case. We also understand that most suppliers would be able to spend more this year than they are currently required to. Several of the suppliers closed their 2012/13 Broader Group applications by mid-January this year because they had spent as much as was required. This implies that allowing Broader Group applications to be made for longer (each scheme year ends on 31 March) may be one way in which suppliers could spend more.

If we made the proposed change and suppliers used all the extra flexibility afforded to them, with £34m extra therefore spent in total on Broader Group schemes, this would equate to over 250,000 electricity bill discounts of £135 to low income vulnerable households being paid this

year. However, we deem it unlikely that all the suppliers will spend 34% more than they have been instructed. Indeed, it is possible that some may not spend anything extra as there is a burden in finding customers eligible for the discounts and the suppliers have prepared since March to deliver the non-core spending obligation they were instructed to. Nevertheless, any extra spending would be beneficial and this proposal would provide the flexibility for each supplier to spend according to its individual circumstances.

Based on current estimated spending this scheme year, the spending target for 2014/15 will be increased from £310m to £344m. Whilst the annual spending targets for the scheme are set out in scheme Regulations, these Regulations already include provisions to make adjustments based on actual spend. As a precedent, given that spending in year 1 of the scheme was lower than intended, spending was increased above the previously stated spending target for year 2. Should a supplier spend more than its non-core spending obligation this year, it would be able to offset its individual spending obligation for 2014/15, counteracting the effect of any increase to the overall 2014/15 spending target.

Before deciding to hold this consultation, we considered whether to avoid making a change to the Regulations and simply to use the existing Regulations to increase the spending target in 2014/15 by the entire amount that spending is below £300m this year. However, this is not preferable for several reasons. Most crucially, fewer people would get discounts this year than under this proposal, with the consequent negative impact on fuel poverty. Furthermore, there would then be a very sharp increase in non-core spending from this year to the next, creating delivery problems for suppliers and increasing the risk of them not being able to meet their obligations.

The table below illustrates some possible scenarios.

	13/14	14/15	15/16
Spending target	£300m	£310m	£320m
Example spend with flexibility and any underspend rolled into year 4	£290m	£320m	£320m
Spend with no flexibility and any underspend rolled into year 4	£266m	£344m	£320m

We also considered making a change to the Regulations to reset the non-core spending obligation to £134m. However, given we had already set the obligation for this year, this would have been a retrospective change which we do not have the legal power to make.

Therefore, we believe the proposed solution is the best option available. It is highly likely that spending will be higher under the proposed solution, should it be implemented, than if we did not make the change. Higher spending will have a greater impact on reducing fuel poverty this year. By providing more flexibility without adding regulatory requirements, each supplier can spread out its spending based on its individual circumstances. It also avoids a sharp increase in spending between years, which would be likely to cause delivery and compliance difficulties.

Next steps

We will issue a Government response shortly after the close of this consultation in November. If Government decides to pursue this proposal we will then draft Regulations to implement the change. The Regulations are affirmative resolution which means they will have to be debated in

and approved by Parliament. Subject to getting Parliamentary time, we would expect the Regulations to come into force early in 2014.

If the Regulations come into force as planned, we would set the aggregate non-core spending obligation by 14 February, as previously, taking into account the annual spending target minus estimated Core Group spending. This will include adjusting the way we estimate the Core Group spending to help avoid this issue arising again. Individual suppliers would then be informed by 14 March of their individual non-core spending obligation, based on their market share. This individual non-core spending obligation will be adjusted to account for any overspend made by the supplier in scheme year 2013/14, reducing it by up to 34% of the supplier's non-core spending obligation or increasing it by up to 1%. Suppliers will be notified of this adjustment by 30 September 2014, but of course, individual suppliers will have an understanding before that date of the likely adjustment.

In order for suppliers to be able to pay Broader Group discounts to more people than expected, we also intend to consider ways in which communications about the scheme could be used to attract more potential low income and vulnerable customers to apply to their supplier in an effort to avoid increased administrative costs which could otherwise limit the payment of discounts.

Questions

Consultation Question

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| 1. | Do you agree with the proposal to change the Warm Home Discount Regulations to allow suppliers to spend up to 34% more this year on the non-core elements of the scheme, thereby reducing next year's obligation by a corresponding amount? Please provide reasons for your answer. |
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Consultation Question

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| 2. | If you are a participating energy supplier, please indicate how much extra spending above your current non-core obligation you expect to carry out this scheme year? Please indicate if you would like this information to be confidential. |
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