



Department  
of Energy &  
Climate Change

# Warm Home Discount: extension to 2015/16

October 2014

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URN 14D/276

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Any enquiries regarding this publication should be sent to us at Department of Energy and Climate Change.

## Introduction

This document sets out what the Warm Home Discount has achieved since its introduction in April 2011 and Government proposals for changes to the scheme for 2015/16.

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.

# General information

## Purpose of this consultation

Set out what Government is trying to achieve with the consultation and in particular whose views it is seeking.

**Issued:** 2 October 2014

**Respond by:** 13 November 2014

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Consultation reference: URN 14D/276 – Warm Home Discount: extension to 2015/16

## 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: [warmhomediscount@decc.gsi.gov.uk](mailto:warmhomediscount@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/](http://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:

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# Overview of consultation questions

1	Do you agree with the Core Group eligibility criteria remaining in place for those people in receipt of Pension Credit Guarantee Credit?
2	To what extent do the current Broader Group criteria act as a barrier to switching, and if they do how could this be addressed cost-effectively?
3	Would the potential benefits of moving to a standard set of compulsory criteria outweigh the potential disadvantages? What could any compulsory criteria be (e.g. which benefits or tax credits), and why?
4	Do you agree that a higher number of Broader Group applications should be verified? If yes, how could this be done in a cost effective manner?
5	Do you agree with the proposal to reduce future non-core obligations by up to 5% of the current non-core spending obligations in the event of overspend? Do you have any suggestions on the level of overspend?
6	Do you have views on whether there are particular challenges for smaller suppliers in delivering their Broader Group obligations? Would any of the changes proposed above introduce new challenges for smaller suppliers?
7	What are your views on the Government putting in place a cap on the amount suppliers are able to spend on debt assistance through the Industry Initiatives section of the Warm Home discount scheme? What do you suggest the cap could be?
8	Do you agree with the proposed option for suppliers to provide eligible park home residents a rebate through the Industry Initiatives portion of the scheme? Please provide the details of any solutions you may have on the practicalities of delivery and communications.
9	Do you agree that participating energy suppliers should be given the option to deliver Industry Initiatives to help eligible households: <ul style="list-style-type: none"> <li>• Living off the gas grid</li> <li>• With health problems and/ or a disability</li> <li>• Living in communities where residents are wholly or mainly in fuel poverty</li> </ul>
10	Do you agree that participating energy suppliers in the Warm Home Discount should provide energy efficiency advice alongside other Industry Initiative measures? Please

	explain your answer.
11	Do you agree that the value of the rebate should remain at £140? If not, please explain your answer.
12	We would like to understand more about the costs of delivering the WHD. Please provide any costs you think will help Government understand more about the administration of the policy.
13	How should market shares be calculated for the purposes of setting the non-core spending obligation? Please provide evidence for your answer.
14	How should non-core spending obligations be apportioned where they include an adjustment for an over or underspend in the previous Scheme year? Please provide evidence for your answer.



## Executive Summary

Currently in its fourth year, the Warm Home Discount (WHD) has been an important policy in alleviating fuel poverty and in reducing the impacts of rising energy prices on low income and vulnerable households. This consultation explains what has happened under the WHD so far and contains our proposals for changes to the scheme in 2015/16 when we have committed to a spending target of £320m.

With a total spending target of over £1.1 billion over its first four years, the WHD has helped around 2 million low income and vulnerable households each year, most of them through direct rebates off their electricity bills. It is a relatively simple policy, delivered efficiently on a mass scale. Given its success thus far, we do not propose to make significant changes to the scheme for the one-year extension. Nevertheless, the proposals in this consultation are intended to improve its effectiveness and make it simpler and more accessible to more people.

We intend to keep the structure of the scheme as it is currently, divided into the Core Group, Broader Group and Industry Initiatives. We also intend to maintain the same delivery methods, with the Department for Work and Pensions (DWP) continuing to work with suppliers in helping deliver the Core Group and Ofgem continuing as the scheme administrator.

For the Core Group, we propose that the eligibility criteria remain as they are currently: people on Pension Credit Guarantee Credit. This should result in over 1.4m Core Group customers continuing to receive rebates.

Under the Broader Group, we are seeking views on whether the current scheme introduces barriers to switching and how this can be overcome. We are also seeking views on whether more low income working families should receive help through the Broader Group and how this could be achieved. We also intend to increase the verification rate to have greater confidence that the rebates are reaching the intended recipients. Finally, we propose to increase the flexibility on the proportion of Broader Group overspend which can be carried forward from 2014/15 to 2015/16.

We are proposing that the Industry Initiatives spending limit remains at £30m and that suppliers can continue to offer the same types of initiatives as currently. We propose to maintain the current criteria set out in the regulations which suppliers use, with one exception we are proposing to introduce a cap on the proportion of spending which can be used for debt assistance. Beyond this we are seeking views on whether additional incentives should be permissible under scheme rules and added to the list of activities in the Regulations. For example, we are proposing that rebates to park home residents could be paid via a specific Industry Initiative and are particularly interested in views on this potentially complex area. We also propose that suppliers should consider delivering initiatives alongside energy advice and seek views on how we can provide help better to households living off the gas grid, people who are seriously ill and through community schemes.

We propose to keep the value of the rebate at £140, as currently, rather than increasing it, to reach more households. Finally, we are seeking views on some of the more technical aspects of the scheme such as calculating market shares and dealing with scheme underspends.

## The Current Scheme

The Warm Home Discount (WHD) is a key policy in the Government's programme to tackle fuel poverty and the effects of rising energy prices on low income households. Launched in April 2011, it has helped over 2m low income and vulnerable households each year with their energy costs. By the end of the current phase of the scheme in March 2015, over £1.1billion will have been spent by participating energy suppliers on their eligible customers.

The WHD is set out in legislation and requires suppliers with over 250,000 domestic customer accounts to participate. In its first 2 years, only the 6 largest energy suppliers were part of the scheme whereas now, in Scheme year four, 9 suppliers are participating. This illustrates the increased level of competition in the energy supply market and overall provides more consumer choice for people who qualify for the scheme.

The regulations which underpin the WHD set out details of the scheme's operation until 31 March 2015. As part of the Spending Round<sup>1</sup>, in summer 2013 Government announced a further commitment to the scheme with a spending target of £320m in 2015/16. However, we will need to amend the scheme regulations in order for the scheme to continue. Therefore, we are using the opportunity of new regulations to make improvements.

The intention of the WHD was to provide consistent and clear levels of support with energy bills to a large number of low income and vulnerable households. It also provided a gradual transition from the social tariffs and rebates which preceded it. These were established by the Voluntary Agreement between Government and the 6 largest energy suppliers from 2008-2011. Currently in its fourth year, the scheme will provide £140 off electricity bills to over 2m households.

In 2014/15 the WHD is made up of three parts:

- The Core Group – people in receipt of Pension Credit Guarantee Credit (this includes customers who also receive Savings Credit). Suppliers provide £140 off electricity bills to their eligible customers.
- The Broader Group – suppliers provide £140 off electricity bills to low income and vulnerable customers who meet their individual eligibility criteria and successfully apply.
- Industry Initiatives – suppliers provide a range of measures including debt assistance, benefit entitlement checks and energy advice to domestic customers in or at risk of fuel poverty.

In the first three years of the scheme, Legacy Spending was also an element of WHD. This included social and discounted tariffs and rebates which had begun during the Voluntary Agreement. These were gradually phased out as more people received a set rebate off their electricity bills as part of the Core and Broader Groups.

Rebates are provided to customers regardless of payment type. Direct debit and credit customers receive the rebate directly off their bill. Prepayment meter customers receive the

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<sup>1</sup> Government spending round, UK Government, 2013, Page 31

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/209036/spending-round-2013-complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf)

rebate in a variety of ways depending on their supplier, ranging from being sent a voucher to their card being topped up when they add credit at their usual outlet.

There has been an overall spending target for each year of the scheme and spending caps on Legacy Spending and Industry Initiatives. The Core Group is demand led – suppliers have to pay their eligible customers – and makes up the majority of scheme spending. The level of spending on the Core Group each year is forecast in advance, at which point the non-core spending target is set. Therefore, once suppliers have spent as much as required, they do not have to provide further help under the scheme.

The scheme spending targets are set out in the scheme Regulations. However, as non-Core spending targets are set based on forecasts of Core Group spending – which will always carry a level of uncertainty – scheme spending has been different to the spending targets in each year of the scheme. We have dealt with this by requiring more or less spending in the following Scheme year in order to keep to the overall 4-year spending target of £1.13 billion.

Last year, our forecast of the size of the Core Group on which we based the non-core spending obligation was such that, once the Core Group was determined, the scheme faced a potential underspend of £34m. We made a small, one-off change to allow suppliers to reduce their non-core spending obligation in Scheme year 4, if they spent up to 34% more than their non-core spending obligation in Scheme year 3. While we await the annual report on the scheme, due in autumn, early indications are that the change had the desired effect and most suppliers spent well over their obligations. This will maintain a smooth upward trajectory in scheme spending year-on-year.

The WHD is a Government scheme delivered by participating energy suppliers. Ofgem is the scheme administrator and DWP plays a key role in the operation of the Core Group as well as providing verification services for suppliers.

On the basis that the scheme is known with customers, reaches a large number of low income households and is a success operationally, we propose not to make significant changes to its structure. Therefore, this consultation is based on the scheme continuing in its current structure in terms of Core Group, Broader Group and Industry Initiatives. However, we are proposing to make improvements to the Broader Group and Industry Initiatives which we believe will improve the effectiveness of the scheme.

## The Core Group

The WHD Core Group comprises of the groups of people who are amongst the most vulnerable to the impacts of fuel poverty and poorly heated homes – poor pensioners. More specifically, the Core Group is comprised of households in receipt of Pension Credit Guarantee Credit. As the total spending amounts and the proportion available for the Core Group has increased each Scheme year, so the size of the Core Group has increased. This has happened, as originally envisaged, due to an expansion of the eligibility criteria in each year of the scheme. As a result, under the Core Group, around 700,000 households received a £120 rebate in Scheme year 1 and we estimate that over 1.4m will receive £140 this Scheme year.

Each year we set a qualifying date for the Core Group – this year it was 12 July. Participating energy suppliers are required to provide rebates to all those people who are their customers on that date and who meet the eligibility criteria. Through a system of data matching, DWP informs suppliers which of their customers should be paid a Core Group rebate. The vast majority of customers receive a letter telling them their data has been matched and they will receive a rebate before 31 December without having to take action.

Not all pensioners in receipt of the qualifying benefit are eligible or receive the rebate automatically as described above. Firstly, customers who are not with participating suppliers or

who are not named on the electricity account are not eligible. Secondly, there are instances where customers are eligible but are not identified in the data matching process because the name and address details held by DWP and the energy suppliers differ. In order to capture this second group of people, Government sends letters to all people who have not been identified as part of the data matching process but are in receipt of the qualifying benefit. This letter requests that they phone a call centre in order to verify their eligibility. Once this process has been completed successfully they too receive a rebate, usually before 31 March.

In Scheme year 3 around 1.16m people received the rebate automatically and around 75,000 received it as a result of receiving the letter and claiming successfully through the call centre.

All eligible Core Group participants identified as part of the two processes described above are entitled to a rebate and their supplier on the qualifying date is obliged to award it to them.

## Broader Group

The Broader Group forms part of the 'non-core' spending obligation and is the second largest component of the WHD scheme. It is administered by participating energy suppliers who determine the eligibility for groups of households in or at risk of fuel poverty who are not part of the Core Group.

The Broader Group generally includes low income families, those with disabilities, and long term illnesses and pensioners who do not qualify for the Core Group rebate. As explained above data matching is not applied to the Broader Group so customers have to apply to their electricity supplier for the WHD rebate.

Energy suppliers are given the flexibility of deciding which groups of low income and vulnerable households to support, subject to their approval by the scheme administrator. This has enabled suppliers to maintain a balance between ensuring rebates were paid to the right households and the costs associated with identifying and verifying the eligibility of customers as well as being able to differentiate themselves and compete in the market.

As guidance to suppliers on which groups of households to target, there is a list of means-tested benefits in the WHD Regulations. These benefits help identify low income households and include an element of vulnerability. The list, which is shown below, includes the same means-tested benefits as the Cold Weather Payments (CWP) group:

- Pension Credit (only from Scheme year 2)
- Income Support or Income-based Jobseeker's Allowance, with any of following:
  - a disability or pensioner premium
  - a child who is disabled
  - Child Tax Credit that includes a disability or severe disability element
  - a child under five living with them
- Income-related Employment and Support Allowance (ESA), with any of the following:
  - the support or work-related component of ESA
  - a severe or enhanced disability premium
  - a pensioner premium
  - a child who is disabled
  - Child Tax Credit that includes a disability or severe disability element
  - a child under five living with them

The list was not intended to be exhaustive and suppliers are allowed the flexibility to choose all or a subset of these benefits in setting their criteria. Suppliers are also given the option to support additional groups of households if they could provide evidence to show that these groups are in or at risk of fuel poverty.

Suppliers are required each year to notify Ofgem for approval of both the eligibility criteria they intend to use for the Broader Group and how they propose to verify eligibility.

Suppliers are required to provide Broader Group rebate up to a minimum level. How much they actually spend is determined by how much they spend on Industry Initiatives.

### What has happened so far?

Over the duration of the scheme, the minimum target that suppliers have to spend on the Broader Group has increased each year. In Scheme year 1, suppliers were required to spend a minimum of £3.1m in total on the Broader Group. However, this rose to £47.6m in Scheme year 2. The increase in spend was largely due to the increase in total annual expenditure across the scheme and gradual scaling down of the scheme's fourth element, Legacy Spending.

Under the original WHD regulations suppliers were afforded some flexibility to their non-core spending obligations.

The table below sets out supplier actual spend compared to their Broader Group target and the other non-core spending in each year of the scheme. Table 1, below, shows that suppliers have prioritised Broader Group over other non-core spending.

**Table 1 – Non-core spending during Scheme years 1 and 2**

<b>Scheme year</b>	<b>2011/12</b>	<b>2012/13</b>
Broader Group minimum target	£3.1m	£47m
<b>Broader Group actual Spend</b>	<b>£28.1m</b>	<b>£63.6m</b>
Number of benefitting customers	234,297	489,494
Other non-Core spend target	£150m	£85m
<b>Other non-Core actual spend</b>	<b>£125.2m</b>	<b>£69.2m</b>
Non-Core Scheme year target	£153.1m	£132m
<b>Total Spend on non-core</b>	<b>£153.3m</b>	<b>£132.8m</b>

### Different Eligibility Criteria

The flexible approach to Broader Group rebates has enabled suppliers to provide support to a wide range of low income and vulnerable households. It has resulted in suppliers being able to differentiate themselves from others participating in the scheme and gives customers a greater choice of eligibility criteria under which they can apply.



Participating suppliers have a variety of Broader Group eligibility criteria. Last year, six of the eight participating suppliers expanded their eligibility criteria beyond CWP means-tested benefits set out in the WHD regulations. Some used a maximum household income threshold, while others included benefits such as free school meals and medical exemption certificates. One chose to include a subset of CWP means-tested benefits.

Based on anecdotal evidence, the differing criteria has made accessing WHD difficult for some low income families. For example, all suppliers have included out of work low income families in their eligibility criteria, but only five extended their criteria to include low income working families.

Since the adoption of the Low Income High Cost (LIHC) measure of fuel poverty, evidence suggests that families with young children are nearly twice as likely to be fuel poor compared to non-families. Over 80% of the economically active fuel poor are in work and the largest increase in the fuel poverty gap between 2003 and 2012 was seen in working households, where the average fuel poverty gap increased by £204.<sup>2</sup>

Recent statistics published by DECC, highlighted the number of customers who switched electricity suppliers increased by 34% between Quarter 4 of 2012 and Quarter 4 of 2013.<sup>3</sup> This is due to a number of factors, including an increase in energy prices before the winter months and Government messages to customers that switching suppliers could save money.

### **Case Study**

Mary, a single mother, lives with her three year old son in a two bedroom house with central heating. Mary works part-time and receives an annual salary of just under £13,000. Mary also claims Working Tax Credit and Child Tax Credit to help with childcare costs and living costs. Each year, Mary applies early for the WHD through her supplier under their Broader Group criteria and was successful each time.

In October, Mary's energy supplier announced their intention to increase their energy prices in time for the coming winter months. Mary had read in her local newspaper that switching energy supplier could save them over £200 a year on their gas and electricity bills. She decided to look at tariffs offered by other energy suppliers who were also part of the WHD scheme. She found a better deal with another supplier that would save her £100 each year. Mary decided to make the switch. However, when she asked about the WHD, she was told by her new supplier that she would need to check if she qualifies under their eligibility rules and submit a new application.

She found that her new supplier did not include someone in her circumstances in their eligibility criteria and therefore, due to inconsistent eligibility rules, Mary was unable to apply for WHD from her new energy supplier.

In this case study, Mary would have benefitted more if her new supplier had the same eligibility criteria as her previous one.

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<sup>2</sup> Annual fuel poverty statistics report, DECC, 2014

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/319280/Fuel\\_Poverty\\_Report\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319280/Fuel_Poverty_Report_Final.pdf)

<sup>3</sup> Quarterly domestic energy switching statistics, DECC, 2014 [www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics](http://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics)

From the WHD customer correspondence we receive, we are aware that lack of clarity on the eligibility rules may have been a barrier to switching.

## Industry Initiatives

There is a strong rationale for the Industry Initiatives element of WHD. Within this section of the WHD scheme suppliers have a collective budget of £30m to spend on other forms of support to benefit fuel poor and vulnerable customers, including customers who are not directly theirs. This approach was adopted for the Voluntary Agreement in 2008 where large energy suppliers signed up to a Government scheme to collectively contribute a set amount per year on voluntary social initiatives to 2010/11. This was later formalised through the creation of WHD. The Government maintained the additional flexibility for suppliers to collectively contribute to provide additional measures to help fuel poor and vulnerable households beyond the rebate.

The WHD Regulations set out that energy suppliers are able to carry out a series of activities under the Industry Initiatives section of the scheme which include:

- referrals to energy suppliers of persons in or at risk of fuel poverty that may be eligible for benefits under this scheme or other assistance by their supplier;
- benefit entitlement checks and referrals;
- provision of energy efficiency or thermal measures, energy efficient appliances and micro generation;
- training, or funding of training, of persons to provide energy advice;
- debt assistance measures targeted at persons in or at risk of fuel poverty.

Energy suppliers are given the flexibility to work with other organisations to deliver their measures, such as charities and trust funds, as long as the activities remain within the scope of those set out in the Regulations. Suppliers are required to notify Ofgem with details of their initiatives before they take place to obtain approval to make sure they meet the Regulations.

## Funding

At the beginning of the WHD scheme in April 2011, the Government set a cap for collective spending on Industry Initiatives at £30m per Scheme year. The proportion of the £30m that an individual energy supplier can spend depends on their total market share.

During the earlier part of WHD, 2011-2014, suppliers were given the flexibility to merge the Industry Initiatives and Legacy Spending elements of the scheme within a certain cap to provide a transition for suppliers from the Voluntary Agreement to WHD. Throughout this transition the amount of funding made available through Legacy Spending has decreased as demonstrated in table 2 below. For Scheme year 4, the Legacy Spending element of WHD has ended and so suppliers have the collective £30m Industry Initiatives funding available during the 2014/15 Scheme year.

**Table 2 – Agreed spending on Legacy and Industry Initiatives during Scheme years 1 to 4**

<b>Expenditure type</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Legacy Spending cap	£140m	£70m	£35m	£0m
Industry Initiatives cap	£30m	£30m	£30m	£30m
Total Legacy Spending and Industry Initiatives cap	£150m	£85m	£53m	£30m

### What has happened so far?

Each Scheme year energy suppliers contribute a share of £30m to spend on other forms of support to benefit fuel poor and vulnerable customers. At the end of each Scheme year, suppliers send an annual report to the scheme administrator, Ofgem, for compliance purposes. Ofgem use the headline figures to report on how the scheme has been run during each year. This consultation uses the reports for Scheme years 1 and 2 to document the evidence for Industry Initiatives. The report for Scheme year 3 will be published in the autumn.

### Overall spending and customers helped

A breakdown of the spending and customers benefiting from the scheme can be found in table 3 overleaf. It demonstrates that the spending decreased slightly in Scheme year 2 but more customers benefitted from the schemes run by suppliers.

**Table 3 – Total spending on Industry Initiatives during Scheme years 1 and 2**

<b>Scheme year</b>	<b>Total spending on Industry Initiatives</b>	<b>Number of customers benefitting</b>
Year 1	£22.3m	80,801
Year 2	£21.9m	98,739
<b>Difference</b>	- £400,000	+17,938

Suppliers chose to spend less than the £30m available for the Industry Initiatives section of the scheme due to a variety of reasons during the first two years. Suppliers were able to take this approach as they were able to spend flexibly between the Legacy Spending and Industry Initiatives portions of the WHD. This formed a transition between the end of the Voluntary Agreement and beginning of WHD, but this has been phased out for Scheme year 4 and so the underspend may not happen in future years of the scheme.

### Spending on specific initiatives

The table below sets out the percentage of the Industry Initiative expenditure which was spent on each activity and the percentage of customers benefitting from those activities during



Scheme years 1 and 2. It also shows how the share of Industry Initiatives spending and total customers supported has changed by initiative during the first 2 years of the scheme.

**Table 4 – Spending by initiative and number of customers benefitting during Scheme years 1 and 2**

Activity	Spending by initiative			Customers benefitting		
	Year 1	Year 2	Change in share of II spend (percentage points)	Year 1	Year 2	% change
Training	3%	3%	0	3%	4%	-1
Energy efficiency	12%	10%	-2	9%	7%	-2
Debt assistance	58%	70%	+12	24%	22%	-2
Benefits checks	0.1%	1%	+1	2%	4%	-2
Energy advice	2%	5%	+3	24%	53%	+29
Multiple	25%	11%	-14	38%	14%	-24

Over the first two years of the scheme, the table indicates that the largest proportion of Industry Initiatives spending was on debt assistance. In Scheme year 1, a total of 58% of Industry Initiatives spending went on debt assistance and this increased to 70% in Scheme year 2. As set out in the table, the percentage of customers who benefitted from Industry Initiatives also varied during Scheme years 1 and 2.

# The future Warm Home Discount in context

## Strategy and definition

This year we will be preparing a new fuel poverty strategy for England<sup>4</sup> and we recently laid regulations to implement a new fuel poverty target. As well as a new target and strategy, the LIHC definition of fuel poverty came into effect in England in 2013. We have borne this in mind when developing the proposals for the WHD in this consultation, while maintaining the main overall structure of the scheme given this is a one-year extension. For example, a significant proportion of the fuel poor are now of working age, particularly families. Also, the 2013 Fuel Poverty Strategic Framework<sup>5</sup> highlighted the disproportionate risk of being in fuel poverty attached to being on a low income and not having access to mains gas, and as a result we have suggested including activities that have a specific focus on particular households under our Industry Initiatives proposals, alongside current eligibility initiatives.

## Data sharing

One of the key successes of the WHD has been the use of data matching. Under the Core Group, DWP matches suppliers' customer name and address data with its own data about the people who meet the benefits eligibility criteria – currently those people on Pension Credit Guarantee Credit. This system of data matching means that most households eligible under the Core Group receive their rebate without having to take any action. There are safeguards in place to ensure that data is shared securely and the minimum information is shared in order to provide the rebates. As well as providing excellent customer service, this is also a very cost-effective process which ensures the intended beneficiaries of the policy receive the rebate. The data matching which takes place under the WHD is generally popular with stakeholders.

The benefits of this type of data matching are recognised across Government which is why we are working with Cabinet Office, as part of its open policy making process, to consider ways in which wider data sharing could improve the delivery of policies to the fuel poor and low income households. As part of the fuel poverty strategy consultation we have asked for feedback on how we can improve the targeting of fuel poverty policies. The Cabinet Office work will lead to a White Paper in autumn which will include proposals for improving policies which help the fuel poor and other low income households.

Current data matching under the WHD is limited to people on Pension Credit due to the primary legislation that underpins it. Therefore, to enable more people to benefit by receiving their rebate automatically, we would need new primary legislative powers to allow data matching for other forms of data, such as recipients of Tax Credits or benefits other than Pension Credit. Such primary powers would then need to be underpinned by regulations. Parliamentary time pressures mean that this is not possible in time for the WHD in 2015/16, so we will not have wider data matching for the scheme in that year. Furthermore, wider data sharing would allow

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<sup>4</sup> The WHD is a GB policy though fuel poverty and the way it is defined is a devolved issue.

<sup>5</sup> Fuel Poverty: Framework for Future Action, DECC (2013)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/211180/FuelPovFramework.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211180/FuelPovFramework.pdf)

more people to receive rebates automatically but the value of the rebate or the spending targets would need to be reassessed at that point.

## Welfare changes

As highlighted in the new fuel poverty and strategy consultation<sup>6</sup>, the Government is making fundamental reforms to the welfare and pension systems to ensure that work and saving pays. This is notably through Universal Credit, which ensures that people are better off in work; the new State pension, which raises the contributory pension above the basic level of the means test; and automatic enrolment into workplace pensions, which boosts retirement income above the State pension.

The introduction of Universal Credit will not require a change to the WHD policy for 2015/16. There is likely to be an increase in the number of households eligible for the Broader Group rebate and in receipt of Universal Credit, but suppliers are aware of this and are already able to incorporate Universal Credit into their eligibility criteria.

The state Pension reforms will begin from April 2016. This will not have an impact on the WHD in 2015/16, however we will need to reflect this change in the development of future fuel poverty policies, particularly the implications for targeting as highlighted by the fuel poverty strategy consultation.

## Rationale for energy bill rebates

Energy prices have risen sharply over the last 10 years and the effects of rising energy prices are felt most by those with the lowest disposable incomes, for whom spending on energy necessities already accounts for a disproportionately high share of their annual outgoings.<sup>7</sup> In 2012, the number of households in fuel poverty in England was estimated at around 2.28m, representing approximately 10.4% of all English households. This is a fall from 2.39m households in 2011<sup>8</sup>. The households which are worst affected are those that face the overlapping problem of being on a low income and facing high energy costs, and as a consequence are in fuel poverty. In England, a household is defined as being in fuel poverty if it has above typical energy costs, and if after covering those costs its remaining income is below the national poverty line – the LIHC definition. In Scotland and Wales households are defined as being in fuel poverty if they need to spend more than 10% of their income on keeping warm and other energy necessities.

The long-term solution to reducing energy bills, alleviating fuel poverty and helping offset the impacts of price rises is to make the homes of low income households more energy efficient, primarily by improving the building or the heating system in it. Through the Green Deal and Energy Company Obligation, households are able to get access to different types of insulation

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<sup>6</sup> Cutting the cost of keeping warm: a new fuel poverty strategy for England, a consultation document, DECC, 2014 <https://www.gov.uk/government/consultations/cutting-the-cost-of-keeping-warm-a-new-fuel-poverty-strategy-for-england>

<sup>7</sup> Estimated impact of energy and climate change policies on energy prices and bills, DECC, 2013 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/172923/130326\\_-\\_Price\\_and\\_Bill\\_Impacts\\_Report\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326_-_Price_and_Bill_Impacts_Report_Final.pdf)

<sup>8</sup> Annual fuel poverty statistics report, DECC, 2014 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/319280/Fuel\\_Poverty\\_Report\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319280/Fuel_Poverty_Report_Final.pdf)

and more efficient boilers. Energy bill rebates can work effectively alongside other policies to reduce the energy costs of low income and vulnerable people, and the 2013 Fuel Poverty Strategic Framework showed that energy bill rebates have a role as part of a cost-effective mix of measures to tackle the long-term, structural problem of fuel poverty. Rebates are especially important while a significant proportion of our housing stock remains inefficient, and upgrading it takes time.

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 it.

The WHD is also consistent with a competitive energy market. By having transparent and consistent rebates (i.e. all rebates will be £140 this winter), it does not interfere with prices and is simpler for consumers to understand than a system of discounted tariffs. Though the cost of the scheme is passed on by suppliers to domestic energy consumers, on average, the impact on energy bills is zero. Rising energy prices disproportionately affect low income households because they have to spend more of their incomes on energy in order to keep warm. The WHD has positive distributional benefits because it is targeted at low income households, helping to reduce the effect on them of rising prices.

### Scheme funding

Currently the scheme is funded by participating energy suppliers. Government sets the spending targets for each Scheme year and spending is controlled under the Levy Control Framework, which also limits the spending through policies which deliver low carbon energy.

As set out above, there is an advantage to the WHD being supplier-delivered as the recipients receive a direct reduction in their energy bills. However, as a result of this funding method, suppliers pass the costs on to their customers. We estimate that this adds around £11 to the average annual domestic energy bill<sup>9</sup>.

### The scheme beyond 2015/16

We have committed to a spending target of £320 million in 2015/16 and we will make decisions on the future of the scheme beyond that subject to the outcome of the next Spending Review. This will allow us to take stock of progress against the new fuel poverty target, the strategy, the latest analysis and progress made on wider data matching. We will be in a better position to make long-term decisions about fuel poverty policies, including the future of the WHD.

Furthermore, we intend to carry out a detailed review of the current scheme in 2015, including the impacts on rebate recipients and the customer experience of those in receipt of rebates under the Core and Broader Groups. We will use the results of that review to inform decisions on future policy.

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<sup>9</sup> Estimated impacts of energy and climate change policies on energy prices and bills 2013, DECC, 2014  
<https://www.gov.uk/government/publications/estimated-impacts-of-energy-and-climate-change-policies-on-energy-prices-and-bills>

# Proposals for 2015/16

## The Core Group

We want to achieve the right balance between the value of the rebate, the total number of households helped and the types of households helped. On that basis, we propose that the current benefits criteria for the Core Group should remain in 2015/16, namely:

- customers in receipt of Pension Credit Guarantee Credit (this includes customers who also receive Savings Credit).

Current forecasts are that the number of people in receipt of Pension Credit Guarantee Credit will remain roughly stable between the current and next Scheme year – around 1.7m. Of those, not everyone will be eligible, primarily because they are not electricity account holders.

This will result in the scheme helping the lowest income pensioners while also being able help a significant proportion of working age vulnerable households with the remainder of the spending target.

As mentioned above, over 90% of those who have received a rebate as part of the Core Group will have received it automatically as a result of data matching. Therefore, we know that the intended recipients have received the rebate. We will continue to deliver the majority of rebates automatically via the data matching process. Everyone on Pension Credit Guarantee Credit will continue to get a Government letter informing them that either their data has been matched and they do not need to do anything further or that they may be eligible but have to contact a call centre to verify their eligibility.

### Consultation Question

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|---|--|
| 1 | Do you agree with the Core Group eligibility criteria remaining in place for those people in receipt of Pension Credit Guarantee Credit? |
|---|--|

## The Broader Group

The Broader Group part of the WHD scheme allows other low income and vulnerable households, who do not qualify under the Core Group, to apply for the same value rebate through their supplier.

The Government would like to gather views on this portion of the scheme with a view to making it more easily accessible to people most likely to be in fuel poverty. We are seeking views on whether the current criteria are a barrier to switching and how this can be overcome. We are also consulting on proposals to:

- increase the proportion of applicants whose eligibility is verified: and
- introduce spending flexibility of 5% between the current Scheme year and 2015/16 for non-core spending.

## Broader Group criteria

As explained earlier, suppliers currently choose their own eligibility criteria for the Broader Group, subject to approval by Ofgem. While criteria are similar between suppliers, there is some variation. One benefit of suppliers offering their own criteria is that it allows them to differentiate themselves and compete in the market. However, differences in criteria between suppliers may create barriers to switching where a customer is eligible under one supplier's criteria but not another's. We are seeking evidence through this consultation as to the extent to which this is an issue.

During the scheme we have improved information provision for customers, such as providing lists of Broader Group criteria to consumer organisations, but we would welcome views on whether there is more that could be done in terms of providing information to eligible customers to help alleviate potential barriers to switching.

If the current approach to defining Broader Group criteria creates a barrier to switching, one way to resolve this could be for suppliers to have some consistent criteria. This could work, for example, by all suppliers offering a standard set of criteria – possibly based on benefits/tax credits – as well as being able to choose additional criteria as under the current scheme. This would not change the numbers who receive the rebate, which would remain limited by the funding available. The advantage of this approach would be that individuals eligible under the standard criteria would have more certainty about their eligibility if moving between different participating suppliers.

Families with children are the largest group in fuel poverty and many of them are in work. Whilst all suppliers offer rebates to out-of-work families, not all suppliers offer rebates to working families on tax credits. Under the current arrangements, suppliers could choose to offer criteria to make more low income working families eligible but this is not currently mandatory.

While moving to a system of standard minimum criteria would mean that some potential customers who are eligible for a Broader Group rebate with one participating supplier would be eligible with any participating supplier, it would have other implications. For example, it could see increasing competition between customers to access their individual supplier's support. It is also the case that this change would not make switching easier for all customers. For example, customers outside of the standard criteria would remain eligible only with some suppliers and energy suppliers below the participation threshold would remain outside the scheme altogether.

Consultation Question	
2	To what extent do the current Broader Group criteria act as a barrier to switching, and if they do how could this be addressed cost-effectively?
3	Would the potential benefits of moving to a standard set of compulsory criteria outweigh the potential disadvantages? What could any compulsory criteria be (e.g. which benefits or tax credits), and why?

## Higher rate of verification

Under the current WHD regulations, suppliers are required to verify at least 5% of their total Broader Group applications. This ensures that 5% of all households who apply for the rebate meet the eligibility criteria set by their supplier. Within the current regulations, suppliers cannot pay the rebate to applicants until they have successfully verified 5% of applications.



Suppliers can decide how they undertake verification checks on applications. For example, some in the past have chosen to conduct this process internally. Other suppliers have chosen to contract services from DWP or use other third parties to confirm a household's eligibility. DWP can access a wide range of information including all those who receive CWP means-tested benefits and Child Tax Credits and Working Tax Credits.

The Government wants to ensure rebates are paid to the right households. Therefore, we would like to increase the levels of verification required where this can be done cost effectively. The majority of verification costs are associated with verification of records which cannot be verified by DWP. Therefore, in order to be cost effective, any increase in verification rates would have to be focused on criteria that DWP can check. One possible solution would be for suppliers to send all records of applicants to DWP, where they apply under criteria which DWP can check such as means-tested benefits and tax credits. We would welcome views on whether how such an approach could work and, and from suppliers in particular, on the associated costs of higher rates of verification.

### Consultation Question

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|---|--|
| 4 | Do you agree that a higher number of Broader Group applications should be verified? If yes, how could this be done in a cost effective manner? |
|---|--|

### Flexibility on overspending by suppliers

In Scheme year 3 (2013/14), Scheme Regulations were amended so that up to 34% of their overspending could be used to reduce their non-core spending obligation in Scheme year 4 (2014/15). That was a one-off change introduced in order to deal with a forecast underspend on the Core Group.

However, if suppliers overspend on their Broader Group in Scheme year 4, then current WHD regulations have no provision to reduce their individual non-core spending in 2015/16 by a corresponding amount. This can be addressed in the Regulations for 14/15.

As additional measures have been put in place to ensure Core Group forecasts are more accurate in future years, we do not believe it is appropriate to have the same level of flexibility as in Scheme year 3.

Therefore, we propose that if suppliers spend up to 5% more than their non-core obligation in Scheme year 4 of the scheme then we will reduce their non-core obligation by a corresponding amount for 2015/16.

### Consultation Question

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|---|---|
| 5 | Do you agree with the proposal to reduce future non-core obligations by up to 5% of the current non-core spending obligations in the event of overspend? Do you have any suggestions on the level of overspend? |
|---|---|

## Reconciliation mechanism/ customer buy out

To date, all suppliers have been able to meet their obligations under the WHD. This includes the smaller suppliers that joined in Scheme year 3. However, we recognise that new entrants into the scheme may have a lower proportion of low income and vulnerable customers that could make it more difficult for them to meet their Broader Group obligations. We have given consideration to alleviating the disproportionate impact this may have on smaller suppliers and have considered the following options:

- allowing suppliers to jointly meet their Broader Group spending obligation. For example two suppliers could agree that they will meet the total obligation for their joint market share but each individual supplier would not have to fulfil its obligation;
- introducing a central buy-out mechanism. For example, suppliers would be able to pay into a central pot if they were unable to meet the obligations;
- agreements between suppliers which would allow supplier A to meet its obligation by paying Broader Group rebates to the customers of supplier B.

However each of the solutions considered could interfere with the competitive market and could introduce more uncertainty about the total spending under the scheme. We therefore welcome views on this issue.

### Consultation Question

6

Do you have views on whether there are particular challenges for smaller suppliers in delivering their Broader Group obligations? Would any of the changes proposed above introduce new challenges for smaller suppliers?

## Industry Initiatives

The Industry Initiatives part of the WHD scheme operates to provide fuel poor and vulnerable households with additional assistance with their energy bills beyond the Core Group and Broader Group rebates. We are consulting on making some changes to this portion of the scheme to give suppliers flexibility in the services they offer to make sure the broadest group of customers can be helped in the most effective and efficient manner.

The Government would like to consult on adjusting and widening the criteria suppliers currently work from for the scheme in 2015/16:

- cap the amount of spending on debt assistance;
- permit suppliers to provide park home residents eligible for the Core and Broader Groups a rebate under the WHD;
- permit suppliers to provide additional support for customers eligible for the Core and Broader Groups:
  - living off the gas grid;
  - those with long term health problems and/ or a disability
  - those living in communities where residents are wholly or mainly in fuel poverty.



- encourage energy suppliers to provide energy advice alongside the delivery of other Industry Initiatives;

We would also like to hear your views on:

- how the WHD could be simplified and;
- customer helplines.

### Debt assistance

The Government proposes to address the high level of expenditure on debt assistance through the Industry Initiatives section of the scheme. We understand that a high number of households are helped with the debt they have and can be put on the right path to staying out of debt in the longer-term. However, we would like to understand more about whether some of that spending could be re-directed to other innovative projects. As mentioned previously, 58% of Industry Initiatives spending in Scheme year 1 and 70% of spending in Scheme year 2 was used for debt assistance. In Scheme year 1, a total of 19,849 (24%) customers were helped and in Scheme year 2 a total of 22,038 (22%) customers were provided with debt assistance by their energy supplier. The annual reports from the first two years of the scheme, produced by Ofgem, shows that the average debt assistance award to individual households increased from £677 in Scheme year 1 to £692 in Scheme year 2. This shows that the number of customers in receipt of debt assistance from their suppliers increased in line with the total helped through Industry Initiatives but the percentage of customers dropped slightly by 2%.

Despite the early signs of diversification on Industry Initiatives spending, we propose that placing a cap on the proportion that energy suppliers can spend on debt assistance would be appropriate to encourage more spending on other initiatives. We suggest that it would increase the number of customers able to benefit from Industry Initiatives and would widen the form of help customers could access. This move is not unprecedented as during the Voluntary Agreement, participating suppliers were asked by Ofgem to cap their spending on debt assistance to 10% or less of their total Voluntary Agreement spend during each year of the scheme<sup>10</sup>. With the evidence from the first two years of the scheme in mind, the Government proposes to cap the total amount spent on debt assistance by individual supplier.

### Consultation Question

7	What are your views on the Government putting in place a cap on the amount suppliers are able to spend on debt assistance through the Industry Initiatives section of the Warm Home discount scheme? What do you suggest the cap could be?
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### Park homes

To claim the WHD rebate currently a person or their partner must be named on the electricity account. This is the easiest method of getting the rebate to the eligible household as almost all households are on the electricity grid and it is essential for data matching. DWP matches its benefits data with the customer data of energy suppliers; they only have data about the people who are named on the electricity account. This type of delivery keeps costs low and minimises the risk of fraud and error.

<sup>10</sup>Monitoring suppliers' social programmes, Ofgem, 2011 <https://www.ofgem.gov.uk/ofgem-publications/57104/suppliers-social-spend-rCheereport-2010-2011.pdf>

However, we recognise that it excludes people who are on the qualifying benefits to receive the WHD but do not have an account with a participating energy supplier. This includes:

- park home residents;
- care home residents;
- tenants whose landlord is named on the electricity account; and
- householders (usually pensioners) where someone else is responsible for paying their bills (e.g. their children).

In most circumstances, it is possible to have multiple names on an account so there can be an arrangement whereby a vulnerable person receiving the qualifying benefits for the WHD is named on the electricity account while someone else continues to ensure bill payments. However, this is not possible in all circumstances.

Park home residents do not usually pay for their electricity directly to an energy supplier; it is the site owner who has the electricity supply contract. They are likely to have in place a variety of arrangements to charge their tenants for their electricity. Some may include costs in the rental or service charge while others may be in a position to sub-meter the supply and provide bills based on meter readings. However, in all these situations a supplier would only have a customer relationship with the proprietor or owner of the site, not the residents. Therefore, it is not possible for suppliers to directly reduce the bills of park home residents nor can they easily identify who they are.

We estimate there are approximately 71,000 park homes in Great Britain and believe the majority of residents are aged over 55 years<sup>11</sup>. We recognise that some park homes are likely to be poorly insulated and those residents may struggle to keep themselves warm.

Park home residents have not been able to receive the WHD to help them with their energy costs to date. Therefore, we are now proposing that suppliers are able to use Industry Initiatives funding to enable eligible park home residents to benefit from the WHD in 2015/16. Providing them with the rebate will be more difficult and costly than it is currently for electricity account holders so we would welcome views on how this can be done in a cost effective and pragmatic way. We have launched a call for evidence<sup>12</sup> to understand more about the energy use and issues affecting park home residents which closed on 30 September. We hope this will reveal new evidence about park homes and help to shape future Government policy.

It is not possible for park home residents to be part of the data matching process and receive rebates automatically off their bills as park home residents do not have a direct customer relationship with energy suppliers. Therefore, our proposal is that under the Industry Initiatives element of the scheme, suppliers will have the option to offer rebates to any park home residents who also meet the Core Group or Broader Group criteria.

### **Administering the scheme for park home residents**

If suppliers do choose to provide a rebate to eligible park home residents through Industry Initiatives then it would need to be administered independently from the main part of the scheme. We envisage that eligible park home residents would need to apply to the third party, and once verified, the eligible applicants would be sent a cheque or electronic payment as it is

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<sup>11</sup> Warm Home Discount extension: Impact Assessment, DECC, 2014

<https://www.gov.uk/government/consultations/warm-home-discount-extension-to-201516>

<sup>12</sup> Call for evidence on energy issues affecting park homes, DECC, 2014

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/332939/call\\_for\\_evidence\\_on\\_energy\\_issues\\_affecting\\_park\\_homes.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332939/call_for_evidence_on_energy_issues_affecting_park_homes.pdf)

not practical to provide them with a direct rebate off their electricity bills. Based on the limited evidence currently available, we believe that 10,000 – 30,000 park homes could be eligible<sup>13</sup>.

Park home residents in receipt of Pension Credit Guarantee Credit will already receive a letter from DWP about the WHD each Scheme year as an ‘unmatched’ customer. In previous Scheme years, these park home residents have been unable to claim the rebate as they have not got a direct customer relationship with a participating energy supplier. If this changed and park home residents were able to claim the WHD then they could use the unique code on the ‘unmatched’ letter they receive for the 2015/16 Scheme year and a council tax letter to prove their eligibility to the third party administering the scheme. If suppliers would like to go ahead with providing a rebate to park home residents eligible for the Core Group then we would like to see all of those customers who applied to receive the rebate.

We would suggest that the process for eligible park home residents claiming the Broader Group rebate would be different to those meeting the Core Group qualifying benefits criteria. Park home residents who fall into the Broader Group may not be aware of the WHD as they do not have contact with a participating energy supplier to hear about the scheme. We welcome views on how to communicate with this group of park home residents most effectively. As explained earlier, not all customers who meet the Broader Group eligibility criteria are able to receive the rebate. Currently, around a third of households on qualifying benefits receive a rebate. Therefore, we propose that funding for park home residents who fall into the Broader Group would also be proportionately limited if suppliers went ahead with this initiative.

We recognise that there could be a relatively arduous application process for the park home residents. There are also risks of high processing costs, fraud and error. We are using this consultation to establish what will be the challenges of this approach and how they can be overcome or whether there are alternative approaches we could use to enable park home residents to receive the rebate.

### Consultation Question

8

Do you agree with the proposed option for suppliers to provide eligible park home residents a rebate through the Industry Initiatives portion of the scheme? Please provide the details of any solutions you may have on the practicalities of delivery and communications.

<sup>13</sup> Warm Home Discount extension: Impact Assessment, DECC, 2014

<https://www.gov.uk/government/consultations/warm-home-discount-extension-to-201516>

## Additional support for eligible customers through Industry Initiatives

The Government would like to add additional areas which suppliers can focus their Industry Initiatives spending on. With the publication of the fuel poverty strategy consultation ‘Cutting the cost of keeping warm’, the Government would like participating suppliers to provide support to a number of groups who may struggle to get assistance through other policies. In particular, we would like to provide assistance to: those living off the gas grid and those with long term health problems and/ or a disability. We would also like to encourage suppliers to deliver their Industry Initiatives to communities where residents are wholly or mainly in fuel poverty – if this is a practical delivery option.

### Off-gas grid

The Government would like to provide more support for fuel poor and vulnerable households living off the gas grid. Households living off the gas grid in rural and urban areas often pay more to heat their homes than those on the gas grid. The difference in price is highlighted in table 6 below.

**Table 6 – Price of electricity, gas and heating oil in 2014**

Fuel	Price per kilowatt hour (kwh)
Electricity	15.20p <sup>14</sup>
Gas	4.86p <sup>15</sup>
Heating oil	6.11p <sup>16</sup>

These higher fuel costs coupled with a higher incidence of solid walls in off-gas grid properties, particularly those in rural areas, which has resulted in these households being more likely to experience severe fuel poverty than their counterparts<sup>17</sup>. This is demonstrated through the higher average fuel poverty gap of fuel poor households without access to mains gas (£809) compared to those using gas (£332)<sup>18</sup> - £588 against an average gap of £404 for households on the gas grid.<sup>19</sup>

The Government would like participating energy suppliers to consider providing additional assistance to off-gas grid households in rural and urban areas using the Industry Initiatives section of the scheme. There are a number of activities that suppliers could undertake for fuel poor and vulnerable customers living off the gas grid such as providing a contribution to install renewable heating or solid wall insulation or contributing funding to a third party to provide measures.

<sup>14</sup> Quarterly Energy Prices, DECC, 2014, table 223 – Assumes a fixed level of consumption of 3,800 kWh a year.

<sup>15</sup> Quarterly Energy Prices, DECC, 2014, table 223 – Assumes a fixed level of consumption of 15,000 kWh a year.

<sup>16</sup> Office for National Statistics

<sup>17</sup> Fuel poverty: a framework for future action, DECC, 2013

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/211180/FuelPovFramework.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211180/FuelPovFramework.pdf)

<sup>18</sup> Annual Fuel Poverty Statistics Report (2014). Available at: <https://www.gov.uk/government/publications/annual-fuel-poverty-statistics-report-2014>

<sup>19</sup> Fuel poverty: a framework for future action, DECC, 2013

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/211180/FuelPovFramework.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211180/FuelPovFramework.pdf)

## Community approach to delivery

During the first two years of the scheme, a number of energy suppliers participating in the WHD have delivered some of their Industry Initiative projects to communities rather than individual households. The regulations allow suppliers to deliver Industry Initiatives to fuel poor and vulnerable households who are not their customers to help effective delivery, where it is appropriate. This can help to lower delivery costs which is especially important in more hard to reach areas. The Government would like to encourage participating energy suppliers to consider trialling pilot Industry Initiative projects in communities which could be run by suppliers themselves or community groups. This could take the form of community-wide energy advice or energy efficiency schemes which could take place in community centres, schools or children's centres, for example.

## Health

Living in a cold or badly insulated home can detrimentally affect those living in the household, both young and old, and exacerbate any poor health conditions in the home<sup>20</sup>. We would like participating energy suppliers to provide help to customers with long standing health problems in receipt of health-related benefits using Industry Initiatives funding. Suppliers could contribute a sum of their total Industry Initiatives contribution to a collective pot or individually to be spent on helping vulnerable groups with health problems. This funding could be used by groups such as Local Authorities and Housing Associations for health-based energy efficiency projects and pilots to make a long term change to fuel poor households with health problems.

### Consultation Question

9	<p>Do you agree that participating energy suppliers should be given the option to deliver Industry Initiatives to help eligible households:</p> <ul style="list-style-type: none"> <li>• Living off the gas grid</li> <li>• With health problems and/ or a disability</li> <li>• Living in communities where residents are wholly or mainly in fuel poverty</li> </ul>
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## Energy advice in the home and more focus on energy efficiency

There are positive results with suppliers providing energy efficiency advice in the home to fuel poor and vulnerable customers. This suggests that suppliers should continue to provide this type of advice to their customers. The Government would like to energy suppliers to consider providing energy efficiency advice alongside all other Industry Initiative measures – whether that is in the home or over the telephone – to help households be more aware of their energy use, change their behaviour and make their homes more energy efficient.

### Consultation Question

10	Do you agree that participating energy suppliers in the Warm Home Discount should
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<sup>20</sup> The Health Impacts of Cold Home and Fuel Poverty, Marmot Review Team, 2011  
[http://www.foe.co.uk/sites/default/files/downloads/cold\\_homes\\_health.pdf](http://www.foe.co.uk/sites/default/files/downloads/cold_homes_health.pdf)

	provide energy efficiency advice alongside other Industry Initiative measures? Please explain your answer.
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### The value of the rebate

When the WHD began in 2011, the value of the rebate was £120. It has increased each year and is currently £140. However, we propose that in 2015/16 the value of the rebate stays at £140. We recognise that this means it will not be in line with price inflation. However, keeping it at £140 means that over 71,000 more households would receive the rebate than would be the case if it were £145. It is our view that providing 71,000 additional households with £140 is preferable to providing a smaller number of households with an extra £5 on this occasion.

### Consultation Question

11	Do you agree that the value of the rebate should remain at £140? If not, please explain your answer.
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### Participation threshold

The current WHD has a simple threshold; all suppliers with 250,000 or more domestic customer accounts on 31 December preceding the next Scheme year have to participate. Other suppliers can volunteer to participate in the Core Group (the part of the scheme through which suppliers provide rebates to the poorest pensioners) but none have done so in the four years thus far.

The reason for having a threshold is because there is a cost to suppliers of participating in the scheme. Given that some of these costs are fixed, it could be a barrier to market entry if all suppliers had to participate. Furthermore, there would be additional cost to Government in administering a scheme with all suppliers for limited additional benefit. For example, some of the smallest suppliers would have very few or even no eligible customers.

The threshold is not unique to the WHD. Other policies, including the Energy Company Obligation also have a customer number threshold for mandatory participation and the impacts are different for each scheme. That is why DECC is considering the issues of thresholds across all relevant policies rather than just the WHD in isolation.

In light of that wider work, the threshold for participation in WHD for 2015/16 will remain at 250,000 domestic customer accounts.

As now, we also propose to allow suppliers with fewer than 250,000 domestic customer accounts to volunteer to participate in the Core Group of the scheme.

### Administration costs to suppliers

The Government has been using evidence to monitor the costs of the WHD since it began in 2011 and this has been used to inform the Impact Assessment. We acknowledge that this evidence is not sufficient to be applied to the industry at large and so would welcome any further evidence that can be provided on the costs of delivering the policy.



### Consultation Question

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|----|---|
| 12 | We would like to understand more about the costs of delivering the WHD. Please provide any costs you think will help Government understand more about the administration of the policy. |
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### Calculating market shares

Currently, supplier's participation thresholds and their market shares for the purposes of calculating their non-core spending obligations are based on the number of domestic electricity or gas accounts. If a household has a dual fuel account with one supplier, it counts as two accounts for the purposes of the WHD. It has been suggested that alternative methods for calculating the market shares could be fairer, for example based on electricity accounts only, or according to units of energy supplied in total. We propose to maintain the current calculation method but welcome views on whether suppliers market shares should be calculated differently.

### Consultation Question

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| 13 | How should market shares be calculated for the purposes of setting the non-core spending obligation? Please provide evidence for your answer. |
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### Dealing with under or overspends in non-core spending obligation

Currently, Government estimates the size of the Core Group by 14 February prior to each Scheme year. Based on this estimate, we calculate how much will be spent on Core Group rebates and that leaves the residual amount from the total spending target which we set as the total non-core spending obligation. For example, if the spending target is £320m and the Core Group spending is estimated at £200m then the non-core spending obligation is set at £120m. Ofgem informs suppliers by the 14 March preceding each Scheme year of their individual non-core spending obligations in order that they can prepare in advance of the Scheme year starting.

In recent years, inherent uncertainty in forecasting has meant that Core Group spending has not matched the eventual outcome which has resulted in the scheme spending not matching the original spending targets. This is accommodated in the current scheme regulations with the provisions for 'banking' or 'borrowing' spending between years, whereby we have resolved this by increasing or decreasing the spending target for the following Scheme year accordingly. In each year of the scheme, suppliers' obligations are calculated based on their domestic market shares relevant for that Scheme year and that includes any adjustment for the previous years under or overspend in the total non-core spending obligation. This approach could be a disadvantage to small, growing suppliers. Therefore, we are proposing that any under or overspend should be apportioned on the basis of suppliers' market share in the Scheme year in which the under or overspend took place.

We recognise there could be complexities with this methodology. In particular, we welcome views on how to deal with instances of a large proportionate fall in market share for suppliers in cases where they remain in the scheme and where they are in one year but not the following year.

### Consultation Question

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| 14 | How should non-core spending obligations be apportioned where they include an adjustment for an over or underspend in the previous Scheme year? Please provide evidence for your answer. |
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## Next steps

Following this consultation, we will consider responses and publish a Government response setting out the final policy by the end of 2014. We will then amend the current scheme Regulations which will be debated in both house of Parliament before coming into force.

Ofgem will also publish guidance consistent with the details of the new policy and the amended Regulations.

These changes will be completed before April 2015, when the new scheme will begin.

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