



Department
of Energy &
Climate Change

Government Electricity Rebate

Consultation on delivering a £12 rebate to domestic electricity consumers

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The consultation and Impact Assessment can be found on DECC's website:
<https://www.gov.uk/government/consultations/government-electricity-rebate>

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General information

Purpose of this consultation:

The purpose of this document is to consult on the policy and process needed to provide domestic electricity customers of licensed suppliers with a £12 Government Electricity Rebate in 2014 and 2015. We are seeking the views of electricity suppliers, industry infrastructure providers, consumers, their representatives and other interested parties.

Issued: 19th June 2014

Respond by: 17th July 2014

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Consultation reference: URN 14D/143 – Government Electricity Rebate

Territorial extent:

This document relates to England, Wales and Scotland

How to respond:

Your response will most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. There is an electronic consultation platform at: <https://econsultation.decc.gov.uk/decc-policy/government-electricity-rebate>

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/government-electricity-rebate>

Hard copies are not available

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

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 Code of Practice on consultation, which can be found here:

<http://www.bis.gov.uk/files/file47158.pdf>

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

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

Executive Summary

1. This consultation document relates to the proposal by Government to provide eligible domestic electricity customers with a £12 rebate (“the rebate”) in 2014 and 2015. The rebate is a key element of the Government’s policies to help reduce domestic energy bills.
2. A significant number of DECC’s energy and climate change policies are delivered through the energy industry¹. For example, the Renewables Obligation (RO) requires electricity suppliers to source an increasing proportion of electricity from renewable sources. This helps the UK meet its legally binding renewable energy target. Another example is the Energy Company Obligation (ECO), which requires suppliers to seek out cost effective energy efficiency measures for domestic consumers, including vulnerable groups, reducing carbon emissions and helping consumers to reduce their bills.
3. Delivering policies through the industry in this way has a number of advantages. For example, suppliers have an imperative to seek the most efficient delivery routes to minimise the costs to their customers and compete in the marketplace. Of course, companies who participate in such schemes can be expected to pass on the costs of participation to their customers with consequential impacts on bills. Government acknowledges this and has taken a number of actions to reduce the impact on household energy bills of delivering policy through the industry over the next two years.
4. In line with seeking efficient delivery of Government policy through the private sector and ensuring the rebate directly reduces the energy bill, we propose that the rebate is delivered by suppliers to their domestic customers. Most households in Great Britain have a domestic electricity supply and providing the rebate directly to domestic customers’ accounts will ensure that most households are able to benefit. As this is a Government rebate we will reimburse suppliers for the value of the rebates provided to customers.
5. DECC is working with Ofgem², the independent energy regulator, which will decide following its independent consultation³ whether these proposals are compatible with

¹ These policies relate only to consumers in the Great Britain electricity market which includes England, Scotland and Wales.

² Ofgem is the Office of the Gas and Electricity Markets Authority (GEMA) and the terms Ofgem and GEMA are used interchangeably in this document. The governing legislation for the establishment of GEMA is the Utilities Act 2000.

³ Ofgem published an open letter consultation on 28 April 2014: <https://www.ofgem.gov.uk/ofgem-publications/87451/openletterconsultationmodificationrelevantlicenceconditionstoenablethedeliveryofger.pdf>

Ofgem's principal objective: protecting the interests of present and future energy consumers as set out in the Electricity Act 1989 (the Act)⁴ and other statutory duties.

6. The proposals in this consultation would be set out in a direction from the Secretary of State for Energy and Climate Change to licensed domestic electricity suppliers. This direction can only be implemented if Ofgem introduces a licence modification with which suppliers will be required to comply. In making any direction the Secretary of State is subject to the principal objective and statutory duties as set out in the Act⁵. It is our intention to complete the overall process in time for an initial rebate to be provided from October 2014 and repeated in autumn 2015.
7. This consultation discusses proposals for requirements on domestic electricity suppliers and how they will deliver the rebate (for example how they should inform their customers). It addresses the costs incurred by suppliers in issuing the rebate to their customers, examined in more detail in the draft impact assessment published alongside this consultation document. It also sets out the process by which suppliers will report on the rebates made and how suppliers will be reimbursed.
8. This consultation proposes that:
 - suppliers will attempt to provide the rebate to all domestic electricity account holders who are their customers on a specified qualifying date;
 - customers will be eligible regardless of payment method;
 - suppliers will follow business as usual processes as far as possible in order to keep delivery costs to a minimum;
 - Government will reimburse suppliers for the value of the rebates they pay at the time of the financial impact on them;
 - Government will only reimburse suppliers for rebates provided to customers within a specified qualifying period; and
 - suppliers will be subject to reporting requirements which verify the number of rebates provided to customers within the scheme obligations.

⁴ Section 3A(1) of the Act states: "The principal objective of the Secretary of State and the Gas and Electricity Markets Authority in carrying out their respective functions under this Part is to protect the interests of existing and future consumers in relation to electricity conveyed by distribution or transmission systems"

⁵ *ibid*

Chapter 1

Introduction

9. Rising energy bills have been causing concern for many households. Rising wholesale gas prices have contributed most to higher energy bills in recent years⁶. However, the costs of energy and climate change policies also make up a proportion of domestic bills. The policies bring a number of benefits to consumers and the economy. For example, by increasing the proportion of renewable energy we reduce our dependency on fossil fuels and by improving the energy efficiency of homes we reduce consumption and household costs. Without Government policies, average household energy bills would be higher⁷.
10. Nevertheless, the Government is taking action to make these policies more affordable. In December 2013 the Government announced proposals to reduce the impact of energy and climate change policies on domestic energy bills. The package of measures announced was to revise the ECO to bring about £30 to £35 of savings, defer around £5 of revenue from distribution network operators and provide for a £12 electricity rebate for consumers. This package of measures is estimated to provide average energy bill savings of around £50 per household (including VAT) in 2014 compared to what bills would have been otherwise.
11. We are proposing that Government will pay the rebate annually for two successive years in 2014/15 and 2015/16 to eligible domestic electricity account holders. In year 1 it would be credited to the electricity accounts of eligible domestic customers from autumn 2014. In year 2 the rebate will also be credited from autumn 2015. Any additional payments of the rebate would need to be underpinned by appropriate primary legislation.
12. We have adopted a set of principles in developing our proposals for the delivery of the rebate. These are that:
 - The rebate should reach as many eligible customers as possible regardless of their payment method;
 - Customer electricity accounts should be credited automatically where possible;

⁶ DECC estimates that wholesale energy costs (which make up nearly half of the household energy bill) contributed at least 60% of increase in household energy bills between 2010 and 2012. Estimated impacts of energy and climate change policies on energy prices and bills – March 2013 (DECC)

⁷ DECC's March 2013 report finds that in the absence of Government policies, household energy bills would, on average, be £65 higher in 2013 and £166 higher in 2020.

- Delivery costs should be proportionate to the size of the rebate and therefore we should adopt a pragmatic, “business as usual” approach, using existing systems and processes where possible; and
 - Eligible customers should be easy to identify and provide the rebate to.
13. We have sought to ensure that our proposals for delivering the rebate are evidence based and pragmatic. We have held a workshop to which all suppliers were invited. We have had bilateral meetings with suppliers, prepayment meter infrastructure providers and a consumer organisation so that we understand as fully as possible the operational issues involved in delivering the rebate. We have also gathered detailed information from suppliers including about the administrative and financial costs of providing the rebate. The proposals in this consultation are intended to be both customer-focused and low cost to deliver.
14. On 28 April 2014, Ofgem published an open letter consultation⁸ which proposed the modification of the standard conditions of electricity supply to mandate the delivery of the rebate. Subject to the outcome of that consultation, the current proposal is that the rebate would be delivered in accordance with a direction issued by the Secretary of State under powers in the Electricity Act 1989 and a new domestic supply licence condition. Following the conclusion of this consultation, we would publish a draft direction setting out further details on the policy. The intention is that the rebate will be implemented from autumn 2014.
15. This document is a consultation on how the rebate should be delivered. In particular, DECC is providing information and/or seeking views on the following aspects of delivery:
- How suppliers should process the rebate to their customers;
 - How suppliers should communicate the rebate to their customers;
 - The legal and regulatory structure for delivering the rebate; and
 - What assurance processes suppliers should undertake to demonstrate compliance with the requirements of the Secretary of State’s direction.
16. The intention is for the rebate to be available for two consecutive years and the proposals in this document therefore relate to year 1 and year 2 of the rebate unless otherwise specified.

⁸ The document can be found using the following link <https://www.ofgem.gov.uk/publications-and-updates/open-letter-consultation-modification-relevant-licence-conditions-enable-delivery-government-electricity-rebate-0>

Chapter 2

Who will be eligible to receive the rebate?

Domestic electricity customers

17. The aim of this rebate is to help reduce some of the burden of energy and climate change policies which consumers pay for through their energy bills. The costs of the current programme of energy and climate change policies is estimated to have accounted for an average of around £112 or 9% of household dual fuel bills in 2013⁹. It is the intention of these proposals that the rebate be received by as many domestic customers as possible. There are 27 million domestic electricity account holders and 21 million domestic gas account holders in the GB market. There are currently 24 electricity supply licence holders who are actively supplying domestic consumers in the GB market at the time of publication.¹⁰ A list of electricity supply licence holders who supply domestic customers can be found on the Ofgem website.
18. One of the early considerations for the rebate was whether it should be spread across both gas and electricity or whether one fuel should be targeted. We want to ensure that the largest possible number of households can benefit from the rebate and the population of electricity account holders is greater than the number of gas account holders. Providing the rebate to electricity account holders would ensure that it had a high level of coverage as well as keeping the scheme relatively simple and low cost to deliver.
19. Another early consideration for Government was what legal framework we could use in order to provide the rebate to customers. In order for rebates to be paid this autumn the only viable option is to deliver the rebate under the existing regulatory and legislative regime. Passing new primary and secondary legislation would not be possible within this timeframe. The mechanism available within the existing regulatory and legislative regime is to use a Secretary of State direction under the Electricity Act 1989. This also relies on Ofgem determining in accordance with its statutory duties that it is appropriate to change the electricity supply licence condition in this instance.
20. In order to use the existing regulatory regime, the Secretary of State has to act within the confines of the statutory duties in the Act. DECC has engaged with Ofgem and domestic electricity suppliers in order to develop the proposals for the rebate. This

⁹ Estimated impacts of energy and climate change policies on energy prices and bills – March 2013 (DECC)

¹⁰ This rebate will apply to England, Scotland and Wales. Northern Ireland has its own electricity market

engagement has resulted in the proposals contained in this document which are intended to ensure simple, cost-effective delivery within an enforceable framework.

21. Ofgem's open letter consultation of 28 April 2014 proposes a modification of the Standard Conditions of Electricity Supply ("electricity supply standard licence conditions") made under the Act as a means to facilitate delivery of the rebate. The electricity supply standard licence conditions regulate the way in which suppliers act in relation to their customers. They also define domestic customers¹¹ as customers who have or require a supply of electricity at premises where its use will be "wholly or mainly for a domestic purpose"¹² DECC's requirements correspond to the proposals in Ofgem's open letter consultation. Therefore, subject to DECC's and Ofgem's consultation processes, domestic electricity account holders in Great Britain will be eligible for the rebate.

Implications of who is eligible for the rebate

Multiple account holders

22. Multiple domestic electricity account holders will receive a rebate for each separate electricity account they have. For example, this may be for a second home or it may be where someone has taken responsibility for an elderly relative's energy supply. Landlords with multiple vacant student properties where each electricity account is in their name may also receive several rebates. However, if the electricity account is in the landlord's name and tenants pay for their electricity through their rent, it is usually the case that the landlord's contract with the licensed supplier would be for a non-domestic supply and therefore the landlord would not be eligible for the rebate. Evidence we have gathered from suppliers suggests that multiple account holders make up a very small percentage of their domestic customer base.
23. Suppliers have different pricing strategies and pass on the costs of Government policies in different ways. However, we assume that some of the costs are passed on through the standing charge whereas others are passed on based on consumption. Without accurate and transparent data on the cost pass through, it is fair to assume that multiple account holders will pay for some of the costs of Government policies on each account. Therefore, it is consistent with the policy intent that they receive the rebate for each domestic electricity account they hold. It is also in line with the principle

¹¹ Standard Condition 1.3: "Domestic Customer means a Customer supplied or requiring to be supplied with electricity at a Domestic Premises but excludes such Customer insofar as he is supplied or required to be supplied at premises other than Domestic Premises"

¹² Standard condition 6.1: "Unless the context otherwise requires, a Domestic Premises is a premises at which a supply of electricity is taken wholly or mainly for a domestic purpose except where that premises is a Non-Domestic Premises"

of cost-effective delivery since treating multiple account holders differently would be impractical and costly.

Electricity users who are not domestic customers

24. Not all households have their electricity provided through a domestic electricity supply contract and not all homes have a direct relationship with a supplier. For example, many park homes are in this position. In many cases 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 relationship with the proprietor or owner of the site, not the residents.
25. Therefore, residents of park homes (and others in similar situations) who do not pay for their electricity directly to an electricity supplier would not be eligible for the rebate in 2014. A specific delivery route for park homes would not be covered by a change to the standard licence condition as proposed by Ofgem and, therefore, would not be enforceable. We will, however, continue to consider whether it would be possible to offer the rebate to park home residents in 2015 through another route.
26. In the majority of circumstances, electricity supplied under a non-domestic supply contract is cheaper than if it is supplied under a domestic supply contract. These (non-domestic) electricity consumers (and by extension the households using the electricity supplied) face a different set of policy costs through their non-domestic electricity supply contract. We recognise that households in these circumstances have made some contribution to energy and climate change policy costs, though it is a different set of costs to those made by domestic customers as defined in the electricity supply standard licence.
27. Nevertheless, we recognise that some park home residents can face difficulties in keeping their homes warm. We want to understand their circumstances better, including how residents can access the energy market and how we can provide energy efficiency support. This is an issue we expect to consider in relation to our future fuel poverty strategy.

Multi-function premises

28. There are circumstances where premises can be used for both residential and business purposes. For example, a hairdressing salon where there is a flat above the business. As long as residents in these properties have domestic electricity supply

contracts in place because their consumption is wholly or mainly for domestic use, they will be eligible for the rebate. If they were identified by a supplier to be non-domestic, then they would not be eligible.

Customers connected to private electricity networks

29. Private networks are those which generate power on a localised grid, from a privately owned central plant. These are more likely to be non-domestic premises such as airports or ports. The Act allows companies who meet certain criteria to be exempt from having an electricity generation, transmission, distribution or supply licence. These networks are not subject to Government policy costs. A private network, which is exempt from supply licence requirements, will not be obliged to deliver the rebate to any domestic customers connected to their network.

Supply to vacant properties or occupier accounts

30. There are circumstances where properties which are vacant are supplied with electricity. The customer in this instance may be a property developer or landlord who may be responsible for paying for the electricity supply until they find a tenant or a buyer for the property. If these properties are empty, the bills for the property are likely to be very low and in some cases may only be for the standing charge to the property. Where the standing charge is set at zero, the charge for having a supply available at the property may be nil.
31. It is also possible that a supplier may be billing an occupier account, i.e. one in which the identity of the occupant is not known. This could be for a variety of reasons; most likely because the property had recently changed ownership or tenancy. It is possible in some cases that suppliers may take on the liability for energy used in respect of any of these accounts, up to a certain threshold in some cases. This may be as a consequence of a contractual relationship with a lettings management agency for example. To the extent that these are domestic accounts, they will be eligible for the rebate. Once again, this is consistent with the principle of simple, cost-effective delivery. Identifying such accounts and treating them differently would be costly. Furthermore, these accounts make up a small proportion of the whole domestic customer base.

Chapter 3

Delivering the rebate to eligible customers

Keeping costs low

32. We have emphasised the importance of delivering this rebate at the lowest possible costs. With this in mind, we have discussed with suppliers, prior to this consultation, and reiterate here, that the rebate should be delivered, as far as they are able to do so, using “business as usual” processes. However, it is also necessary to ensure that taxpayer funds are spent effectively. We estimate that delivering the rebate will cost £310m in each year (£620m in total). DECC has been provided with the funds and will be given the powers to spend it on the authority of the Supply and Appropriation Act 2014 (“Appropriation Act”)¹³. As with any public expenditure we will be held to account for how we spend it and are very mindful of the need to spend taxpayers’ money appropriately. The way in which we will achieve this is by being very clear about the processes we will put in place to deliver the rebate.
33. Our intention is that the rebate should reach as many eligible domestic electricity customers as possible, both quickly and easily. We are expecting suppliers to provide the rebate to their customers according to their payment methods.
34. There are three principal customer payment methods: direct debit, credit and prepayment. Customers who pay by direct debit can pay at different intervals including monthly, quarterly or annually. The majority will pay a fixed monthly payment. Customers with a quarterly or annual variable direct debit usually pay the total amount of the bill. Customers who pay by cash, cheque, debit or credit card usually do so after receiving a quarterly bill. They are also paying in arrears for their electricity. They can make their payment in a variety of ways including by post, over the telephone or over the internet¹⁴. Prepayment customers pay in advance for their energy consumption. They will take a key, card or token to a retail outlet to pay to have credit put on it. The credit will then be available to the customer when it is put into the meter.
35. The following section considers when and how and when the rebate might be delivered to each set of customers.

¹³ This legislation is renewed annually, along with amending legislation. It is brought in after the Main Estimate is laid before Parliament. We will rely on 2014 Act which will be in force by October 2014.

¹⁴ When suppliers report on their social obligations they are required to exclude customers who make payments in cash with a card or paying in book. We would expect these customers to be included in this group

When will the rebate be made to customers?

Discussion

36. It is important that customers know who will be responsible for delivering the rebate to them and for suppliers to know to whom they will be required to deliver the rebate. To do this we need to establish a clear point of responsibility. We consider that this can only happen by having a single qualifying date (“the Qualifying Date”) and making suppliers subject to an obligation to take all reasonable steps to ensure that the customers they supply on that date receive the rebate. This clearly establishes which supplier should provide the rebate to which customer. Our current proposal is that the Qualifying Date for 2014 will be 8th October 2014 but this may be subject to change. The direction will also include a list of exceptions which, once identified, we would not expect suppliers to provide the rebate to. We will use the exceptions under Warm Home Discount scheme as a guide.
37. We considered whether suppliers should be required to credit the electricity accounts of their customers with the rebate within a fixed period of time and what that timescale should be. We consider that it would be in the interests of suppliers and customers to provide the rebate as close to the Qualifying Date as possible. This will mean that they have fewer exceptions to deal with arising from customer activities such as switching supplier and changes of tenancy and from supplier activity such as erroneous transfer. This will help keep costs low since customer queries and complaints about the rebate will be kept to a minimum. It will also reduce the possibility that customers receive the rebate more than once.
38. Based on evidence from suppliers they will be able to credit customers’ accounts with the rebate, and in the case of prepayment customers issue vouchers or send special action messages, within 6 weeks of the qualifying date. We propose that this should be a requirement within the direction. We are also proposing that the direction will state that Government will only reimburse suppliers for one payment per eligible customer. In the event of any dispute over who is responsible for supply to a particular premises we will look to the information held by Distribution Network Operators as part of their obligation to maintain a central register of supply points.

Proposal

39. We are proposing the following:
- there should be a single qualifying date for the rebate accompanied by an obligation to take all reasonable steps to ensure that the eligible customers they supply on that date receive the rebate;

- the direction should require that suppliers have attempted to credit all their eligible domestic electricity accounts with the rebate within 6 weeks of the qualifying date; and
- suppliers should be responsible for ensuring that eligible electricity customers do not receive more than one rebate per premises.

Consultation Questions	
	Please provide evidence for your answers to the following:
1	Do you agree with the proposal for a single Qualifying Date?
2	Do you agree that suppliers should be under a responsibility to take all reasonable steps to ensure that the eligible customers they supply on the Qualifying Date receive the rebate?
3	Do you agree that the direction should state that suppliers will only reimburse suppliers for one payment per eligible premises?
4	Under what circumstances do you believe it will not be reasonably practical to provide the rebate?

When are customers likely to receive the rebate?

Direct debit customers

Discussion

40. Around 55% of domestic electricity customers pay by direct debit (14.5m households). The average annual electricity bill for domestic direct debit customers is £557¹⁵.
41. Direct debit customers can pay for their electricity via annual or quarterly variable direct debits or, most commonly, by fixed monthly payments. Annual or quarterly variable direct debits will usually be for the total amount consumed within the period.
42. The majority of customers who pay by direct debit do so using fixed monthly payments. Customers who pay in this way agree with suppliers what their monthly payment will be. This will be based on their consumption profile. During the year, customers' consumption is monitored via actual and estimated meter readings. This information is

¹⁵ Average annual domestic electricity bills by home and non-home supplier (QEP 2.2.1) March 2014 DECC

used to reconcile their account and assess the debit or credit balance which will potentially alter their monthly payment.

43. Not all suppliers have the same approach to reconciliation. Some reconcile accounts once a year at the anniversary of joining the supplier. Others have a fixed point of reconciliation either once or twice a year (e.g. 1 June and 1 Jan).
44. All suppliers are required to refund a customer's direct debit credit balance on request during a 12 month payment period unless there are reasonable grounds for not doing so. This must be clearly explained to customers. Following negotiations in February 2014 E.ON, EdF Energy, Npower, British Gas, SSE and First Utility announced they will carry out mid-year reviews of customers' accounts based on actual meter readings. Companies will suggest payment adjustments to avoid a large build up on credit or debit balances on customers' accounts. These companies will also issue automatic refunds to customers if they have a credit balance over a minimum threshold at the end of the 12-month direct debit period.
45. Customers can also request and be provided with account reconciliation outside of their normal reconciliation process. Account reconciliation will also take place when the customer moves house or changes supplier. At any reconciliation point a customer can be in credit or debit depending on a number of circumstances which affect their electricity use.
46. The proposals will require suppliers to credit the accounts of eligible domestic customers who pay by direct debit with the £12 no later than 6 weeks from the Qualifying Date. This will mean that they will get the rebate automatically. The speed with which this will take place depends upon suppliers' systems and processes. Whilst their accounts will be credited with the £12 and customers will see that on their next bill or statement, in the great majority of cases customers' direct debits will not be altered. The £12 will be taken into account at the next reconciliation point alongside the consideration of energy use and the level of current payments. Reconciliations will take place up to one year after the qualifying date in some cases.

Standard credit customers

Discussion

47. Around 29% of domestic electricity customers pay by standard credit (7.5m customers) and the average annual standard domestic credit bill for these customers is £602.¹⁶

¹⁶ Ibid DECC March 2014

48. Customers who pay for their electricity by standard credit will receive a bill for the electricity they have consumed over a given period. In most circumstances this will be every 3 months but some suppliers provide bills on a monthly, six-monthly or annual basis. The bills may be based on actual or estimated meter readings.
49. Customers can make payment via several routes. For example, customers can pay over the telephone or via the internet using a debit card and they can pay by cheque through the post. The electricity supply standard licence requires suppliers with more than 50,000 customers to have a range of payment methods. The Act requires that suppliers give customers at least 28 days to pay for their electricity¹⁷.
50. We expect that suppliers will begin the process of putting the rebate onto the accounts of standard credit customers from the Qualifying Date which will mean that in the great majority of instances customers will get the rebate automatically. Depending on suppliers billing frequency customers will benefit at different points from the rebate.

Prepayment customers

Discussion

51. Around 16% of domestic electricity customers have prepayment meters (4.3m customers) and the average annual cost of electricity through a prepayment meter is £605¹⁸. 96% of the electricity prepayment market is supplied by the six largest suppliers.
52. Prepayment customers pay in advance for their energy consumption. They will take a key, card or token to a retail outlet and pay to have credit put on it. This will then provide the customer with electricity when it is inserted into the meter. Prepayment customers do not receive bills from their supplier but they will receive an annual statement of account. This statement will set out how much the account is in credit; if the prepayment meter has been installed to repay debt, it will show how much is still owed.
53. Guaranteeing that all prepayment customers will get the rebate is likely to be more challenging than for other payment methods because of infrastructure limits. For example, the rebate could be provided by Special Action Message (SAM)¹⁹ to prepayment customers. In this scenario, a message would be sent to between one and three retail outlets where a customer usually tops up their key, card or token. When the

¹⁷ The Act, Schedule 6 (2)(3)

¹⁸ Average annual domestic electricity bills by home and non-home supplier (QEP 2.2.1) March 2014 DECC

¹⁹ A message which is sent from a supplier to a customer's card key or token via a designated top-up point. These messages are used to recalibrate payments, e.g. tariff change, or addition of credit.

customer next goes to top up, in the case of the rebate their key, card or token would be credited with £12 in addition to the electricity they have purchased. However, there is a capacity limit to the number of messages which can be sent using this system. If all suppliers were to go down this route it would take a minimum of 9 months for the messages to be delivered to customers. This communication tool is not tested for delivering bulk messages at the volume that would be required to deliver the rebate to 4.3m prepayment customers.

54. Suppliers whose prepayment customers have smart meters will be able to credit their meters directly with the rebate in some cases. This means that these customers will get the rebate automatically. Communication would then likely come in the form of an SMS sent to the customer's meter. In other cases, there are smart prepayment meters which are not remotely accessible. In these cases a supplier is likely to need to send a code to a customer to manually input onto their meter.
55. Prepayment customers could also receive the rebate in the form of a voucher. Suppliers will either provide the vouchers themselves, if they have the facilities to do so, or will purchase them from a third party. A voucher which includes a unique number in the form of a bar or Quick Response code would be sent to customers through the post. The customer would be expected to take the voucher to one of the retail outlets where they purchase their electricity and redeem it in the form of a credit applied to their key, card or token.
56. Providing customers with vouchers does not guarantee that the customer will put the credit on their meter. This is true for other policies where customer action is required. The redemption rate for vouchers for Warm Home Discount is between 90% and 94%. However, this is for a sum of money considerably larger than the rebate. Another example is the free TV licence, available to those aged 75 and over. This benefit (which is worth £145.50 in 2014) has to be claimed by the household. Data on the number of households that took up the free TV licence compared to an estimated entitled population shows that, since its introduction, take-up has been between 90% and 95%, averaging out at 93%. Therefore, it is fair to assume that a significant proportion of prepayment customers will not redeem their £12 voucher.
57. We do not have a direct comparator for the rebate so cannot accurately estimate how many vouchers will be redeemed by customers. However, based on evidence from other campaigns we believe it may be around 70%. In general, the higher the value of a voucher the higher the rate of uptake. While some people may not open the letter which contains the voucher, the evidence suggests that it is people's inaction following the receipt of the voucher which prevents them from redeeming it.

58. The process of administering a rebate will be new to the majority of smaller suppliers, as they have not participated in other similar schemes such as WHD²⁰. It will also likely be challenging for a number of the larger suppliers to deliver to prepayment customers given the scale of delivery. We understand, through conversations with prepayment meter infrastructure and service providers, that there are opportunities for suppliers to seek delivery efficiencies and lower costs by collective procurement or tendering for services. This could be, for example, that all or a subset of suppliers procure a voucher campaign from a single service provider. However, it is for suppliers to decide how to deliver the rebate to their prepayment customers.
59. If suppliers' communication to their prepayment customers is well-targeted and clear, this will help to ensure that customers take action. Government will work with suppliers to ensure communications around the rebate are coordinated, clear and can increase the chances of prepayment customers taking action to put the credit on their meter. Nevertheless, regardless of the action Government and suppliers take, there is likely to be a large number of customers who do not redeem the voucher or pick up the SAM.
60. We are conscious that we have said the rebate should be delivered at low cost and we must bear in mind what the additional costs will be to suppliers of putting additional requirements on them. Extra measures to encourage prepayment customer to take action after provision of the rebate are likely to add to the costs of delivery and may only have a small effect. However, we are seeking views on whether there is anything which Government, suppliers and others can do cost effectively to increase uptake amongst this group of customers. For example, whether it would be appropriate to require suppliers to tell customers to contact them if they have not redeemed their voucher before its expiry date to be offered another way of redeeming the rebate.
61. We expect that suppliers will principally use vouchers and SAMs to provide the rebate to their prepayment customers. Some may use a combination of the two. In exceptional circumstances which we discuss below, suppliers may also deliver the rebate using cheques as a last resort. It is likely that redemption rate of the rebate among prepayment customers will be lower than for other payment methods.

Communicating with customers before and after the qualifying date

Discussion

62. We have said that the rebate will be provided to customers by their electricity suppliers and the way in which it will be received will depend on the payment method that the customer uses. Alterations to the normal pattern of activity that a customer expects

²⁰ The threshold for involvement in the Warm Home Discount Scheme is a customer base of more than 250,000 domestic customer accounts. There are currently 10 participating suppliers.

from their supplier inevitably increases customer contact. When we announced the package of measures, of which the rebate is part, in December 2013, suppliers told us that this generated additional calls from customers to their contact centres. These calls incur costs for suppliers.

63. Evidence from some suppliers indicates they may plan to inform their customers about the rebate prior to the qualifying date. However we believe that it will be important for all customers to be told directly who they are receiving the rebate from and why. We will work with suppliers to help ensure that any communication campaigns are consistent and joined up with other campaigns where appropriate. We will also provide clear briefing for suppliers to use for the rebate and work with them to ensure that communications are consistent and coordinated.

Proposal

64. We are proposing that suppliers will be required to clearly label the £12 Government Electricity Rebate as a credit on a bill (or statement) or in the case of prepayment consumers via the receipt they receive when they charge their card.
65. We will work with suppliers to make sure that information used to communicate with customers is consistent in how it describes the rebate so that we can avoid unnecessary customer confusion.

Consultation Questions	
	Please provide evidence for your answers to the following:
5	Do you have suggestions for how Government and suppliers can cost-effectively encourage prepayment meters customers to redeem the rebate?
6	Do you agree that as a minimum all customers should be informed of the credit via their bills, statements or receipts for crediting their prepayment meter keys, cards or tokens?

Chapter 4

Reimbursing suppliers

66. This is a Government rebate delivered by suppliers. Therefore, we need to establish a clear mechanism for Government reimbursing suppliers for the value of the rebates they provide to their customers. We expect the provision of the rebate to eligible customers to cost around £310m each year. The burden of this cost will fall to suppliers in the first instance with the Government reimbursing them once they have provided sufficient evidence that their customers have benefitted from it. We will work closely with suppliers and others before and during the delivery of the rebate to ensure that it can be delivered smoothly. We are putting in place stakeholder activities and communications to support this.
67. This section considers how suppliers will credit accounts with the rebate; report on the payments they have made; receive payment from the Government; when claims for payment will need to be made; the way in which payment will be made and how exceptions should be dealt with. It discusses the type of assurance we are likely to need.

Seeking assurance

Discussion

68. Government needs to ensure that its spending is transparent and appropriate. We will be able to do this if we can demonstrate that eligible domestic electricity customers have benefited from the rebate. By this we mean that as a consequence of the rebate, the customer has received a bill or statement which is lower than it otherwise would have been. In the case of prepayment customers they have been sent vouchers (which suppliers have paid for) or SAMs (or other payment methods in exceptional circumstances).
69. We are considering what evidence we may need to show that this has happened. We are undertaking more work internally to understand better what assurance we need so that we can develop a process that is an appropriate balance between our own requirements and the costs that it will impose on suppliers. We also want to ensure that the direction will allow Ofgem to undertake their own monitoring and enforcement requirements and that we are not placing unnecessary duplicate information requests

on suppliers. We are seeking views on what should be included and will hold a workshop with suppliers and others during the consultation period.

70. We are currently of the view that there are likely to be three points at which we may need to gain assurance:
- first, that accounts have been credited or vouchers and SAMs sent to customers;
 - second, that customers have had the benefit of the rebate (e.g. in the case of prepayment, the customer has put £12 onto their meter);
 - third, that claims for reimbursement by suppliers to Government accurately reflect what their customers have received (and that where suppliers have been overpaid for the rebate, they are under an obligation to repay the money promptly).
71. Any assurance we seek will need to be based on data we have chosen. For example, we may need assurance that the money in question (i.e. the rebate) has left the company. This may involve (but not be limited to) an inspection of the relevant financial records. We will need to be able to access information in order to be assured that suppliers' delivery of the rebate is in accordance with the direction.

Proposal

72. We are proposing that:
- the direction would place an obligation on suppliers to provide to the Secretary of State and Ofgem any information specified for the purpose of and in relation to compliance with the direction;
 - that it would require suppliers to comply in so far as is reasonably practicable with any guidance issued by Ofgem; and
 - in the event that suppliers have claimed for too much money, they would be under an obligation promptly to repay any overpayment.

Consultation Questions	
	Please provide evidence for your answers to the following:
7	Do you agree with the broad proposals for seeking assurance for the rebate?
8	Do you agree that suppliers should be under an obligation to provide information to the Secretary of State and Ofgem for the purpose of the direction?

The process for reimbursing suppliers - crediting customer accounts with the rebate

Discussion

73. The Appropriation Act (the mechanism by which DECC will be given the funds for the rebate) requires that expenditure is incurred within the relevant financial year but that the monies involved can be paid out at a later date. Expenditure in this instance is when suppliers credit their eligible domestic electricity customers' accounts with the £12 as we have described above.
74. The domestic electricity market is not static. Customers change supplier and move house regularly. Nevertheless, we need to have in place an effective means of ensuring that customers receive the rebate. We are of the view that the only way that this will happen is if the direction obliges suppliers to deliver the rebate to the customers registered to it on the Qualifying Day. This gives suppliers a date to focus on by which they will need to have made their operational and financial preparations to deliver the rebate and achieve the requirements of the direction.

Proposal

75. We have already proposed that suppliers should be subject to an obligation to take all reasonable steps to ensure that the customers they supply on the Qualifying Day receive the rebate. This will clearly establish which supplier should provide the rebate to whom. We are not of the view that suppliers have to credit accounts with the rebate on the Qualifying Day. Nevertheless, we consider that suppliers should be encouraged to credit the accounts and send out vouchers and SAMs quickly. Therefore, we have proposed in Chapter 3 that there should be a time limit of 6 weeks within which suppliers should have attempted to credit accounts or sent out vouchers and SAMs to all eligible domestic electricity customers.
76. After this 6 week period, we are proposing that suppliers would tell us their total number of customer accounts by payment method, how many customer accounts have been successfully credited with the rebate and the number of exceptions that remain. We would also expect suppliers to report how they plan to deal with exceptions and how long this process is likely to take. At this point DECC would know the extent of its financial obligation under the rebate. We are considering whether and what form of assurance we need for this part of the process as we have mentioned above.

Consultation Questions	
	Please provide evidence for your answers to the following:
9	Do you agree that suppliers should endeavour to credit all their customers' accounts (or send vouchers and SAMs) with the rebate within 6 weeks of the qualifying date?
10	Do you agree that suppliers should be required to report on the total number of customer accounts by payment method, the number of customer accounts successfully credited (or been sent vouchers and SAMs) and the number of exceptions and the timescale for dealing with the exceptions?

Reimbursing suppliers

77. In Chapter 3 above we discussed how accounts will be credited with the rebate or vouchers or SAMs sent to customers and when customers are likely to be able to benefit from the rebate. We have said that it may be almost a year for some customers, when their accounts are subject to reconciliation and the rebate either increases the credit or reduces the debit on the account (and potentially alters the monthly payment). We have also said that crediting the account with the rebate creates an obligation on the part of the Government to pay but that payment cannot take place until there is a need for the money. By this we mean that the customer has had the benefit of the rebate when the account undergoes reconciliation or the supplier has paid for and sent out vouchers to prepayment customers for example.

78. It is important for Government that we do not make payments to suppliers before they have disbursed funds in relation to the rebate. The financial impact on suppliers will be different for different types of customers. For prepayment meter vouchers, suppliers may have to pay the service provider for the value of the vouchers up front whereas for direct debit customers in most cases there may be a financial impact only at the point of each customer's account reconciliation in the form of lost revenue.

Reimbursing rebates provided to direct debit customers

79. We are expecting suppliers to deliver the rebate to direct debit customers by crediting their accounts with the rebate. We accept that it may be some time before some customers receive its benefit but we are of the view that this is an appropriate compromise to keep costs low. We had considered whether suppliers should alter an individual direct debit payment for their customers as a means of customers receiving the benefit of the £12 more quickly. This would be both costly for suppliers and potentially confusing for customers, leading to an increase in customer contact queries. A key principle of the rebates is that administrative costs are kept to the minimum. In general, we have considered this to mean using “business as usual” processes wherever possible.

Proposal

80. It is important that we understand when suppliers will need to be reimbursed for the rebate they have provided to their eligible domestic electricity customers. To do this we are proposing that suppliers should submit a schedule of the number of accounts that will fall due for reconciliation over the year (from the Qualifying Day to the day before its anniversary). We are proposing that this schedule should form the basis for reimbursement by DECC. The profile of the schedule (for example on a monthly basis) will depend upon the way in which the supplier manages its reconciliation process. We understand that some accounts are reconciled by suppliers on the anniversary that a customer joins them or on a specific date or twice a year for example.

81. We are proposing to require suppliers actively to manage the schedule they submit to us. This is to ensure that it is as accurate as possible representation of customers who have benefited from the rebate on an on-going basis. It will reduce the chance that a supplier may be over-paid for the rebate and have to return money to the Government. We expect that the schedule should be reconciled on a quarterly basis to take account of early reconciliations which occur as a consequence of a customer changing supplier for example.

82. We are proposing that suppliers will be under an obligation to take all reasonable steps to ensure that the evidence they submit to gain payment is an accurate representation of the customers who are gaining the benefit of the rebate. With that assurance suppliers will receive payments from DECC based on the schedule that they have submitted.

83. We have considered the frequency with which suppliers should be able to submit claims so that we get an appropriate balance between ensuring that suppliers do not suffer financial harm by waiting for reimbursement or get financial benefit from being reimbursed for the rebate before their customers have had its benefit. We are of the view that suppliers should be reimbursed based upon the way in which their direct debit accounts are reconciled. Suppliers will need to submit evidence that customers have had the benefit of the rebate with their claims for reimbursement. We believe that the maximum frequency with which suppliers will submit invoices is monthly.
84. Some accounts may not be subject to their annual reconciliation until the day before the Qualifying Date for year 2. Therefore, we are proposing that it would be appropriate for suppliers to be able to continue submitting claims for reimbursement until a month after the anniversary of year 1's Qualifying Date.
85. We are proposing to continue to make payments until one month after the anniversary of the Qualifying Date.
86. However, we recognise that the above proposal may be onerous and may not mirror the financial impacts on suppliers. Therefore, we are looking for evidence from suppliers if a different process would be more appropriate.

Consultation Question

- | | |
|----|---|
| 11 | Do you agree with the way in which we are proposing to reimburse suppliers for the rebate provided to direct debit customers? |
|----|---|

Reimbursing rebates to standard credit customers

Discussion

87. We are expecting suppliers to provide the rebate to their standard credit customers by crediting their accounts with the £12 rebate. Customers will get the benefit of the rebate when they are billed for their electricity consumption and the account is £12 lower than it would otherwise have been.
88. We are proposing to ask suppliers to provide a schedule of the accounts that are to be billed between the Qualifying Date until all standard credit customers have had the benefit of the rebate.

89. Some accounts may not be billed until the day before the anniversary of the qualifying day (some accounts are billed annually, albeit this number will be very low) so suppliers will be able to continue to submit claims for reimbursement until a month after the anniversary of the Qualifying Date.

Proposal

90. We are proposing that suppliers should submit a schedule of when their standard credit accounts are due to be billed and ensure that it remains as accurate as possible. We propose that suppliers should be able to submit claims to DECC based on this schedule once they can demonstrate with sufficient evidence that customers have had the benefit of the rebate.

91. Some customers may only be billed for the first time since the Qualifying Day just before its anniversary, therefore we are proposing that suppliers be able to submit claims for reimbursement a month after that date.

Consultation Question

12	Do you agree with the way in which we are proposing to reimburse suppliers for the rebate provided to standard credit customers?
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Reimbursing rebates provided to prepayment customers

Discussion

92. Evidence we have gathered from suppliers suggest that the main method of delivering the rebate to prepayment customers will be through the provision of vouchers or SAMs. A voucher with a unique code will be sent through the post which customers must then take to a retail outlet to redeem. A SAM will place the credit on their card, key or token when they go to a retail outlet to purchase electricity.

93. The different methods of delivering the rebate will require different processes for reimbursement of the rebate provided to prepayment customers. The principle however remains the same as with other customers. We will be able to pay for the rebates made to prepayment customers when suppliers have disbursed funds.

Vouchers

94. Suppliers have told us that where they obtain their vouchers from a third party they will in general have to pay for them before they are sent out to their customers. The requirement for payment can happen at different points in the purchasing process. We are keen to understand when this will be on a supplier by supplier basis. Once money has left the supplier for the purchase of the vouchers, or we can be satisfied that funds will leave the supplier shortly, they will be able to claim reimbursement from DECC for their total value.

Special Action Messages

95. Where suppliers are planning to use SAMs to provide the rebate to their prepayment customers, we are intending to reimburse suppliers once they have been sent.

96. As explained earlier, there is a capacity limit to the number of SAMs that can be sent. Because of this, we consider that it would be appropriate for suppliers to provide a schedule of SAMs they plan to make, including their value. We are proposing to pay a percentage of the value of the rebates equivalent to the average success rate for SAMs in similar campaigns. We propose to establish this with the relevant prepayment meter infrastructure providers. Suppliers will be required to present evidence that customers have been sent the rebate via the SAM when they submit their claims.

97. The direction will reserve the right to allow us to alter the percentage value of the rebates we will make if it becomes apparent that SAMs are taking longer than expected to reach customers.

Providing the rebate using more than one method

98. Some suppliers may consider using a combination of methods to provide the rebate to their prepayment customers; for example a voucher and a SAM. If the customer fails to redeem the voucher, the supplier may consider sending a SAM as a means of boosting take up of the rebate among their prepayment customers. We believe that it will only be practical to send a SAM after the voucher has expired, otherwise suppliers are at risk of providing the rebate twice to the same customer. The voucher expiry date would need to be set before the end of the financial year.

99. We propose that the rebate should be made available for the whole period from the Qualifying Day to the end of the financial year. Suppliers would not be able to choose to have a short voucher expiry date and then decide not to send SAMs for example.

However, we recognise that a shorter expiry period for vouchers (e.g. 3 months) may create more urgency and reduce the number of people who forget about the voucher which would ultimately increase the redemption rate. A shorter voucher expiry period may also reduce the administrative burden on suppliers. We would welcome views on whether a shorter period would be preferable.

Exceptional circumstances

100. There are likely to be some exceptional circumstances where alternative arrangements may be more appropriate than the ones outlined above. For example, a cheque may be a more pragmatic solution if a supplier has a very small number of prepayment customers.
101. Suppliers may also wish to allow the rebate to reduce the amount of debt that a customer has with them. If suppliers want to do this in exceptional circumstance, they will also need to be able to demonstrate that they have been able to tell their customers that this is what will happen with the rebate.

Suppliers at risk of financial harm

102. Some suppliers have said that they may be at risk of financial harm from paying the rebate to prepayment meter customers. We would expect suppliers, who believe this to be the case, to contact us as soon as possible and be able to provide evidence of their risk of financial harm. If this is the case we would consider how altering the process we are proposing could mitigate the risk.

Proposals

103. We are proposing to pay suppliers who have purchased vouchers for their cost when suppliers can provide evidence that they have spent money. We are still considering what that evidence may be as part of the work we refer to above on how we will gain assurance.
104. We are proposing that suppliers using SAMs should provide us with a schedule of when they will be sent to customers and the time it will take for them to be redeemed. We consider that it will be appropriate to pay suppliers for a percentage of SAMs based upon their take up in other similar campaigns. We will reserve the right to alter this percentage if it appears that SAMs are being delivered more slowly than had previously been indicated to us. Suppliers will be required to provide evidence that SAMs have been redeemed by customers.

105. Suppliers who are considering using more than one payment method will be under an obligation to ensure that the rebate is available for the whole period (from the qualifying date to the end of the financial year).
106. We are proposing that the direction specify that in exceptional circumstances that the rebate can be paid by cheque or to offset debt if it is a more pragmatic method than others available. We will expect suppliers to be able to report on the number of times these methods are used.

Consultation Questions	
	Please provide evidence for your answers to the following:
13	Do you agree with the way in which we are proposing to refund suppliers for the rebate provided to prepayment customers?
14	Would a shorter voucher expiry period (e.g. 3 months) be preferable in order to increase uptake?

Dealing with exceptions

Discussion

107. We have said that suppliers will have 6 weeks within which they should have attempted to credit all accounts or send vouchers or SAMs to prepayment customers. At the end of this period, we will expect suppliers to know how many accounts have been successfully credited with the rebate and provided with vouchers or SAMs. They will also know the exceptions with which they have to deal. We have said that they will be asked to report this information to us.
108. In the case of direct debit and standard credit customers exceptions are likely to be the number of accounts that they have been unable to credit with the rebate. In the case of prepayment customers exceptions will be the number of vouchers or SAMs which fail to be delivered.
109. Suppliers will then have until 31/03/2015 to attempt to credit the remaining direct debit or credit accounts or provide prepayment accounts with vouchers or SAMs (or other payment method). In year 2, the cut-off date for crediting accounts will be 31/03/2016. This cut-off date is imposed by the requirements of the Appropriation Act as we have mentioned before. It requires that monies be committed before the end of the financial year to which they have been applied.

110. We are of the view that any credits made to customers' accounts after this date (or before the qualifying date) should not be eligible for payment by the Government. As we have also mentioned suppliers will still be able to receive payment for the rebate up to a month after the anniversary of the qualifying date.
111. We consider it would be appropriate, as we have with the Warm Homes Discount to specify a set of circumstances in which it would not be reasonably practicable for suppliers to provide the rebate. We are minded to specify the same circumstances as we have for the Warm Homes Discount.
112. In these circumstances we would expect suppliers to examine their exceptions to establish which fall into the category of specified exceptions. In undertaking this task we expect that some exceptions may be resolved. Once the specified exceptions have been established we would not expect suppliers to undertake any further effort to provide the rebate to these customers.

Proposal

113. We proposing that the direction should only impose a relatively low level obligation on suppliers to ensure that accounts which suppliers have been unable to credit with the rebate or provide a voucher to can be successfully provided with the rebate.
114. We are also proposing to specify the circumstances where it would not be reasonably practicable for suppliers to provide the rebate to customers. We would welcome any other examples that should be included along with those set out below plus any supporting evidence that is available. We propose that specified exceptions should be where:
- the customer has died and it has not been possible to contact the person now responsible for their estate; and
 - the customer has moved house and not provided a forwarding address.

Consultation Questions	
15	Do you agree with our proposals for reimbursing suppliers?
16	Do you agree with our proposals for having specified exceptions within the direction?
17	Do you agree with the specified exceptions we are proposing to include within the direction? Should there be others? Please provide evidence to support the inclusion of additional exceptions if possible.

Returning funds to Government

Discussion

115. We believe that there are likely to be circumstances where suppliers are overpaid by Government. For example we have said that we will pay suppliers for the full amount of the vouchers that they have purchased to provide the rebate to prepayment customers. In the event that some of these vouchers are not redeemed, suppliers will receive a refund from their voucher-provider. It is important that suppliers recognise that they will also need to refund the Government for unredeemed vouchers.

Proposal

116. We are proposing that the direction place suppliers under an obligation to return any refunds that they have received in excess of the number of rebates that have been successfully provided to customers.

Consultation Question

18	Do you agree that suppliers should be under an obligation to return any refunds provided by Government in excess of the number of rebates that have been provided to customers?
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Chapter 5

Dealing with the costs of implementing the rebate

117. We have been working to understand the way in which suppliers' systems and processes operate so that we can design the way in which the rebate should be delivered. Our aim is that it will be low cost and works with suppliers' "business as usual" processes.
118. It is important that we take a pragmatic approach to delivering the rebate since high implementation costs may undermine its value if suppliers choose to recoup costs through increasing prices. The rebate will bring a net benefit to customers as long as delivery costs are lower than the value of the rebates delivered.
119. In order to understand the costs of delivering the rebate we have been, and continue to be, engaged with suppliers. We have also met with prepayment meter infrastructure providers to better understand the costs and delivery constraints that suppliers are likely to face in getting the rebate to their prepayment customers.
120. We asked suppliers to detail what the required tasks and administrative costs of delivering the rebate would be under different scenarios. For example we believe that suppliers may have to undertake some of the following tasks which would incur costs:
- bulk uploading of credits onto customers' accounts;
 - enabling billing systems to notify customers of the rebate;
 - additional customer contact (e.g. telephony and associated staffing costs);
 - communicating with customers (via letters and email for example);
 - manual processing in dealing with exceptions from electronic process;
 - seeking assurance of rebate and financial reimbursement processes; and
 - delivering rebates to prepayment customers either by special action message or through vouchers.
121. The information that some suppliers have provided us with so far presents a mixed picture of costs, even where tasks are the same or very similar. Some of the variation is likely to be due to economies of scale; for example, where larger suppliers can procure activities at a lower unit cost. However, this is not a definitive guide to understanding suppliers' costs. Some smaller suppliers have very low costs, for example where they are already undertaking I.T. development and can therefore make alterations to deliver the rebate at very little extra cost.

122. There are, however, some trends we have identified. One of the main drivers of cost is the delivery of the rebate to prepayment customers. Some suppliers, for example those who have a higher proportion of prepayment customers, may face comparatively higher costs than others, regardless of the total size of their customer base.
123. There are 4.3m electricity prepayment customers in Great Britain, which makes up around 16% of the total customer base. We believe it may be possible for suppliers to enter joint agreements with prepayment meter service providers to drive down costs of procuring vouchers for example. Whilst not all suppliers will want to enter into such agreements, given that they may have existing arrangements already in place with others, we would encourage those suppliers for whom it is an option to examine the potential of such an arrangement. This is likely to be beneficial in terms of reducing delivery costs and maximising benefits to customers in the long term.
124. There will also be financial costs that suppliers incur in delivering the rebate. As we have set out above, suppliers will be expected to provide the £12 rebate to their customers before they are reimbursed by the Government. It is our intention to reimburse suppliers as quickly as possible if they have provided the Government with appropriate evidence (described above) that accounts have been credited with the rebate and customers have received it. This will keep any financial consequences from paying the rebate to the minimum. We have said we will work closely with suppliers to find pragmatic solutions to ensure that they are reimbursed as quickly as possible.

Considering how supplier costs should be treated

125. We are proposing that the direction will require suppliers to pass on the full value of the rebate we are giving to customers.
126. Some suppliers have requested that they be refunded with any costs they incur with respect to delivering the rebate. Suppliers have said that there will be costs involved in administering and funding the delivery of the rebate. We do not see that there is a case for refunding these costs. In entering a regulated competitive energy market, suppliers accept that their costs will include delivering and complying with regulatory requirements. It is assumed that suppliers will look to deliver these requirements as competitively as possible by seeking the lowest cost of delivery. If Government were to compensate suppliers for their costs there would be no incentive to keep them to the minimum. Requirements would need to be put in place to ensure suppliers sought efficiencies where possible. This would also entail a more in-depth and burdensome audit process to establish whether the costs incurred by suppliers and which they had submitted to us were reasonable in the circumstances.

127. Some suppliers have suggested that the Feed in Tariffs (FITs) levelisation process provides a model where suppliers are compensated proportionately for delivery costs. While we acknowledge that suppliers will face different costs in delivering the rebate, we do not see that there is a case for undertaking such a process. This is because the rebate is levied as a proportion of market share, i.e. total number of customers, whereas the number of FITs participants a supplier has is not exactly proportionate to their market share so levelisation is required.
128. Based on the information suppliers have submitted to us so far, we are confident that administrative costs can be low relative to the size of the rebate which means that there is clear benefit for any supplier's customers. There is more discussion of this issue in the Regulatory Impact Assessment which accompanies this consultation document.²¹
129. If a supplier chooses to recoup the costs from their customers for business reasons, the benefit of the rebate would still outweigh any corresponding price increase to customers. We would hope that suppliers would choose to absorb costs and not pass them on to customers in the future, but we cannot mandate this. We would however welcome any commitment suppliers provide to this effect. We would also welcome any further detailed considerations that suppliers have on our costs estimates which are set out in the Impact Assessment.
130. We have considered whether there are state aid implications from delivering the rebate²². We are confident that since the £12 rebate will go to eligible domestic customers it does not constitute state aid. The taxpayer funds provided to suppliers will not be retained by them as they have to be used exclusively to reimburse the rebate that has been (or is about to be) provided to customers. Where the £12 rebate is received by very small business customers with domestic electricity accounts we think it unlikely and would expect them to ensure that it does not result in the receipt of funds in excess of the de minimis threshold for state aid²³. It is appropriate and ensures the Secretary of State's compliance with the duties under the Act that we refund suppliers who are being required by a direction and their supply licence to deliver a rebate on behalf of the Government²⁴.
131. However it is important to ensure that in refunding suppliers, we do so in a way that does not provide any supplier with financial advantage. As we have said above, the direction will require that suppliers account for and, if needed, pay back any funds

²¹ The impact assessment can be found at <https://www.gov.uk/government/consultations/government-electricity-rebate>

²² Article 107 of the Treaty on the Functioning of the European Union prohibits the transfer of state funds to businesses where this could result in a distortion of the internal market of the European Union, except in circumstances permitted by EU rules.

²³ State aid to a business is permitted if in aggregate it does not exceed a sum of 200,000 euros over two years. We consider it unlikely that the £12 rebate of itself would lead to that threshold being exceeded.

²⁴ Section 3A(2)(b) requires the Secretary of State to have regard to the need to secure that licence holders are able to finance their licenced activities.

received which, for example because of errors in the number of eligible customer accounts, have not been disbursed in rebates.

Proposal

132. We are proposing that suppliers should be required by the direction to pass on the full value of the rebate to their customers.

Dealing with VAT

133. Value Added Tax (“VAT”) is payable on the cost of electricity. The rebate is not a reduction in the cost of electricity but a payment from Government to domestic electricity customers, unrelated to the cost of electricity that they buy. Therefore, the element of the bill that is subject to VAT will remain unchanged.

Consultation Questions	
19	Do you agree that the direction should require suppliers to pay the full £12 to their customers?
20	Do you agree with the way in which we are planning to treat the costs of suppliers?
21	Do you have any further evidence about the costs involved in delivering the rebate which you can provide?
22	Are there any other concerns to your organisation of implementing the Government Electricity Rebate that have not been addressed in this consultation?

Chapter 6

The legal and regulatory framework for the rebate

134. In order to fund the rebate the Government will use the Appropriation Act. This Act allows Treasury to issue funds out of the Consolidated Fund and allocate them to individual Government departments and Crown bodies.
135. We have said that the rebate will be delivered by suppliers and we need to have in place the means by which suppliers will be required to deliver it to their customers. This type of policy initiative is most commonly implemented via primary and secondary legislation. Primary legislation would enable the Secretary of State to make regulations, to be approved by Parliament, setting out the detail of the policy. However, there is no existing legislation which would allow the rebate to be implemented this way.
136. Instead we plan to implement this policy using a direction issued by the Secretary of State. Directions are a form of delegated legislation. An Act of Parliament will usually confer a power on a Minister or other body to be able to give them. Directions are a means by which Ministers, or others designated within legislation, can give legally binding instructions to bodies about the ways in which they exercise their functions. Because they are legally binding there is a requirement for compliance.
137. This direction can only be implemented if Ofgem introduces a licence modification with which suppliers will be required to comply. On 28 April, Ofgem published an open letter consultation on the modification of relevant domestic electricity supply licence conditions to enable the delivery of the Government Electricity Rebate. The Open Letter indicated that, subject to consultation, Ofgem’s preliminary view is that a reduction in bills as a consequence of the rebate would be in consumers’ interests including those of the vulnerable.²⁵
138. We intend to issue a direction under section 7(3)(a) of the Electricity Act 1989 which requires licensees to “comply with any direction given by the [Gas and Electricity Markets] Authority or the Secretary of State as to such matters as are specified in the licence or are of a description so specified.” The direction will require electricity supply licence holders to provide the rebate to their eligible domestic electricity customers.
139. Section 49A of the Act requires that where a decision is made by the Secretary of State to give a direction pursuant to a licence condition included in a licence under

²⁵ See footnote 8 above.

section 7(3)(a) a notice must be published which sets out reasons for making such a direction as soon as reasonably practicable.

140. Ofgem intend to proceed to statutory consultation in late June 2014, with the intention that a decision whether to modify the licence can be issued in August 2014. Before this and following the conclusion of the DECC consultation, we plan to publish a draft direction alongside a decision document which will provide certainty about how we plan to implement the rebate. We aim to publish these documents in July. We will be keen to continue to engage with suppliers even once the draft direction is published and, should we receive further feedback at this point, there may still be scope to implement changes to the direction, if necessary, before it comes into force in October 2014.
141. The table below sets out the envisaged timetable for delivery of the rebate

Date	Agency	What	Length
28 April 2014	Ofgem	Open Letter	4 weeks
19 th June 2014	DECC	Policy consultation	4 weeks
Late June 2014	Ofgem	Statutory licence modification consultation	4 weeks
Mid July 2014	DECC	Policy decision document and draft direction	N/A
August 2014	Ofgem	Licence modification decision	N/A
August 2014	Ofgem	Stand still period before licence changes can come into effect	8 weeks
October 2014	Ofgem	Licence change implemented enabling direction to come into force	N/A
October 2014	DECC/Ofgem/Suppliers	Rebate delivery commences	Proposed 8 th October 2014

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