

# Update from Ofgem E-Serve

ALEO SE Autumn Meeting  
12 October

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ofgem

## Some background....

- Ofgem is the independent energy regulator for Great Britain. Its priority is to make a positive difference for consumers by promoting competition in the energy markets and regulating networks.
- E-Serve is the area of the organisation that delivers a range of government schemes covering energy efficiency/fuel poverty, renewable heat, and renewable electricity.
- E-Serve is to be formally split from Ofgem and is becoming increasingly autonomous.



## Energy customer switches rise by 30%

- Switching rates have increased among domestic consumers and business consumers.
- In the first half of this year (Jan-June 2016) around 1.6 million domestic customers switched gas suppliers and 2.2 million domestic customers switched electricity suppliers.
- This is more than a million more than the same period last year (Jan-June 2015).
- Consumers now also have more choice than ever before, with over 40 suppliers to choose from.
- New suppliers are entering the market at an increased rate, while existing small and medium-sized suppliers continue to grow their market share.

## But people aren't getting the best deals

- The data shows that 66% of domestic customers are still on more expensive standard variable tariffs.
- Customers can save over £300. The average standard variable tariff of the larger energy suppliers as of 28 July 2016 was £1,066. The cheapest tariff available on that date – a one year fixed tariff – was £758, a saving of £308.
- Ofgem is taking forward the Competition and Markets Authority's (CMA) reforms to better protect those on pre-payment meters and to increase competition for all other customers. We published a strategy for how we will implement the CMA remedies that are our responsibility on 3 August.
- One of the key remedies given by the CMA was to better engage energy consumers...

## CMA remedies....

- To address weak customer engagement, the CMA recommended two information based remedies:
  - That Ofgem creates and maintains a **secure database** of disengaged domestic and microbusiness customers who have remained on standard variable or default tariffs for three or more years. To share the data with approved suppliers for the purpose of direct marketing to those disengaged customers, encouraging them to switch.
  - That Ofgem establishes an **ongoing programme of research** (including randomised controlled trials) to identify, develop and implement measures to drive consumer engagement via communication from or interaction with their own supplier. To support the trial activity, the CMA recommended that we introduced a new licence condition that enables us to require a supplier to conduct trial.
  - These will help increase consumer engagement and activity, and increase competitive pressure on suppliers.

## Moving on to ECO & WHD....

- The **Warm Home Discount (WHD)** and **Energy Company Obligation (ECO)** are two key UK government schemes to help tackle fuel poverty & reduce carbon emissions in Great Britain.
- Both schemes are administered by Ofgem E-Serve from our offices in London and Glasgow and place obligations on energy suppliers over a certain size.
- Ofgem E-Serve administers such schemes on behalf of the UK & devolved governments.

### The obligated suppliers



## The Warm Home Discount scheme

- The WHD obligates energy suppliers over a certain size to provide direct and indirect support to those in or at risk of fuel poverty in Great Britain.
- It came into effect on 1 April 2011 and has provided over £1.4 billion to date with £320m last year (2015/16).
- Around 90% of support delivered under WHD is in the form of £140 rebates on customers' electricity bills.
- Within the Industry Initiative element suppliers can collectively spend a maximum of £30m per year on other forms of support to benefit fuel poor and vulnerable households.
- Spending on IIs has ranged from £20.1m to £22.3m each year over the first four years of the scheme.

# What's new with the WHD?

## New suppliers join in 2016

- Following the introduction of the Warm Home Discount (Miscellaneous Amendments) Regulations 2016 a new supplier, Extra Energy, has joined the scheme for the first time after it exceeded the customer number threshold at which participation becomes mandatory.
- Also for the first time since the scheme's inception three energy suppliers: Our Power, GB Energy, and Bristol Energy have decided to voluntarily participate (Core Group only).

## Specified activities

- Specified Activities were introduced in the 2016 amending regulations. BEIS are due to provide further guidance on Specified Activities – essentially they are ways the department can approve spending on certain types of activity to help those in fuel poverty via the WHD.

## Industry initiatives

- Under the WHD scheme, larger energy suppliers deliver support to people living in fuel poverty or who are at risk of fuel poverty. Suppliers can choose to deliver some of this support through Industry Initiatives.
- Providing debt write-off for customers was a key area for IIs, but this is now capped at 50% (up to 70% next year) of spend meaning potentially more resource for other IIs.
- We have begun hosting events to facilitate dialogue between energy suppliers who participate in the WHD scheme, and third party organisations (including Local Authorities) with proposals for specific WHD Industry Initiatives.
- Third parties can meet the range of participating energy suppliers and propose specific ideas for Industry Initiatives to them.

*Let me know if you would like to be involved in future!*

**ofgem e-serve** @ofgem\_eserve · Sep 30  
Pleased to bring together suppliers & organisations working to tackle #fuelpoverty through #WarmHomeDiscount industry initiatives yesterday

👤 SSE Plc, E.ON Energy UK, npower and 5 others



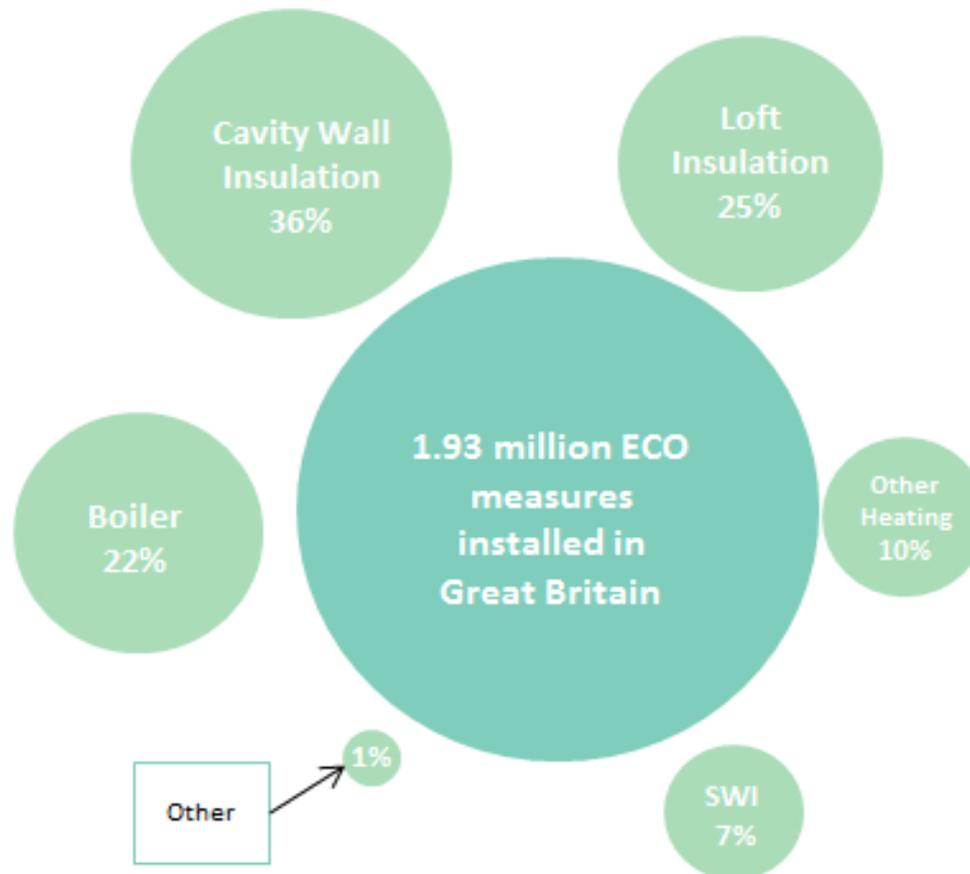
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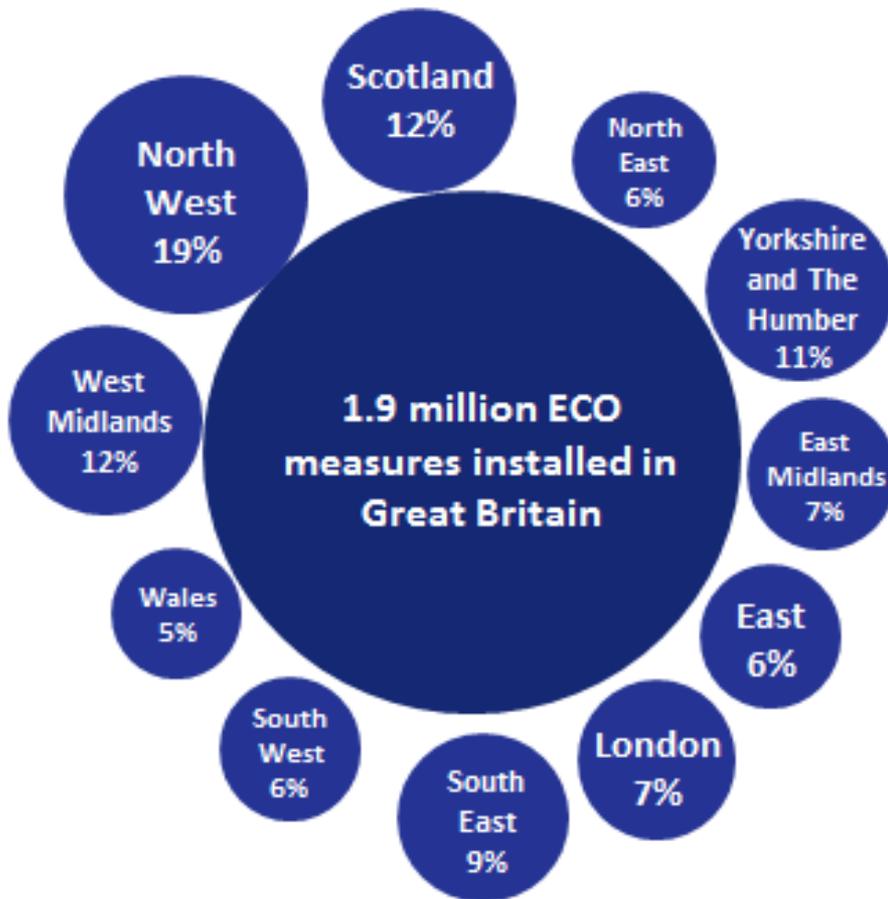
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## Industry Initiatives: Park Homes

- In Scheme year 5 (2015-16), government introduced the option for suppliers to provide rebates to residents in park homes.
- Previously, park home residents were unable to access support under the scheme, since they don't tend to have the same direct relationship with energy suppliers as other domestic energy consumers.
- A pilot scheme was introduced in autumn 2015 which initially looked to provide around 1000 rebates to residents of park homes who met the Core or Broader Group eligibility criteria. These were delivered as cheques rather than a debit on bills.
- Government said they would review the success of the pilot scheme and make necessary adjustments. Should the pilot scheme be popular and effective, government stated they would encourage suppliers to provide more funding in future years.

## Moving on to ECO...some delivery statistics





Area names	Households in receipt of ECO measures	Households in receipt of ECO measures per 1,000 households
Great Britain	1,526,154	57.7
England	1,262,995	55.6
North East	92,283	80.4
North West	279,911	91.2
Yorkshire and The Humber	160,773	70.8
East Midlands	103,331	53.2
West Midlands	181,235	77.1
East	95,301	38.1
London	117,479	34.2
South East	138,785	37.8
South West	93,897	40.3
Wales	75,715	57.1
Scotland	187,444	77.5

Infographic 3: ECO measures by region, up to end June 2016

## How will ECO evolve?

- The ECO2 scheme will be extended from 1 April 2017, with the overall budget lowered (thereby reducing impacts on bills).
- A number of changes were proposed for the scheme from 2017-18 with further changes expected from 2018 onwards.
- BEIS published their ECO: Help to Heat consultation earlier this year, and their response is expected in late 2016. This leaves around 3 months from the approval of the regulations to the introduction of the scheme.
- To mitigate the impact of this short time frame on suppliers and the supply chain, we are running a phased consultation regarding how we intend to administer the scheme.

## ECO2t Part 1 consultation: overview

- This consultation seeks views on our proposed administration of the changes outlined in the BEIS consultation and **included in the draft amendments** to the ECO2 Order.
- We have also included draft guidance for information and to give as much detail on our proposals as possible.
- The draft guidance is for reference only, to illustrate how our proposed approach may appear in guidance. Following the consultation and assessment of responses, the draft guidance will be updated to reflect the responses we receive.

## ECO2t Part 1 consultation: what's included

- **Scheme extension** – covering the extension to the deadline for delivery of CERO and HHCRO measures and the close down of CSCO,
- **HHCRO targeting and eligibility** – including changes to eligibility criteria, inclusion of social housing with an EPC of E, F or G and definition of first time central heating, and *declarations from local authorities*,
- **Energy efficiency measures** – covering the change in the in-use factor for party wall insulation, alterations to our requirements for evidencing pre-existing loft insulation and evidencing requirements for non-gas fuelled premises, and
- **Delivery and administration** – changes to eligibility of new build premises, removal of recommendations for CERO measures, allowance for 5% of measures to be notified late without an extension request, trading of obligations and changes to PAS.
- *ECO2t Part 2 consultation will address everything else, and be published in Jan 17*

## Flexible eligibility

- The idea of flexible eligibility was introduced in the ECO: help to heat consultation.
- We will consult on our proposed administrative requirements for households listed as eligible in local authority declarations.
- Currently, under HHCRO suppliers must deliver measures to private domestic premises occupied by a member of the Affordable Warmth Group (AWG) and received qualifying benefits.
- The proposal is to allow suppliers to promote HHCRO measures to households where they are listed in a declaration from a local authority. These private tenure households can only be listed where they are determined by the local authority as being either in or at risk of fuel poverty, or on a low income and vulnerable to the effects of living in a cold home. Social housing is excluded from the 'flexible eligibility' route.
- Flexible eligibility will be limited to a proportion of a supplier's phase 3 HHCRO. BEIS is consulting on this figure, and has proposed either 10% or 20%.

## Flexible eligibility

We propose that:

- Each declaration letter will need to contain a unique reference number (URN) provided by the local authority which should also be included in the notification template. A standardised format for the URN will be adopted.
- Guidance for local authorities under the flexible eligibility proposals will be provided by BEIS in advance of 1 April next year. BEIS is keen to engage with ALEO and are in going to get in touch with the national Board on the future of ECO.

## Another key change is around deemed scores...

- Government proposed the introduction of deemed scores. This would change the way carbon and cost scores for ECO measures are calculated. The objectives behind this new method of scoring were:
  - **Simplicity**
    - Are they easy to use?
    - Can the score be confirmed before visiting the property?
  - **Accuracy**
    - Worked with the BRE, who have extensive knowledge of SAP and EHS data
    - High level of overall accuracy
  - **‘Checkability’**
    - Can the scores be easily verified?
    - This should reduce fraud and increase our ability to detect fraud

## Deemed scores - consultation

- We set about developing a deemed scores proposal as we understood that both ourselves and industry would need significant lead in time should they be ready for April 2017.
- Following engaging a wide range of experts we published a set of deemed scores and a consultation - 73 responses received.
- Our decision was published last week – some key stakeholders broadly welcomed that we had listened and responded to the feedback received. BUT some were critical of the overall policy move to deemed scores.
- The use of deemed scores from April 2017 is dependent on whether the government decides to introduced them in their own consultation response.

# ENDS

- **Any questions?**

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**