

## Ofgem consultation on spending of energy suppliers voluntary redress money

[The Ofgem consultation on "Allocation of voluntary redress payments in the context of enforcement cases"](#) is an important one for organisations doing innovative work around fuel poverty and/or who are advising the public, and particularly vulnerable members of the public, on energy issues. The term “voluntary redress” refers to payments made by energy suppliers direct to charities, trusts or organisations instead of paying penalties to HM Treasury when suppliers fail to comply with Ofgem rules regulating the consumer energy market.

The consultation proposes more transparent administration and regulation of the way in which voluntary redress money – tens of millions of pounds a year - is spent. In particular, Ofgem propose to open up access to the funding to a much wider range of organisations working with the public on energy issues, by requiring suppliers to transfer redress payments to an administrator and then setting up an open bidding process for the funding.

Future Climate and SE<sup>2</sup> support Ofgem’s proposals for an open bidding process for this funding and believe that this needs to be administered in a way that is favourable to smaller organisations accessing the money. In practice, this means the creation of a long term, stable funding regime which can only be achieved through professional administration of the pooled funds.

We believe it is very important that a greater number of smaller organisations are able to access this funding for the following reasons:

- Smaller organisations often have closer ties to local communities and stronger relationships with vulnerable householders, in particular specific communities or sectors of the population that may be hard to reach with existing advice and support;
- It will enable organisations with innovative approaches to delivering advice and support to energy consumers to access funding to take their programmes forward;
- More organisations working with the public on energy embeds the issue in the fabric of society – ie, the more people are doing it, the better.

We also believe that this is energy consumers’ money and that it ought to be spent in a way that is accountable and transparent.

Ofgem’s objectives for spending redress funding rightly focus on direct help to consumers. Future Climate and SE<sup>2</sup> suggest these objectives could be slightly broadened to allow a small proportion of the budget to be spent on practical research and innovation into HOW to assist vulnerable and hard-to-reach energy consumers, who are currently failing to access the affordable energy they need. For example, one way this could be delivered is by directing a ring-fenced, small proportion of funding to existing funders of fuel poverty research.

Suppliers and perhaps their existing large charity partners are likely to oppose Ofgem’s proposals and support a modified version of the status quo – under which suppliers’ actions are subject to less scrutiny. As we know, energy suppliers have a powerful voice. It is important that organisations with the capacity to deliver effective and innovative support to energy consumers speak up to support Ofgem’s proposals.

**The following page explains more about Ofgem’s proposals and proposes responses to the consultation questions for you to consider. We suggest you should particularly highlight examples of your innovative, effective or far-reaching projects which could benefit from redress funding.**

## **Context**

Voluntary redress payments are designed to help tackle the negative impact on energy customers of energy suppliers not playing by the market rules that Ofgem puts in place. Ofgem explains in the consultation that “the purpose of voluntary redress payments is to use money from the company under investigation [using Ofgem’s Gas and Electricity Act powers] to counteract the negative effects of its behaviour by supporting energy consumers in Great Britain, in particular consumers in vulnerable circumstances, through projects or schemes run by charities, trusts, or organisations”.

The sums of money involved are very considerable: in 2014 and 2015, £73.5 million was given to charitable organisations.

As things stand, energy companies have a great deal of flexibility about how they allocate voluntary redress funding. Much of the money goes to independent charities with the same name as the energy company (eg, the "British Gas Energy Trust") which can deliver a PR benefit for the energy company concerned. Other money is transferred to larger existing charities, but the way in which those charities and programmes are chosen is not always clear. Ofgem have to agree the suppliers' plans, but it is largely down to the suppliers to choose how to spend the money.

## **Ofgem proposals**

Ofgem have put forward two options for change in the way voluntary redress payments are spent and administered. One option is some additional regulation around the current process (for example, Ofgem would require suppliers to support a given number of customers with their redress payments, based on the amounts of money involved) but to leave suppliers to continue to use their own processes to choose what charities to support. Under this proposal, Ofgem would require suppliers to run some sort of open bidding process for support.

The second option is that energy suppliers would hand over the redress funding to a third party organisation which would run an open bidding process for support. A variation on option 2 is for the voluntary redress payments go to a charitable trust set up by, but independent of, Ofgem.

Ofgem aim to make a decision on this issue by the end of 2016.

The consultation also discussed objectives for administering redress funds. Ofgem's over-riding objective for administering redress funds is that they should be spent to "maximise long term benefits for energy consumers by ensuring that funding is well targeted". The proposed sub-objectives are to do this by:

- Continuing to target charities, trusts and organisations that support energy consumers.
- Continuing to link the charitable recipients / projects to the harm generated by the company as much as possible.
- Focusing, where possible, on charitable recipients / projects that support consumers in vulnerable circumstances.
- Ensuring allocation decisions are made by experts who are well placed to identify and assess charitable options and select those that will deliver maximum benefit.
- Using open, transparent bidding processes to identify and select funding recipients to ensure that a wide range of potential funding recipients have an opportunity to receive funding and deliver benefits.

## **Proposed responses to consultation questions**

**Question 1: Do you agree with our objectives for the allocation of voluntary redress? If not, please explain why.**

Yes, we support the objectives as proposed.

**Question 2: Are there any additional objectives or criteria we should consider when making a decision on our forward approach to voluntary redress? Are there things our approach should definitely include or absolutely avoid?**

We suggest that an additional objective should relate to “identifying how best to reach and support energy customers, particularly vulnerable customers.”

Energy market and energy technologies are complicated and rapidly evolving. The people who lose out most from a poorly-functioning energy market are often those that are hardest to reach. For those reasons the provision of effective energy advice and support is not a straightforward task. If Ofgem’s objective from voluntary redress funding is to “maximise long term benefits for energy consumers”, some funding should go to finding new ways of helping consumers, through practical research, innovation studies and early-stage pilots of new approaches. There is currently very limited funding available for this sort of practical research. For example, one way that this objective could be fulfilled is by directing a very small proportion of redress funding to existing funders of fuel poverty research such as Eaga Charitable Trust.

While it should probably not be a formal objective, we also suggest that Ofgem should have in mind capacity building of the voluntary/third sector working with the public on energy issues. With cuts to most government and local authority funding programmes in this area in recent years, many charities and NGOs working on energy issues are struggling. It is in energy consumers’ long term interests that they have third sector help. By creating a new, stable and effective funding source that is open to smaller organisations, Ofgem can tackle this issue. Such a funding source could also be administered in a way that helps to grow capacity of organisations (eg, by helping them with professional monitoring).

**Question 3: What are your views on ‘Option 1: Current process with enhanced principles’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?**

We do not support Option 1. While we recognise that it is proposed that Option 1 would require energy suppliers to open up voluntary redress funding for open bidding, we suggest that energy suppliers are not best placed to be running effective, professional assessment processes of bids from organisations or charities. Similarly, Ofgem may not be best placed to regulate those processes. We also share the concern raised in the consultation that there would be tension between the need to run an open bidding process and the need for rapid settlement of voluntary redress plans.

Further, as you suggest in discussing Option 2, there are practical problems with suppliers disbursing smaller amounts of funds over a period which is what is required if smaller charities are to benefit from the funding (see Q8 below). This would require new capacity and skills on their part and would make the monitoring complicated – have they spent the redress funds or not? It is far better for



them to hand over the funds to a professionally constituted administrative organisation that can provide a stable funding framework.

**Question 4: What are your views on the possible additional principles outlined in ‘Option 1: Current process with enhanced principles’? Are there further additional principles that would help meet our objectives?**

We do not support Option 1. However, if Option 1 is pursued, we suggest that suppliers should be required to offer some additional support for practical research, innovation studies and early-stage pilots of new approaches to delivering support to energy customers, in line with our proposed additional objective explained at question 2.

**Question 5: What are your views on ‘Option 2: Responsibility given to a third party with appropriate expertise’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?**

We support Option 2 and suggest Ofgem’s focus in setting up the system should be in creating a long term stable framework for providing funding that can build the capacity of the energy advice and support sector - which is in the best long term interest of energy consumers.

**Question 6: How should the costs of the third party associated with allocating redress be funded?**

No view

**Question 7: Should the company that made the redress payment have an input into the approval of recipients under this option?**

We do not oppose the company that made the redress payment having input and believe that this will help create a more socially responsible attitude among energy suppliers.

**Question 8: How can we ensure that smaller potential recipients can bid and are not disadvantaged compared to larger potential recipients?**

We suggest Ofgem should speak to Smart Energy GB and perhaps the National Lottery about how best to administer these funds.

Funding needs to be managed through a stable, ongoing, professionally administered framework, rather than through disbursement of large ad-hoc grants.

Grant procedures need to be simple and clear with support available to help applicants make their application.

There should be flexibility about the types of organisations that can apply – registered charities obviously, but also community organisations, not-for-profit companies or even for-profit companies that can demonstrate their work is of effective value.

There should not be onerous compliance rules around (eg) length of time the organisation has been established or paperwork to demonstrate financial and organisational systems required (or at least there should be a small grants programme where such rules are kept to a minimum).

Funding rules should be flexible, not overly prescriptive and open to innovative approaches.

Prompt payment of grants should be standard, with flexibility about how charities can draw down the funding.



There should be a focus on capacity building – eg, by supporting organisations with developing monitoring requirements.

**Question 9: What are your views on this ‘Variation on Option 2 – Voluntary redress payments go to a charitable trust set up by Ofgem’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider, particularly in relation to the DAF provider model set out above?**

We would be happy with this proposal. Please note our response to Question 8 about how such an approach needs to meet the needs of smaller organisations.

**Question 10: How should the costs of running a charitable trust set up by Ofgem be funded?**

No view

**Question 11: What are your views of the idea of using part of voluntary redress payments to support specific schemes? What are the advantages, disadvantages, risks or costs relating to this idea? What existing schemes could be considered under this approach?**

In line with our answer to Question 2, we suggest some funding should be allocated to the existing funders of fuel poverty research. Funding for fuel poverty research is heavily oversubscribed at present, creating risk for the sector if it is unable to research, monitor, evaluate and learn from its activities.