

## Energy Action Scotland response to BEIS Warm Home Discount Scheme (Scotland) 2022-26 Consultation

### About Energy Action Scotland and our work on Warm Home Discount

Energy Action Scotland<sup>1</sup> is the Scottish charity dedicated to ending fuel poverty. Energy Action Scotland has focussed on this single issue since its inception in 1983 and has campaigned on the issue of ending fuel poverty and delivered many practical as well as research projects to tackle the problems of cold, damp, and hard to heat homes. Energy Action Scotland works with both the Scottish and the UK Governments on energy efficiency programme design and implementation. Energy Action Scotland welcomes the opportunity to respond to this much delayed and vitally important consultation.

Energy Action Scotland's response focuses primarily on those areas that it considers may impact most on fuel poor and vulnerable consumers. Energy Action Scotland is not a health organisation, but we are concerned about the health impacts of living in fuel poverty and that respiratory conditions which are exacerbated by living in a cold, damp home make up a high proportion of Scotland's excess winter deaths, which are linked to living in fuel poverty.

We provide practical support through several Warm Home Discount (WHD) industry initiatives working closely with 2-3 suppliers each year. In Scheme Year 9, we delivered 3 projects across 2 suppliers and supported a fourth project in partnership with National Energy Action<sup>2</sup>.

Through those projects we:

- Provided 250 households with a cancer diagnosis with energy efficiency/heating measures or energy efficient appliances and other items such as carpeting and curtains to improve the comfort levels, health and wellbeing of these vulnerable people and their families
- We provided over 250 households with access to benefits entitlement checks which resulted in over £725,000<sup>3</sup> of additional income being secured.
- We trained over 350 frontline workers, providing 20 fully funded City and Guilds Energy Awareness places, to help them advise and signpost to specialist support services that supported 117,250 people<sup>4</sup>

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<sup>1</sup> [www.eas.org.uk](http://www.eas.org.uk)

<sup>2</sup> [www.NEA.org.uk](http://www.NEA.org.uk)

<sup>3</sup> An average of £2,900 of additional value through benefits entitlement checks is delivered on average to supported households based on research and evaluation of programmes produced by NEA

<sup>4</sup> Based on an estimate (from learner feedback) that each learner expects to provide advice to 7 households per week and works approximately 48 weeks a year.

## Summary of our Response

Cold, damp, and unsafe homes continue to cause **unacceptable levels** of unnecessary **hardship** and premature mortality. Energy Action Scotland estimates that on average more than **2000 people**<sup>5</sup> in Scotland die each year due to living in a cold home. The Office for National Statistics (ONS) estimates that that the biggest cause of death was respiratory disease, followed by circulatory health conditions. Both these conditions are badly exacerbated by living in cold homes which are hard to heat and around **30%** of these deaths are **preventable**<sup>6</sup>.

Scottish Government estimates suggest that **fuel poverty** has risen to over 1 in 3 households because of the increase in energy costs. The result of this will be an increase in the number of needless deaths and as well as the devastating impacts cold homes have on their occupant's lives, this problem extends to all of us; needless health & social care costs<sup>7</sup>, queues at GPs and A&E as well as delaying the discharge of the most vulnerable patients from hospital. The resulting impact on health services **costs the NHS in Scotland** in the region of **£100-200million**.

Ofgem states that “The Warm Home Discount (WHD) scheme came into effect in April 2011 and requires obligated domestic energy suppliers to deliver support to persons on low-income and who are vulnerable to cold-related illness or living wholly or mainly in fuel poverty.”

In response, we believe that the WHD has until 2021, when rising prices and a stagnant WHD diverged in impact, had a significant **positive impact** on making energy more affordable for households that are **struggling to pay their bills**, helping them to stay **warm and well**. Across the whole market, Ofgem say that in Scheme Year 9 (the latest year with available data), 1.06m customers were provided with a core group rebate, a further 1.07m customers were provided with a broader group rebate, and help was provided to more than 450,000 households through Industry Initiatives.

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<sup>5</sup> Excess Mortality Figures for Scotland 2018/19 indicate that excess mortality was 2060

<https://www.nrscotland.gov.uk/files/statistics/winter-mortality/2019/winter-mortality-18-19-pub.pdf>

<sup>6</sup> The health implications of cold temperatures on respiratory conditions and on frail and elderly households are well known. These impacts are also intergenerational, with children twice as likely to suffer from asthma or bronchitis if they inhabit cold and damp housing. These issues have been badly exacerbated the Covid-19 crisis. During the colder months, many people will continue to stay at home for longer periods. Alongside the psychological stress and social isolation caused by the virus, too many will have to choose between heating their home adequately and falling into debt or rationing their energy use and living in cold damp homes that are dangerous to their health and can shorten their lives. This can lead to a vicious cycle of hospital admission, discharge, and readmission. Poor housing leads to sharp rises in energy use. A recent independent analysis suggests that, if a second lockdown was re-imposed during winter months, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes – a difference of £49 (£48.7) per month. In Scotland this is expected to be between 25-50% higher for those in all electric homes in colder climates.

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Energy Action Scotland is dismayed that **BEIS** is consulting on WHD in a way that produces a poorer and sub optimal programme for households in Scotland. The divergence with England and Wales creates greater detriment due to restrictions and limitations created entirely by the decision to separate the scheme. No mitigations have been provided to ensure that there is equity in delivery. We recognise that the Scottish Government through the provisions of the Scotland Act has devolved powers to deliver a ‘Scottish’ WHD. Disappointingly over the last 5 years or more the Scottish Government and UK Government have failed to reach an agreement on delivering a WHD for Scotland that recognises the unique circumstances faced by Scottish consumers.

We do not believe that this is ‘fair’ to fuel poor households in Scotland that **only 9.4%** of the GB budget is allocated to Scotland. The social targeting of the Warm Home Discount is by its nature geographically neutral as it is aligned to the socio-economic circumstances of those eligible to receive it. It is BEIS that has chosen to create an artificial boundary inconsistent with the equity aims of the policy intervention. Scotland has the highest rates of fuel poverty in GB. Average **energy consumption** per household is **higher** in many parts of Scotland. Households are more likely to be in off-gas areas with all electric heating, our remote and rural communities already suffer detriment due to the application of much higher transmission charges. As it is, the £140 rebate affords less comfort/warmth to households in Scotland than it does in many other parts of GB because of the variability in the efficiency of properties, the heating source and climatic conditions. If there is to be any allocation it should be based on the **scale of the issue** trying to be addressed. A fairer allocation would be one that accounts for the % of fuel poor households in Scotland as a share of all fuel poor households in GB. This might be in the region of 16%<sup>8</sup> of all fuel poor households in GB.<sup>9</sup>

The proposed allocation is not consistent with **“If an area or service needs more funding to tackle a problem then we all help out. By supporting each other we have more resources to take on big challenges.....”** Scotland Government UK statement August 2021

Energy Action Scotland believes that is **incumbent** on BEIS to provide at the very least a **scheme**, which demonstrates a no-detriment position. The current proposal in this consultation creates additional complexity and contains suggestions and recommendations which require voluntary action by energy suppliers, many of whom have little or no market presence in Scotland. It creates risks that vulnerable and low-income households miss out on support as a direct result of capped spending, an arbitrary decision determined by BEIS. The current proposals do nothing to reduce the lottery experienced by many ‘eligible’ households.

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<sup>8</sup> Estimate based on Scotland’s share of GB households identified in fuel poverty at 613,000, England 3.1million and Wales 144,000, 2019

<sup>9</sup> 1) There are 3.176 million fuel poor households in England, as per the latest fuel poverty statistics for England. <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2021> 2) There are 144,000 fuel poor households in Wales, as per the latest fuel poverty statistics for Wales. <https://gov.wales/tackling-fuel-poverty-2021-2035-html#:~:text=%5B2%5D%20An%20estimated%20144%2C504%20households.11%25%20of%20households%20in%20Wales.&text=%5B6%5D%20Persistent%20poverty%20is%20defined,of%20the%20past%20three%20years.> 3) There are 619,00 fuel poor households in Scotland, as per the latest fuel poverty statistics for Scotland <https://www.gov.scot/publications/scottish-house-condition-survey-2018-key-findings/pages/6/#:~:text=In%202018%2C%2025.0%25%20of%20households,extreme%20fuel%20poverty%20in%202018>

Whilst on the surface the proposal provides an at least continuity of provision the divergence creates a new set of uncertainties for households and for organisations working to support vulnerable people. We are dismayed at the incredible short consultation period afforded for this important support to vulnerable, low-income fuel poor households.

The level of funding and the complexity being introduced does a disservice to consumers resulting in a failure on the part of obligated suppliers to provide a quantum of help consistent with the level 2011.

## **Consultation Questions**

### **1. Do you agree that the WHD Scotland should be extended as proposed until March 2026?**

Yes, we agree that the Warm Home Discount should be extended to 2026 to provide some certainty for contributing households that funds will be made available to support vulnerable and low-income households in fuel poverty. However, we believe that an interim review is essential to ensure that, in Scotland, there is a clear and proper alignment with the Scottish Government's Fuel Poverty Strategy. As it stands there is no recognition of the difference in the legal definition of Fuel Poverty as introduced by the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act<sup>10</sup>. There are aspects of the current proposal which we fundamentally disagree with or have significant concerns about its operation. But the period for which the Warm Home Discount in whatever form it becomes has its fundamental elements through to 2026.

### **2. Do you agree with the methodology for setting the obligation threshold and the level of individual obligations?**

No, this allocation singularly fails to provide confidence that vulnerable low-income eligible household are at the heart of this proposal. There are unique circumstances in Scotland where there is a history of and continues to be significant Scotland market dominance by a small number of suppliers and a notable absence or low level of market penetration by others.

We support, as we did for the previous consultation during 2021, a broadening of suppliers that would be obligated. However, the separation of the Scotland delivery from that of England and Wales creates a farcical likelihood that suppliers with no market penetration in Scotland will have obligations in Scotland. It is entirely feasible that a supplier will have a specific geographic market it wishes to serve yet has an obligation to other geographic locations within an entirely separate governance framework.

The consultation does not provide any data as to the difference between GB market share and Scotland market share across suppliers. Where suppliers have a larger proportion of the Scottish compared to the GB market share there will be a significantly larger demand from both the Core and Broader Group. The greater demand from the Core Group and requirement to meet this through data matching and automatic payment will reduce the availability of funding for the Broader Group. Broader Group customers are therefore much less likely to receive a discount from suppliers with a high Scotland market share.

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<sup>10</sup> <https://www.legislation.gov.uk/asp/2019/10/enacted>

The mitigation approach proposed of allowing suppliers with a lower Scottish market share being able to fund for financial assistance will only partially offset the disbenefit to the vulnerable consumers of suppliers with a larger Scottish market share. Basing the obligation for individual suppliers on their Scottish market share is likely to be of greater benefit to Scottish consumers. No evidence has been provided on the impact of any distorting effect.

We believe that it is practically possible for obligations to be based on 1) a qualifying obligation threshold and 2) the application of these obligations consistent with a supplier's market share in Scotland.

It is vitally important that there is a simpler journey for vulnerable consumers going to their supplier rather than having to go to a third party for financial assistance and likely to be less administratively costly so increasing the funding available for consumers.

### **3. Do you agree that the WHD Scotland should continue with the Core Group, Broader Group and Industry Initiatives?**

No, we do not agree with the proposal that the WHD Scotland should continue with the Core Group, Broader Group, and Industry Initiatives. Rather the scheme should match the England and Wales scheme with the creation of a Core Group 2, whose eligibility should be automatically calculated.

We believe that spending on Industry Initiatives should be mandatory on all obligated suppliers. While there has been **no sector wide evaluation** of the WHD Industry Initiative programme to date, much can be derived through Ofgem's reporting on the WHD. In its latest report<sup>11</sup>, Ofgem showed that in Scheme Year 9 (2019/20) a total of £37m was spent helping 456,864 customers through industry initiatives. This included direct support provided to more than 400,000 households.

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<sup>11</sup> <https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-annual-report-scheme-year-9>

The value of these activities can be roughly translated from several sources of information. A summary of an estimated value of activities is shown below, including indicative numbers for SY9. As a reference, the BEIS Impact Assessment for the WHD shows an equity weighted benefit for households of £690m for a total of £350m spent on rebates.

<b>Industry Initiative Activity</b>	<b># Customers Helped in SY9</b>	<b>£ spent in SY9</b>	<b>Estimated Value</b>
Benefit Entitlement Checks	40,000	£3.5m	£40m
Energy Efficiency Measures	35,000	£12.5m	£42m
Energy Advice	300,000	£9.5m	£30m
Debt Assistance	25,000	£6.3m	£12.4m
Financial Assistance Payments	11,000	£631k	£1.2m
Mobile Homes	4,000	£560k	N/A
Referrals	33,000	£245k	N/A
Management/Admin Costs		£4m	N/A
<b>Total</b>	<b>456,000</b>	<b>£37m</b>	<b>£125m</b>

These conservative estimates show that, pound for pound, Industry Initiatives are potentially more valuable for households than rebates with regards to value for money. This is especially true in 2022 as the value of the rebate has fallen in real terms due to rising inflation and energy costs that are more than 100% higher than 2020. Furthermore, advice and measure-based industry initiatives are more valuable than those that are purely financial support (i.e. debt assistance and financial assistance payments).

In Scotland, many **fuel poor households** are **not in receipt of benefits**, and therefore a significant proportion of fuel poor households will not have access to a rebate. Industry initiatives therefore provide a key avenue for fuel poor households, who do not receive income related benefits, to access the support that they need to keep warm and well at home. It is important that low-income households are supported whether in receipt of gateway benefits or not.

Given the value of industry initiatives, especially that of the advice to struggling households that may not otherwise benefit from the automatic rebates, we are concerned about the level of funding available for such programmes, especially during the first years of the scheme. We are concerned that industry initiative obligations will not be consistent across all obligated suppliers especially those with a disproportionate share of the Scotland market.

#### **4. Do you agree that the Core Group should continue in Scotland?**

No, we agree that the current Core Group cohort should, as it does currently, include those on the Pension Credit Guarantee Credit but would like to see this extended to include those with the Pension Credit Savings Credit. Those households who qualify for guaranteed elements of pension credit are likely to have lower overall incomes and greater requirements for higher comfort levels, as defined in Scotland's 2019 Fuel Poverty definition.<sup>12</sup> We believe that this change should be implemented during 2022. We would also recommend that there is a new Core Group 2 of households who will received WHD automatically through data matching with DWP and Social Security Scotland.

#### **5. Do you agree that the Broader Group should continue in Scotland, with the addition of the Housing Benefit to the existing mandatory criteria?**

No, we believe that there should be a further expansion of data matched customers similar to the Core Group 2 approach being taken for England and Wales. The Government accepts the desirability of such a scheme, noting in its response '*Warm Home Discount: better targeted support from 2022*'<sup>i</sup> that:

*"By replacing the Broader Group with Core Group 2, comprising households identified through data matching, most households would be identified and awarded rebates automatically. This removes some of the barriers the Broader Group has posed to customers, particularly vulnerable customers, who may not be aware of the support available and may not be in a position to apply. The changes remove the first-come, first-served nature of the Broader Group application processes and give greater certainty to eligible households that they will, in the vast majority of cases, receive the rebates each scheme year if they remain in the same property and continue to receive one of the qualifying benefits."*

We recognise that there may be challenges to providing suppliers with appropriate data to identify households in fuel poverty in Scotland, but we would urge BEIS and the Scottish Government to work together to identify data sets that could be used to identify households in fuel poverty and automate payments to many of the households that are eligible.

#### **6. Do you agree with the proposed threshold increases for Child Tax Credit and Universal Credit?**

Yes

#### **7. Do you agree that suppliers should be able to transfer up to 100% of their Broader Group target to Industry Initiatives subject to Ofgem approval based on market share in Scotland?**

No, this compromise now only arises by the poorly conceived separation of the Scotland Warm Home Discount from that of England and Wales. This an incredibly messy proposition for suppliers and we have great sympathy for those suppliers who have no desire to develop a bigger market share in Scotland burdened by this proposal.

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<sup>12</sup> <https://www.legislation.gov.uk/asp/2019/10/enacted>

We are incredibly concerned about those suppliers with a **disproportionately high market** share and **limitations** being **imposed** on them in supporting their eligible customers and providing wider support through industry initiatives to other customers.

Further delays and uncertainties for industry initiatives are created by this proposal for application, not decision, to transfer obligations by 15 December. This leaves little opportunity to have a meaningful impact through industry initiatives that could be supported by such funds.

What is proposed is scheme that is not in the best interests of those that are intended to be served. We need greater certainty over the delivery of these incredibly important services. As it stands there is no opportunity for multi-year funding and each year there are **unnecessary delays/hiatus** caused by the process adopted.

We doubt that any compromise services, **yet another intermediary** for low-income vulnerable households to contend with would be established properly, following open public procurement with due diligence during 2022/23. It would require to be subject to consultation as there is insufficient detail provided in this consultation about its operations. It is also not surprising to learn that in speaking with potential suppliers of such a service that they would commit to this as they themselves have a vested interest in providing the service.

#### **8. Do you agree with the Industry Initiatives spending cap proposals?**

Yes, we agree that there needs to be a fair and consistent cap on spending on industry initiatives. It remains **disappointing** that there is no **minimum spend** requirement given all the evidence that supports the high impact of those funded activities.

Generally, we believe that rules around **spending** within Industry Initiative projects should be **less prescriptive**. The current framework could result in a significant and incredibly detrimental reduction of the highest value/impact activities - energy and income advice. The prescriptive rules proposed should not be used to direct funding for industry initiatives, and suppliers should have more autonomy to decide which activities to pursue.

#### **9. Do you agree with the proposals for financial assistance?**

No, we believe that financial assistance should not be prioritised over other areas of the scheme that are more valuable to households. There is clear evidence that there are greater benefits to be derived from other types of support than for financial assistance.

We agree with the criteria for those that can qualify for financial assistance but what is proposed would be better addressed through **better targeting** and automatic payments.

#### **10. Do you agree with the caps for debt write-off?**

No, our members believe that a more generous debt write off should be considered with many viewing the current level of £2000 as too low given the rapidly increasing costs of energy. Members believe that it is likely that the rate of debt accumulation is rising and overall debt levels based on past consumption may require a **higher** operational threshold.



## 11. Do you agree that a £300,000 portion of the energy debt write-off cap should be reserved for customers with pre-payment meters (PPMs)?

No, the market share criteria is unclear and unhelpful again where it is proposed to cap the portion of debt to £300,000. It isn't clear how this will work across suppliers especially those with a disproportionately high or low Scotland market share of PPM customers. Scotland has disproportionately higher levels of PPM customers than for GB. This combined with market share complexity may result in eligible households failing to get support.

## 12. Do you agree with the proposed restrictions and cap for boiler and central heating installations?

No. We do not believe that it is helpful to place an **arbitrary cap** across all initiatives. It is helpful to understand that there is a guidance figure, but a hard and fast cap would be difficult in practice to enforce nor is it in keeping with the principle of fairness based on **customer needs** and circumstances.

Gas boiler installations funded through WHD should be targeted at households where there is a need to drive higher comfort levels with greater efficiency. This would be consistent to the enhanced heating requirements of groups identified in the consistently with the provisions of the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019 where Scottish Ministers may identify the household requirements for an enhanced heating regime. Evidence suggests that in a typical semi-detached home, upgrading heating controls and replacing a gas boiler that is around 80 per cent efficient (D rated) with a new boiler will save around £85 a year, whereas replacing a boiler that is 70% efficient (G-rated) could save over £300 a year. This is based on a 70 per cent or below efficient boiler with no heating controls being replaced by an at least 90 per cent efficient boiler with heating controls. Households which have the worst performing boilers could save even more than this. Heating and hot water accounts for about 60 per cent of what a household spends in a year on energy bills, so an efficient boiler makes a big difference, especially to those households which are struggling to pay their energy bills.

Not only that this it results in a greater ability to achieve higher levels of comfort, conducive for health and wellbeing, for lower cost.

These households which Ministers might include are:

- Older people
- People with cardiovascular conditions
- People with respiratory conditions (in particular, chronic obstructive pulmonary disease and childhood asthma)
- People with mental health conditions
- People with disabilities
- People with complex and long-term health conditions
- People with rapidly declining health, including DS1500<sup>13</sup>
- Households with young children

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<sup>13</sup> <https://www.gov.uk/terminal-illness-benefits>

We do not believe that the trigger for the support should be the failure/breakdown of a boiler but an assessment of the boilers suitability to provide the level of comfort required. It is the condition or needs of the householder that dictates this. We believe that the right installation will improve performance, reduce costs and emissions. Improvements will lead to few hospital admissions as a result of cold damp homes and will ensure that people can recover or live with **dignity and respect** in the time that they may have left. Our experience of working with **Macmillan Cancer** Support and CLAN has proven the benefits of supporting people with a cancer diagnosis who are unable to access other support. We believe that more could be done through WHD to help those with essential medical needs, life limiting or terminal illness.

**Members** are generally supportive of higher quality standards for retrofit, especially for the Energy Company Obligation. We remain **concerned** about the potential impact of the TrustMark and PAS requirements in remote and rural Scotland. There continues to be limited capacity to meet the required quality management standards leaving households in these areas at a disadvantage to those elsewhere in Scotland. Members believe that the current specification of **PAS 2030:2019** and the **PAS 2035** process will be detrimental and will slow the rate of change in areas experiencing the highest levels of fuel poverty. Technical specifications were also viewed as being inflexible, failing to recognise the diversity and challenges of traditional properties in Scotland. The application of Trustmark and PAS requirements ended industry initiative support for people with cancer in the Western Isle and Orkney during 2021/22 where there were no contractors in these areas certified and registered to meet the requirements. It also meant compressing the delivery timescale for the those that were delivered in Shetland in order that contractors could meet requirements for 'distress' like-for-like replacement only.

We are further concerned about the removal of **oil/lpg heating system** upgrades/replacement as these are common in remote/rural and island communities yet can now result in a household having a failed/failing system detrimental to their health and well being with no practicable solutions. As part of any just transition the solutions to aid vulnerable fuel poor households should be driven by their needs and the need to affect and change in their fuel poverty position. In 20% of properties in off-gas areas in Scotland the Scottish Government<sup>14</sup> has identified that it was not technically possible to install Air Source Heat Pumps. Such issues combined with serious health condition will put peoples lives at risk. This is unacceptable and we recommend that oil/lpg heating systems remain an option where this is the best solution for the household.

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<sup>14</sup> <https://www.gov.scot/publications/technical-feasibility-low-carbon-heating-domestic-buildings-report-scottish-governments-directorate-energy-climate-change/pages/3/>

### 13. Do you agree that the rebate value should be set at £150?

No, at the initial consultation for Warm Home Discount, we supported an increase to **£150**, with the number of rebates as proposed at three million. With rising energy costs, we believe that further increase is due to try to maintain some connection to the levels of comfort previously afforded by the rebate. We believe that the value to households of the rebate is important, but it has lost value in real terms. This is undoubtedly true during 2022 where **default tariff caps** on the standard variable rate of suppliers have increased by over £1000 per household compared to 2020.

When the cap was introduced in 2018 the WHD was worth around 13% of the standard variable tariff. That has now fallen to be approximately 8%. If the purpose of the rebate is to provide an amount of relief and comfort to eligible households, it clearly no longer provides anything like the level it once did.

Our members have indicated to us that they would support an increase in the level of payment to between £250-350 and that going forward the value of the rebate should track changes in the standard variable tariff.

We are concerned that the apportionment and limitations imposed on the WHD delivery in Scotland could pose further inequalities should the UK Government decide to invest public funds through the WHD mechanism to reach eligible households. If it were to do so based on an allocation of Barnett formula consequentials this would be contrary to the current allocation of budget based on meter points. Further the unnecessary complexity of effectively capping spend with the transfer of obligation amongst suppliers is likely to result in delays and the failure to provide effective support to those in greatest need in good time.

### 14. Do you agree that Ofgem should continue to run the reconciliation process in Scotland?

Yes. We agree with this proposal.

Submitted by:

Frazer Scott

CEO, Energy Action Scotland

20 May 2022

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<sup>i</sup> <https://www.gov.uk/government/consultations/warm-home-discount-better-targeted-support-from-2022>