Department for
Business, Energy
& Industrial Strategy

Energy Bills Support Scheme

Managing the impact of the energy price shock on consumer bills

Closing date: 23 May 2022

April 2022

Any enquiries regarding this publication should be sent to us at: ebssqueries@beis.gov.uk

Contents

General information

Why are we consulting

The government recognises many households need support to deal with rising energy costs, which are being affected by several global factors. This is why, on 3 February 2022, the Chancellor of the Exchequer announced a package of support worth £9.1 billion to help domestic energy customers with the costs of rising energy bills.

The support package contains a range of measures that will reduce the cost of customers' energy bills. One of these measures is the Energy Bills Support Scheme (EBSS) through which energy suppliers will be funded by government to provide a £200 reduction to domestic electricity customers' bills from October 2022. This will be recovered through a levy on electricity bills and will help to spread some of the costs of this year's energy price shock over five years from the financial year 2023/24. Through the levy, the government will look to recover the full nominal amount paid out.

The purpose of this consultation is to collect views on our proposals for the processes needed to provide the funding to energy suppliers, the mechanisms by which the reduction is passed on to customers' bills, and the mechanisms by which the levy will be recovered. We are seeking the views of energy suppliers, industry infrastructure providers, consumers, their representatives, and other interested parties, to test the design of the Scheme to ensure that support is provided to as many customers as possible in a simple and cost-effective way, and that the payback mechanism is clear and efficient.

Consultation details

Issued: 11 April 2022

Respond by: 23 May 2022

Enquiries to:

Please email your enquiries to the following address, including 'EBSS consultation query' in your email subject: ebssqueries@beis.gov.uk

Consultation reference: Energy Bills Support Scheme

Audiences: We would particularly welcome views from energy suppliers, network operators, charities, and consumer and advocacy groups.

Territorial extent: This document relates to England, Wales, Scotland. Energy policy is devolved in Northern Ireland and will be funded to an amount in line with the Barnett formula.

How to respond

Please respond directly to the questions posed, although additional comments and evidence would also be welcome.

Your response should be submitted online using the dedicated online portal, to be found at the link below.

Respond online at: https://beisgovuk.citizenspace.com/ccp/energy-bills-support-scheme

Alternatively, please email your responses to the following address, including 'EBSS Consultation response' in your email subject.

Email to: ebssconsultation@beis.gov.uk

Online responses via Citizen Space are preferred. However, if you are unable to reply online or by email, responses can be sent by post to the department at the address below:

EBSS – Consultation Response

Energy Bills Support Scheme

Department for Business, Energy and Industrial Strategy

3rd Floor, Abbey 2

1 Victoria Street

London

SW1H 0ET

A response form is available on the GOV.UK consultation page: https://www.gov.uk/government/consultations/technical-proposals-for-the-energy-bills-support-scheme

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Executive Summary

Over the past year, global energy prices have soared, with wholesale gas prices alone quadrupling[1]. This has led to an unprecedented rise in household energy bills, with over 22 million households on the Default Tariff Cap experiencing an increase of £693 per year for the average household from 1 April 2022[2].

The government is stepping in to help with the cost-of-living pressures. On 3 February 2022, the Chancellor of the Exchequer announced a package of support worth £9.1 billion to help households with rising energy bills. This support package contains a range of measures to help households with their bills.

The Energy Bills Support Scheme (EBSS) is one of these measures. Through this Scheme energy suppliers will be funded by government to provide a £200 reduction to domestic electricity customers' bills from October 2022. This will be recovered through a levy on electricity bills and will help to spread some of the costs of this year's energy price shock over five years from the financial year 2023/24. Through the levy, the government will look to recover the full nominal amount paid out.

We want to ensure the Scheme is in place this year so that households can benefit from a reduction to their energy bills in time for the winter. We recognise that this year's energy price shock will be felt by a large number of households. Therefore, a priority for the scheme design is to ensure it is universal in its approach and any complexity is kept to a minimum. This will help ensure the scheme reaches as many households as possible. It will allow all suppliers, regardless of their size, to provide the reduction to their eligible customers as soon as possible from October and will minimise any additional costs in delivering the scheme.

This consultation invites views on the government's technical proposals for delivering the Scheme from October 2022.

Delivery of the Scheme will be split into two stages. In the first stage, suppliers will provide their domestic electricity customers with a £200 reduction on their energy bills as soon as possible from October 2022. This document discusses our proposals for the financial arrangements for suppliers, and how suppliers will deliver this to their customers, including the timing of delivery and the ways they should inform their customers.

In the second stage, the government will then aim to recover the full nominal amount paid out through a levy on domestic electricity bills from the financial year 2023/24. This document discusses our proposals for where in the energy system this obligation should be placed, and the associated financial requirements for scheme participants.

It is important that the risk of fraud or error in the scheme is minimised in order to protect public money. The consultation sets out the legal framework for the scheme, and the processes by which we expect suppliers and network companies to comply with the scheme requirements and report on delivery.

Separate arrangements are in place for Northern Ireland through the Barnett formula.

[1] https://www.ofgem.gov.uk/energy-data-and-research/data-portal/wholesale-market-indicators
[2] https://www.ofgem.gov.uk/publications/price-cap-increase-ps693-april

Wider energy support measures

The Scheme will work alongside other policies to support households with the current rising cost of living. In England, a £150 Council Tax rebate will be paid to households in bands A-D, reaching approximately 80% of English households. For those who need support but are not eligible for this rebate, £144 million in discretionary funding will be allocated to local authorities to provide similar support[3]. Barnett consequentials have been provided to devolved administrations as council tax is a devolved policy.

Further support for energy bills will be provided through the Warm Home Discount[4], where the government has expanded eligibility by almost a third and increased the rebate value to £150 each year (from £140), supporting 3 million vulnerable households. In addition, £3 billion over this Parliament is being provided to help more than half a million lower-income homes become more energy efficient, saving them an average of around £300 a year.

Targeted support for energy bills is also being delivered through the Winter Fuel Payment[5], which provides between £100 and £300 to pensioners each year to help with winter heating costs, along with the Energy Company Obligation (ECO)[6], which is being expanded to £1 billion a year, to ensure energy suppliers help 113,000 low-income households a year to permanently lower their bills by an average of around £300 a year via insulation and new heating.

Alongside this, the government has expanded the scope of VAT relief for energy saving materials[7], ensuring that households installing materials such as thermal insulation or solar panels pay 0% VAT for the next five years, helping to improve energy efficiency and keep heating bills down.

The Household Support Fund[8] has also been doubled to £1 billion by providing an extra £500 million from April 2022. The Fund will help households with the cost of essentials and, in England, will continue to be distributed to Local Authorities, who are best placed to direct this help to those who need it most. Devolved administrations will receive £79 million of this additional funding.

Furthermore, the government's Price Cap[9] will remain in place this coming winter, protecting millions of customers on default tariffs, ensuring they pay a fair price for their energy. The Cap protects consumers against excessive pricing.

[3] https://www.gov.uk/government/news/millions-to-receive-350-boost-to-help-with-rising-energy-costs
[4] https://www.gov.uk/the-warm-home-discount-scheme
[5] https://www.gov.uk/winter-fuel-payment
[6] https://www.ofgem.gov.uk/environmental-and-social-schemes/energy-company-obligation-eco
[7] https://www.gov.uk/government/publications/changes-to-the-vat-treatment-of-the-installation-of-energy-saving-materials-in-in-great-britain
[8] https://www.gov.uk/government/publications/household-support-fund-guidance-for-local-councils
[9] https://www.ofgem.gov.uk/information-consumers/energy-advice-households/check-if-energy-price-cap-affects-you

Key definitions

Key Term	Definition
Barnett consequentials / Barnett formula	The Barnett formula is the way the UK Government ensures that a share of additional funding is provided to the devolved administrations.
Bad debt	Bad debt is defined as the unrecoverable debt that suppliers are intending to write off.
Council tax rebate	A £150 rebate for households in England in council tax bands A to D in 2022/23. Payments provided directly from billing authorities to eligible households.
Credit collateral	Credit collateral provides the lender the assurance that if the borrower defaults on the loan, the lender can get something back by repossessing the collateral
Direction	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.
Distribution Network Operator (DNO) *See also IDNO*	DNOs own, operate and maintain the distribution networks. They are holders of electricity distribution licences. Licences are granted for specified geographical areas in Great Britain. Currently there are 14 DNOs owned by six different groups.
Domestic electricity user	A person who uses energy in domestic premises in Great Britain wholly or mainly for domestic purposes
Energy Bills Support Scheme (EBSS)	The name of this scheme. Also referred to as ‘the Scheme’.
Energy Company Obligation (ECO)	The Energy Company Obligation (ECO) is a government energy efficiency scheme in Great Britain to help reduce carbon emissions and tackle fuel poverty.
Electricity meter point	The physical point at which import from or export to a Distribution System can be measured, by the electricity supplier.

Energy Price Cap (also Default Tariff Cap)	A limit on how much suppliers can charge you per unit of gas or electricity if you are on a default tariff. Price cap levels are set by Ofgem based on how much it costs, on average, to get energy to your home.
Energy supplier	An energy company licensed by Ofgem to supply gas and/or electricity.
Grant	A grant is a payment provided by either the government or a private organisation for a specific purpose.
Green Gas Levy (GGL)	The Green Gas Levy places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments, in order to fund the Green Gas Support Scheme.
Green Gas Support Scheme (GGSS)	The Green Gas Support Scheme is a government environmental scheme that provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid.
Government Electricity Rebate (GER)	The Government Electricity Rebate (now closed) was a scheme that gave all eligible domestic electricity customers a £12 rebate on their bills in 2014 and 2015 to help lower the impacts of government environmental and social policy costs on consumer energy bills.
HMG	Her Majesty's Government
Independent Distribution Network Operator (IDNO) *See also DNO*	Similar to a DNO but an Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence have no effect (whether in whole or in part).
Levy	A levy is an obligatory payment to the government or another organisation.
Mutualisation	Mutualisation is triggered in the event where any shortfall in payments made is distributed among those who have made their payments.
Park home	Park homes are mobile homes occupied as main and only homes on caravan sites with planning permission for residential use.

Traditional prepayment meter (PPM)	Customers pay in advance for the electricity they use. This 'pay as you go' energy is used with a smartcard, token or key that can be topped up at a shop or via a smartphone app.
Smart prepayment meter	Smart prepayment meters are similar to traditional PPMs in that customers pay in advance for the electricity they use. Smart PPMs are topped up online or via an app and allow the user to monitor their energy usage at any time convenient to them. As they record actual energy usage, meter readings or bill estimates are not needed.
Smart meter	A smart meter is an electronic device that records consumption of electric energy and communicates the information for the purpose of system monitoring and billing.
Special Action Message (SAM)	A message addressed to a prepayment customer's meter and transmitted from a domestic supplier to that meter through the electricity credit purchasing network.
Warm Home Discount (WHD)	The Warm Home Discount is a single £140 payment (to be increased to £150 this year) applied to eligible customers' electricity bills sometime between October and April. It has been designed to help reduce costs for those living on a low income or pension over the winter months.
Winter Fuel Payment	Winter Fuel Payment is an annual tax-free fuel payment of £100 to £300 for people who have reached state pension age on or before the end of the 3rd week of September in any given year.

Case for intervention

The growth in the cost of living in the UK has been increasing and inflation rose by 6.2% in the 12 months to February 2022[10].

A key driver of inflation has been global energy prices, with household energy tariffs increasing and petrol and diesel costs also going up. The rise in UK energy prices has been largely due to increases in the global price of gas driven by the conflict in Ukraine, a global demand recovery from the Covid-19 pandemic, and supply disruptions. The Bank of England estimated that almost half of the increase of 2021 inflation was due to higher energy prices[11].

Given the increase in wholesale prices and ongoing volatility, the Default Tariff Cap for energy rose by £693 or 54% for a typical household from 1 April 2022, directly impacting approximately 22 million customers on default tariffs[12]. This unprecedented rise in energy bills will place pressure on household budgets.

The government wants to help as many households as possible to manage the price shock. The Energy Bills Support Scheme (EBSS) is part of a wider package of measures and aims to help households manage the recent increase in energy costs by enabling them to spread these costs over time. This is expected to help mitigate the immediate impact of the increased prices and support households in managing their energy bills in the longer-term.

Stakeholder engagement

In preparation for this consultation, we have undertaken a series of engagements with stakeholders to inform the design of the scheme and to understand better the challenges and concerns at an early stage. These have been via working groups, through smaller focus groups, and through bilateral engagements. The stakeholders were identified as being representative of the broad range of interests across the sector.

The stakeholder focus groups are representatives of energy suppliers, network operators, charities, and consumer and advocacy groups.

To date we have conducted over 20 focus groups and other stakeholder engagements, in the period from 3 February 2022. Stakeholder engagement is continuing throughout this consultation period and will continue as the scheme reaches the final stages of development through to its implementation. The feedback gained from these groups while this public consultation runs will be summarised and published alongside the formal government response.

[10] As measured by the consumer prices index, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2022
[11] https://www.bankofengland.co.uk/monetary-policy-report/2022/february-2022
[12] https://www.ofgem.gov.uk/publications/price-cap-increase-ps693-april

The Energy Bills Support Scheme design

Summary of the scheme

The Scheme aims to spread the cost of this year's energy price shock over time. From October 2022, domestic electricity customers in Great Britain will be provided with a £200 grant on their bills by their suppliers, funded by the government. This amount will be recouped through electricity bills over five years from the financial year 2023/24.

We have followed a set of high-level principles during the development of this scheme. These are:

- **Simplicity** – ensuring that a pragmatic approach is taken and that the scheme uses existing systems and processes where possible, including a single existing legislative mechanism if possible
- **Reach** – the scheme should be delivered to as many eligible customers as possible, regardless of which supplier they use or their choice of payment method
- **Cost** – delivery costs should be minimised for suppliers, network companies, other scheme participants and customers
- **Clarity** – the scheme must be clear and easy to understand for customers and stakeholders
- **Protections** – reasonable and proportionate protections for HMG and consumers from risk of fraud, gaming, and non-compliance.

We are now consulting to seek views on our proposals for how the Energy Bills Support Scheme will operate.

1. The legal and regulatory framework of the scheme

In order to fund the Scheme, the government will use the Supply and Appropriation Act 2021. This Act allows HM Treasury to issue funds out of the Consolidated Fund and allocate them to individual government departments and Crown bodies.

The £200 payment will be delivered by domestic electricity suppliers, so we need to have in place the means by which suppliers will be required to deliver it to their customers and recoup it via electricity bills. We intend to implement this scheme through the use of a 'direction' issued by the Secretary of State. Directions are a form of delegated legislation. They 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.

The direction is proposed to be implemented with the support of Ofgem introducing a licence modification with which suppliers (making the single payment to domestic electricity customers), and licensed Distribution Network Operators (DNOs) (recouping funds) will be required to comply. Ofgem intends to publish a statutory consultation this spring on the modification of relevant domestic electricity supply and distribution licence conditions to help facilitate delivery of the Scheme.

We intend to issue a direction under section 7(3) of the Electricity Act 1989 which requires licencees 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 single payment to their eligible domestic electricity customers.

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

Ofgem intend to proceed to statutory consultation this spring with the expectation that a decision whether to modify the licence could be issued later this year. Before this, and following the conclusion of the BEIS consultation, we plan to publish a draft direction alongside (or shortly after) our response to the consultation which will provide more certainty about how we plan to implement the Scheme. 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 2022.

The table below sets out the envisaged timetable for delivery of the Scheme.

Table 1

Date	Agency/Department	Event	Length
11 April 2022	BEIS	Policy consultation	6 weeks
April/May 2022	Ofgem	Statutory licence modification consultation	4 weeks
End of July 2022	BEIS	Policy decision document/response to consultation and draft direction	N/A
July/August 2022	Ofgem	Licence modification decision	N/A
August-September 2022	Ofgem	Stand still period before licence changes can come into effect	8 weeks
October 2022	Ofgem	Licence change implemented enabling direction to come into force	N/A

October 2022	BEIS/ Ofgem/Suppliers	EBSS delivery commences	N/A
December 2022	BEIS	Publication of levy rate	N/A
April 2023	DNOs/ Suppliers	Collection of the levy	Until 2027/28

2. Scheme design principles

In considering the best possible way to reach as many eligible domestic customers as possible, we explored the possibility of applying the scheme across both gas and electricity supplies.

Electricity vs gas

There are approximately 29 million electricity meter points[13] in Great Britain, compared to approximately 24 million gas meter points[14]. We want to ensure that as many households as possible can benefit from the scheme. It follows that for the scheme to have the greatest reach, it should be applied to domestic electricity meter points as opposed to gas meter points. Delivering the scheme via electricity only would also simplify the processes involved in disbursing the funds to suppliers.

Therefore, subject to the outcome of this consultation and Ofgem's independent consultation process, we are proposing to reach households through their electricity suppliers, and so only households with a domestic electricity connection in Great Britain would be automatically eligible for the scheme.

Meter points vs customer accounts

The payments will be recovered by way of a levy starting from the financial year 2023/24. The levy will be based on the number of domestic electricity meter points a Distribution Network Operator (DNO) has served on a daily basis. This means that costs will accrue for customers per meter point rather than per household and will take into account households switching between suppliers. We are proposing that the overall scheme, including the initial funding from October, will apply to meter points rather than to individual accounts or households.

[13] See key definitions
[14] Meter point data - Quarterly domestic energy switching statistics (QEP 2.7.1). Please note this may differ from reported household figures, due to multiple meters points in some properties.

3. Scheme eligibility

All domestic electricity customers who have a direct relationship with a licensed electricity supplier will be automatically eligible for this scheme.

Considerations for scheme eligibility

The objectives of this scheme are to spread the cost of this year's energy price shock over time for customers, ensure that households feel the benefit of this support over the winter months when bills are higher, and, in doing so, minimise any administrative complexity for suppliers.

A universal scheme

The Energy Bills Support Scheme is designed to be a universal measure and therefore will not be means-tested. This scheme is part of a wider package of support, including the Council Tax Rebate and the expanded Warm Home Discount scheme (WHD), both of which contain elements of targeting to ensure the support is received by those who need it most. Delivering a scheme with means-tested eligibility criteria would add to the administrative cost and complexity and would contradict the aim of a scheme designed to support all domestic electricity customers who will be experiencing the energy price shock.

The energy market in Great Britain is a diverse and dynamic system, and energy is supplied to households in many different ways. Given this diversity, it would not be feasible or cost-effective to design a new, single delivery mechanism that works for all customers. Furthermore, any bespoke arrangements for some customers would require the introduction of a new system that would need to function across suppliers to track individual customers and ensure they are able to continue switching suppliers as they choose. In line with our high-level principles, our aim is to design a scheme that is simple to deliver whilst ensuring that additional costs are minimised. Our proposal is therefore to reach as many customers as possible through existing mechanisms, and no bespoke arrangements for customers with a domestic electricity connection will be provided.

All households with a domestic electricity connection will be automatically eligible. Households will not need to apply for the Scheme, and in most cases, we expect it to be applied automatically. This contributes to the universality of the scheme and ensures it reaches as many households as possible.

Support for vulnerable customers

The government recognises that the impact of rising energy costs, together with the rising cost of living, will be greatest on those households who are already in, or at risk of, fuel poverty[15], along with those households most likely to be facing financial difficulties and for whom energy, as an essential service, represents a significant share of total household expenditure. People with protected characteristics such as disability, race, and age are typically disproportionately represented among this group[16].

[15]Fuel Poverty in the UK, UK Parliament Research Briefing, 02 March 2022 https://researchbriefings.files.parliament.uk/documents/CBP-8730/CBP-8730.pdf
[16] Consumer Protection Report: Autumn 2021, Ofgem, 21 October 2021 https://www.ofgem.gov.uk/publications/consumer-protection-report-autumn-2021

We are looking closely at how we will ensure that this Scheme reaches these groups most in need and will ensure logistical and technical accessibility to vulnerable customers. As part of the usual process, we will include considerations on the Public Sector Equality Duty in the final impact assessment which is due to be published in the summer.

This Scheme is part of a wider package of support, including the £150 Council Tax rebate for band A-D properties in England, which will benefit a higher proportion of households in vulnerable situations. In addition, the WHD aimed at those in, or at risk of, fuel poverty, is being expanded, and this sits alongside other targeted measures of support such as the Winter Fuel Payment and the Cold Weather Payment.

Implications of eligibility for the scheme

Electricity users who are not domestic customers

Electricity users who are not domestic electricity customers are not eligible for the scheme. This is due to the delivery mechanism proposed and is in line with our high-level objectives to keep the scheme simple, and to minimise administrative costs.

Households without a domestic supply contract

Not all households have their electricity provided through a domestic electricity supply contract, for example, residents of park homes. Households such as these do not have a direct relationship with a supplier. In these cases, the site owner or landlord has a commercial electricity supply contract, and residents are likely to be charged for electricity through a variety of arrangements. Most commonly, costs are included in the rental or service charge, while others may be able to sub-meter the supply and provide bills based on meter readings. However, in each situation, the supplier’s relationship is with the proprietor or owner of the site, as opposed to with the residents. Households without a domestic supply contract are therefore not eligible for this scheme, but we are exploring options for other ways in which they might receive similar support, outside of this consultation.

The government recognises that households without a domestic supply contract do not benefit from the same consumer protections as households with one. Government will work actively to address this at the next opportunity.

Changes to household living arrangements

Our proposal is for the scheme to apply to meter points so there may be circumstances where some customers pay back a different amount to the grant they received. For example, where customers’ living circumstances change, some may not have received the grant but may have to pay the levy; others may have received the grant but may not pay the levy.

In line with our high-level principles, our aim is to design a scheme that is simple to deliver from October and ensures that additional costs are kept to a minimum. As set out in the section of the document titled ‘a universal scheme’, stakeholders have made it clear that any tracking of household movement would require the introduction of a new system, which would need to work across all domestic electricity suppliers. This could significantly delay delivery of the scheme, greatly increase its complexity, and would create additional costs. To keep the scheme simple and ensure deliverability within current energy market parameters such as energy price caps, we anticipate that mitigating any impact from changes to household living arrangements will not be possible.

Customers connected to private electricity networks

Customers connected to private electricity networks will not be eligible.

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. A private network, which is exempt from supply licence requirements, will not be obliged to deliver the grant or recoup the levy from any domestic customers connected to their network.

Households with multiple meter points

As delivery is linked to domestic meter points, individuals or households who have multiple domestic electricity meters will receive multiple grants (one for each meter point) and so multiple levy payments will be deducted accordingly, in line with the number of meter points they are billed for. 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. Equally, there will be some properties that have two or more electricity meters.

Landlords with multiple properties, where each electricity meter is linked to an account in their name, may also receive several grants along with being required to pay the levy for each meter point.

Multi-function premises

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. If residents in these properties have domestic electricity supply contracts in place, they will be eligible for the scheme. If they were identified by a supplier to be non-domestic, they would not be eligible.

Supply to vacant properties or occupier accounts

There are circumstances where properties which are vacant are supplied with electricity. In this instance the customer 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.

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 because of a contractual relationship with a lettings management agency, for example. To the extent that these are domestic accounts each linked to a domestic electricity meter point, they will be eligible for the scheme. This is consistent with the principle of simple, cost-effective delivery. Identifying such accounts and treating them differently would be costly. Furthermore, we expect these accounts make up a small proportion of the whole domestic customer base.

Landlords who charge their tenants for electricity

Landlords who resell electricity to their tenants are already required to ensure they are compliant with Maximum Resale Price (MRP) rule. Landlords with a domestic electricity connection who charge ‘all inclusive’ rent, where tenants’ energy costs are included in their rental charges, will need to ensure that both the grant payments, and the levy, are also passed on to tenants.

Landlords with tenants who share a meter point will need to ensure that both the grant received, and the subsequent levy, is shared fairly between tenants.

Question:

1. **a. Do you agree with our approach to how we have considered customer eligibility to the scheme? Yes/No.   b. Are there any other household living arrangements we should consider? Yes/No. Please provide any reasoning to support your response.**

4. Grant design

The grant element of the scheme will provide eligible customers with the £200 reduction (referred to throughout this document as ‘the reduction’) through their electricity bill to help manage the impact of the energy price shock. The scheme will be introduced in October 2022 and payments will need to be delivered as quickly as possible to help customers prepare for the colder winter months of 2022/23.

Delivering the bill reduction to eligible customers

In autumn 2022, domestic electricity suppliers will be provided with sufficient funding to allow them to provide the reduction to their domestic electricity customers. Suppliers will be required to provide this to their eligible customers as promptly as possible.

It is important that eligible customers understand who will be responsible for delivering the reduction to them even if they switch suppliers, and for suppliers to understand which customers they are responsible for. We therefore propose using a single qualifying point in time (the “qualifying date”) to establish which supplier should provide the reduction to which customer. Our proposal is that the qualifying date will be 23:59 GMT on 3 October 2022, which will be confirmed following this consultation. Once set, there will be no flexibility in the qualifying date. Suppliers will be expected to provide the reduction as close to the qualifying date as possible to help minimise call volumes around missed payments, to reduce errors from customers switching or changes in tenancy, and to ensure customers can feel the benefit of this scheme in time for the winter. This will be set out in the Ministerial Direction (section 7(3) of the Electricity Act 1989).

Suppliers will be expected to use their discretion and existing processes to handle cases such as changes of tenancy on the qualifying date. Central databases could be used to resolve any dispute as to which supplier is responsible for providing the grant to a particular customer.

There are three main ways in which customers pay for their electricity: direct debit, credit, and prepayment. Based on other schemes, such as the WHD and the former Government Electricity Rebate (GER), there will be separate processes, expectations, timeframes, and reporting requirements for the different payment types.

Direct debit: Around 69% of the domestic GB electricity market pay their bills by direct debit[17]. Payments are taken from customer accounts on the same day of each month or on a quarterly basis. Direct debit payments are calculated based on the supplier's estimate of a customer's electricity usage for the year ahead. Direct debit accounts are typically in credit during the summer months and in debit over the winter months.

Standard credit: Also known as 'pay on receipt', around 17% of the domestic electricity market pay their bills in this way. Payment is in arrears and customers receive a bill from their supplier, usually on a quarterly basis, charging them for electricity used in the previous quarter. Customers can pay over the phone, online or by cash or cheque in their bank.

Payment card: Some standard credit customers pay by payment card. These are issued by energy suppliers and customers have the flexibility to pay in the way that most suits their needs. Customers pay their energy bills at Post Offices and shops with PayPoint machines, giving them control over payments, and a choice over when to pay and how much, provided they settle the remaining balance on their account on a quarterly basis.

Smart prepayment: Customers pay in advance for the electricity they use. These are similar to traditional prepayment meters but can be topped up via a mobile phone app or online account with the supplier as well. Around 7%[18] of the domestic electricity market pay their bills in this way.

Traditional prepayment: Customers pay in advance for the electricity they use and do not receive regular bills. However, they do receive an annual statement of account. Approximately 7%[19] of the domestic electricity market pay their bills in this way. They have a top-up key or token which can be topped up at the Post Office or a shop with a PayPoint or Payzone machine.

In all cases, each supplier will be obliged to provide their eligible customers with the reduction as quickly as possible after the qualifying date, and no later than six weeks after that date, with exceptions only where delivery is not reasonably practicable, as set out in Section 6 of this document on compliance, enforcement and sanctions. Given the different arrangements by which customers can receive the reduction, suppliers will be required to notify their customers in writing that the reduction has been provided on the recipient's bill or by other means. In this context, "providing" refers to crediting the full amount to a customer's account, crediting a prepayment meter, or issuing vouchers to a traditional prepayment meter customer. Guidance on this will be issued in due course and communications should be aligned with other pricing communications where possible.

Direct Debit customers: For direct debit customers, suppliers are normally able to apply a credit to an account within 24 hours. We therefore propose that suppliers will be expected to provide the reduction to direct debit customers by crediting the full amount to customer accounts as soon as possible from the qualifying date. Direct debit levels are typically calculated based on a customer's balance and a forecast of their usage over a 12-month period. However, our intention is for this scheme to benefit customers over the winter months and so we are proposing that, where possible, suppliers should look to reprofile customers' direct debit levels over the six-month period to 31 March 2023 in line with the credited amount.

---

[17] Table 2.4.2 Regional variation of payment method for standard electricity, annually
[18] Derived from BEIS data on the number of smart meters operating in prepayment mode
[19] Net of smart prepayment meter proportion

We anticipate this will align with the timetable for other price changes, including the Default Tariff Cap.

Standard credit customers (pay on receipt): For standard credit customers, we are proposing that suppliers credit the full amount to customers' accounts as soon as possible after the qualifying date. Customers will feel the benefit of the reduction when they are billed, which will depend on the frequency of their bills. Suppliers may need to apply the reduction to more than one bill where the bill is less than the £200, particularly when they issue bills on a monthly basis.

Payment Card: Customers using payment cards must settle the amount outstanding on their account by the bill due date. Suppliers would be required to credit customers' accounts with £200 as soon as possible, and we anticipate this will appear on the first bill issued after the qualifying date. This may mean the settlement amount for some customers may be less, and some accounts may be put into credit.

Smart prepayment customers: To simplify delivery of the grant, suppliers will be expected to credit smart prepayment customers with the full amount of £200 as soon as possible after the qualifying date. If customers have dual fuel accounts, suppliers may split the grant across both the gas and electricity meters.

Traditional prepayment customers: For prepayment meters which cannot be credited remotely, suppliers will be required to provide the grant through other means such as vouchers or Special Action Messages (SAMs), which can be redeemed at their next top-up. In the case of vouchers, suppliers will be expected to provide customers with five separate vouchers of £40 each (due to a top-up cap of £49) as soon as possible after the qualifying date. Vouchers or SAMs will be sent to customers via text, email or post to the contact details registered to the account. They would be redeemable through the usual routes and will remain valid until 31 March 2023 to enable customers to redeem them throughout the winter.

Schemes such as the WHD and the (now-closed) GER, set out that suppliers must ensure that eligible prepayment customers receive the credit amount unless there are exceptional obstacles to delivery. In line with this approach, we are proposing that suppliers will be expected to take all measures reasonably practicable to provide the £200 to prepayment customers, either through secure vouchers or SAMs.

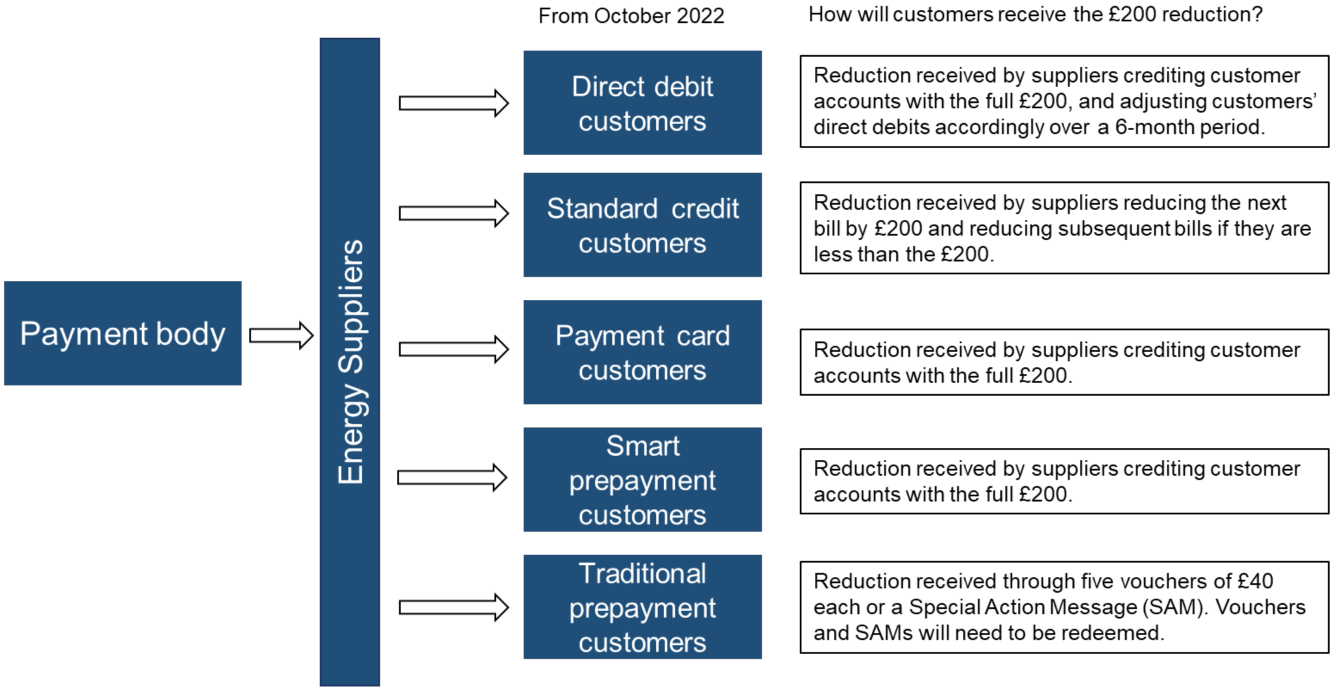
Suppliers will be required to provide assurance that the vouchers or SAMs have been delivered to customers within six weeks of the qualifying date unless there are mitigating circumstances.

For traditional prepayment meters, the scheme's delivery relies on customer action to ensure vouchers and SAMs are processed. There may be customers who are unable to routinely open post or emails, or who may not have access to a smart phone or computer. These customers are therefore at greater risk of missing out on the benefits of the scheme by not being able to access the voucher, compared to customers for whom the credit is applied automatically by the electricity supplier. We are exploring ways in which we can support customers to access vouchers through targeted campaigns and messaging.

Ahead of the qualifying date, suppliers will be expected to continue encouraging customers to consider moving to smart prepayment meters, which will increase the number of households who will be eligible to receive support remotely and automatically.

For traditional prepayment customers, the total reimbursement of funds to suppliers will be based on the number of vouchers and SAMs redeemed. However, we are aware that to provide vouchers and SAMs, suppliers will need to pay for the provision of all vouchers or SAMs upfront, irrespective of the number finally claimed. Therefore, to limit the cash flow impact on suppliers, we intend to provide funds in advance to suppliers for the number of vouchers evidenced on the qualifying date, and subsequently reconcile this figure with those redeemed by the voucher expiration date of 31 March 2023.

Figure 1. Process map for payments to eligible customers



Questions:

2. **a. Do you agree with the proposed qualifying date, provisionally set at 23:59 GMT on 3 October 2022? Yes/No. b. Given this qualifying date, do you agree with the associated processes linked to it, as set out in the section titled 'Delivering the bill reduction to eligible customers'? Yes/No. Please provide any reasoning to support your response.**

3. **Do you agree with proposals that suppliers should provide all eligible customers that they serve on the qualifying date with the reduction as quickly as possible and within six weeks, and by no later than 31 March 2023 for hard-to-reach customers? Yes/No. Please provide any reasoning to support your response.**

4. **Suppliers will need to notify their customers in writing once the Scheme reduction has been applied to their account. How could this process be made as effective as possible, while limiting administrative burdens? Please provide any reasoning to support your response.**

5. **Under what circumstances do you think it would not be reasonably practicable for suppliers to provide the payment? Please provide any reasoning to support your response.**

6. **Do you agree with the proposals to spread the benefit for Direct Debit customers over six months? Yes/No. Please provide any reasoning to support your response.**
7. **Do you agree with the proposal for pay-on-receipt customers to feel the benefit of this Scheme in their next bill after the qualifying date? Yes/No. Please provide any reasoning to support your response.**
8. **Do you agree with the proposal for payment card customers to receive the full amount on their next quarterly bill after the qualifying date? Yes/No. Please provide any reasoning to support your response.**
9. **Are you aware of any reasons why payment card customers might need to receive the reduction across more than one bill? Yes/No. Please provide any reasoning to support your response.**
10. **Do you agree with the proposal for customers with smart prepayment meters to have the full amount credited to their meters as soon as possible after the qualifying date, where feasible? Yes/No. Please provide any reasoning to support your response.**
11. **Do you agree with the proposal for the £200 to be issued via vouchers and/or SAMs to traditional prepayment meter customers? Yes/No. Please provide any reasoning to support your response.**
12. **For traditional prepayment meter customers, do you agree with the proposal that vouchers and/or SAMs should be valid until 31 March 2023, in line with the date for reconciling grants provided vs grants delivered? Yes/No. Please provide any reasoning to support your response.**
13. **Do you agree with the proposal that vouchers and/or SAMs should be provided in five vouchers of £40 each? Yes/No. Please provide any reasoning to support your response.**
14. **Do you agree that traditional prepayment customers should be able to use vouchers for both electricity and gas (dual fuel vouchers)? Yes/No. Please provide any reasoning to support your response.**
15. **Do you agree with the proposal for how to cost-effectively encourage traditional prepayment customers to redeem the Scheme vouchers/SAMs? Yes/No. Please provide any reasoning to support your response.**
16. **a. Are you aware of any consumer groups who will not be reached by applying the reduction to electricity accounts? Yes/No. b. Please provide details of which group(s), why they will not be reached and how you would suggest we reach them? Please provide any reasoning to support your response.**

Considerations for the grant design

The Scheme is intended to help households with their energy bills. For customers with dual fuel accounts, suppliers will be given discretion as to whether they give customers the option of applying the reduction to their electricity or gas bill. For Direct Debit customers, we expect this to happen automatically, but for other payment types, suppliers may be able to follow similar methods used for the WHD.

However, we are aware that, even after being given the opportunity to spread the reduction across electricity and gas, some customers may still have a large credit balance in proportion to their bills, particularly for customers with very low usage. There is no precedent in other comparable schemes, such as the WHD and GER, for including permissions or prohibitions in relation to customers cashing out credit. Suppliers are also obliged through Supply Licence Conditions (SLCs) to pay customers their credit balance if they choose to switch suppliers. We do not intend for this scheme to provide perverse incentives for customers or to interfere with customer switching. We are therefore proposing that there will be no formal requirement to prevent customers from requesting to 'cash out' a positive credit balance.

We recognise that there may be customers in energy debt and we are exploring how the reduction will interact with customer debt. In line with previous schemes, such as the WHD, we are proposing that the reduction can be used to reduce some outstanding debt balances. For customers with an agreed repayment plan, where a set amount or percentage goes towards repaying a customer's debt, we propose that the reduction may also be used towards debt repayment in the previously agreed proportions. If an account is in arrears, we propose that the credit can reduce these arrears. This may mean that some customers will not see a reduction in their electricity bills as the full value of the reduction will go towards their debt.

Bad debt[20] is defined as the unrecoverable debt that suppliers intend to write off.

The policy intention of this scheme is that the grant should not be used to pay off bad debt that would otherwise have been written-off by the supplier and should go towards ongoing energy usage where possible. However, we understand from our stakeholder engagement that this may not be feasible for suppliers to implement. We are therefore proposing that bad debt should be dealt with separately between the supplier, customer, and other relevant parties.

Questions

17. **Do you agree with the proposed approach to providing the grant to customers with different forms of energy debt? Yes/No. Please provide any reasoning to support your response.**

18. **Do you agree with this definition of bad debt? Yes/No. Please provide details of when customer debt would be classified as bad debt and how this is subsequently treated by their energy supplier.**

19. **Please provide evidence of how many domestic electricity customers currently have bad debt and how this might change over the next year. Please provide quantification and methodology where possible.**

Process for payment to supplier

A payment body will be responsible for transferring Exchequer funds to suppliers, enabling suppliers to fulfil their obligations under the scheme. In deciding on who the Payment Body will

[20] Ofgem (2021) Decision on the potential impact of COVID-19 on the default tariff cap, Page 48. Available at: https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/decision_on_the_potential_impact_of_covid-19_on_the_default_tariff_cap.pdf

be, government will consider the ability to best protect public money, ensure reasonable and proportionate protections from the risk of fraud, and minimise administrative costs.

To enable suppliers to provide the payment to their customers as soon as possible from the qualifying date, a snapshot of each supplier's portfolio will be provided to government with an estimate of the number of eligible customers in their portfolio. We are proposing to use existing reporting systems such as the Electricity Central Online Enquiry Service (ECOES) to attain this and will take the snapshot as close to the qualifying date as is feasible. This snapshot will be used to calculate the funds to be made available to each supplier for them to provide the grant to their customers.

On the qualifying date, all suppliers will then be required to record and provide to the government an exact breakdown of customer numbers by payment type. Suppliers should make arrangements to ensure that Scheme funds are segregated from other company funds. Sufficient funds will be made available to suppliers on the qualifying date to allow suppliers to provide the Scheme to their customers.

Suppliers will then be required to provide the grant to their eligible customers as quickly as is reasonably practicable, with a proposed time limit of six weeks to deliver the Scheme to customers, as set out in Section 6.

There will be a reconciliation and reporting process after the six-week period (set out in more detail in Section 6) whereby suppliers will be required to report on the funds they have received against grants delivered by payment type and advise government of any variances. Suppliers must either return any funds not delivered to HMG, or additional funds will be made available to cover any payments legitimately made in excess of the initial allocation provided by HMG. For very difficult to reach customers, suppliers will be given until 31 March 2023 to make further attempts to deliver the grant to eligible customers.

The proposed approach to supplier administration costs is set out in Section 7. We expect suppliers to deliver the full value of the grant to their eligible customers.

Questions

20. **Do you agree with the way in which we are proposing to fund suppliers? Yes/No. Please provide any reasoning to support your response.**

21. **Do you agree with the proposal that suppliers should be required to report on delivery of the funds after the six-week period and the associated reconciliation process? Yes/No. Please provide any reasoning to support your response.**

5. Recovering the grant costs through a new levy

In his speech on 3 February, the Chancellor was clear that the Energy Bills Support Scheme grant would be recovered at a future point in a manageable way. This is with the aim of maintaining fiscal responsibility while supporting households across the country during an unprecedented rise in energy prices.

To achieve this, the government intends to introduce a new levy ('the levy') to recover the full nominal amount paid out by government from all domestic electricity customers over a five-year period, from financial year 2023/24 to 2027/28.

The following paragraphs set out the proposed design of the levy, accompanied by supporting analysis and an explanation of alternative designs that have been considered.

Objectives and design features

The overarching aim of the new levy is for the government to recover the nominal cost of the Scheme from domestic electricity customers at a rate averaging no more than £40 a year per eligible meter point covering the period of financial years (FY) 2023/24 to 2027/28. As we propose that the levy will be invoiced quarterly and retrospectively (see below), the final invoice will be issued to DNOs in Q1 of financial year 2028/29.

The government will design the levy to:

- Be clear to consumers and energy companies on what is being recovered and when.
- Make use of existing structures and arrangements where possible.
- Keep administration costs to a minimum.
- Effectively manage the risk of fraud.

These design objectives have guided the development of the proposed levy, consultation respondents are encouraged to refer to these in their responses.

Scope

The government proposes to apply the levy on a meter point basis that mirrors the approach used for the reduction. We propose that the full nominal amount paid by government will be recovered from each served domestic electricity meter point.

We expect the significant majority of households will benefit from the reduction to electricity bills and will pay back the amount they received over the following five years. However, as noted in section 3, there may be situations where some households pay back a different amount to what they received due to changes to their individual circumstances. This could mean that some households will be required to pay all or part of the levy without having received the reduction, particularly where they take on responsibility for paying an electricity bill during the period of the Scheme. Conversely, some households may have received the reduction but not be required to pay the full amount of the levy. As we note above, the Energy Bills Support Scheme is designed to be a universal measure that is simple to deliver and keeps costs to a minimum. Designing a system that accounts for every household's individual circumstances would be very complex, create additional costs and would delay introduction of the scheme and its associated consumer benefits. We consider that recovering the levy from each served domestic meter point is likely to be the least administratively onerous and most efficient approach for the levy design.

In our engagements with stakeholders throughout the levy design process, some expressed concerns that a meter point-based levy could have consequential impacts on households in or near to fuel poverty, such as increasing the risks of self-disconnection due to increased bills.

Solutions put forward have included:

- Applying the levy on a volumetric basis such that the amount paid back is linked to the amount of energy consumed rather than a flat rate per meter.

- Varying the timescale of the levy for certain consumer groups (for example prepayment meter customers), enabling them to pay back the amount over a longer period.
- Delaying the start date for the levy.
- Excluding certain more vulnerable customer groups from the levy altogether.

We are grateful to stakeholders for raising these points with us. The government is clear that the Scheme needs to be as administratively simple as possible to ensure it can be delivered on time and to keep costs as low as possible. We are also clear that the intention is for the bill reduction and levy to apply to all domestic electricity customers.

We consider that introducing a range of exemptions to the levy could introduce significant complexity, resulting in higher administrative costs for the Scheme. We are also mindful that applying the levy on a volumetric rather than per meter basis may disadvantage some more vulnerable consumers with above average electricity consumption. We therefore consider that applying the levy on a per meter basis represents the most practical and lowest cost option, that is also most closely aligned with the policy intent.

As outlined in section 3 'Scheme Eligibility', the Scheme is part of a wider package of interventions which is progressive overall, and government is taking a range of other actions to support households with the cost of living, for example the expansion of the WHD. When responding to the consultation, respondents are encouraged to consider the levy's design in the context of the government's wider support to help households with rising costs of living.

Question

22. **Do you agree that applying the levy on a per meter basis would be the simplest approach to deliver and would impose the least administrative costs on the sector? Yes/No. Please provide any reasoning to support your response.**

Routes for recouping the levy

The Electricity Act 1989 (section 7(3)) allows the Secretary of State to issue a direction to require 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 government intends to issue a direction, coupled with relevant licence modifications delivered by Ofgem, to recover the full nominal amount paid out. The government has considered whether this levy obligation should rest with energy suppliers or DNOs.

We have been keen to minimise the impact of the levy on industry by using the precedents and mechanisms of the existing regulatory system as much possible, and to ensure the efficient recovery of public money. We have determined the following high-level approaches, which we have discussed with stakeholders.

An Energy Supplier Approach

This approach would place an obligation on all suppliers providing electricity to domestic customers from financial year 2023/24 to pay a levy set by the government to cover the money provided by the Scheme. This would see around 27 suppliers, as well as new entrants to the market, return the funding distributed under the Scheme back to government, via a payment body, over a five-year period.

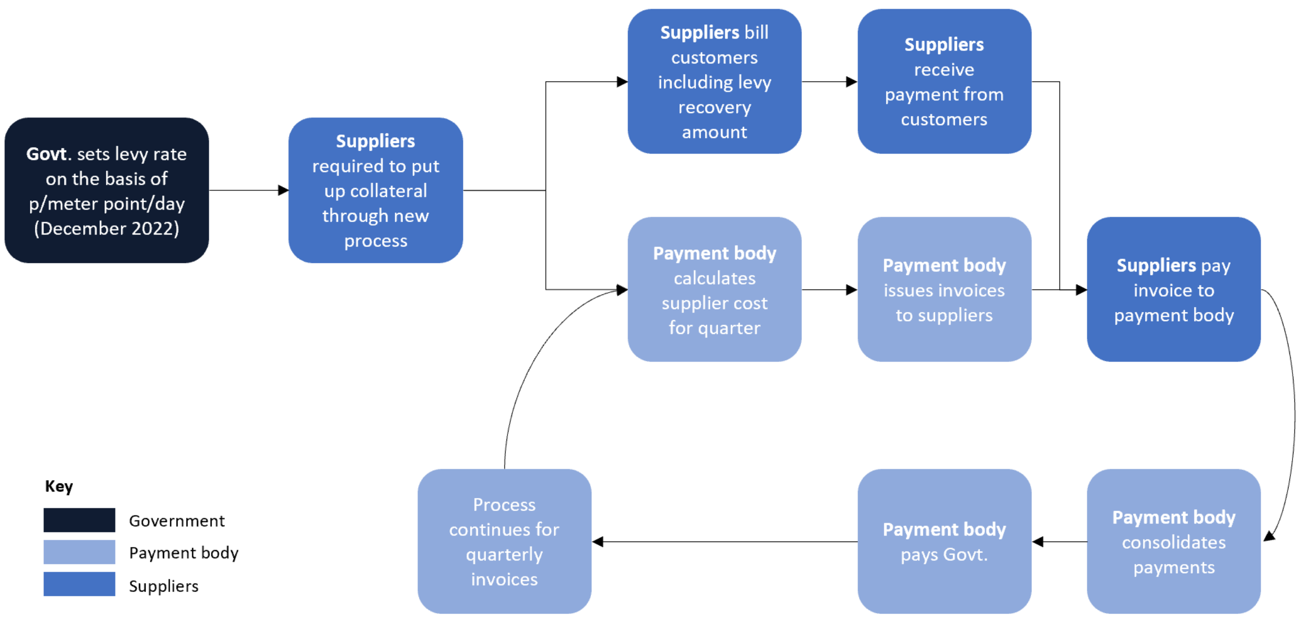
The levy rate in pence per meter per day would be set by government to cover the period 2023/24 to 2027/28 and will equate to no more than £40 per eligible meter point a year. It is expected the levy rate will cover the duration of the Scheme and be set by 31 December 2022. This approach will provide certainty to suppliers on the amounts that need to be collected, as well as give three months' notice for suppliers to begin collection from 1 April 2023.

The government would require suppliers to post a cash credit and/or Letter of Credit ahead of receiving an invoice from a payment body managing the collection of the levy and transfer of the levy to the government. This credit cover would be drawn down from if a supplier is unable to pay the levy. In applying this requirement, the government would give regard to the credit rating of suppliers, in line with industry practice.

In instances where a supplier exits the market, a mutualisation mechanism would be needed to spread the outstanding amount owed across existing suppliers. This mechanism would stand separately to the Supplier of Last Resort mechanism and cover all suppliers with domestic electricity customers (including the supplier taking on the exiting supplier's customers). This approach draws from the mechanism used for the Green Gas Levy.

A high-level map of the process for recovering the levy from suppliers is set out below.

Figure 2: Process Map for recovering the levy through suppliers



A Network Charges Approach

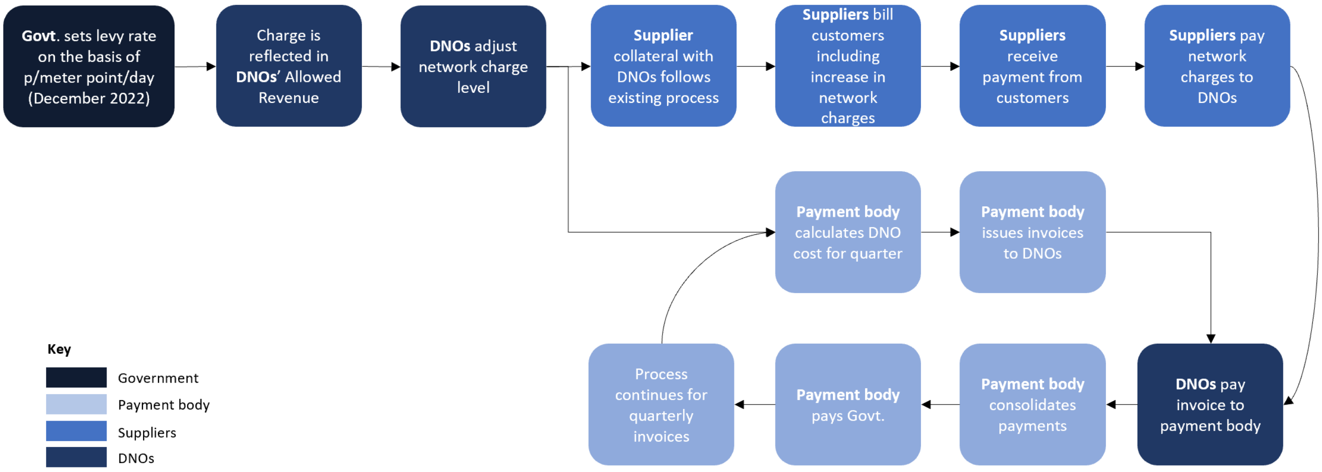
This approach would place an obligation on DNOs to pay a levy set by the government to recover the money provided by the Scheme. This would be delivered by DNOs who would increase the Distribution Use of System (DUoS) charges – which they pass through to suppliers for building and maintaining local electricity networks – to include the value of levy payments.

For customers connected to an Independent Distribution Network Operator (IDNO) network, we expect that the IDNO will reflect the levy payments through an increase to their network charges on suppliers and pass this payment through to relevant DNOs. Again, the levy rate in pence per meter per day would be set by government for the levy period and be published by 31 December 2022. This increase would be added to network charges agreed between DNOs and the regulator Ofgem as part of the network price controls. Suppliers would be expected to pass this cost to their customers. The DNOs would then return funds to government via a Payment Body.

While this approach has the additional step of requiring DNOs to adjust network charges, it uses more of the existing regulatory infrastructure and processes and is likely to be simpler to deliver than the energy supplier approach.

A high-level map of the process for recovering the levy from DNOs is set out below.

Figure 3: Process Map for recovering the levy through DNOs



Both approaches have several benefits and challenges. The government is of the view that both could be enacted through a Direction under section 7(3) of the Electricity Act 1989.

Each approach would require specific mechanisms to be amended or created:

Table 2

An Energy Supplier Approach	A Network Charges Approach
• The Energy Supplier approach would need a bespoke cost mutualisation / recovery mechanism in the event of supplier failure (unlike the network charges approach where the existing credit coverage and supplier failure mechanisms would be applied).	• The DNO approach may require a modification to the Distribution Connection and Use of System Agreement to enable the additional charges to be levied. This would require an existing party of that agreement to initiate the required change and it being considered and implemented in a timely fashion that meets the government's intention to collect the levy from FY 2023/24.

	• A relaxation of the requirement for DNOs to provide suppliers with 15 months' notice for changes to fixed charges would also be needed[21].

In line with our high-level principles for the design of this Scheme, the levy should be simple to implement, work within existing structures to minimise the burden on industry, and reduce any additional costs being borne by consumers. Following engagement with suppliers and DNOs (as well as a range of other stakeholders) we consider that obliging DNOs to recoup the levy through network charges represents the least burdensome approach for achieving this, as limited new processes will have to be created and managed. In the last few years, many energy suppliers have entered and exited the market, suggesting greater instability in the number of future suppliers. Obligating DNOs also provides a stable base for recovering taxpayer funding and better spreads risk across the electricity system.

The government proposes the levy should apply to all DNOs, without exemption, and is expected to be passed through to all suppliers' domestic electricity customers. The government intends to issue guidance on its expectations for the proposed levy in step with its expected implementation.

The relevant licence changes would need to be implemented (subject to the outcome of Ofgem's consultation), and a clear timeline including industry code changes would need to be mapped to ensure the levy is in place for 1 April 2023. We also understand that there may be a presentational risk in terms of the transparency of the charge for customers, as this is likely to appear as a significant increase to the network charge on customer bills. The government would need to communicate the origins of this additional cost clearly to customers and industry.

Question

23. **Do you agree with our proposal for applying the levy to all DNOs? Yes/No. Please provide any reasoning to support your response.**

Calculating and collecting the levy

To provide certainty to suppliers and households, the government will set the rate at which the levy will be collected over the life of the Scheme. The levy will be a flat rate applied consistently across all domestic electricity meter points. This will be set once and be accompanied by a final 'true up' invoice in the final year of the scheme.

Mirroring the £200 reduction, the levy rate will be based on the number of active domestic electricity meter points. The levy rate will be calculated as £40 (the amount to be collected from each meter point per year) divided by the number of days in the year to give a pence per meter per day rate. This rate can be used to calculate the amount the DNO or supplier is invoiced by the Payment Body by multiplying by the sum of the meter points served each day. These costs can then be passed through to customers as an increase to their electricity bill such that each meter point will be charged no more than £40 per year to recover the levy.

[21] We understand that IDNOs would also require a relaxation of their 14-month notice period.

Under the energy supplier approach, suppliers would be expected to recover the levy amount through customer bills in advance of being invoiced by the Payment Body.

Under the preferred DNO approach, DNOs would recover the levy by increasing the Distribution Use of System charges by the pence per domestic meter per day amount. This would be added to the charges agreed as part of the network price control. These will need to be adjusted to accommodate the Scheme. Energy suppliers would be expected to pass these costs through to their customers.

The government recognises that in both approaches suppliers will not always be able to fully recover the levy amount from their customers within the collection period. In these instances, it is our expectation that suppliers will follow existing practices of managing customer non-payment and changing levels of commercial risk. In instances where this is restricted, such as by the Energy Price Cap for Standard Variable Tariffs, the government expects the energy industry to work with the independent regulator Ofgem to identify solutions within the existing parameters of Great Britain's energy regulations.

This allocation of costs per meter per day ensures the money recovered from suppliers is as accurate as possible and takes into account customers switching to a new supplier over the payment period. Using this approach, suppliers will only be liable to pay DNOs for the time their customers are with them.

The Payment Body would then invoice suppliers or DNOs retrospectively to recover the levy. There are several options for how frequently the levy should be collected. These include relying on a single payment each year or having a series of payments throughout the year. A more regular payment schedule carries a lower risk for the government, the Payment Body, and suppliers or DNOs of non-compliance. However, this needs to be considered against the increased administrative burden on all parties of more frequent levy collections.

We propose that the Payment Body will issue invoices on a quarterly basis, as this represents a reasonable balance between ensuring the levy process is not unduly burdensome for suppliers or DNOs and also does not require them to hold on to recovered funds for extended periods of time. This would amount to around 20 payments to the government covering the period 2023/24 to 2027/28.

The quarterly levy invoice would be derived from the number of domestic meter points served on each day of the quarter and be calculated by multiplying the number of meters served per day by the levy rate set by the government. DNOs will be responsible for providing the Payment Body with accurate daily meter point data for the previous quarter to facilitate this calculation.

For the final year of the Scheme, a mechanism may be needed to apportion the remaining amount of the levy to be recovered across relevant meter points. Such an approach would likely need to forecast the number of new meter points to be connected over 2027/28. We will engage further with stakeholders on the most appropriate and proportionate mechanism for doing this.

Questions

24. **Do you agree that the proposal outlined would keep the levy administration costs to a minimum for DNOs, whilst still providing the necessary assurance for the levy? Yes/No. Please provide any reasoning to support your response.**

25. **Do you agree with our proposal that the levy will be charged on a per meter per day basis, according to electricity meter points served in each DNO's network? Yes/No. Please provide any reasoning to support your response.**

26. **Do you agree that increasing standing charges is, in comparison to other routes, a preferable way to recoup the levy from domestic customers? Yes/No. Please provide any reasoning to support your response.**

27. **Do you agree that the steps outlined above to provide notice to DNOs ahead of the first levy collection, and the notice period for subsequent years, are sufficient? Yes/No. Please provide any reasoning to support your response.**

28. **Do you agree with our proposed methodology for calculating the pence per meter per day levy rate? Yes/No. Please provide any reasoning to support your response.**

29. **What are your views on how any instances of under or over-collection should be managed? Please provide any reasoning to support your response.**

30. **Do you agree with our rationale for proposing that levy payments should be made to the Payment Body quarterly? Yes/No. Please provide any reasoning to support your response.**

31. **Do you agree with our proposal that DNOs should provide quarterly meter point data to the Payment Body to inform quarterly levy payment calculations? Yes/No. Please provide information about the availability of meter point data and the formats that it could be provided in.**

Credit requirements

The government recognises that high energy prices have posed a challenge to Great Britain's electricity markets, causing companies with poor financial positions to exit the market. To date, Great Britain has not experienced a DNO market exit and does not intend to require DNOs to post credit collateral as a feature of the levy.

To avoid creating new credit mechanisms, at cost to the industry and consumers, the government's preferred position is to make use of the existing credit collateral mechanisms in place between DNOs and suppliers as set out in the Distribution Connection and Use of System Agreement (DCUSA). It is our understanding that this approach will see the collateral required for the levy be added to the existing collateral requirements posted by suppliers which vary depending on a variety of factors, including a supplier's credit rating.

The government has considered the alternative options of creating a bespoke credit mechanism, similar to the model used for the Green Gas Levy and removing a credit requirement. However, we understand both approaches could come at a greater cost to the energy industry and consumers through either a larger administrative charge to create and manage a bespoke scheme or through exposing DNOs and suppliers to an increased level of financial risk following a supplier's exit from the market.

We propose that more detail will be provided in guidance should the levy be introduced as described in this consultation.

Question

32. Do you agree with the proposal of using the existing collateral mechanism set out in schedule 1 of the Distribution Connection and Use of System Agreement? Yes/No. Please provide any reasoning to support your response.

Reporting requirements – Payment Body

To maintain consumer trust in the retail market and provide the required accountability for public money, it is important a transparency mechanism is in place to report outstanding levy payments and other key information regarding non-compliance. Reporting is also important to deter non-compliance through the reputational impact of being reported for non-payment. We propose the Payment Body is equipped to report non-compliance to the regulator Ofgem, who may take enforcement action if necessary. Reporting is intended to be on an ad hoc basis, and it is intended that this information is made available to the public.

Question

33. Do you agree with the proposal that the Payment Body may report and publish information on non-compliance and enforcement action? Yes/No. Please provide any reasoning to support your response.

Interest on late payment

The government is keen to ensure that the levy payments to the Payment Body are timely and in full. We are considering what mechanisms would be appropriate to introduce to manage risks of delayed payments. One option for this may be to mirror the design of the Green Gas Levy which included a penalty in the form of interest on outstanding payment amounts. Charging interest would not be intended to enable the government to over-recover the amount provided in the grant, but to ensure there is no advantage for DNOs making late or incomplete payments. Any interest could be used to reduce the overall size of the amount being recouped through the levy, reducing the total amount being sourced from DNOs and their customers.

As per the Green Gas Levy approach, interest would apply from the payment due date and this interest will continue to accrue until the outstanding payment has been made. The annualised interest rate is in the range of 5% to 8% above the Bank of England Base Rate, in line with other government energy levy schemes and network code charges.

Question

34. a. Do you agree that there should a mechanism to address late payments by DNOs to the Payment Body? Yes/No. b. If not, what alternative mechanism would you propose? Please provide any reasoning to support your response.

Payment Body

The Payment Body will be responsible for invoicing DNOs, collecting the levy, auditing payments back to HMG and taking subsequent action where necessary. In deciding on who the Payment Body will be, government will consider the ability to best protect public money, ensure reasonable and proportionate protections from the risk of fraud, and minimise administrative costs.

6. Compliance, enforcement, and sanctions

It is important that the money reaches those who are eligible, that the risk of fraud or error in the Scheme is minimised in order to protect public money and that we are able to carry out robust monitoring and evaluation of the Scheme. It is our intention that suppliers will provide information before the grant is passed to them to distribute, and subject to a further consultation by Ofgem on the necessary licence condition changes.

We propose that DNOs will also provide information on a regular basis when the levy starts to be collected from customers in 2023. This reporting will ensure that compliance can be monitored, errors reduced, and proportionate enforcement action can be instigated for non-compliance, where necessary.

Ofgem may issue a licence condition modification requiring licence holders to comply with a Secretary of State direction[22]. The direction will require suppliers to pay the full value of the Scheme (£200) to each of their eligible domestic electricity customers and, for DNOs to collect and return the money to government at a rate of no more than £40 a year over five years per domestic electricity meter point. The £200 reduction and levy will be managed by an intermediary Payment Body.

Transfer of the grant to suppliers

On the qualifying date in October, it is proposed that suppliers will be required to report on the number of meter points broken down by specific payment types:

- Number of those on prepayment meters
- Number of those who are considered vulnerable
- Number of those who pay by Direct Debit
- Number of those who are credit customers

At the end of the agreed payment period, dependent on the final time scale in the Scheme design after consultation views are collected, suppliers will need to provide information on:

- The number of their eligible meter points that received the reduction.
- The number of eligible meter points (by payment type) that did not receive the reduction.
- The number of eligible meter points (by payment type) to whom the supplier has not been able to provide the reduction.
- The reasons for non-delivery in all cases.
- What steps they have taken, or intend to take, to reach their eligible meter points that have not yet received the reduction.
- The monetary total of the undistributed reduction.
- The spend on new energy usage vs settling customer debt.

[22] Refer to Key Definitions.

We expect the licence conditions will require suppliers to provide two forms of information:

- Required reporting – these reports will be mandatory, and the required detail will be set out in the Secretary of State direction. Primarily, they will serve to provide assurance to BEIS that suppliers have fulfilled their obligations under the direction in delivering the Scheme to eligible meter points. Where possible, we will match the reporting in both content and format, to that required by Ofgem in order to minimise additional administrative burdens.

- Requested reporting – alongside the mandatory reporting above, BEIS will be seeking regular management information from suppliers on a more informal basis to assist in Scheme delivery. This will allow us to respond to any problems within the Scheme in a quick and effective way.

Suppliers will be required to submit the following reports to BEIS:

- A report, focussing on the total number of eligible meter points by payment type a supplier had on the qualifying date. This will be used by BEIS to set the total of the grant to be paid to the supplier.

- A report to notify BEIS of the number of outstanding meter points a supplier did not provide the grant to, and the steps proposed for delivering grants before or on the cut-off date of the agreed payment period. The contents of this report will allow BEIS to provide further clarifications on eligible exceptions and will be used to inform decisions around whether additional actions are required.

Guidance will be produced for suppliers on any reporting requirements that are introduced to assist them in complying.

Question

35. **For the transfer of grants to suppliers, do you agree that the proposed reporting requirements strike the right balance between having the ability to effectively monitor delivery of the Scheme whilst imposing the least reporting burden on suppliers? Yes/No. Please provide any reasoning to support your response.**

36. **Do you agree that these reporting requirements should be set out in the Ministerial direction? Yes/No. Please provide any reasoning to support your response.**

Levy recovery

It is proposed that, for every quarter the responsibility will be on DNOs to comply with the obligations to collect and pay the levy. An important obligation is to pay their levy payments by a specific due date. It is not proposed that DNOs will be obliged to lodge credit cover as part of their requirement to pay their levy payments, though DNOs will need to provide accurate information, such as data for determining levy contributions.

DNO non-compliance could take several forms including where they fail in their obligations to make their levy payments, or make submissions of information that are late, inaccurate or need to be revised.

Ofgem will have the flexibility to take proportionate action against the relevant DNO based on the circumstances of the non-compliance on a case-by-case basis. Ofgem and BEIS will produce a clear and transparent compliance and enforcement framework, consulting with stakeholders in its development.

We intend for Ofgem to have the relevant powers in place, including:

- Requesting relevant information required by Ofgem to carry out its functions.
- Carrying out mutualisation if sufficient levy payments are not made by the required due date.
- Reporting relevant information, which may be made publicly available where DNOs are non-compliant, which includes the non-provision of sufficient credit cover, if required, along with details of any enforcement action taken.

The Payment Body may have the ability to apply interest to the late return of levy payments, subject to the feedback on the proposal in the “Interest on Late Payment” section of this consultation.

Guidance will be produced for DNOs on any reporting requirements that are introduced to assist them in complying.

Question:

37. **Do you agree that the proposed reporting requirements for the levy strike the right balance between having the ability to effectively ensure money is recovered and imposing the least reporting burden on DNOs? Yes/No. Please provide any reasoning to support your response.**

Sanctions

The Scheme will be delivered through a Secretary of State direction to provide legally binding instructions to suppliers and DNOs to comply with the obligations within it. The licence conditions modifications independently consulted on by Ofgem are intended to support and facilitate enforcement of the obligations.

It is proposed that enforcement of any breaches of the supply licence conditions, or DNO licence conditions, will be enforced according to Ofgem’s Enforcement Policy which can be found here: https://www.ofgem.gov.uk/publications/enforcement-guidelines

Ofgem are already able to impose financial penalties of up to 10% of a licensee’s turnover, make consumer redress orders and issue provisional/final orders, where appropriate, for breaches of relevant conditions and requirements under the Gas Act 1986 and the Electricity Act 1989.

The government does not intend to ask Ofgem to create any new enforcement or sanctions regime for the Scheme, as we believe the current approach is already proportionate and effective.

Question:

38. **Do you agree that Ofgem's current powers, and approach to enforcement of licence conditions, should be mirrored for this Scheme? Yes/No. Please provide any reasoning to support your response.**

7. Dealing with the costs of implementing the scheme

We are aware that there will be administrative costs incurred by government and industry to deliver the scheme and are working to understand the way in which the systems and process of suppliers and DNOs operate. To keep the scheme as simple as possible, we have aimed to design the Scheme in a way in which fits with current processes and is aligned with industry's "business as usual" processes. High implementation costs may undermine the value of the payment if suppliers choose to recoup costs through increasing prices.

To understand the costs of delivering the Scheme we are continuing to engage with suppliers, network organisations and other stakeholders through focus groups and bilateral engagements. As part of these discussions, we are also working to better understand the costs and delivery constraints that industry is likely to face in delivering the scheme.

We are keen to understand the processes and associated costs which would be required to deliver all elements of the Scheme. Based on the Scheme design set out in this consultation and initial conversations with industry stakeholders, we have set out in table below the areas where additional industry activity would need to be undertaken to deliver the Scheme.

Table 3

Process	Potential additional costs
£200 reduction	• Undertaking initial fund allocation process between government and energy suppliers and processing the receipt of funds • Suppliers delivering payments to customers by: • Bulk uploading of credits onto customers' accounts. • Enabling billing systems to notify customers of the credit • Manual processing in dealing with exceptions from electronic processes. • Special actions required, for example printing and postage of vouchers • Undertaking assurance on payments out to customers and reporting this to the Payment Body.
Levy	• Adjusting future consumer bills to incorporate the levy, enabling billing systems to apply the levy. • Collecting and processing payments from customers

	• Accounting and due diligence on payments received from standard credit and direct debit accounts • Accounting and due diligence on money collected and making repayments to the designated body/organisation
Other	• Initial familiarisation with the Scheme • Introduction of procedures and associated training • Additional customer contact (e.g., telephony and associated staffing costs) • External specialist support

Grant

We expect that undertaking the initial fund allocation process between the energy supplier and the Payment Body will be associated with some additional administrative costs to ascertain the required amount of funding. However, subject to the final scheme design, this could only be required once per energy supplier at the start of the Scheme and will cover all domestic electricity customers with the supplier.

Given domestic electricity customers who have a direct relationship with a licensed electricity supplier will be automatically eligible for this scheme, energy suppliers are not expected to incur any additional administrative costs ascertaining the eligibility. The delivery of the reduction to customers is expected to be a relatively simple, desk-based process for the majority of customers. However, there are expected to be additional costs associated with delivering the reduction to some customer groups such as traditional prepayment meters as discussed in Section 4.

We consider the 2014 Government Electricity Rebate (GER) and payments to the core group (automatically eligible) within the WHD to be a close proxy to the anticipated costs incurred by industry. The GER cost to industry was estimated at £18 – £28 million and the WHD at £7.2 million to deliver support to around 2 million consumers[23].

Levy

The recovery of funds over the subsequent five years is expected to be passed onto future domestic electricity tariffs to account for these additional costs. Given regular billing and the recovery of costs is standard practise in the GB energy market, the additional costs associated with this element are not expected to be significant.

There are expected to be additional responsibilities for collecting the levy from customers and processing these payments to the designated Payment Body on a quarterly basis. While collecting costs from energy bills is standard practice, it is expected to require the introduction of standardised reporting and the appropriate level of due diligence will need to be carried out.

[23] Government Electricity Rebate IA 2014 and WHD final IA 2018 . Note: Costs have been adjusted to current prices

We consider the levy elements of policies such as the Green Gas Levy[24], would be a close proxy to the type of processes which would need to be set up in order to deliver this element of the Scheme. The estimated Green Gas Levy cost to the gas industry for familiarisation, reporting and making payments on a metered point bases was £0.6 – 2.3 million in the first year and £0.2 – 0.4 million in follow-on years[25].

Other

There are several additional activities and associated costs which may be required to deliver the Scheme. These include, for example, the time required for organisations to familiarise themselves with the Scheme and its requirements, set-up and introduce the required processes, undertake staff training, deal with additional customer contacts, or bring in external expertise to deliver specific tasks.

The administrative costs of this are expected to vary depending on the size and expertise of the organisations and their approach to delivering the Scheme. Therefore, we would be keen to gather views of where these additional costs may occur and a quantified scale of these costs.

We have also been considering ways in which the costs to industry could be minimised through scheme design and more practical arrangements. For example, on delivering the grant to prepayment customers, it has been suggested that suppliers could enter joint agreements with prepayment meter service providers to drive down costs of procuring vouchers. We would welcome views on approaches which could be taken to drive down the administrative costs of delivering the scheme, to the benefit of government, industry and ultimately consumers.

Considering how supplier costs should be treated

We are proposing that suppliers will be required to pass on the full value of the October reduction to their customers.

When considering the administrative cost incurred by industry delivering the Scheme, we have looked at existing industry practice and how best to minimise the cost of the scheme. 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 were reasonable in the circumstances.

We recognise that suppliers could face different costs in delivering the Scheme, we do not propose to undertake an alternative recovery process. The responses to this consultation will help inform BEIS's view of the estimated cost burden the Scheme is expected to place on the industry. However, experience of other schemes, such as the GER, WHD and the Green Gas Levy, would suggest that administrative costs can be low relative to the size of the scheme.

We expect reasonable costs will be incorporated into any future default tariff cap levels set by Ofgem, to ensure these costs do not impact the competitiveness of the energy market. We will

[24] https://www.ofgem.gov.uk/environmental-and-social-schemes/green-gas-support-scheme-and-green-gas-levy
[25] Green Gas Support Scheme/Green Gas Levy Final IA 2021. Note: Costs have been adjusted to current prices

continue to work with Ofgem to ascertain the most appropriate way to incorporate these costs. However, we would welcome any views or considerations we should account for in this process.

Proposal

In view of the above reasoning, we propose that suppliers should be required by the direction to pass on the full value of the scheme to their customers.

Dealing with VAT

Value Added Tax ("VAT") is payable on the cost of electricity. The Scheme does not reduce the price of electricity but is 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. The VAT treatment of the initial payment will mean HMG does not gain any additional VAT revenue, and customers receive the full £200 benefit.

The subsequent recovery of the grant however will be included in future energy bills and will be treated in the same way as all other costs placed on electricity bills. Therefore, it is expected that VAT will be charged on the recovery payment. To account for this, the levy amount will be adjusted down to allow for the VAT on top. This will help ensure that the total levy rate is not more than £40 a year per eligible meter point.

Questions:

39. **a. Do you agree with the additional costs set out in table 3? Yes/No. b. Are there any other costs of administrating the Scheme we should consider? Yes/No. Please provide any reasoning to support your response.**

40. **a. Which element of the additional costs would you consider to be the largest or most burdensome? b. How could these costs be reduced? Please provide any reasoning to support your response.**

41. **a. Do you agree that the administrative processes required to implement the Scheme are similar to elements of other policies such as the GER, WHD and the Green Gas Levy? Yes/No. b. If not, why do you think the Scheme will differ? Please provide any reasoning to support your response.**

42. **Do you expect the administrative burden and cost to consumers to differ between a scenario where the levy is collected via energy suppliers vs by network companies? Yes/No. Please provide any reasoning to support your response.**

43. **a. Can you provide a quantification of all, or any, of the elements outlined in table 3 and other costs you anticipate? Yes/No. Please provide any reasoning to support your response. b. Can you provide any further reasoning about the costs involved in delivering payments to customers? Yes/No. Please provide any reasoning to support your response.**

44. **Do you agree with the way in which we are planning to treat supplier costs? Yes/No. Please provide any reasoning to support your response.**

45. **Do you agree with our assessment on how energy suppliers and network operators would expect to recover any additional administrative costs due to the Scheme? Yes/No. Please provide any reasoning to support your response.**

46. **Do you have any other concerns regarding the costs of implementing the Scheme that have not been addressed in this consultation? Yes/No. Please provide any reasoning to support your response.**

Summary of the consultation questions

This section summarises the consultation questions asked earlier, for easy reference.

Eligibility

1. **a. Do you agree with our approach to how we have considered customer eligibility to the scheme? Yes/No. b. Are there any other household living arrangements we should consider? Yes/No. Please provide any reasoning to support your response.**

Grant Design

2. **a. Do you agree with the proposed qualifying date, provisionally set at 23:59 GMT on 3 October 2022? Yes/No. b. Given this qualifying date, do you agree with the associated processes linked to it, as set out in the section titled 'Delivering the bill reduction to eligible customers'? Yes/No. Please provide any reasoning to support your response.**

3. **Do you agree with proposals that suppliers should provide all eligible customers that they serve on the qualifying date with the reduction as quickly as possible and within six weeks, and by no later than 31 March 2023 for hard-to-reach customers? Yes/No. Please provide any reasoning to support your response.**

4. **Suppliers will need to notify their customers in writing once the Scheme reduction has been applied to their account. How could this process be made as effective as possible, while limiting administrative burdens? Please provide any reasoning to support your response.**

5. **Under what circumstances do you think it would not be reasonably practicable for suppliers to provide the payment? Please provide any reasoning to support your response.**

6. **Do you agree with the proposals to spread the benefit for Direct Debit customers over six months? Yes/No. Please provide any reasoning to support your response.**

7. **Do you agree with the proposal for pay-on-receipt customers to feel the benefit of this Scheme in their next bill after the qualifying date? Yes/No. Please provide any reasoning to support your response.**

8. **Do you agree with the proposal for payment card customers to receive the full amount on their next quarterly bill after the qualifying date? Yes/No. Please provide any reasoning to support your response.**

9. **Are you aware of any reasons why payment card customers might need to receive the reduction across more than one bill? Yes/No. Please provide any reasoning to support your response.**

10. **Do you agree with the proposal for customers with smart prepayment meters to have the full amount credited to their meters as soon as possible after the qualifying date, where feasible? Yes/No. Please provide any reasoning to support your response.**

11. **Do you agree with the proposal for the £200 to be issued via vouchers and/or SAMs to traditional prepayment meter customers? Yes/No. Please provide any reasoning to support your response.**

12. **For traditional prepayment meter customers, do you agree with the proposal that vouchers and/or SAMs should be valid until 31 March 2023, in line with the date for reconciling grants provided vs grants delivered? Yes/No. Please provide any reasoning to support your response.**

13. **Do you agree with the proposal that vouchers and/or SAMs should be provided in five vouchers of £40 each? Yes/No. Please provide any reasoning to support your response.**

14. **Do you agree that traditional prepayment customers should be able to use vouchers for both electricity and gas (dual fuel vouchers)? Yes/No. Please provide any reasoning to support your response.**

15. **Do you agree with the proposal for how to cost-effectively encourage traditional prepayment customers to redeem the Scheme vouchers/SAMs? Yes/No. Please provide any reasoning to support your response.**

16. **a. Are you aware of any consumer groups who will not be reached by applying the reduction to electricity accounts? Yes/No. b. Please provide details of which group(s), why they will not be reached and how you would suggest we reach them? Please provide any reasoning to support your response.**

17. **Do you agree with the proposed approach to providing the grant to customers with different forms of energy debt? Yes/No. Please provide any reasoning to support your response.**

18. **Do you agree with this definition of bad debt? Yes/No. Please provide details of when customer debt would be classified as bad debt and how this is subsequently treated by their energy supplier.**

19. **Please provide evidence of how many domestic electricity customers currently have bad debt and how this might change over the next year. Please provide quantification and methodology where possible.**

20. **Do you agree with the way in which we are proposing to fund suppliers? Yes/No. Please provide any reasoning to support your response.**

21. **Do you agree with the proposal that suppliers should be required to report on delivery of the funds after the six-week period and the associated reconciliation process? Yes/No. Please provide any reasoning to support your response.**

Recovering the grant through a new levy

22. **Do you agree that applying the levy on a per meter basis would be the simplest approach to deliver and would impose the least administrative costs on the sector? Yes/No. Please provide any reasoning to support your response.**

23. **Do you agree with our proposal for applying the levy to all DNOs? Yes/No. Please provide any reasoning to support your response.**

24. **Do you agree that the proposal outlined would keep the levy administration costs to a minimum for DNOs, whilst still providing the necessary assurance for the levy? Yes/No. Please provide any reasoning to support your response.**

25. **Do you agree with our proposal that the levy will be charged on a per meter per day basis, according to electricity meter points served in each DNO's network? Yes/No. Please provide any reasoning to support your response.**

26. **Do you agree that increasing standing charges is, in comparison to other routes, a preferable way to recoup the levy from domestic customers? Yes/No. Please provide any reasoning to support your response.**

27. **Do you agree that the steps outlined above to provide notice to DNOs ahead of the first levy collection, and the notice period for subsequent years, are sufficient? Yes/No. Please provide any reasoning to support your response.**

28. **Do you agree with our proposed methodology for calculating the pence per meter per day levy rate? Yes/No. Please provide any reasoning to support your response.**

29. **What are your views on how any instances of under or over-collection should be managed? Please provide any reasoning to support your response.**

30. **Do you agree with our rationale for proposing that levy payments should be made to the Payment Body quarterly? Yes/No. Please provide any reasoning to support your response.**

31. **Do you agree with our proposal that DNOs should provide quarterly meter point data to the Payment Body to inform quarterly levy payment calculations? Yes/No. Please provide information about the availability of meter point data and the formats that it could be provided in.**

32. **Do you agree with the proposal of using the existing collateral mechanism set out in schedule 1 of the Distribution Connection and Use of System Agreement? Yes/No. Please provide any reasoning to support your response.**

33. **Do you agree with the proposal that the Payment Body may report and publish information on non-compliance and enforcement action? Yes/No. Please provide any reasoning to support your response.**

34. **a. Do you agree that there should a mechanism to address late payments by DNOs to the Payment Body? Yes/No. b. If not, what alternative mechanism would you propose? Please provide any reasoning to support your response.**

Compliance, enforcement and Sanctions

35. **For the transfer of grants to suppliers, do you agree that the proposed reporting requirements strike the right balance between having the ability to effectively monitor delivery of the Scheme whilst imposing the least reporting burden on suppliers? Yes/No. Please provide any reasoning to support your response.**

36. **Do you agree that these reporting requirements should be set out in the Ministerial direction? Yes/No. Please provide any reasoning to support your response.**

37. **Do you agree that the proposed reporting requirements for the levy strike the right balance between having the ability to effectively ensure money is recovered and imposing the least reporting burden on DNOs? Yes/No. Please provide any reasoning to support your response.**

38. **Do you agree that Ofgem's current powers, and approach to enforcement of licence conditions, should be mirrored for this Scheme? Yes/No. Please provide any reasoning to support your response.**

Dealing with the costs of implementing the scheme

39. **a. Do you agree with the additional costs set out in table 3? Yes/No. b. Are there any other costs of administrating the Scheme we should consider? Yes/No. Please provide any reasoning to support your response.**

40. **a. Which element of the additional costs would you consider to be the largest or most burdensome? b. How could these costs be reduced? Please provide any reasoning to support your response.**

41. **a. Do you agree that the administrative processes required to implement the Scheme are similar to elements of other policies such as the GER, WHD and the Green Gas Levy? Yes/No. b. If not, why do you think the Scheme will differ? Please provide any reasoning to support your response.**

42. **Do you expect the administrative burden and cost to consumers to differ between a scenario where the levy is collected via energy suppliers vs by network companies? Yes/No. Please provide any reasoning to support your response.**

43. **a. Can you provide a quantification of all, or any, of the elements outlined in table 3 and other costs you anticipate? Yes/No. Please provide any reasoning to support your response. b. Can you provide any further reasoning about the costs involved in delivering payments to customers? Yes/No. Please provide any reasoning to support your response.**

44. **Do you agree with the way in which we are planning to treat supplier costs? Yes/No. Please provide any reasoning to support your response.**

45. **Do you agree with our assessment on how energy suppliers and network operators would expect to recover any additional administrative costs due to the Scheme? Yes/No. Please provide any reasoning to support your response.**

46. **Do you have any other concerns regarding the costs of implementing the Scheme that have not been addressed in this consultation? Yes/No. Please provide any reasoning to support your response.**

Next steps

The information gained from this consultation will help to shape the design of the Energy Bills Support Scheme.

The government will publish a formal response to this consultation in summer 2022.

Alongside this, we will also publish a summary of all the responses received. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Both the government response and summary of responses will be published on GOV.UK.

Annex

Supporting analysis

This annex provides an overview of the analysis undertaken to support this consultation, setting out the evidence base and the methodology used. This analysis aims to provide stakeholders reading the consultation with a better sense of the impact of the proposed policy options. Given the stage of policy development, all analysis should be viewed as provisional. The responses to this consultation and future stakeholder engagement will be used to further refine our analysis in the future. BEIS would welcome views on the analysis presented in this annex and any further analysis we should consider undertaking.

In line with current scheme design, analysis has been undertaken to estimate both the size of the grant recipient base and the implied value of the scheme. The results are presented in table 4 and the key inputs are discussed below.

Table 4 – Estimated GB customer numbers and aggregated grant value

		Units
Domestic electricity meters 2021 Q4[26]	29,082	Meters (Thousands)
Annual growth in electricity meter points[27]	0.74%	%
Estimated Total domestic electricity meters 2022 Q3[28]	29,244	Meters (Thousands)
Grant per meter point	£200	£
Total grant value across the GB	£5,849	£m
Implied annual cost to recover	£1,170	£m

The total number of recipients has been informed by the number on domestic electricity meter points in Great Britain. To inform this, data on the number of meters points has been used totalling 29 million in December 2021. To account for the change in meters points, analysis has

[26]Latest available at time of analysis – December 2021. https://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics
[27] 5-year average of historical domestic electricity growth between 2017 - 2021 based on annual December meter point statistics.
[28] Estimated meter points in October 2022, calculated by applying one annual growth rate up until the end of Q3.

been undertaken on historic meter point installations over the last five years to derive an annual average growth rate of 0.74%. This brings the total number of recipients from October 2022 to 29.2 million with an estimated total scheme transfer value of around £5.8 billion. The future growth in domestic meter points provides an indication of the number of customers from which the levy will be collected. A profile of estimated domestic electricity meter points covering the lifetime of the scheme is show in table 5.

Table 5 – Profile of domestic electricity meters 2022/23 – 2027/28

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total meters (thousands)	29,244	29,462	29,682	29,903	30,125	30,350

The total value of the payment is assumed to be recovered over the subsequent 5 years from 2023/4 – 2027/8, the average annual amount recovered is calculated by dividing the total amount over the five years, resulting in an average annual collection of £1.2 billion. This is expected to be recovered over the whole domestic electricity customer base each year until 2027/28. However, this is subject to final scheme design which will be informed by the responses to this consultation.

Impact of the Scheme on consumption

The Scheme aims to smooth these unavoidable cost increases over a longer period, limiting the peak at which energy costs reach, and mitigating significant cashflow problems for many households that could result in harmful underconsumption of both energy and other goods.

Energy is generally regarded an essential good/service which implies consumer demand for energy will be relatively inelastic to changes in price and / or income. In the absence of the scheme, some consumers would likely have to allocate a larger portion of their budget to consume the same level of energy, reduce their energy consumption or a combination of both. For a household to increase their expenditure on energy, it implies that they must derive some benefit from doing so, such as through heating the home to a more comfortable temperature.

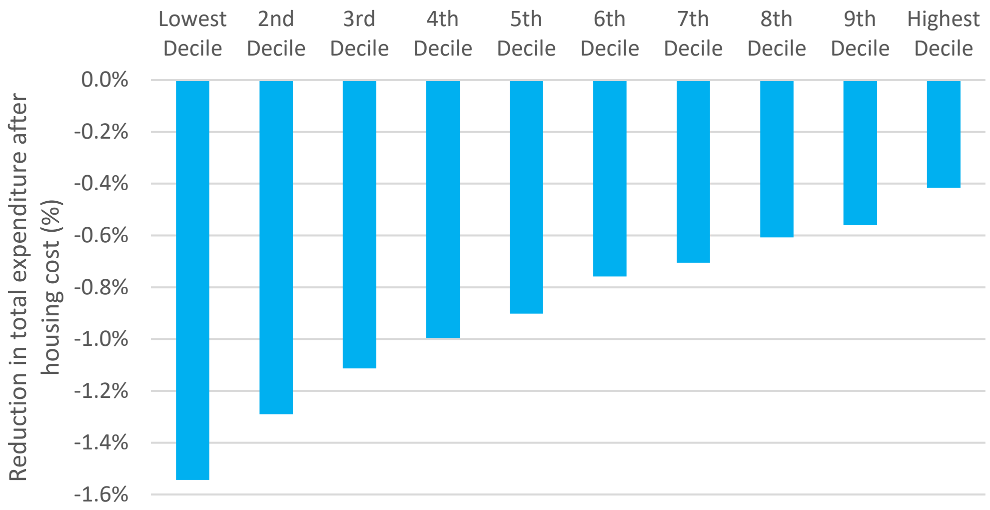
The extent of the impact on consumption will vary by household and bill payers' characteristics and preferences, but all will face budget allocation decisions. Evidence from analysis of the UK Winter Fuel Payment programme suggests that between 15 – 66% of the payment was used to purchase energy, with a central value of 41%[29]. However, increased energy consumption is associated with externalities in the form of greenhouse gas emissions and other pollutants which contribute to poor air quality, imposing costs on wider society.

All domestic electricity customers will receive the £200 payment; however the benefit of the initial grant will be felt differently depending on household income. Low-income households are expected to gain a greater benefit as share of total expenditure relative to those with higher incomes. To illustrate this, we have undertaken analysis on the impact of a £200 credit to

[29] Evidence on Labelling from the UK Winter Fuel Payment, IFS Working Paper 11/10, available at: http://www.ifs.org.uk/wps/wp1110.pdf

annual energy bills as a portion of household expenditure across disposable income deciles[30]. The results, as shown in Figure 4, indicate that the £200 payment would represent around a 1.5% decrease in total household expenditure after household costs, relative to around 0.4% in the highest decile.

Figure 4 – Impact of EBSS initial £200 payment as a share of total after housing cost expenditure by equivalised disposal income deciles



Source: BEIS analysis based on data from ONS Family Spending data

The recovery of the grant in the subsequent five years will result in increasing the cost of energy for consumers in those years. However, given this is spread over 5 years, the scale of this impact is expected to be smaller. Future energy prices and household expenditure are currently highly uncertain and therefore a quantified impact of the up to £40 annual levy as share of total expenditure has not been included.

Impact on debt and fuel poverty

The Scheme affects bills in two ways: 1) The initial £200 payment will act to reduce domestic electricity bills, and 2) the subsequent levy will increase domestic electricity bills up to £40 per year for five years. As a result, the scheme has both positive and negative impacts on domestic electricity bills over time, but by smoothing out the peak of energy costs, it is considered to benefit domestic electricity customers overall by mitigating short-term cashflow problems for many households that could result in harmful underconsumption of energy and other goods.

There are currently reported to be around 3 million domestic gas and electricity accounts which are either in debt or arrears, based on data from energy suppliers reported by Ofgem[31]. As discussed above, the recent increases in the costs of living, and specifically energy prices, will put increased pressure on household budgets and could lead to an increased number of households falling into debt or arrears.

[30] For simplicity energy bills are based on 2022 April – September price cap levels, represented as a proportion of after housing cost expenditure across equivalised disposable income deciles. Family spend workbook ons
[31] https://www.ofgem.gov.uk/energy-data-and-research/data-portal/all-available-charts?keyword=debt&sort=relevance Accessed: 14/03/22

The Scheme is anticipated to help improve the ability of consumers to manage their energy bills over this period of high energy prices, which is expected to reduce the risk of non-payment. Therefore, the initial grant of £200 will help reduce levels of consumer debt relative to a scenario where no grant is provided. The future levy is expected to add up to £40 per household to annual energy bills. The impact will be dependent on future energy prices which are highly uncertain, however spreading costs over 5 years should help consumers manage any debt and limit any negative impacts on debt levels.

Analysis has also been carried out to look at the impact of the Scheme on Fuel Poverty[32] [33]. The results of this analysis suggest that the initial £200 payment is estimated to reduce the level of Fuel Poverty in England in 2022 by around 2% compared to a “do nothing” scenario. The future impact of the up to £40 levy will be sensitive to future incomes and prevailing future energy prices, which are currently highly uncertain given recent volatility, therefore have not been quantified at this stage. However, adding the levy of £40 onto bills from 2023 is expected to increase the annual number of fuel poor households in future, but to a lesser extent than the number of households kept out of fuel poverty through the rebate given in 2022.

[32] Fuel poverty defined using Low Income Low Energy Efficiency (LILEE), finds a household to be fuel poor if it has a residual income below the poverty line (after accounting for required energy costs) and lives in a home that has an energy efficiency rating below Band C. https://www.gov.uk/government/publications/sustainable-warmth-protecting-vulnerable-households-in-england

[33] Full details on BEIS approach to modelling fuel poverty impact can be found here: https://www.gov.uk/government/publications/fuel-poverty-statistics-methodology-handbook

This consultation is available from: www.gov.uk/government/consultations/technical-proposals-for-the-energy-bills-support-scheme

If you need a version of this document in a more accessible format, please email enquiries@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.