

Regulating energy networks for the future: RPI-X@20

A note on working groups

Date: 7th April 2009

In March 2008 Alistair Buchanan announced the RPI-X@20 review; a two year project to review the workings of the current approach to regulating GB's energy networks and develop future policy recommendations. The recommendations of the review will be reported to the Authority in summer 2010.

At the end of February 2009, the first consultation of the review was published¹. This issues paper set out the key themes for the review and explained the principles that would guide our decision-making. We also set out the timetable for the review and outlined next steps.

A key principle of the review is that we will seek to consult widely and provide ample opportunity for stakeholders to have their views heard. We have set up a number of channels for stakeholders to engage including workshops and seminars, opportunities to respond formally to consultation documents, and our web forum.

A number of stakeholders have suggested that they would be interested in getting more involved in the review. We have therefore decided, as outlined in our February consultation document, to set up a number of working groups to allow interested parties to develop ideas on key issues with us. These working groups were formally launched at our industry workshop on Monday April 6th.

This note explains what the role of the working groups will be, what issues they will be focusing on, and provides details on the logistics of how the groups will work. We expect the working groups to meet three to four times between May and September, allowing them to input into our November 2009 'Emerging Thinking' consultation document.

Role of the working groups

The working groups provide the opportunity for a small group of stakeholders to discuss their views on the relevant issues and, where appropriate, provide worked up ideas (for example, strawmen recommendations) on how energy network regulation might need to change for the future. The RPI-X@20 team will not be bound by any recommendations that emerge from the working groups, and in this respect they will not be decision-making bodies. However, we expect that the discussions and any supporting documents will be invaluable in helping us to shape our thinking on these issues. The issue of whether and the extent to which any recommendations that emerge from the working groups form part of the final recommendations to the Authority in summer 2010 is entirely in the discretion of the RPI-X@20 team.

¹ Ofgem (2009), *Regulating energy networks for the future: RPI-X@20: Principles, Process and Issues*, http://www.ofgem.gov.uk/Networks/rpix20/publications/CD/Documents1/Principles%20Processes%20and%20Issues%20con%20doc_final%20-%20270209.pdf

The working groups will be chaired by a member of the RPI-X@20 team and we will provide each group with an initial brief on what we expect them to cover. However, this brief will be relatively high level, allowing the group to do its own thinking on what the core issues to focus on should be.

We will encourage each working group to produce write-ups on their thinking for our web forum, to enable a wider group of stakeholders to engage in the debate. We will allow each group to decide the terms on which they wish meetings to be run (e.g. under Chatham House rules or not).

Topics for the working groups

Building on the breakout sessions at our April 6th workshop, we are establishing four working groups to look at the following topics.

- Investment
- Innovation
- Financing
- Focusing on consumers (engagement and right to appeal)

These topics relate closely to the themes in our February 2009 consultation paper: 'Meeting the needs of current and future consumers' and 'Facilitating delivery of a sustainable energy sector'. A brief for each working group is provided in the annex to this note.

We may hold discussion groups on other ad-hoc issues during the year.

Membership of the working groups

To be effective, we will limit the working groups to a maximum of six members. We would like to get a broad mix of interests (e.g. distribution and transmission networks, consumer representatives, producers, suppliers, and others) represented at each group.

Where more than six people signal an interest in joining any working group we will make a decision on what the appropriate mix of organisations is. We will also restrict the number of individuals from a single organisation working across the groups, to allow a broad mix of parties to be involved. We also think it is appropriate to exclude consultants and academics from joining the working groups. Again, there will be other opportunities for these parties to engage with us.

We will provide the working group with details of others who have signalled an interest in the topic and allow them to consider whether they want to involve these other parties in their work. We will also encourage people to join an alternative working group if their first preference is not feasible.

We recognise that a larger group of people will be interested in these topics and, as noted earlier, there will be other opportunities for parties to engage with us on these issues.

Signing up to the working group

Please email RPI.X20@ofgem.gov.uk if you want to join one of our working groups. Please specify which group you would like to join. We will confirm membership of the groups by the end of April and hold the first meetings in May.

Annex 1: Overview of working groups

Focusing on consumers

As part of RPI-X@20 we are considering whether a greater focus on the consumer is needed and, if this is required, how we and the energy networks can effectively engage consumers to ensure that their interests are represented.

The working group will be encouraged to consider this issue at a broad level, incorporating the process of reaching a regulatory settlement, the period following finalisation of this regulatory settlement and ongoing engagement over time. As such, the workgroup may wish to consider whether consumers should have the ability to appeal the final package of measures as well as the role that the consumer should assume within the regulatory process itself (for example, in a price control review).

In the event that the workgroup determines that greater consumer engagement is needed and that this cannot be accommodated under the current arrangements, we expect the group to also consider what alternative frameworks could be implemented.

Investment

In the light of demand and supply changes, and Government's sustainable development targets, it is important that the regulatory framework supports appropriate levels and type of network investment and encourages the efficient usage of the current network.

This working group will be encouraged to consider the current drivers of energy network investment decisions and assess whether the regulatory framework is ensuring that investment requirements are identified and delivered in a timely manner. In particular, we propose that it focuses on identifying obstacles to network operators' investment decision making and how these might be overcome.

It would be helpful if the group's work considered any distinctions for gas and electricity, and transmission and distribution.

Innovation

The energy networks are facing new challenges, particularly with regard to delivery of the low carbon economy and related environmental targets, and the RPI-X@20 review will be considering whether more innovation is needed to ensure these challenges are met. Where innovation is needed, we need to consider how it can be encouraged through the regulatory regime.

The working group will need to provide clarity on what is meant by 'innovation' by networks and what the rationale for innovation is. On this basis, the workgroup may consider whether more innovation is required to facilitate the delivery of sustainable energy networks going forward and, if this is required, the form that the innovation should take.

The group will also consider what barriers to innovation are currently evident and whether there are ways in which these can be addressed and ultimately overcome. In the event that the group concludes that greater levels of innovation are required, it would seem appropriate that the group consider whether alternative frameworks may be more conducive to encouraging this innovation.

Financing

We have a duty to ensure that efficient networks can finance themselves. Issues relating to financing are expected to be relevant for a range of regulatory frameworks, and will be impacted by developments relating to both investment and innovation.

This working group will address financing issues particularly focusing on the risk and return framework. We encourage the working group to examine different categories of risk and look at where these are

best managed. They may also look at possible alternative ways of allocating risk and return, including how high risk projects might be dealt with and the impact on the returns that should be available to energy networks if they take on more risk (e.g. the risk of assets being under-utilised in the future). It can also examine how financeability might be assessed under either a modified RPI-X approach or other possible alternative policy options.