

Consumer First

Thinking ahead for tomorrow's consumer

A look at how Ofgem's long-established commitment to today's energy consumers and to future generations is continuing to protect those interests in a world of new environmental, financial and other challenges

Ofgem was established with a primary responsibility to protect and promote the interests of consumers. And its attention to today's users of gas and electricity has only ever been matched by one other consideration: the consumers of tomorrow.

This commitment to the next generation and beyond has been given more prominence in the Energy Act 2008 as one of two changes to our duties.

This is a significant marker of changing landscape ahead in the energy sector. Global and local challenges including climate change along with social considerations and financing are creating a period of unprecedented uncertainty in energy. It is vital that measures taken to attend to today's issues are right in the long-term too.

The second change also includes a element of future needs. Promotion of the environmental, social and other considerations that make up sustainable development has moved higher up our priority list to sit alongside our obligations toward the energy companies' financial health and to maintain security of supply.

We work for future customers in three key areas:

- ensuring future protection;
- encouraging companies to think ahead, and
- allowing investment and grid access.



Ensuring that future consumers are protected in a changing world

Energy consumers face the prospect of choosing between new supply options made possible by advancing technology. Smart meters, for example could enable electricity and gas users to subscribe to sophisticated tariffs that enable them to exploit the cheapest periods.

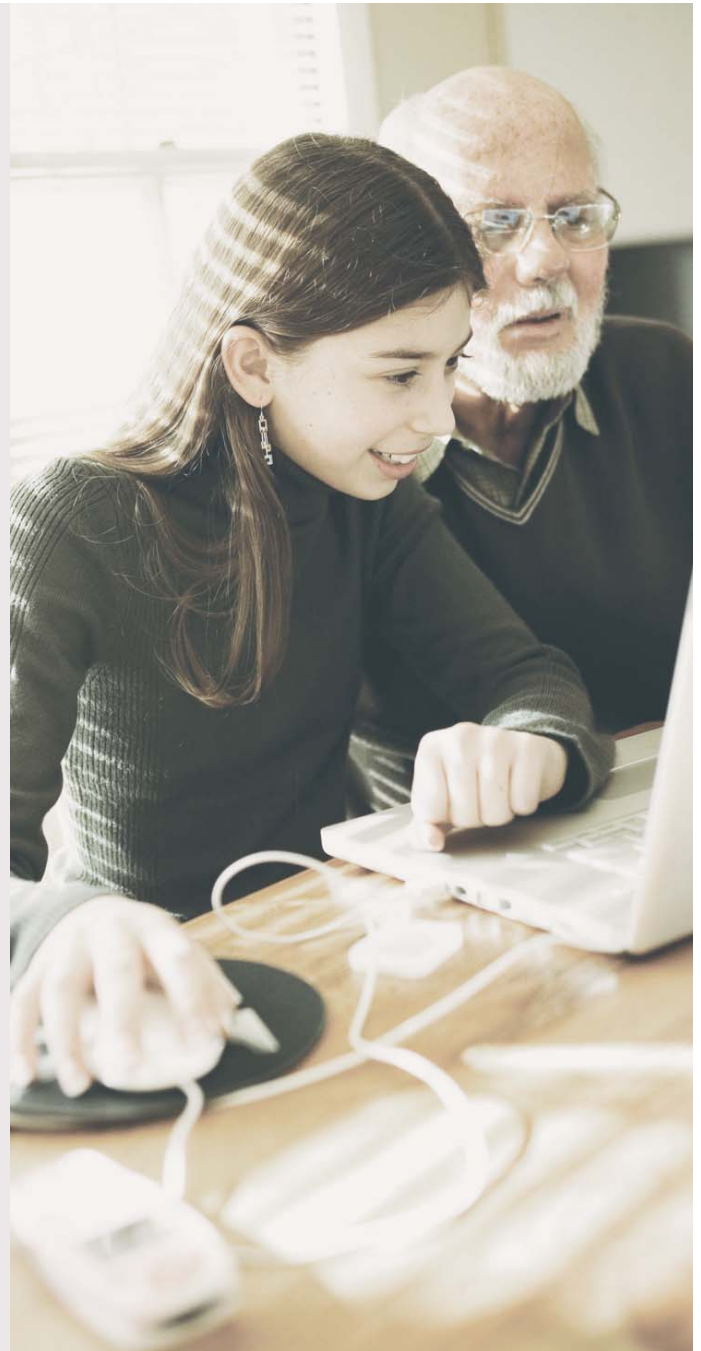
Household scale electricity generators – so called micro generation – could enable householders to sell power. We can also anticipate new types of energy supplier with the advent of energy services companies who sell energy efficiency as well as fuel, and community-based generation schemes where people in a community invest in their own wind farm or other power plant.

We are also examining the ways that people are charged for their energy and how this influences their behaviour to understand whether alternative approaches might encourage people to use energy more efficiently. We have recently published a set of guidelines on green supply to protect the interests of consumers who want to reduce the environmental impact of the energy they consume. We are working with industry to implement this scheme as soon as possible.

The success of these and other measures will pivot on there being the right rules for the market to work to. We are already looking to ensure that such rules - licence conditions - are "future proofed". For example in our recent review of supply licences we took account of the potential for smart metering to develop and for greater use of electronic communications.

Ofgem's investigation into the energy supply market (the probe) launched in February 2008 identified a number of areas where consumers were not getting the full benefit of competition.

We are therefore proposing a package of remedies to help future consumers engage more effectively in the market and to address specific retail market issues for domestic consumers, including low-income and other vulnerable customers as well as small businesses. These changes will take time to have effect and hence – with an eye to the needs of today's consumer – we are proposing a prohibition on unjustified price differences which we expect to be in place for three years.



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Encouraging forward thinking

Radical changes to the way that our energy needs are met will be needed in future if we are to make progress in tackling climate change.

However there remains considerable uncertainty about what the future of energy will look like. Keeping options open – while technology options are uncertain – improves the likelihood that the most cost effective ways of delivering reliable, sustainable energy are not ruled out for consumers in the future.



We are leading the thinking and actions in a number of areas

- Following a forensic probe into the energy supply market, Ofgem proposed a package of remedies to flaws in the market. The package includes help for future consumers – including small businesses - to engage more effectively in the market.
- We are assessing, in our RPI-X@20 project, the 20-year-old system that has underpinned our price controls with great success to date to make sure it will remain fit for purpose given the anticipated challenges arising from environmental and other measures.
- Our Long-term Electricity Network Scenarios (LENS) project has drawn up a range of plausible electricity network scenarios for 2050, around which Ofgem and other stakeholders can discuss future network issues.
- Our Project Discovery is a broad-based review security of supply issues faced by the UK energy sector in the medium term. Our focus is on the impact of the credit crisis and environmental targets coupled with the planned closure of many of Britain's ageing coal- and oil-fired power stations.
- We are considering the role of distribution network operators in helping to tackle climate change as part of our next price control review for the electricity distribution companies.
- We are overseeing reforms to pave the way for connection of new generation to the transmission network. At the same time we are implementing the regulatory arrangements for the transmission grid for offshore wind power.
- Overhauling the way the energy industry's market and network rules are drawn up and administered through our Codes Governance Review will help cut red tape and accelerate vital reforms as we move towards a low-carbon economy.
- Working with our Consumer First Panel of 100 ordinary consumers and our Consumer Challenge Group of six consumer experts will ensure that we understand in detail what matters to consumers now and in the future.
- We are encouraging network operators to innovate and think beyond their conventional business. For example, the regional gas distributors have incentives to invest some £60 million to reduce the impact their networks have on the environment. Other incentives are in place to extend pipelines to areas where low-income households have no access to mains gas. In electricity we have established incentives for the regional networks to innovate to bring on low-carbon generation.

Allowing the investment needed to build for the future

Energy networks last a long time so decisions on investment in pipes and wires have to take in the needs of future consumers.

One of the major aspects of Ofgem's work is setting the revenue and expenditure of the network businesses that operate Britain's gas pipelines and electricity grids. We do this in five-yearly reviews known as price controls. They include controls on what the companies spend to replace aging assets and expand their networks.



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The decisions are made more challenging by the fact that the mix of future energy sources is changing. For example the network needs to evolve to accommodate growing numbers of wind turbines and other renewable generation. And our decisions on spending on networks have to take in likely demographic trends and other factors that might influence demand.

The costs of carrying electricity and gas across the networks to our homes make up about one fifth of a household customer's energy bill. So we look, in our price controls, to balance the need to enable the companies to invest in infrastructure for the future with the need to make sure customers get value for money from those investments.

The energy sector is already investing some £2.6 billion a year – twice the rate of five years ago. This is partly for asset replacement because electricity networks built in the 1950s are reaching the end of their life and cast iron gas pipes have to be replaced for safety reasons. And investment is going into network expansion to accommodate renewable electricity and new import terminals and storage sites for gas.

Ofgem has taken innovative steps to encourage growth of renewable generation. This has included improving access to, and investment in networks particularly in Scotland where there is an abundance of wind power opportunities. Examples includes acting outside the regulatory rules to allow an extra £560 million in investment in the transmission network in Scotland and northern England. More recently we have proposed a number of short-term improvements to the allocation of transmission capacity to give scope for some 450MW of renewable projects to move up the queue to connect. And we are exploring ways to enable companies to invest in networks in anticipation of future renewable projects.

The future

Ofgem's commitment to protect the interest of consumers today and in the future is not new.

But new and developing trends in environmental considerations, social change and investment pressures have placed the future centre stage.

Ofgem is acting now on a number of fronts to make sure the means at our disposal are right for the job of protecting customers during a period of change.

Alongside this bulletin we are publishing a summary of key future trends and the work we have carried out with our Consumer First Panel to consider future energy needs and the Panel's response to our LENS project:

<http://www.ofgem.gov.uk/Consumers/CF/Documents1/Future%20consumer%20research%20findings%207th%20April.pdf>

Our ongoing programme of consumer and social research is currently looking at awareness of the support available for vulnerable people from suppliers and we have also established a Consumer Challenge Group comprising six consumer experts who are helping us with some of the complex decisions around our electricity distribution price control review.

For further information about any of this work please contact the Consumer First team on consumer.first@ofgem.gov.uk