

RPI@20 Consumer work-group 18 May 2009

Present: Hannah Cook – Ofgem John France – CE Electric
Paul Rogers – NG Victoria Moxham – Consumer Focus
Mitch Donnelly – Centrica Nick Akers – EdF Energy

Ground Rules

- 3 meetings planned (inc this one). Two further meetings around July and September
- Not a decision making body – rather as discussion forum
- Group to own deliverables such as progressing actions
- Ofgem will be silent chair – facilitator role
- Group will cover all networks –gas, electricity, distribution and transmission
- Views can be taken externally and fed into the work-group
- Notes to be published on Ofgem website
- Notes will not identify individuals by name as views expressed may not necessarily be those of their employer and to do otherwise, might inhibit free-thinking and dialogue.
- Agreed that the group will define consumers as Users of the system such as generators as well as consumers of energy. For the purposes of this group they will be referred to as Users and Consumers to maintain differentiation.
- The group agreed that discussions regarding the potential introduction of an appeal mechanism for consumers would be included in the scope of the group.

Discussion

- The group debated the various touch points for consumers in the PCR process, in particular, in shaping PCR development, challenging (final) PCR proposals and as recipients of network services during the price control period.
- Discussion around how do we account for future consumer needs and the difficulty of defining a typical representative consumer as they don't exist. Equally the conflicting aspirations and actions of consumers. For instance, consumers being generally supportive of environmental initiatives, but unwilling to pay or reflect that support in their own actions.
- Of the three energy factors that impact consumers:
 - Cost
 - Security of supply
 - EnvironmentConsumers focus will be on the first two and they may be unwilling to sacrifice low prices for environmental benefits. This will be more acute for those on lower incomes.
- The difficulty of identifying who would best represent consumers was discussed, particularly given the range of consumer knowledge and experience. Some are very well informed, but may have specialist views such as environmental issues, others will have no appreciation for energy market

segments and still consider services to be provided by the Gas or Electricity Board.

- There are differences of opinion across social classes and geographic regions in terms of what those consumers might value or be prepared to pay for.
- Consumers are unlikely to be interested in the minutiae of network finance, incentives, cost of capital etc, but will be interested in whether they feel the cost of the service is reasonable and that if, for example, they want a connection to the system, that it is carried out efficiently.
- The role of the energy supplier as a proxy for an informed consumer advocate was discussed. Concerns were expressed that supplier and consumer interests were not aligned and a debate took place on the extent to which this is the case. The issue of a potential right of appeal for suppliers was also raised and the group talked about whether this was necessary or whether there may be greater scope for suppliers to become more involved in the regulatory settlement at an earlier stage to inform decisions.
- In the sense that suppliers help Ofgem with knowledge and resources to combat the resources of network operators during price controls, they can act as a useful counter-weight to networks during PCR negotiations.
- Although suppliers can currently provide this resource and knowledge capability, if this could be transferred to a consumer body, the commercial element of the supplier position would be removed as the consumer body would concentrate resources to meet consumer needs only.
- Discussion then moved to alternative models of consumer representation such as those utilised in the USA and Canada and their relative merits. Some drawbacks identified were that it can be politically driven and after rates are agreed, charges for different classes of consumer can be varied depending on who has the most influence/support.
- Views expressed that past consumer bodies have been paid lip service by regulators and this may remain the case going forwards unless a consumer body was given real power and real influence over the PCR process. Counter to this was that unless the consumer body had some checks and controls over its actions, then it could feel at liberty to make unreasonable demands and indeed might be encouraged to do so, to appear tough on networks. Again this might lead to regulatory uncertainty and drive short-term wins to detriment of long-term investment and consumers.
- If a more powerful consumer body was involved, it could be utilised in two ways:
 - Network negotiates and agrees outcome with consumer body, but Ofgem has the right of veto or,
 - Network negotiates with Ofgem and consumer body has right of veto.

- In either case controls would be needed to avoid excessive referrals to bodies such as the Competition Commission.

Next Steps

- Next meeting to be confirmed end of June/early July.
- Full day meeting provisionally agreed
- Consideration to be given to Transmission issues as part of next meeting

Actions

- MD to research models of consumer/user engagement in Europe
- VM to research models of consumer/user engagement in other regulated sectors in the UK
- PR to research models of consumer/user engagement in the US
- MD to put together some bullet points regarding the importance of the supplier role in the regulatory process
- All to consider what they think consumers value and the actions that can be taken to meet their expectations