

RPI-x @20 Consumer working group – 2nd meeting 8th July 2009 - DRAFT

Present: Hannah Cook, Ofgem
Victoria Moxham, Consumer Focus
Paul Rogers, NG
Philip Davies, British Gas
Nick Akers, EDF Energy Networks

1. The minutes of the previous meeting on 18 May were agreed, subject to Philip Davies advising the group of any issues when he had consulted Mitch Donnelly who had attended the first meeting on his behalf.
2. The group received an update from Ofgem on consumer issues –
 - A feeling that the interface had been lost over time
 - A perception that some consumer were losing trust with energy companies
 - There was resistance to the idea of a formal consumer appeal mechanism
3. Discussion points
 - The extent to which Network Operators should have contact directly with end-consumers
 - The potential role of suppliers as representatives of consumers in regulation and particularly price control
 - The role of Ofgem in consumer engagement or another organisation such as Consumer Focus. There were some views that Ofgem's role is to represent the consumer
 - A review of consumer engagement with other regulatory regimes – the UK water industry was seen as the closest parallel. Ofwat - actively engaging with consumer bodies; research on consumer perception on issues such as value for money; consumer empowerment (data quality). It was pointed out that a key difference is that Ofwat set consumer prices rather than allowable revenues and that with virtually no competition, water customers have little comparative information.
 - The breakdown of energy bills to show transmission and distribution components of price in a similar way to Council bills was discussed
 - Concern was voiced that environmental considerations would increase network charges to suppliers and any increases in use of system charges was left for suppliers to communicate to consumers after 'private negotiations' between network operators and Ofgem
 - In transmission, only existing consumer contact is large industrial users, e.g. MEUC. In distribution, network operators deal directly on quality and security of supply, emergencies, new connections etc.
 - More involvement with consumers by network operators will increase costs and hence energy bills
 - Some consumers are starting to question additional costs due to environmental measures
 - There was discussion around the dangers of short-term consumer 'special interest' and its impact on long-term sustainability and security of supply
 - There is a difficulty in consumers or their representatives understanding regulatory documents produced by all parties involved – clear summaries might help but could undermine the legal meaning of such documents

- The regulatory price setting process in parts of the USA was discussed. Here a cost to serve is used to produce a revenue requirement which is then allocated to class (customer segment). A dialogue with consumers and their advocates follows before the Commissioners set prices for each group of customers. Paul Rogers agreed to check on the quality of consumer consultation and the affect of this on the end result.
- There was a view that smart metering would promote greater consumer involvement and possible resultant commercial changes
- Reference was made to the recent Littlechild/Cornwall paper on gas transmission pricing and the points it contained that illuminated these issues
- There was some discussion of what the role of the Government should be in price controls
- It was reported one utility had started regular meetings with consumer groups and Victoria Moxham agreed to try and obtain more details.

4. Deliverable

It was agreed that the group would produce a paper reflecting points and recommendations by the end of September.

A proposed structure was developed and is appended to these notes. It was agreed that Paul Rogers would develop 'straw man' content in section 1 (Introduction), Nick Akers would work on section 2 (What is the problem), Philip Davies on section 3 (Solutions) and Victoria Moxham on section 4 (Alternatives).

A further meeting will be held in early August to review progress with a further meeting in September to finalise the paper.

5. Action summary

Paul Rogers to seek more information on the consumer consultation and engagement in US price regulation.

Victoria Moxham to try to get more information about one utility that has started a programme of regular consumer meetings.

Paul Rogers, Nick Akers, Philip Davies and Victoria Moxham to contribute first drafts of sections of a paper by early August.

Hannah Cook to arrange a further meeting in early August

Appendix

Proposed structure of the RPI-x @20 Consumer working group paper

1. Introduction

- Defining consumers in a TX and DX context
- How does the process work currently
- How has it changed over time
- PCR engagement (appeals and CC)
- Post-PCR engagement

2. What is the problem?

- Complexity
- Transparency
- Level of understanding and knowledge of stakeholders
- Increasing energy prices and network costs
- Low carbon agenda v. affordability
- Security of supply
- Role of Ofgem as a consumer representative
- Consumer interest – their willingness to engage
- Who is a representative consumer – special interest lobbying

3. Solutions

- TX/DX and electricity/gas - tabular comparison
- Characteristics of a better process
- Information provision, transparency, dialogue with consumer groups (national & local)
- Timing of information provision
- Who should be involved
 - Suppliers
 - Consumer Focus
 - Who represents the consumers, regional differences?
- Role of Government
 - Climate change agenda
 - Security of supply
- Consumer panel for PCR and in between
 - Trade panel
 - Formal consumer body consultation
 - Appeal mechanism

4. Alternatives

- Overseas – USA, Europe, Australia, NZ
- Other UK regulators e.g. Ofwat, CAA, Rail regulator

5. Recommendations

- TBC