



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

CONSULTATION ON OFGEM'S REGULATING ENERGY NETWORKS FOR THE FUTURE: RPI-X@20 - Emerging Thinking

Introduction

The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. We have been active in bringing the consumers voice to the price setting process for water, utilising comprehensive research combined with national and local negotiation. A consumer led approach has been independently judged to have helped water companies to self-regulate to a greater extent, deliver plans that were more in line with customers' priorities and to make bids to Ofwat which were £1 billion lower overall, equivalent to £40 to £50 per customer when compared to the previous price review. (Ref: Walker Review of Charging and Metering Final Report).

We welcome the chance to respond to your Emerging Thinking consultation and have focused on your Enhanced Engagement and Third Party Appeals papers. As the questions in the consultation are not directly intended for water consumers, our comments reflect our overall view on the proposed principles of enhanced engagement and third party appeals. We would be pleased to meet with you, should more detailed discussions be of value.

Comment

CCWater supports your intention to develop consumer led regulation, so that consumers are fully engaged and have direct input into the price control process and other key decisions.

Where consumer's views are appropriately represented and then acted upon, it can help to legitimise the regulatory process, improve perceptions on value for money, build support for company business plans and lead to decisions which focus on consumers' needs, aspirations and their willingness to pay.

We believe that if consumers are engaged early enough in the process and their needs genuinely negotiated into company business plans, then there would be a reduced need for potentially expensive and time consuming rights of appeal. Early engagement, including the use of deliberative and quantitative research, can allow companies, key stakeholders and regulators to discuss and agree plans that will meet consumer's expectations, comply with statutory requirements, be affordable to customers and be acceptable to the companies.

Your proposal of using Fora to increase engagement at price control reviews is one that we support and have used successfully in water. Bringing parties together in this way has been recognised as an effective tool for negotiating and securing agreement. Two recent independent reviews for water testify to the success of such fora (called quadripartite groups in water) and may provide further value to your consultation. They are the [Cave Review](#) of Competition and Innovation and [Walker Review](#) of Charging for Household Water and Sewerage Services

The Cave Review of Competition and Innovation advises:

“I believe there is value in these models, but that they could be extended. Recent analysis has discussed the potential role of “negotiated settlements” in the regulatory process.....The benefits of negotiated settlements ... are that customers have greater say over the services they want delivered and how much they are prepared to pay for them and companies have a stronger incentive to tailor their services to local customer needs.” “Such an approach ... is recognised as a valuable development of incentive regulation that can deliver greater legitimacy to the regulatory process and deliver benefits for consumers.”

The Walker Review of Charging and Metering comments:

“..the local utility company and local customers agree prices and quality of service and the regulator only becomes involved where there is a disagreement or a common approach is needed across the industry.” Walker recommended that the water sector “... should put in place arrangements to engage with and consult customers on a regional or water company basis, on any issues affecting their bill, particularly proposals for future quality improvements, not simply on price control issues. The quadripartite machinery (Fora) set up for the latest price review should be established on an ongoing basis.”

The Walker review also details how customer input has led to water companies' business plans changing significantly compared to the previous price review:

“In the past, companies were incentivised to ‘overbid’ in their initial proposals, but with greater customer input on willingness to pay at an earlier stage it seems that companies were able to self-regulate to a greater extent, delivering plans that were more in line with customers’ priorities. Compared with the last price review, the bids which companies made were £1 billion lower overall, equivalent to £40 to £50 per customer. This bears out the value of early and in-depth regional customer involvement in the price control process to ensure that customer preferences are properly reflected in decisions.”

In supporting your direction of travel and then demonstrating where independent reviews of water have reached similar conclusions, we would also encourage you to continue the progression and look for:

- Companies to provide you with business plans that customers can be shown to support.
- Your assumptions and key costs to be made clear and discussed very early in the price control process.
- The regulator to explain clearly where they have had to change the company plan, because consumers would not have supported it.

With these measures also in place, there is fair accountability in the process and companies are helped to retain full ownership of the plan, rather than pass responsibility to the regulator.

Conclusion

The Consumer Council for Water welcomes and encourages your initiative to consider a more consumer led approach to regulation and price setting. We have seen it work successfully for price setting in water and are looking to develop it further so that consumers are eventually part of all of the key decisions in our sector. We would be pleased to build on this consultation with further discussions.

Enquiries on this submission should be directed to:

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