

Consumer First

The Ofgem Consumer Challenge Group

This is the Consumer Challenge Group's final report (having published an interim report in July 2009) on the process and Group's views on DPCR5 Final Proposals, as well as its thoughts on how consumer challenge might be used in future by Ofgem. This report is designed to inform consumer organisations and other stakeholders about the Group's role and contribution to the DPCR5 process.

Purpose of the Group

The Consumer Challenge Group was set up in July 2008 to assist Ofgem in ensuring that the consumer view was fully considered during its Electricity Distribution Price Control Review during 2008-09 (DPCR5).

The Review set the distribution element of electricity prices for the period 2010-2015. Ofgem has a programme of consumer research but wished also to bring in additional expertise:

- To provide consumer input into some of the more complex issues.
- To provide a 'critical friend' from the consumer's perspective ensuring that Ofgem have not missed any key issues and that the final package is a fair one for consumers.

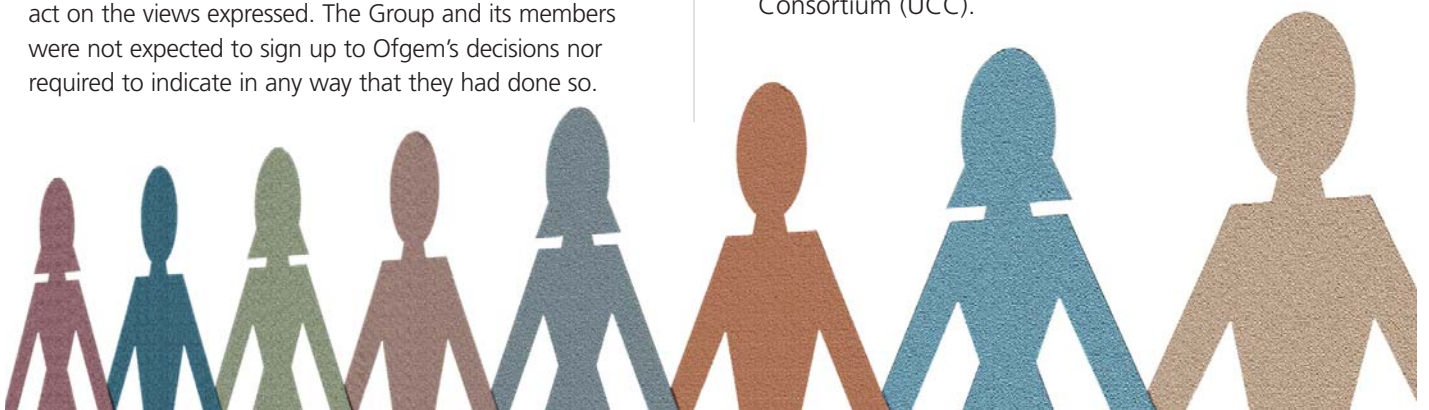
The Group was thus an innovative approach to trial a more intensive form of engagement with consumer advisors. The Group acted in an advisory capacity to help inform the Authority's decision-making process. Ofgem was committed to taking the Group's views seriously and giving them due weight in the deliberation process but was not obliged to act on the views expressed. The Group and its members were not expected to sign up to Ofgem's decisions nor required to indicate in any way that they had done so.

Membership

The Group, of six members, were appointed by Ofgem on the basis of their expertise in the interests of present and future consumers and energy sector knowledge - four with a background in household consumer issues and two in business consumer issues. The members were appointed in an individual capacity and not as representatives of any organisational interest.

The members were:

- Sharon Darcy: non-executive Director of Consumer Focus.
- Trisha McAuley: Head of Services and Advocacy at Consumer Focus Scotland.
- Jeremy Nicholson: Director of the Energy Intensive Users Group.
- Gill Owen: Chair of the Public Utilities Access Forum and Senior Research Fellow at University of Warwick Business School.
- Simon Roberts: Chief Executive of the Centre for Sustainable Energy (CSE).
- Bob Spears: Chairman of the Utility Consumers Consortium (UCC).



Process

The Challenge Group has been carrying out its task in a number of ways:

- Nine meetings of the Group with the DPCR5 Team to provide challenge, feedback and suggestions.
- Briefings from Ofgem staff on technical and other issues - including other work by Ofgem that may have relevance to the Distribution Price Control, such as RPI-X@20 and the Long Term Energy Networks Scenarios (LENS) projects.
- Three meetings with the Authority's Distribution Price Control Committee which includes the Chair of the Authority and a number of other Executive and Non-Executive members.
- A meeting with the Distribution Network Operators (DNOs).

The Group also had two meetings with the team working on the RPI-X@20 project to provide its views and input into that.

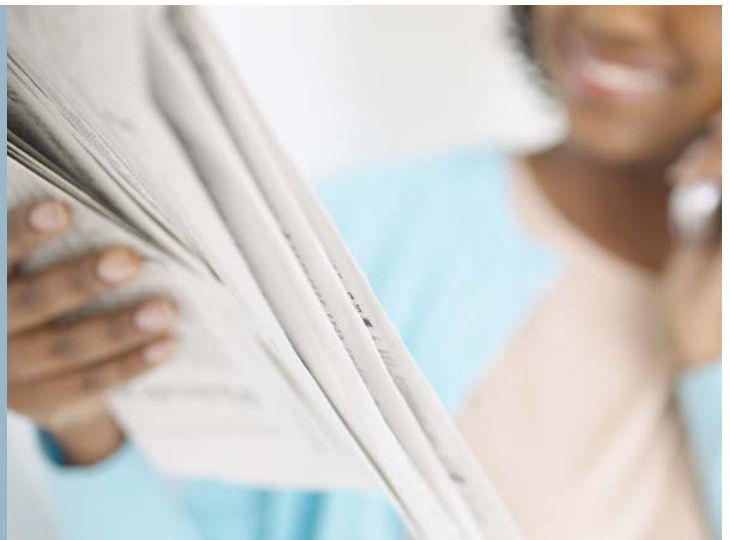
Contextual considerations for the Group

The Group has been mindful of four issues that helped to set a context for its work. These are:

- Consumer priorities – i.e. what consumers most want from DNOs', such as standards of service and the areas that they see as most important for future investment.
- Economic climate – the impact that this might have on consumer priorities and on DNOs' financial positions.
- Environmental agenda – the challenges for all network businesses in identifying how they can reduce environmental impacts and accommodate new and developing policy priorities.
- The role of regulation in a changing world, and how it is developing to meet new challenges and to take account of DNOs' responses to regulation over the last 20 years.

Key issues considered by the Group

The Challenge Group aimed to provide Ofgem with advice on consumer priorities for the price control. The following are some of the key issues on which the Group provided challenge, feedback and suggestions to Ofgem.



- Improving competition and service in connections for domestic, business and distributed generation customers and those competing with DNOs to provide connections services.
- The scope for encouraging demand side and non-network solutions, including incentive effects of differential treatment of capital and operating expenditure.
- The scope and mechanics of the Low Carbon Networks fund (LCN fund) in an uncertain future and its potential role in stimulating innovation.
- The losses incentive.
- The three components of the broad measure of customer satisfaction: customer satisfaction survey, complaints metric and DNO stakeholder engagement.
- The "use it or lose it" allowance for improving service to worst served customers, taking account of the specific needs of customers in rural and remote locations and the extent to which different groups of consumers should pay for improvements in service elsewhere on the network.
- Network output measures - where DNOs must commit to achieving a defined set of outputs in return for the money that they receive from customers. The Group was keen to ensure that customers are able to understand what they will receive in return for their distribution charges and that those DNOs who fail to deliver these outputs, without good reason, are held to account.
- The overall DPCR5 package and particularly the weighting and calibration of incentives and how Ofgem should apply Return on Required Equity (RoRE) analysis in arriving at a decision on the cost of capital.
- The treatment of pension costs.

The Challenge Group also encouraged Ofgem to provide a clear explanation or 'narrative' of how its thinking has developed over time. The Group hopes this will ensure that consumers are more able to understand the reasoning behind the approaches taken to what can otherwise be a set of rather technical issues.

The Challenge Group's views on the Ofgem final proposals

The Group in general welcomed Ofgem's final proposals and, in particular:

- That, for the first time, Ofgem have set out clearly the agreed outputs it expects the DNOs to deliver in return for the revenues they are allowed to collect from customers. This will ensure that the general health of the network does not deteriorate requiring greater investment and higher prices for customers in the future.
- The tougher new standards for the connections process, tougher targets for network reliability that reflect customers' willingness to pay and a new broad measure of customer satisfaction.
- The proposed similar treatment of capital and operating expenditure (CAPEX and OPEX) which should help to encourage demand side and non-network solutions.
- The Low Carbon Networks fund which will enable DNOs, in partnership with others in the energy market,

to help deliver a low or zero carbon electricity sector. The Fund should help to stimulate culture change, innovation and trialling of new technologies, commercial and operating arrangements.

A key issue for the Group was how DNOs engage with their customers, how company culture can become more proactive and customer facing and how far incentives and regulation can encourage this cultural change. Having met with the DNOs and discussed consumer engagement with them, the Group felt that there is a lot of work to be done in this area, which the DNOs themselves also recognised. To date DNOs have had relatively limited engagement with customers, as most customer contact is with suppliers and DNOs are largely invisible to customers. The need for DNOs to enhance and develop their relationships with customers is likely to grow in the future.

What went well in the Consumer Challenge process

The Group have all found the experience valuable and feel that it made an important contribution to the development of the DPCR5 Price Control. Some of the key factors that contributed to this positive view were:

- The Group was set up at an early stage in the DPCR5 process and thus had the opportunity to contribute when its views could be taken into account.
- Ofgem indicated the areas on which they wanted the Group's views, but the Group were able to determine what they most wanted to cover in the Challenge sessions. Whilst there was an overall plan of issues to cover (which was helpful) there was also flexibility to vary this as new issues emerged.
- Having sufficient time in the meetings to discuss issues fully.
- The time commitment of the Director of Distribution (who led the DPCR5 review) and her senior staff to the Challenge sessions, which meant that the Group were confident that they were providing their views to the relevant people at the right times.
- The mixture of members of the Group (household and business, environmental as well as consumer knowledge) meant that the Group's members were also able to learn from and challenge each other.
- The fact that this was not a stakeholder group but an expert group, meant that members were able to speak as individuals, rather than having to provide an organisational policy line. It was also helpful that the Group was not expected to reach a consensus.
- Having meetings with the Authority Committee at various stages in the process to present and discuss the Group's views.
- Having the opportunity to meet the Distribution Network Operators and discuss key issues with them. A further meeting with the DNOs, particularly to discuss the Low Carbon Networks Fund, would have been useful.





What could have gone better in the Consumer Challenge process

There were a few areas where the Group felt the process could have been improved.

- An earlier and fuller briefing for stakeholders on the role of the Group.
- Everyone within Ofgem fully understanding the role of the Group and its terms of reference – for example, that members were acting in their individual expert capacity and not as representatives of their organisations; and what would be said publicly by the Group.
- It would have been useful for the Group to have met other stakeholders - such as suppliers and the relevant Government department (Department of Energy and Climate Change).
- The notes of meetings were helpful but a couple of pages of main points discussed and action points would be a better style of meeting note.

Recommendations for future use of the Consumer Challenge process by Ofgem

The Group recommends that Ofgem should consider using the Consumer Challenge process in the future, on the following basis:

- Such Groups provide a means of Ofgem engaging in detailed dialogue with individuals with expertise and experience in energy regulation as it affects consumers.
- A Consumer Challenge Group is a complement to (and not a substitute for) other means of consumer engagement and consultation such as Ofgem's Consumer Panel, consumer research, contact with consumer organisations etc.
- Ofgem's willingness to pay members of the Challenge Group for their time where they would not otherwise be able to participate (e.g. those who are self employed or whose employers could not cover the costs of their time) was very valuable and enabled all members to devote sufficient time to the task.
- The Group feels that such Consumer Challenge Groups will work best where they are engaged in a specific project as was the case for this Group. The Group does not feel that Ofgem needs a permanent Consumer Challenge Group but Ofgem might wish to consider establishing a Panel of individuals with relevant expertise who could be called upon to participate in specific Challenge Groups (e.g. for future price control reviews or other major Ofgem projects).



If you would like to learn more about Consumer First or the Consumer Challenge Group, then please contact:

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