



Consumer Bulletin

What does our new electricity distribution price control mean for consumers?

From 1 April, Ofgem has introduced new rules to help customers get an improved service from electricity distribution network companies.

Electricity customers currently pay £3.6bn annually for electricity distribution. This amounts to about 15 per cent of an average domestic customers' bill or around £76 per year. The distribution network companies operate and maintain the electricity network that transports electricity from the high voltage national grid to homes and businesses.

We recently completed our fifth Electricity Distribution Price Control Review (covering the period 1 April 2010 to 31 March 2015), where we set the total revenues that network companies can collect from customers and where we place incentives on them to innovate and find new ways to improve their efficiency and quality of service.

As part of the price control we have introduced a number of customer service related incentives including:

- a 'worst served customer' fund to encourage network companies to improve their performance around supply interruptions (power cuts) for this group of customers,
- a financial incentive for network operators meeting a broad measure of customer satisfaction relating to supply interruptions (power cuts), connections, complaints, general enquiries and how they engage with their stakeholders, and
- guaranteed standards of performance for the network connections service provided by the companies which requires them to pay the customer if it does not meet specified standards.

These are in addition to a range of existing measures including targets (with penalties if these are not achieved) to reduce supply interruptions, guaranteed standards of service for non-connections related issues and the Customer Service Reward Scheme. The Customer Service Reward Scheme is designed to reward the performance of those distribution companies which best serve the interests of customers (across chosen categories), particularly those which exceed their licence requirements and have embedded good practices in their broader business processes.

We are allowing revenues of around £22bn over the five years and £14bn expenditure on the networks. The network companies will be able to raise their charges by 5.6 per cent on average which represents an extra £4.30 a year for a typical household. This reflects the requirement for significant investment in the networks as well as investment that network companies are making towards a low carbon economy.



Putting consumers at the heart of the Smart Metering Programme

The Department of Energy and Climate Change (DECC) aim to have smart meters installed in Britain's 26 million homes by 2020. Ofgem is leading on the first phase of the programme - scoping in more detail the functional requirements of the meters and associated in-home displays, as well as the regulatory framework needed for their introduction.

To ensure that the full benefits of smart meters are realised, we have set up a Smart Metering Consumer Advisory Group. Members from Consumer Focus, Which?, Fuel Poverty Advisory Group, Sustainability First, Centre for Sustainable Energy and Age UK represent a range of consumer interest backgrounds, and they are meeting with our smart metering team throughout the first phase of the programme. They are providing views on issues including the installing of the meters and in-house displays, data privacy, and the benefits, together with any required consumer protections, resulting from the new meters.

We have also discussed the usability of the smart meters and

displays with our Disability Advisory Forum to gain their views. The members on the Forum are RNID, RNIB, LeonardCheshire, Disability Trust, Mencap, MIND and Age UK.

In addition to the regular evidence on smart meters from the Energy Demand Research Project trials examining how customers respond to better information about their energy consumption, we have also commissioned research with groups of consumers throughout the country to assess views on a range of smart metering issues.

Details gathered through our various initiatives will be included in a prospectus document which is intended to be published in summer 2010.

Consumer involvement in setting price controls

RPI-X@20 is a two year project (started in 2008) to review the workings of the current approach to regulating Great Britain's energy networks (through price controls) and to develop future policy recommendations for the way this is done.

Over time we have developed our approach to engaging with stakeholders and we have sought increasingly to involve consumers in the price control review process.

Although we think the network companies should take a lead in engaging with their stakeholders, we also have a role in ensuring that we understand the needs of consumers. We therefore intend to establish an enhanced approach to stakeholder engagement which would complement the work being done by network companies. Current thinking on ways to develop enhanced engagement during price control reviews include:

- producing non-technical consultation documents that are accessible to a broader set of consumers and easier to engage with,
- building on existing foras for consultation of consumers and network users - the Consumer First Panel and Consumer Challenge Group,
- introducing new forms of engagement such as a new price control review forum for open discussion on key issues, and
- have better transparency on how feedback from consumer engagement has affected decisions.

We have held a number of workshops to discuss our proposals with interested stakeholders including consumer groups. These have allowed us to explore approaches that would help the participation of consumers and other stakeholders groups during the price control process. Those who attended the workshop held in early March were broadly supportive of our proposed approach.

The recommendations of the review will be reported to the Ofgem Authority, for decision this summer. Following this we will consult more widely with stakeholders on these recommendations. Subject to the views of Authority and stakeholders, we are intending to apply the proposals in the transmission and gas distribution price control review which will kick off at the end of the year.

New Energy Act to protect the consumer

The new Energy Act 2010 has several aims relating to consumers. Two of the main provisions are:

- Government to be given greater power to take action to reduce fuel poverty via the creation of a mandated social price support scheme, and
- clarification of Ofgem's duties highlighting the ability to use alternative solutions to address consumer detriment instead of, or alongside, measures to promote competition.

The Act allows the Secretary of State to establish schemes obliging energy suppliers to provide benefits to vulnerable consumers with the aim of reducing fuel poverty.

Currently the Government has a voluntary agreement with energy suppliers under which by 2010-11 energy suppliers will spend at least £150m on support for vulnerable customers. To give an idea of the intended scale of the new scheme, the 2009 Pre-Budget Report stated that energy suppliers would be required to increase that spend to £300m by 2013-14.

The schemes are intended to come into force in April 2011 after the current voluntary agreement comes to an end. A key part of the new scheme will be mandated social price support, which the Government expects will take the form of an electricity bill rebate to the most vulnerable consumers. However benefits could also be of a non-financial nature such as energy efficiency measures.

The details of the scheme, such as the amount and type of the benefits and who will be eligible, will be set out in secondary legislation after consultation this summer. Ofgem will have a duty to keep the schemes, and suppliers' compliance with them, under review.

With regards to Ofgem's duties, the Act makes it clear:

- that reducing greenhouse gas emissions and ensuring secure

energy supplies are in the interests of both existing and future consumers and should be considered as such when carrying out our functions, and

- as an alternative to promoting competition, where appropriate Ofgem should continue to consider using other methods to address consumer detriments. In such circumstances, we have sought to strengthen licence conditions or take enforcement action to prevent market behaviour that causes harm to consumers.

In addition, the Act extends the time limit within which we can impose financial penalties for breaches of licence conditions from twelve months to five years. Ofgem strongly supports this move as it will help us take effective enforcement action against companies that have breached their licences and harmed consumers.

Finally, Ofgem is currently consulting on the options for "65 working day" reform (where suppliers are currently allowed 65 working days to inform consumers of a retrospective price change) but we also welcome the Secretary of State's new backstop powers to modify supply licences in this area.



Reviewing average annual consumption figures

Average annual domestic consumption figures are used by a wide range of organisations including suppliers and switching sites, and feed into various calculations including those on average annual bills. These figures were last reviewed in 2003, and are currently set at 3,300 kWh per year for electricity and 20,500 kWh for gas.

Developments in demographic trends, consumption patterns and domestic

consumers' attitude towards energy use have led us to consider that the annual consumption figures we currently use are in need of review.

We will be consulting on this work shortly, and will welcome stakeholder views regarding both proposed revisions to the consumption assumptions and the methodology used to calculate them.



Label launched for green tariffs



A new certification scheme was launched in early February which labels green electricity tariffs that have been certified as having genuine environmental benefits.

The Green Energy Certified label will help customers recognise tariffs that have been certified under the scheme. It will reassure them that if they choose a certified green energy deal they will be supporting energy suppliers who are going the extra mile to reduce carbon emissions.

To be eligible for certification, energy suppliers will have to demonstrate to an independent panel of experts that their tariffs result in a reduction of a minimum threshold of carbon dioxide

emissions. Crucially energy suppliers must show that the activity associated with the green tariff is in addition to what they already have to do to meet existing Government targets for sourcing more renewable electricity and reducing household carbon emissions.

The scheme implements Ofgem's Green Supply Guidelines that we published in 2009. The guidelines set out what green tariffs should comprise of, how they should be marketed and the evidence required to back-up claims. British Gas; E.On; EDF energy; Good Energy; npower; Scottish & Southern Energy and Scottish Power have all signed up to the guidelines and can now use the new label when they communicate with customers on tariffs certified under the scheme.

Consumer views gathered on demand side response

Demand Side Response involves electricity users varying demand in response to the ability of the supply side to match users' needs.

Effective Demand Side Response could mean: reduced costs in managing price volatility (thus lower costs for consumers); the same supply capacity and overall reliability for less capital; and improved local supply reliability.

We are working on a discussion paper examining the potential of Demand Side Response in the electricity sector and held a workshop in January to serve as a discussion forum for consumers and gather information on current practice. Energy users along with experts from academia, consumer and environmental

groups and industry attended the workshop, with presentations giving a small user's perspective and a large energy user's perspective.

This was followed by break-out sessions where participants were divided into two groups (large and small users) to discuss what the barriers are to increasing Demand Side Response within each consumer segment and how these could be overcome. The discussion paper on Demand Side Response in the electricity sector will be published later in 2010.

