

RIIO T1 and GD1 Consumer Challenge Group

www.ofgem.gov.uk

December 2012

This is a review of the Consumer Challenge Group's work following publication of the Final Proposals for the transmission and gas distribution price controls - RIIO¹ – T1 and GD1.

A Consumer Challenge Group (CCG) was set up as a key part of Ofgem's stakeholder engagement process to assist us in ensuring the consumer view was fully considered during the RIIO – T1 and GD1 price controls. Updates on the work of the Group during the price control process have been previously provided in Ofgem's RIIO newsletter and Consumer

Purpose of the Group

The CCG was set up to act as a 'critical friend' to Ofgem to help ensure that the price control settlements for T1 and GD1 are in the best interests of consumers, by providing inputs which might not come through other means such as primary consumer research. The CCG built on the successful approach piloted as part of the previous electricity distribution price control (DPCR5), as a more intensive form of engagement with consumer advisors.

The CCG was not a decision making body but acted in an advisory capacity to help inform the Authority's decision making processes. Ofgem committed to taking the Group's views seriously and giving them due weight but was not obliged to act on the views expressed. The Group were not expected to sign up to Ofgem's decisions.

Membership

The Group comprised a number of consumer (both household and industrial/commercial) and environmental experts acting in an individual capacity.

Simon Roberts

(Chief Executive, Centre for Sustainable Energy)

Gill Owen

(Chair, Public Utilities Access Forum)

Jeremy Nicholson

(Director, Energy Intensive Users Group)

Bob Spears

(Chairman, Utility Consumers Consortium)

Solitaire Townsend,

(Co-Founder, Futerra)

Trisha McAuley,

(Deputy Director, Consumer Focus Scotland)

Tony Grayling

(Head of Climate Change and Sustainable Development, Environment Agency)

Sharon Darcy

(non-executive Director, Consumer Focus)



¹RIIO (Revenue = Incentives + Innovation + Outputs) – an output-led approach for setting price controls, with T1 and GD1 as first price controls where it has been applied.

The Consumer Challenge Group's Contribution

The CCG provided input and challenge on issues throughout the development of the price control from the Draft Strategy to Initial Proposals.

Throughout the process the CCG met with the Ofgem T1 and GD1 teams to provide challenge, feedback and suggestions on policy development.

They met twice with the Authority's GD1 and T1 price control committee.

The CCG also benefitted from meeting with the transmission and distribution companies on a one to one basis to discuss their business plans.

The CCG had a seat on Ofgem's Price Control Review Forum where it provided views and input alongside a wider set of stakeholders at these meetings.

Key issues considered by the Consumer Challenge Group

Contextual Considerations

The CCG highlighted some over-arching issues relating to the price controls being developed under the RIIO.

- **The RIIO model** – how the new model would be applied in practice, and that the move to output regulation was as effective as possible in serving the interests of consumers.
- **Costs for consumers** – that the costs and benefits to consumers of key initiatives funded through the price controls were clearly demonstrated, given the current economic climate and rising bills.
- **Stakeholder engagement** – a key requirement under the RIIO model. The CCG focussed on whether company stakeholder engagement had been tailored and meaningful, how far it had shaped the company business plans and whether their business plans provided evidence for adopting, or equally not taking forward, particular proposals from stakeholders.

Specific issues considered by the CCG

The CCG provided challenge and feedback on a number of specific issues including:

- **Customer information** – that gas distribution companies should have a clear understanding of customers connected to their pipes.
- **Innovation** – the extent to which innovation was seen as an integral part of the network companies approach to delivering their business.



- **Social obligations** – the gathering and use of specific data by gas distribution companies to address carbon monoxide poisoning, and to help address fuel poverty through gas network extensions, was key to the delivery of outputs in this area.
- **Funding needed for gas distribution network** – whether the level of funding in the gas distribution company business plans provided the best value for consumers.
- **Addressing environmental issues** – given that the RIIO model has specific environmental outputs, looking at how network companies were embedding them in their businesses. This included how they addressed issues such as climate adaptation.
- **A broad environmental measure** – developing a 'balanced scorecard' to assess companies' behaviour to help facilitate low carbon across the transmission network.

One of the main issues the CCG highlighted was the challenge of engagement in the companies' business plans which ran to many pages. They questioned whether this would deter consumers, or representatives, from engaging with them. It was noted some companies had attempted to address this by producing shorter, more digestible summary documents.

Ofgem Team View

“ The Consumer Challenge Group made a very positive contribution to the development of our thinking in RIIO. Its input was invaluable in providing us a consumer perspective in key areas such as the coverage of innovation, in assessing the scope and quality of the companies’ stakeholder engagement and in relation to the development of the framework to enable the delivery of consumer focussed outputs. This input is reflected in the package of proposals we have published. ”

Grant McEachran, Head RIIO T1



Recommendations for the Consumer Challenge Group for RIIO ED1

- We have set up a CCG for the electricity distribution price control, RIIO – ED1. The Group for RIIO – T1 and GD1 highlighted some areas to consider to improve the process for this price control.
- Consider more regular communication on its work, particularly with other consumer and public interest groups would help make the process more active and more engaging to other stakeholders.
- To ensure a balance between challenge to Ofgem and challenges to the industry, with a particular focus on whether incentive mechanisms and output measures being proposed by Ofgem are likely to secure from the companies the sustained changes in investment strategies and commercial behaviour necessary to meet future challenges, while protecting consumer interests.
- To fully consider how the interests of future consumers are being included in the process.

Contact details

Consumer Challenge Group

If you would like to find out more about the Consumer Challenge Group please contact Phil Sumner, Senior Manager - Consumer Policy and Insight
consumerfirst@ofgem.gov.uk

ofgem

ofgem E-Serve