

**Price Control Review Forum: Summary of proceedings****Date: 3 December 2012, 13:15 – 16:15****Venue: Queen Elizabeth II Conference Centre, Westminster**

On 3 December 2012, Ofgem held the second Price Control Review Forum (PCRF) for the electricity distribution price control (RIIO-ED1). We summarise the main points arising in the meeting below.

Annex 1 set out the attendees at this PCRF. Ofgem's and DNOs' presentations are attached as associated documents to this summary.<sup>1</sup>

**Introduction and purpose of the meeting**

Ofgem highlighted the main purposes of the meetings as being:

- to provide an overview of the strategy consultation published in September and the key issues raised in responses
- for stakeholders to present issues which they wanted to be discussed
- to give stakeholders an opportunity to discuss key policy issues prior to the publication of the strategy decision in February 2013

The session began with a presentation from Ofgem which provided a high level overview of the RIIO-ED1 process and Ofgem's stakeholder engagement.

Ofgem then presented on the main outputs set out in the strategy consultation and gave an overview of the responses we have received. Outputs relating to the environment were discussed first. Ofgem highlighted that the cost of reinforcing the network to accommodate general load growth (associated with increasing demand for electric vehicles, heat pumps etc) will be funded by all customers through distribution use of system (DUoS) charges as opposed to through connection charges. They stated that this policy will need to change, following the mass implementation of smart meters.

The representative from the Consumer Challenge Group (CCG) highlighted that as a point of principle poor customers should not be cross-subsidising well-off customers. There is a clear need to revisit this issue when there is more data available. There is also a need to set out a road map, indicating how we believe

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<sup>1</sup> <http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/rrio-ed1/Pages/index.aspx>

these costs should be recovered and the steps that need to be taken to achieve this given current restrictions.

The representative from Federation of Small Business (FSB) pointed out the need to differentiate between customers who are contributing energy to the grid (ie micro generation) and those who are drawing down load. Ofgem agreed that ultimately charging arrangements should reflect the contribution each customer makes to any required reinforcement. However, in the absence of smart metering data there is not sufficient visibility to identify the individual contribution of customers to peak demand on their local network.

Consumer Focus asked about the relationship between an approach that sends clear cost signals to consumers and the Retail Market Review (RMR) that seeks to simplify tariff structures. They emphasised that consumers should know prior to their purchase what the consequences (upon the network and their electricity charges) might be.

Ofgem commented that there are ongoing discussions regarding how price signals would work with domestic customers, including whether such a signal would be sufficient to encourage customers to shift their demand. Ofgem commented that they would be undertaking some work to investigate the options in this area.

Ofgem finished their presentation by highlighting that they are proposing to remove the Distribution Generation (DG) incentive. Ofgem explained that this was an incentive to connect DG in the most efficient manner. They outlined that the same aims could be achieved through bringing DG into allowed revenue and applying the efficiency incentive and uncertainty mechanisms. This is the proposal to deal with the uncertainty around the volume of demand which might connect in RIIO-ED1 and there seemed no reasons to have a separate approach to manage the same issue for DG. There were no representatives of the DG community at the meeting so no further issues were discussed regarding this incentive.

In the following session, Ofgem set out key issues in relation to customer satisfaction and social issues. We believe DNOs have a role to play in addressing fuel poverty and consumer vulnerability. We raised questions about how DNOs could improve the level of data they hold on consumers that might benefit from additional assistance (ie, on the Priority Services Register) and how, through collaboration with other agencies, this information could be more effectively utilised.

FSB stated that there are some borderline issues in this area. DNOs should not avoid responsibility of recovering unpaid fees in some areas by socialising the cost across all customers. MEUC questioned the need for DNOs to have social obligations and whether this issue was not better dealt with by government and local authorities.

Ofgem responded that DNOs already have certain obligations in relation to consumers on the Priority Services Register. We are seeking ways to ensure that fulfil these obligations effectively and look for opportunities to enable others

to provide additional assistance. We are keen to hear views on what further activities DNOs should undertake in relation to social issues.

CCG stated that companies should not be given incentives for activities that they should not be doing or are already doing. There should be a reputational incentive which is complimentary to the price control.

In relation to measures to improve the service for customers connecting to the network, Consumer Focus stated that an incentive to reduce the overall time to connect seemed sensible. In terms of Guaranteed Standards, customers have raised some issues and there appears to be a disconnection between the service that customers are receiving and the pay outs from the DNOs for breaches to the standards.

A supplier commented on the Broad Measure of Customer Satisfaction incentive package (BMCS) as being too strong an incentive given the relatively small number of customers that interact with DNOs. They have concerns about Ofgem fixing targets for performance for the duration of RIIO-ED1 and these becoming irrelevant in due course. The supplier stated that in this regard, DNOs have proven to be able to argue successfully for targets to be changed where they are too challenging. Customers however are not able to argue for more challenging targets where DNOs prove to be able to comfortably reach targeted performance levels. A DNO responded that they prefer fixed targets as it is more straightforward to justify the business case for activities/expenditure that leads to an improvement in customer service. They stated that since they do not know what the outcomes will be at this moment it is difficult to plan strategically.

In the next presentation, Ofgem set out for discussion key issues regarding reliability and safety outputs. Ofgem stated that the reasoning behind reliability and safety mechanisms is that only companies who are outperforming their targets are allowed to make money. In the next price control everybody will have higher and tighter targets since they will be set three years before. Customers will be paying for improved levels of service.

There then followed a general discussion regarding fast tracking and Information Quality Incentive (IQI) (a mechanism that incentivises DNOs to provide their most accurate cost forecasts in their business plan submission). A number of stakeholders including suppliers, CCG representative and Consumer Focus were interested in the benefits of fast tracking and the data that is available to assess the DNOs' submissions. Ofgem stated that the decision to fast track companies would rely, among other things, on the companies delivering accurate cost forecasts and we would make data available regarding companies' performance. Within the RIIO-ED1 package there will be changes to the IQI matrix to strengthen the incentives on companies to come forward with efficient forecasts.

## **DNOs' presentations**

Northern Powergrid went through their presentation on low carbon volume drivers. They set out options for a volume driver to address the uncertainty linked to the take up of low carbon technologies during RIIO-ED1. Their view is that any mechanism should relate the intervention required to the event causing the need for intervention. They believe that whatever volume driver Ofgem

decides on will be difficult, hence it is a case of which one is most accurate and the easiest to implement. Other DNOs added that the mechanism should work transparently and some of the cost of connecting low carbon technologies could be avoided through innovation.

SP Energy Networks presented on the role of a network acting as a system operator (DSO) during RIIO-ED1. They talked about the main functions that would be required of a DSO, as well as the drivers and market mechanisms that would need to be available. SP – through stakeholder engagement - have also identified a possible role for them to act as independent energy advisors. Consumer Focus and CCG agreed that there might be a role for DNOs to deliver energy efficiency solutions but flagged that suppliers already have this obligation. Therefore DNOs would only offer this service where there would be network benefits.

More importantly, there is a question regarding data sharing and partnerships in this area. CCG highlighted the importance of relevant information to be made publically available, where this might be utilised by others. SP commented on the existence of rules governing DNOs and supplier interactions with customers and how this has led to a differentiation in the type of service and expertise available. CCG added that DNOs have the capacity and skills required to lead on enabling Demand Side Response (DSR) to make more efficient use of available network capacity. DNOs should understand what data they currently have available to them and what the likely impact of smart metering will be. Their business plans should set out the type of cost benefit analysis that will allow a full understanding of the viability of DSR, and the likelihood of customer take-up.

Ofgem reiterated that there are no price control barriers for DSR development but there might be other technical/commercial barriers that DNOs need to work through.

## **Close**

Ofgem closed the session and thanked everyone for their attendance. Ofgem will publish the meeting's slides and a high level summary on the RIIO-ED1 section of the website.

The next PCRF meeting will take place on late July/early September 2013 and will focus on the DNOs' business plan submissions.

## **Annex 1**

### **PCRF Attendees List**

Alison Sleightholm	WPD
Andrew Manning	Centrica
Ben Wilson	UKPN
Colin Connor	HSE
Colm Gibson	Consultant
David Caro	FSB
Eddie Proffitt	MEUC
Iain Miller	Northern Powergrid
Ian Burkett	GMB
John Christie	DECC
Jim McOmish	SP
John Barnett	Northern Powergrid
Keith Hutton	UKPN
Lewis Dale	National Grid
Paul Hemsley	SSE
Penny Taylor	HSE
Richard Hall	Consumer Focus
Sarah Walls	ENWL
Sharon Darcy	Consumer Challenge Group

### **OFGEM**

Hannah Nixon  
Dora Guzeleva  
Anna Rossington  
Lia Santis  
James Veaney  
James Hope  
Andrew Stone  
Olivia Powis  
Chris Watts