

# RIIO - ED1 Consumer Challenge Group

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**Ofgem set up a Consumer Challenge Group (CCG) at the start of the latest electricity distribution price control, RIIO-ED1<sup>1</sup>. The CCG builds on the successful approach used in previous price controls as a more intensive form of engagement with experts in energy consumer interests. At the beginning of March 2013, Ofgem published its Strategy Decision<sup>2</sup> for RIIO-ED1.**

This note provides an update on the work of the CCG. The CCG has met with the RIIO-ED1 team and the RIIO-ED1 Committee of the Authority to provide input to the development of the policies and framework set out in the Strategy Decision.

The Strategy Decision details the outputs we expect the electricity distribution network operator companies (DNOs) to deliver and the incentives to deliver them. These cover customer satisfaction, connections, reliability, safety, activities to address a range of social issues, including additional support for vulnerable customers, and environmental impacts/sustainability.

The RIIO-ED1 price control period will run from 2015 - 2023. DNOs will now be required to submit business plans showing how they will deliver these improvements efficiently and cost-effectively. If the plans are of sufficiently high quality the DNOs could be 'fast-tracked' meaning their review is concluded up to nine months early.

## The purpose of the Consumer Challenge Group

The CCG acts as a 'critical friend' to Ofgem to help ensure that the price control settlement is in the best interests of existing and future consumers. They provide inputs and

challenge which might not come through other means such as primary consumer research.

The CCG is not a decision making body but acts in an advisory capacity to help inform the Authority's decision making processes. Ofgem gives due weight to the Group's views but is not obliged to act on them. The CCG is not expected to sign up to Ofgem's decisions.

The CCG has a seat on Ofgem's RIIO-ED1 Price Control Review Forum - the wider stakeholder Forum for RIIO-ED1.

### Membership

The CCG members act in an individual capacity bringing consumer expertise and insight across a range of sectors.

They are:

**Simon Roberts** (Chief Executive, Centre for Sustainable Energy)

**Linda Lennard** (Visiting Fellow at the Centre for Consumers and Essential Services at the University of Leicester)

**Sharon Darcy** (Board member of Consumer Focus/Regulated Industries Unit)

**Paul Smith** (Director, 4PS)

**Heather Brash** (Former Convenor Waterwatch Scotland and former vice-chair Scottish Consumer Council)

**David Leam** (Executive Director for Infrastructure Policy at London First)



<sup>1</sup> RIIO model for price controls: Revenue = Incentives + Innovation + Outputs

<sup>2</sup> <http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/riio-ed1/consultations/Documents1/RIIOED1DecOverview.pdf>

## Strategy Decision - Key areas of CCG focus

The CCG has provided challenge and feedback on a number of issues in the development of the Strategy Decision.

### Data

Data will be fundamental to the future delivery of services by DNOs, particularly with the emerging development of smarter networks. This covers the gathering, sharing, analysis and use of a range of data by DNOs. The CCG considered that the RIIO-ED1 Strategy should require DNOs to embed data strategies to drive their businesses. Rather than waiting for the data resulting from smart meters, DNOs should adopt this approach now, using existing available data to improve understanding of their networks and the households and businesses which use it. Their data strategies should explain how this will be used to improve forecasting and inform customer service, operational and network investment decisions.

The CCG consider that effective data strategies should reduce the need for 'uncertainty mechanisms' during the price control period. The CCG also noted that the DNOs ought to be planning to make effective use of smart meter data as it becomes available.

- The CCG has noted that the Strategy Decision states that as part of the consideration for fast-tracking a DNO through the price control process, good quality information will be key so customers can understand what will be delivered in return for allowances. DNOs should explain the current quality of their information and how they will improve it.

### Removing barriers to low carbon technologies

The CCG recognised the need to remove potential barriers to domestic customers adopting low carbon technologies such as electric vehicles or heat pumps. They agreed that DNOs must recover the costs of any reinforcement triggered by load or generation growth by domestic customers through use of the distribution system charges (DUoS) to avoid low carbon technologies being unduly penalised with the costs of reinforcing the network.

The CCG highlighted the reactions of consumers on Ofgem's Consumer Panel<sup>3</sup> who considered that there is an element of unfairness where those who cause constraints on the network through high usage do not necessarily pay more. It however, noted that allocating costs in a more direct way would be difficult until smart meters, providing more accurate consumption data, have been rolled out.

- The CCG challenged Ofgem to provide a clear narrative in the Strategy Decision on how this would work, particularly at a time of rising customer bills.

### DNO business plans

The CCG advised Ofgem to learn from the business plans submitted in the recent transmission and gas distribution price control reviews, RIIO-T1 and GD1. In particular it made the point the DNO business plans should be driving the businesses and be capable of being understood within the wider business and by their customers. A CCG member provided views on how business plans could be made more accessible at Ofgem's 'Business Plan workshop' held with DNOs. This included providing a central 'thread' of what the DNO was going to deliver, better use of summaries and links between key documents.

- The CCG welcomes Ofgem's requirement for DNOs to provide a '1-page summary' of their business plans describing what they will deliver over the price control period and the cost of doing this (in £s) for customers.



<sup>3</sup> <http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntnrls/riio-ed1/consultations/Documents1/RIIOED1ConResConsumerPriorities.pdf>

## Outputs and incentives

The CCG flagged some specific issues around the strategy outputs and incentives.

DNOs have an important role to play in **helping consumers in vulnerable situations**, and should adopt a more significant approach in addressing a range of issues. DNOs should engage and build partnerships with other energy companies, local stakeholders and agencies working with vulnerable consumers. They should make full use of the information they collectively hold on consumers in vulnerable situations, and to develop solutions to assist them. The CCG considered this behaviour would need to be incentivised given the unique position occupied by DNOs with respect to vulnerable consumers and the 'step change' required in DNO activities to realise this potential fully.

- The CCG has noted the proposals in the Strategy Decision provide incentives to stimulate improved performance.

Under **reliability**, the CCG noted the proposed improvements to the 'Guaranteed Standards of Performance' including the reduction of time from 18 to 12 hours triggering payments to customers when

electricity supply is interrupted, together with payments made automatically to vulnerable customers on the Priority Services Register. Given the length of the price control period to 2023 the CCG questioned whether the current level of payment to interrupted customers should be increased to reflect increasing prices.

- The CCG welcomes the Strategy Decision proposal to increase payments for interruptions.

For **connections**, the CCG supported the need for DNO performance in 'large scale' and distributed generation connections to be assessed and rewarded separately from their performance for other types of connections. However, the type and number of these connections might not be easily captured by customer satisfaction surveys and a different approach could be developed.

The Strategy Decision reflects this approach through including an Incentive on Connections Engagement (ICE) where DNOs will need to engage with stakeholders and use their feedback to agree (and deliver) a work plan and relevant targets to measure performance.



In addition to providing incentives for DNOs to take action to address losses from the networks, the CCG considered that there should be more public accountability on their **environmental** actions such as reducing their business carbon footprint. A 'discretionary reward' might be a way of achieving this noting that the Strategy Decision proposes a reputational reporting requirement only.

The CCG welcomes the approach being taken to encourage **innovation** but stressed the importance of innovation benefits being mainstreamed in DNO businesses and not seen as a stand alone activity.



## Next steps

The CCG will play a role in assessing the DNOs' business plans in the summer – giving views on how they best meet the interests of consumers. In particular the CCG will look to see how the DNOs have sought the views of stakeholders and used these views to inform their business plans.

The CCG will also meet with individual DNOs to discuss their plans, and will present its views to the RIIO-ED1 Committee of the Authority. The CCG will also examine Ofgem's reactions to the DNOs' business plans and the extent to which Ofgem's proposed responses reflect the CCG's assessment.



## Contact

The CCG will publish further updates on its work during the price control process.

If you would like to find out more about the RIIO-ED1 Consumer Challenge Group please contact Phil Sumner, Senior Manager - Consumer Policy and Insight at **[consumerfirst@ofgem.gov.uk](mailto:consumerfirst@ofgem.gov.uk)**