
**Consumer Challenge
Group RIIO-ED1**

**Price Control Review
Forum**

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CCG: background

- Acts as a 'critical friend' to Ofgem to help ensure the price control settlement is in best interests of existing and future consumers
- Provides input and challenge which might not come through other means such as primary consumer research
- Acts in an advisory capacity to help inform the Authority's decision making processes

CCG Members

CCG members are selected professional consumer advocates acting in an individual capacity:

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 Futures)

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)

RIIO-ED1: key areas of CCG focus

CCG provided challenge and feedback in development of RIIO ED1 Strategy Decision: including:

- Data
- Barriers to low carbon
- Business plan
- Outputs and incentives

For the business plans CCG focus includes:

- **Financial Parameters** - whether Ofgem's approach addresses current DNO options and operations; whether the proposals are reasonable and fair to consumers
- **Stakeholder Engagement** – how plans consider social and geographical factors
- **Management of risks, uncertainty and innovation** – how plans consider range of potential risks and of innovation
- **Delivering consumer benefits through data management** - looking at data strategies and how they relate to delivery of consumer benefits
- **Planning for future smart requirements** – including consideration of costs of smart meter data management
- **Social objectives** – role of DNOs in addressing consumer vulnerability

Business plans - overview

- General improvement compared to previous Price Controls
- But concerns about readability and accessibility of plans
- Variations in understandability, quality of content and level of detail
- Some appear to focus on regulatory tests rather than a clear plan to drive the business

Financing Plans

Are consumers getting a fair deal?

- Remarkable similarities in key financial parameters – especially cost of capital and gearing
- Companies now operate in global capital markets
- Lack of transparency around complex corporate structures
- Is the balance right between companies, shareholders and consumers?

Challenges

- Does Ofgem's finance model fully address reality of DNOs' financial structures and options and provide assurance of value for consumers?
- Concerns whether any should be fast-tracked on basis of current information
- Ofgem should thoroughly review the finance parameters for the DNOs for this and future price controls
- Ofgem should review financial reporting requirements and transparency of accounts

Presentation

- Volume of documents submitted including multitude of annexes
- Most are difficult to navigate and get to grips with: barrier to confidence in robustness of proposals
- Some appear to be aimed at passing regulatory requirements rather than offering comprehensive company-specific business plans
- Some contain detailed analysis not always clearly linked to high level summaries

Stakeholder engagement

- Plans vary in providing clarity on how DNOs develop and justify proposals to and from stakeholders
- But some good examples of where they have amended plans
- In general stakeholder surveys are thorough, several had been independently audited, and include engagement with rural stakeholders
- Not clear if all have embedded stakeholder engagement in business operations or it is just to pass regulatory requirements

Risk, Uncertainty, and Innovation

Risk and Uncertainty

- In general plans focus on uncertainty of regulatory mechanisms
- They do not provide thorough risk analysis, or discuss mitigation measures and opportunities, although some good analysis in places
- Most plans do not go beyond the DECC scenarios – they do not look at wider scenarios or stress test their plans against other risk factors

Innovation

- Most plans do not make clear the purpose of innovation in wider context of business needs and development
- Plans reference innovation projects for lessons learnt but mostly in relation to Ofgem funded projects
- Plans do not fully justify their Network Innovation Allowance requests or provide clear analysis of the consumer benefits of innovation

Consumer Challenge Group

Delivering consumer benefits through data management & planning for future smart requirements

Delivering consumer benefits

- Limited and uneven use of data to develop and drive operations and/or clear analysis of costs and benefits
- Plans tend to focus on internal IT costs of Smart Metering rather than broader data management to deliver consumer benefits

Planning for future smart requirements

- All companies describe potential value of Smart Meter data but vary in discussion of use of data and provide wide cost assumptions
- Most do not make sufficient use of existing data and do not explore wider use of IT tools and processes
- Very narrow perspectives on use of data, instead of mapping out future demand and organisational response to do long term planning (eg population trends)

Social Obligations

- All plans recognise DNOs' role and need to improve Priority Service Registers
- Most accept broader approach to consumer vulnerability but vary in setting out implications for their operations
- And great deal of variation in detail of implementation plans; general lack of clarity about outcomes and monitoring
- Plans include a lot of discussion about the role of partnerships but vary in giving concrete examples