

Dear Mark,

It was good speaking to you earlier. To summarise the key messages.

Publishing the basis of calculations

Every impact assessment (“IA”) will include an attempt to quantify the costs and benefits of the policy proposals. The outcome of these calculations will be given, and the accompanying narrative will try to outline major assumptions that have been made. But stakeholders generally cannot see the calculations themselves. On occasion, it can be hard to work out exactly how a figure is reached, or, to see how that figure would have differed had one or several of the underlying assumptions been different.

We think there would be value in publishing the Excel spreadsheet(s) that generated the headline cost/benefit assessment set out in the IAs alongside the main document. We think this would serve three purposes.

Firstly, it would help understanding. It would mean that all stakeholders could understand exactly how the figures were derived, and would reduce the risk of misunderstandings influencing their feedback.

Secondly, it would help with stress-testing your models. Stakeholders could provide better feedback on the robustness of a model if they can see it. In any given case it may reassure some, alarm others – but teasing out why will help you to ensure that you have a robust evidence base.

Thirdly, in cases where stakeholders disagreed with assumptions – whether feeling them too optimistic or too pessimistic – it would allow them to run alternative scenarios without having to build their own model from scratch. For lesser resourced stakeholders, this is likely to be particularly useful.

We discussed whether this approach might not be possible in cases where commercially confidential information was used in the calculation. I agree that you would need to avoid disclosing commercially sensitive information, but I think this should be manageable in at least the majority of cases. Most IAs deal with market-wide issues that affect multiple players, not simply one. So I think it should normally be possible to provide data in an anonymised way that does not have a prejudicial effect on any stakeholder.

Post implementation IAs

We think there would be value in conducting post-implementation IAs of key policy changes (“flagship” projects). This would allow you to identify what went better, or worse, than you predicted – and why. This information would be useful both in informing the development of future policy in that specific area, but also in understanding general strengths and weaknesses in your policy development process.

We recognise that ex post review can be uncomfortable – no-one has perfect foresight and these are complex markets, so you are bound to find that some things have not worked out quite as you would have wished. But the intention is not to batter you – in other areas policy may well have outperformed expectations. Knowing why both under-performance and out-performance happened is useful. In any event, as a public body that operates in a high profile and highly politicised sector,

you should be aware that the ex post assessment of major policy changes will inevitably take place anyway – it will simply be conducted by others if you do not attempt it yourselves.

In the specific area of RMR, we mentioned that we would like to see a range of success criteria considered in any post implementation IA and/or ongoing monitoring that Ofgem does. These are set out on page 2 of our [April 2013 consultation response](#), and are not replicated here for brevity.

Distributional analysis

The energy sector is not so much a single market as multiple (albeit overlapping), markets – this means that the average impact rarely tells the whole story. For example, the circumstances of PPM customers differ significantly from those on standard credit or direct debit deals, both in terms of the choices they face and in terms of the quality and nature of service they receive. Another example, the costs of decarbonisation will be almost entirely loaded on to electricity consumers so you need to demonstrate that you understand the impact on consumers who are dependent on electricity for heating (I'd commend our [The Hardest Hit](#) report to you for background on this issue).

So we would like to see greater distributional analysis in IAs to tease out where the impact on classes of consumers may differ materially from the theoretically average consumer.

You have statutory duties around defined categories of vulnerable consumers and you should always be able to demonstrate that you have specifically considered the impact on those groups. The impact of any policy on fuel poverty should also always be considered (as per what used to be Treasury Green Book guidance).

But in looking at consumer impacts we would also suggest breaking down analysis by income; fuel type; payment type; rural/urban; and household make up.

Allowing adequate time for consultation, and taking into account other consultations – including those issued by DECC

We welcome that Ofgem now produces a forward workplan showing expected consultation dates. However, you need to be aware that (a) DECC also makes demands on the same stakeholders' time and (b) the sheer weight of Ofgem and DECC work programmes can overload stakeholders.

We would strongly urge you to always allow a minimum of eight weeks and preferably 12 for consultation on IAs. Four weeks will rarely if ever be adequate. Unnecessarily truncated consultation windows may reduce the quality of feedback you can get or, in some cases, result in stakeholders who do have views on a matter not being able to respond at all.

We would also urge you to co-ordinate consultation timings with DECC. Clashing resource demands may reduce the quality of feedback you can receive. I would emphasise very strongly that this is not a theoretical problem but a very real one – clashing deadlines can and (frequently) do force stakeholders to make decisions along the lines of “We can't respond to both. So which one do we choose?”.

Ensure international comparators are informative

The real world is often a better laboratory for ideas than theory, but it is important to ensure that examples used are directly relevant to the situation at hand if they are to inform. For example, a colleague highlights that an Ofgem IA on smart metering made reference to a piece of Brattle

research to illustrate the benefits of time of use pricing to low income consumers. But that this piece of research had looked at behaviours in summer, in five US sunshine states. It could be argued that this scenario is so far removed from UK conditions as to be at best, meaningless, at worst, misleading.

Ensure qualitative factors are also taken into account

Internal feedback suggests that qualitative impacts of proposals are not always as well evidenced as they could be. Again to use smart as an example, early IAs did not include hard to quantify (but nonetheless important) improvements for consumers, eg improvements in prepay (choice of top-ups, friendly gas credit), accurate bills, easier and faster switching, greater control and assistance with budgeting. It is important to ensure that IAs do not solely focus on monetised benefits but also capture such qualitative benefits.

We are not planning to submit a more formal response to the consultation due to resource constraints. However, there is nothing confidential in these comments. I am entirely comfortable for you to refer to them in any follow-up documentation if you need to demonstrate whose feedback you are responding to. Indeed, I am happy for you to publish this email alongside other consultation responses if you see fit.

I have used a couple of examples derived from smart metering IAs. If you require further detail on those examples, please contact my colleague Zoe McLeod (cc'd, 020 7799 7973).

Kindest regards,

Rich

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