

# RIIO - ED1 Consumer Challenge Group

www.ofgem.gov.uk

December 2013

**The Consumer Challenge Group (CCG) has continued to input its views on the electricity distribution price control review, RIIO-ED1<sup>1</sup>. It provides Ofgem with a more intensive form of consumer engagement with energy consumer experts. It has provided its views on the business plans submitted by the electricity distribution network operators (DNOs). On 22 November 2013 Ofgem published its assessment of the plans.**

This note is an update on the work of the CCG involving its assessment of key aspects of the business plans published by the DNOs in July. It follows the previous note describing the CCG's input to the RIIO-ED1 strategy development.

In its assessment of the plans Ofgem concluded that only Western Power Distribution's (WPD) plans for its four licensees are consistently high quality across the board. It believes that these plans represent good value for current and future customers and should therefore be finalised early (termed 'fast-tracking') subject to the outcome of consultation.

The CCG inputted its views on the DNO's planned outputs and the impact of their plans on prices. It considered Ofgem's views of the plans, challenging where it felt necessary. It met with each of the DNOs to discuss their plans and presented its views to the RIIO-ED1 Committee of the Authority.

The CCG acts as a 'critical friend' to Ofgem and provides an external perspective as Ofgem seeks to ensure that the price control settlement is in the best interests of existing and future consumers. The Group provides inputs and challenge which might not come through other means such as primary consumer research. It also has a seat on the wider stakeholder Price Control Review Forum.

The CCG is not a decision making body but acts in an advisory capacity to help inform the Authority's decision making processes. Ofgem takes account of the Group's views but is not obliged to act on them and does not consider itself bound by them. The CCG is not expected to sign up to Ofgem's decisions.

## Membership

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

They are:

**Simon Roberts<sup>2</sup>** (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** (Chief Executive, 4PsMarketing)

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

**David Leam<sup>3</sup>** (Executive Director for Infrastructure Policy at London First)



<sup>1</sup> RIIO model for price controls: Revenue = Incentives + Innovation + Outputs. RIIO-ED1 is the first implementation of RIIO in the electricity distribution sector. The RIIO-ED1 price control period will run from 1 April 2015 to 31 March 2023.

<sup>2</sup> Simon Roberts declared an interest regarding work by the CSE advising Western Power Distribution on social issues and did not participate in the relevant discussions or provide views on company plans in this area.

<sup>3</sup> David Leam did not participate in this phase of the CCG's work.

## Company business plans – Key areas of CCG focus

### Quality of the DNO business plans and stakeholder engagement

The CCG considered that there had been a considerable improvement in the quality of the DNOs' business plans from the previous electricity price control review, and the more recent RIIO transmission and distribution reviews. This demonstrates that the DNOs have understood RIIO, and have learned from the other reviews. They have also acted on feedback provided, including from the CCG.

It noted, however, that there were differences in the overall tone of the plans, particularly in the way some companies embraced the RIIO principles, demonstrating an enthusiasm for the way it allows them to own their plans and run their businesses.

The CCG saw that there had been a step change in the way DNOs embedded their stakeholder engagement processes to inform the way they do business. It noted that many of their stakeholder engagement models included 'critical friend' and customer panels.

### Strategy and data benefits

The CCG noted that the DNOs' strategies showed they were not intending to undertake significant investment in anticipation of future changes in energy demand and generation, although it was concerned that some plans were less clear on how they would manage changes in the second half of the RIIO-ED1 period, ready for the period beyond this price control. It suggested that Ofgem should assess how this may risk an increase in future costs to consumers.

All DNOs broadly explained how they would benefit from smart meter data in their business plans. However, the CCG was concerned to see some DNOs did not demonstrate how they would link smart data with wider sources of business intelligence or develop the tools and processes to handle and use this data to deliver consumer benefits.

The CCG recommended that Ofgem should consider whether each DNO had a strategy in place to manage data in order to deliver value to consumers.



## Managing uncertainty and innovation

The CCG was concerned that the business plans generally focussed on price control mechanisms to manage revenue risk, rather than a broader approach to risk assessment, management and mitigation. In the meetings with the CCG, some DNOs did provide more concrete examples of the strategies they would use to mitigate risks specific to their companies.

The CCG noted that DNO plans did not provide detail on the outputs expected from the differing levels of Network Innovation Allowances put forward by each of them.

It was concerned that not all DNOs were clear in their plans on why the lessons learned from innovation activity could allow them to more effectively deal with uncertainty. While referencing Ofgem-funded projects, the CCG considered that some DNOs were less strong on saying how the use of wider innovation and its associated benefits would be shared with customers.

## Social obligations

The CCG welcomed the DNOs' recognition of the wider concept of consumer vulnerability in their business plans in line with Ofgem's Consumer Vulnerability Strategy.<sup>4</sup>

The CCG considered that the next step for the DNOs was to embed and implement this approach in their businesses. For example, it noted that a number of plans highlighted the intention to develop partnerships to help deliver solutions but that, in some cases, there are as yet no concrete examples.

The CCG considered that Ofgem now needed to develop a framework for assessing the social outcomes delivered by the companies over the price control period.

## Financing

The CCG noted that all but one DNO submitted business plans with the same cost of equity, 6.7 per cent, (Electricity North West proposed 6.8 per cent). While it acknowledged that this cost of equity was within the potential range set out in Ofgem's Strategy Decision, it questioned whether DNOs had provided persuasive evidence in their business plans that the cost of equity should not be lower. The CCG challenged Ofgem to ensure that the cost of equity in any fast-track plans provides a fair deal for consumers. It also considered Ofgem should ensure its approach to assessing DNO financing gives consumers confidence that any advantages arising from the DNOs' corporate structures and global finance options are addressed.



<sup>4</sup> <https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf>



## Next steps

Ofgem will continue to seek the views of the CCG on key issues during the remainder RII0-ED1 price control process. The DNOs not selected for fast-track will resubmit their business plans in March, and the CCG will again provide its views on these plans.

The CCG expects to publish a further update and review of its work at the end of the price control process.



## Contact

If you would like to find out more about the RII0-ED1 Consumer Challenge Group please contact **Phil Sumner, Senior Manager – Consumer Policy and Insight** at **[consumerfirst@ofgem.gov.uk](mailto:consumerfirst@ofgem.gov.uk)**

---