

# Consumer Futures

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Anna Rossington  
Head of RIIO-ED1  
Ofgem  
9 Millbank  
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17 January 2014

Dear Anna,

## Assessment of RIIO-ED1 Business Plans: Consumer Futures Response

We would like to take this opportunity to make some comments about our experience of the ED1 process to date, and some associated comments on the assessment document.

We agree completely that minimising costs for consumers, while maintaining and improving reliability, is and should remain the central focus for DNOs. We believe that this is clearly reflected throughout all of the plans and assessment process. We also consider that there may be scope to achieve further savings through revisions to the return on equity allowed to networks; for our views on that matter see our response<sup>1</sup> to the parallel consultation.

However, based on our growing involvement with DNOs, we also consider that a balance is needed to support and encourage DNOs to identify, develop and deliver appropriate, proportionate and integrated actions which will materially improve affordability for certain groups of consumers, particularly those without access to mains gas. We believe this is the case because actions to provide affordable energy for those consumers are more likely to entail low carbon technology solutions, an area in which DNOs have a greater interest than is the case for consumers using mains gas for heating.

As we highlighted in our July response to Ofgem's call for initial views on the plans, we appreciate that this is a new area for both DNOs and their stakeholders. As a result, we noted at that time that this was an area where further work would be necessary, and we are encouraged that DNOs are continuing to make progress. We had suggested that a first step was for DNOs to develop appropriate groups to facilitate discussions. We are now working through such groups – and in some cases, have advised on the structures themselves - with the majority of DNOs, to discuss and develop integrated solutions.

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<sup>1</sup> <http://tinyurl.com/nkxvrb>

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We believe that such arrangements are a necessary first step for DNOs for two reasons. Firstly, all involved acknowledge the relative lack of experience of DNOs in this area, so such forums are helpful ways of gathering external experience. Secondly, bringing together different representatives helps address the stated need, with which we agree, of ensuring that DNO work adds rather than duplicates what is already in place. In some cases, the combinations of stakeholders involved are highlighting new, and potentially quite innovative, areas to explore.

These discussions include, but go well beyond, the well-established DNO role of working with others to provide services to vulnerable consumers in the event of power interruptions. Aspects of discussions have included, among others:

- DNO roles in different types of heating system replacement for tower blocks where individual mains gas supplies are not an option;
- The extent to which DNOs could seek to develop referral process for existing energy efficiency schemes;
- Different approaches to identifying vulnerability, and, in particular, the extent to which vulnerable consumers are affected to differing extents by power cuts;
- The extent to which electricity energy efficiency measures can reduce DNO costs in the longer term;
- The potential for improving the experience of worst served consumers by linking their supply to local electricity generation using small scale renewables;
- Potential for DNOs to work more directly with social housing providers to manage connection of LCTs in off gas areas, where clusters of LCTs are installed as a measure to address fuel poverty.

A key point is that the discussions between stakeholders and DNOs remain at an early stage, where new ideas are being generated on a regular basis. While we recognise that it is difficult for the assessment process to reflect anything other than a position at the time the plan is agreed, we would also suggest that there is considerable potential for innovative approaches to bring significant benefits for groups of consumers who have, historically, benefited less from mainstream energy efficiency programmes.

We are, however, uncertain how DNOs or we as stakeholders might best take these discussions forward – do these go beyond the scope of ED1 plans? In some areas, possible projects could be characterised as commercially innovative rather than technically innovative – taking the DNOs into areas where they previously have not worked though the technologies that they would be using may not be new.

In such circumstances, it is not clear if such projects are at risk of ‘falling between two stools’ – being ‘too different’ to attempt as a business-as-usual project, but not perceived as being technology-centric enough to be candidates for the LCNF. We would welcome the opportunity to discuss with you how the LCNF might be applied in future and the kinds of projects that could be considered to be within its scope.

While our experience with stakeholder working groups has been generally positive, we wish to emphasise the need for good governance and for their performance – the value that they add to the communities the networks serve – to be adequately reviewed.

Some network stakeholder group meetings have suggested a risk to us that such groups could become complaint handling services rather than a vehicle for setting the strategic direction of the networks future work, if not managed properly.

A systemic risk with the stakeholder engagement process is that networks may lose focus on it during the periods between price control negotiations. At the moment, the spotlight is on them – but this light will dim considerably once the final business plans are signed off. While individual stakeholders will attend subsets of meetings, whether by region or by topic, it is improbable that any will attend all or even a significant majority. It therefore appears unlikely to us that your external stakeholders will have the capability to fully hold networks to account if the groups lose focus or are not adding value. We would emphasise the need for Ofgem engagement with these stakeholder groups – as the best resourced stakeholder of the networks, and with ultimate responsibility for ensuring that they are helping to meet consumers' needs.

We would also like to raise two specific points in relation to the assessment document:

Firstly, Paragraph 3.15 of the decision document supplementary annex notes that all the DNOs include commitments to stakeholders, but that many of these are not SMART. We agree that publication of an annual report which requires DNOs to track progress will help ensure these are delivered, but, building on our comments above, we do not believe this approach will be sufficient on its own. We would therefore suggest that assessing the quality of these reports, and taking action where needed, should remain a task for the regulator, perhaps advised by the existing Consumer Challenge Group.

Secondly, appendix 1 of the assessment document summarises comprehensively the responses received by Ofgem. We recognise both the comments we made, and those submitted by other organisations, in this section.

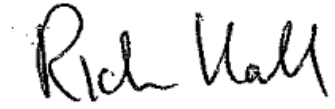
There is, however, a contrast between this summary and the equivalent sections of ED1 plans. DNOs – rightly – were required to explain how stakeholder feedback had influenced later drafts of the plan. It would be helpful if the assessment process followed a similar approach, as there is at present no explanation of how stakeholders' views have been considered and either adopted or if rejected by Ofgem. It would be helpful if this good practice approach could be adopted, not least because the lack of feedback risks undermining future stakeholder engagement.

In summary, we are continuing to work, in some cases very closely, with individual DNOs as those developing plans for resubmission do so. The partnerships created and resulting discussions are, perhaps to a greater extent than we first expected, resulting in some innovative suggestions, and we would be keen to ensure there are opportunities to put at least some of these into practice.

We would therefore welcome an opportunity to discuss how you see this aspect of DNO work developing in the future, and the extent to which the resubmission process provides opportunities to build on current progress. If you have any questions about the issues raised in this letter, please contact either myself at

[richard.hall@consumerfutures.org.uk](mailto:richard.hall@consumerfutures.org.uk) or [andrew.faulk@consumerfutures.org.uk](mailto:andrew.faulk@consumerfutures.org.uk)

Yours sincerely,

A handwritten signature in black ink that reads "Rich Hall". The signature is written in a cursive, slightly informal style.

**Richard Hall**  
Director of Strategic Infrastructure