



Mark Wagstaff
Ofgem
9 Millbank
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2 June 2014

Dear Mark,

Response to Ofgem's Simplification Plan 2014/15

This submission was prepared by the Consumer Futures team within the Citizens Advice Service. It has statutory responsibilities to represent the interests of energy consumers in Great Britain. We welcome the opportunity to provide a submission on Ofgem's Simplification plan 2014/15. Our response is not confidential and can be published on your website.

We note that you particularly would like responses in the following three areas:

- Aspects of Ofgem's work in relation to independent suppliers and generators
- How Ofgem might review processes to enable greater consistency
- Continuous improvement, working with others through your participation in the UK Regulators' Network (UKRN) established to enhance coordination across regulated sectors, and internally

Aspects of Ofgem's work in relation to independent suppliers and generators

We are aware that later in the summer Ofgem are planning on publishing updated guidance on Licence Lite, a supplier licence that imposes fewer direct regulatory burdens, to help facilitate new entry. While we welcome Ofgem's aim to make a positive difference for energy consumers¹, we have some concerns that this lighter touch approach to regulation for smaller suppliers will offer consumers less protection and could potentially cause confusion as the means of obtaining redress may be more complicated or subject to additional delays if there are disputes between the Licence Lite holder and its partner. In order for consumers to make accurate, well-informed switching decisions they need to understand exactly what they are signing up for. We would welcome further clarification of how the issue of consumer redress would work in practice.

¹ Outlined in the open letter on regulatory compliance <https://www.ofgem.gov.uk/ofgem-publications/86894/openletteronregulatorycompliance28march2014.pdf>

How Ofgem might review processes to enable greater consistency

Price control processes

Simplifying price control processes should be an ongoing priority for Ofgem. We acknowledge that the new 'RIIO' model is more accessible for stakeholders than the price control processes it has replaced, but the business plans that networks develop for RIIO remain lengthy and complex. For example, the business plan submitted by UKPN for RIIO-ED1 consists of nearly 200 separate documents.

This means that it remains a real challenge for stakeholders to get to grips with the true character of the plans – that is, among other things, to make an informed judgement about value for money. This could help explain why the level of stakeholder engagement with price control processes continues to be mixed: only 16 stakeholders responded to Ofgem's call for submissions on the revised business plans for RIIO-ED1.

The consequence of this is that aspects of the business plans do not get the scrutiny they deserve. For example, in our submission on the revised RIIO-ED1 business plans, we highlighted concerns with the way that the changes in the depreciation rules had been communicated, in particular in relation to the impact on the profile of prices over the eight years of the price control. We also raised concerns with the extent to which the regulatory framework and the business models normalised outperformance on revenue targets. We have also explored this transparency theme in the context of the design of the governance arrangements for the Stakeholder Engagement Incentive Award.

We accept that it would be counterproductive to oversimplify or dumb-down price control processes. Clearly it is critical that the networks and the regulator have a clear view of the goals, activities and associated financial metrics associated with a price control settlement. But more needs to be done to present this information in an accessible way, for example, by using benchmarks (including from other sectors) where appropriate.

Better coordinating Code modification processes

There is also an ongoing issue about how energy and climate change policy is translated into the network codes, in particular a lack of coordination of related modifications across different codes. This is a particular issue for the rollout of smart metering. We made representations² in early 2014 in relation to a modification in the Balancing and Settlement Code (BSC) - P272 - that had interdependencies with other modification proposals in the BSC and the Connection and Use of System Code (CUSC). Although Ofgem did eventually intervene to align these modifications, the intervention was late and introduced unnecessary uncertainty and complexity into a rollout that is already challenging. Our view therefore is that Ofgem should take a more proactive role in guiding modification processes that give effect not only to the 'Smart' agenda, but also to the incorporation of European Network codes and major energy policies.

² <http://www.consumerfutures.org.uk/files/2013/05/Consumer-Futures-response-to-Ofgem-IA-BSC-P272.pdf>

Continuous improvement, working with others through your participation in the UK Regulators' Network (UKRN) established to enhance coordination across regulated sectors, and internally

We are supportive of the focus on continuous improvement, working with others through your involvement in the UKRN developed to improve coordination across regulated sectors, and internally. We have had sight of the UKRN work plan for 2014/15 and we are keen to understand more about the resources and the scope of the UKRN to work on activities.

We believe that the Third Party Intermediaries (TPIs) work stream would benefit significantly if Ofgem discussed key issues with other regulators and seeing if, together, they can develop solutions which can work across different markets. For example with the Confidence Code review, we believe linking up with other regulators will enable Ofgem to consider where there may be synergies across markets. We note that in the UKRN work plan for 2014/15³ there is a project on consumer engagement and switching which may be useful when carrying out the Confidence Code review.

Enforcement Review

As discussed in our response to last year's Simplification Plan 2013/14⁴, in order to inform Ofgem's monitoring regime we believe that there may be value in the regulator maintaining and publishing a risk register. In the areas that Ofgem ascertains as high risk it should more actively show how it is monitoring the market. For example, perpetual sales conduct problems⁵ since the market opened suggests that supplier sales activity should be viewed as high risk, and would warrant transparent public monitoring. In light of recent examples we have seen regarding new entrants experiencing significant teething problems that have had a ripple effect on standards of service, we would suggest that increased 'hand-holding', and monitoring, of new entrants may be beneficial. Furthermore, we are looking forward to hosting a small supplier workshop jointly with Ofgem in June 2014 in order to help companies understand compliance on handling consumer complaints.

Yours,

Jenni Lucas-Williams
Policy Manager, Retail Energy Team

³ <http://www.ukrn.org.uk/wp-content/uploads/2014/05/UKRN-2014-15-work-programme.pdf>

⁴ <http://www.consumerfutures.org.uk/files/2013/05/Consumer-Futures-response-to-Ofgem-Simplification-Plan-2013-14-Aug-13.pdf>

⁵ We note Ofgem's recent investigations into mis-selling
<https://www.ofgem.gov.uk/search/?keyword=mis-selling>

