

**Sustainable Development Advisory Group  
UKRN Affordability project**

2 October 2014

ofgem



## United Kingdom Regulators Network

The UK's economic regulators have joined together in the UK Regulators Network (UKRN) to ensure effective cooperation between sectors.

Without cutting across the independence or specific goals of each regulator, UKRN will strengthen work across sectors. It will explain and take account of the differences between sectors, while maximising coherence and shared approaches in the interests of consumers and the economy.

### Members



## 8 UKRN Projects led by individual regulators

- **Cross-sector infrastructure:** provide regulatory solutions to enable multi-sector infrastructure investment [led by Ofgem]
- **Consumer engagement and switching:** approaches to engagement and switching across sectors [led by FCA]
- **Understanding affordability across sectors:** identify affordability household pressures and establish scope for possible solutions [led by Ofgem]
- **Cross-sector resilience:** tools and approaches to understand and enable effective management of risks from cross-sector threats and dependencies [led by Ofcom]
- **Explaining the benefits of economic regulation:** help raise understanding of what independent economic regulation can achieve, when it works best, and how we can improve [led by CAA]
- **Organisational development:** share expertise and make better use of resources [led by ORR]
- **Cost of capital:** analyse potential for and approaches to a common framework for cost of capital and financeability [led by Ofwat]
- **Regulating for quality:** support best practice in service quality standards [led by Ofcom]

## Background

- Survey and stakeholder evidence suggests considerable consumer concern about the cost of living and this has been matched by heightened political debate about price rises in essential services, particularly (but not only) energy.
- Key drivers across sectors are incomes and bills (including future infrastructure investment). Other factors eg house condition in energy.
- National Audit Office report 'Infrastructure Investment and the Impact on Consumer Bills' July 2013 and Public Accounts committee report, July 2014.
- Often suggested that individual economic regulators should do more to tackle this issue, and/or that the different economic regulators should take a more joined-up approach to tackling it.

The UKRN Affordability project has been developed in this context.

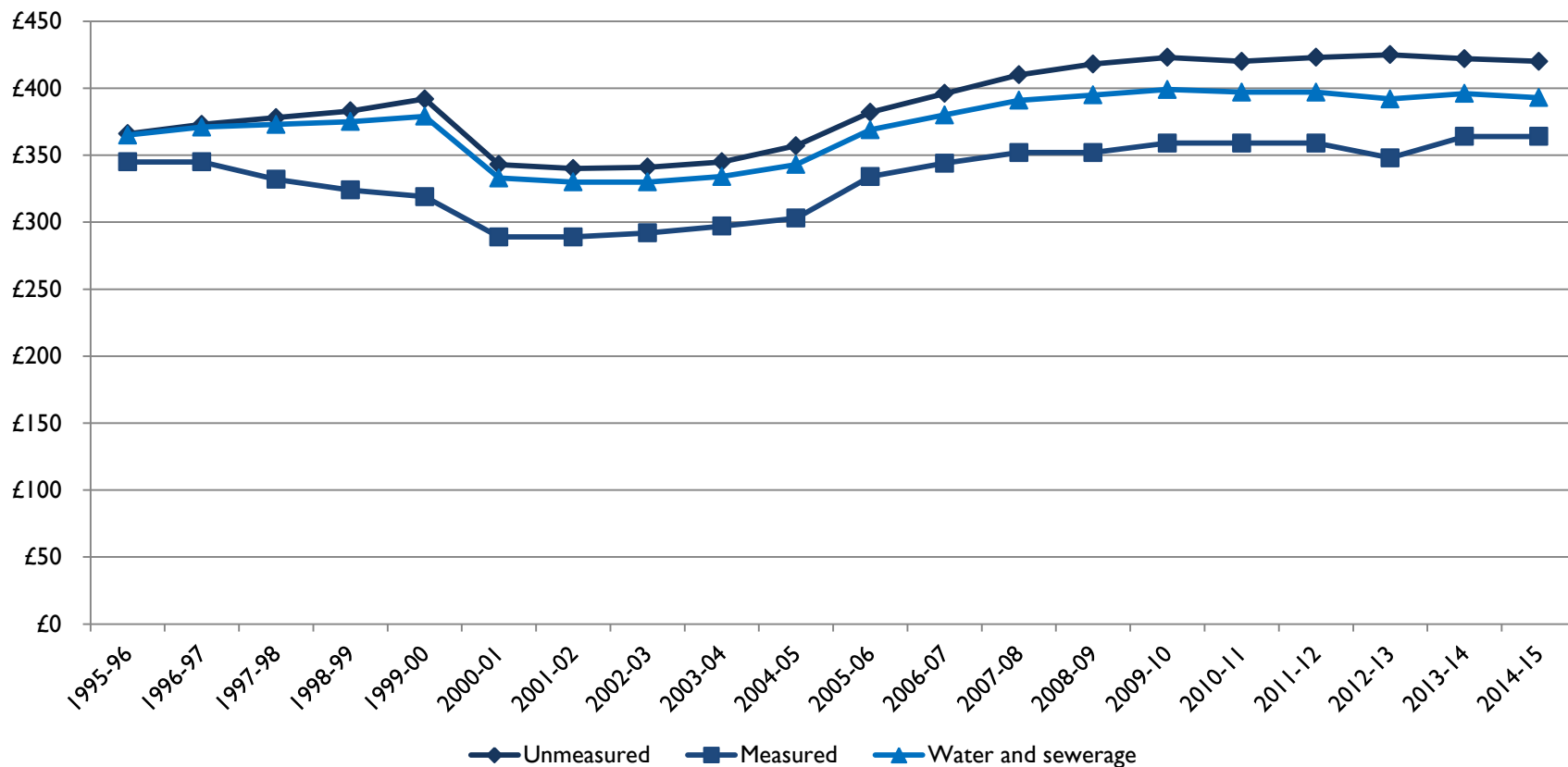
Focus is on essential services for household customers: energy, water, comms and rail. The project is in 2 phases. Phase 1 published end October 2014

## Phase 1: Main content

- Show how affordability issues are approached in different regulated sectors and whether, and why, there are differences between these sectors.
- The drivers of affordability issues and the role of regulators in tackling them.
- What data from the regulators and other sources tells us about the nature of affordability issues over the longer term, more recently, and in the future, together with the extent to which these are concentrated on particular groups of consumers.
- Options for 'Phase 2' aligning or joining up different regulators' approaches and to undertake an analysis of future impacts on bills including infrastructure investment.

## Data indicators: water

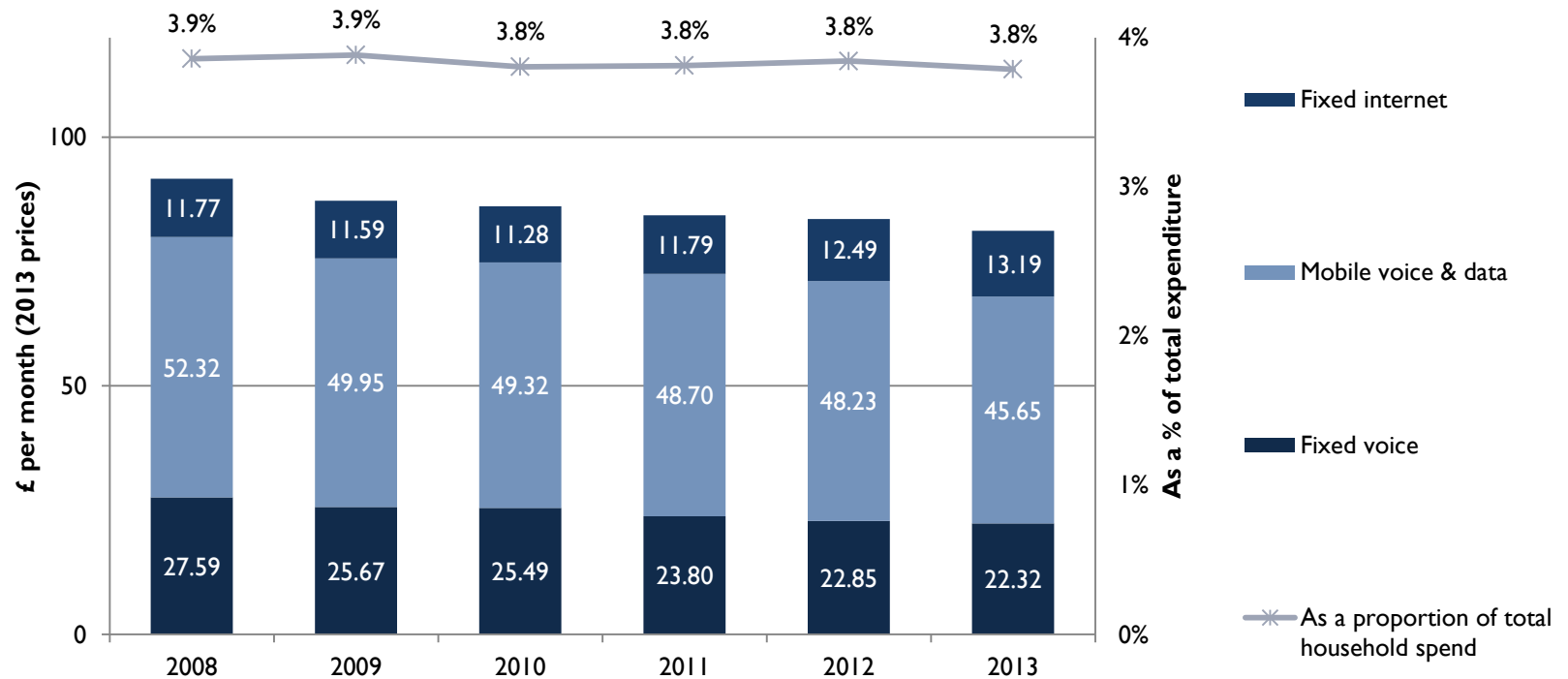
### Average Annual Household Water and Sewerage Bills in England and Wales (2014-15 prices)



Source: Ofwat. Data is provided for financial year, April to March. Bill values for 2013-2014 and 2014/2015 are provisional

## Data indicators: comms

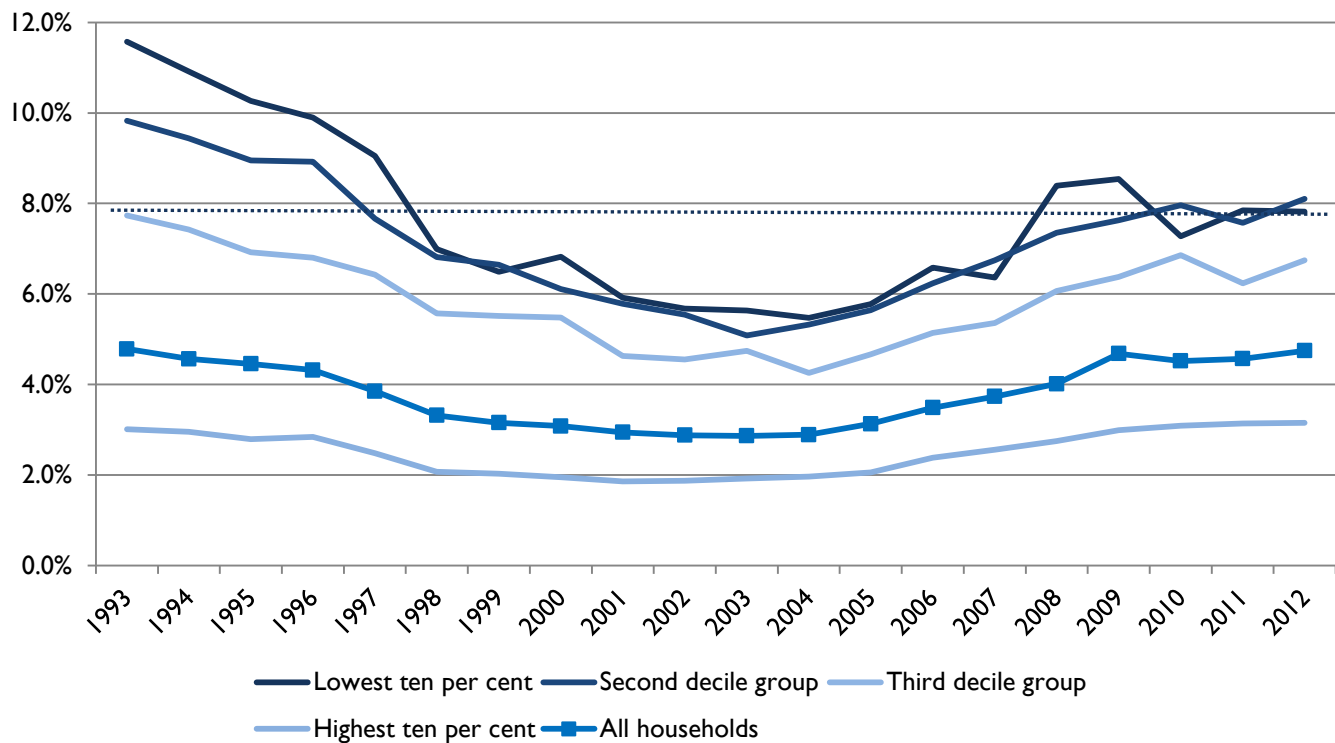
### Average household spend on telecoms services



Source: Ofcom (2014), Communications Market Report 2014

## Data indicators: energy

### Energy spend as a proportion of total UK household expenditure household income by decile

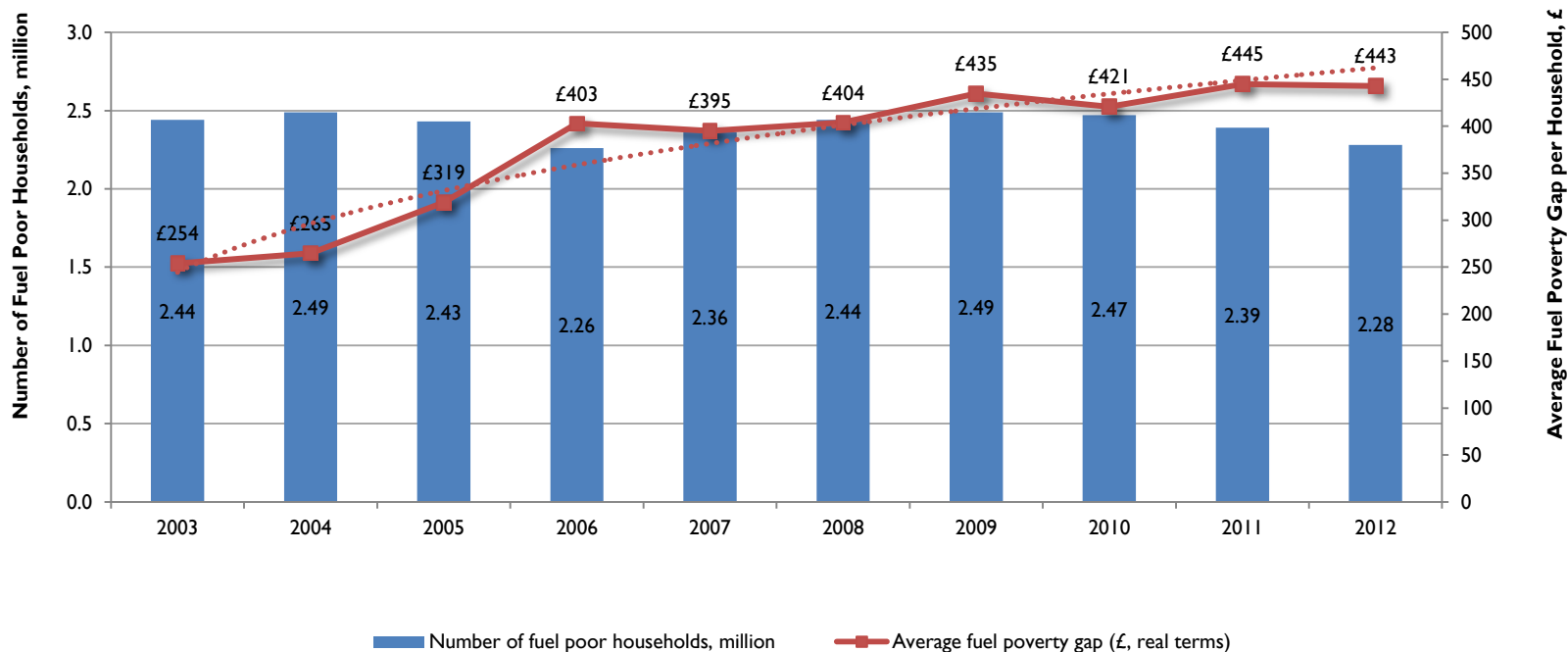


Source: ONS "Family Spending", various releases (1993-2013)



# Data indicators: energy

## Fuel-Poor Households (England)

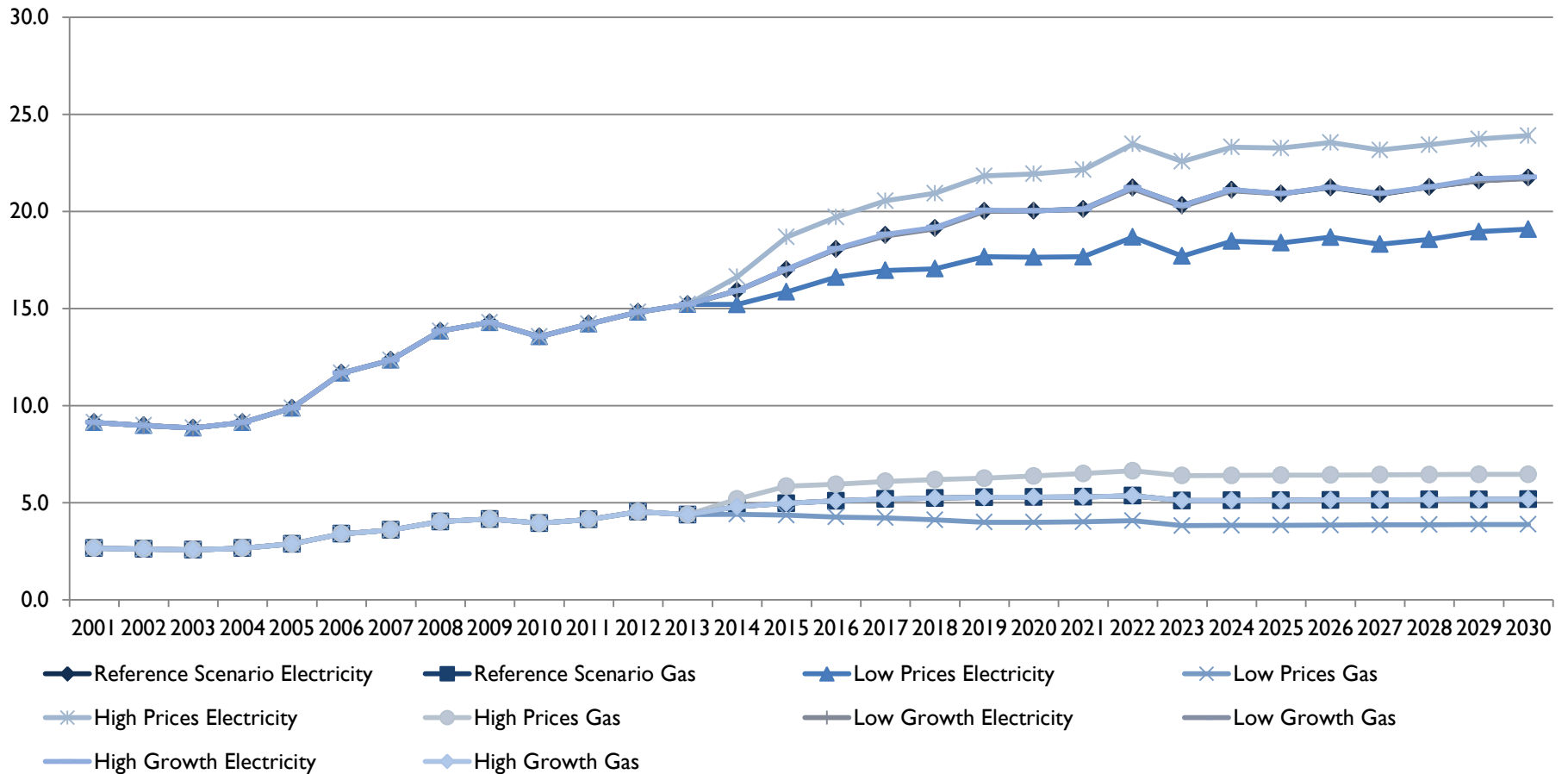


Source: DECC (2014), "UK Housing Energy Fact File: 2013". The fuel poverty is calculated using the new method based on Hills Report (2012).

The new 'Low Income High Cost' indicator was proposed in the Hills 2012 Report on fuel poverty. It defines a household as fuel poor a) if it has above-average required fuel costs, and b) if spending this amount on fuel would push residual income below the official poverty line.

# Data indicators: energy

## Historic and projected energy prices (p/KWh)



Source: DECC (2013), "Updated Energy & Emissions Projections - September 2013", (Annex F: Price Growth Assumptions) Prices from 2001 to 2012 (including) are historic prices. Prices from 2013 to 2030 are projected prices

## *Questions*

Overall observations on the UKRN & work programme.

Does the work programme focus on the right areas?

What else should we be considering?

Views on the scope UKRN affordability project?

Any observations on the high level data?

## Phase 1: cross-sector issues

- Defining affordability - although not a new area of focus for individual regulators, there are differences in the way affordability is considered or defined across sectors (related to duties).
- Affordability indicators - not all of these are within the scope of regulators to influence.
- Affordability as 'financial vulnerability', is addressed within the context of regulators' wider vulnerability strategies. Some common approaches but potential for greater alignment.
- Affordability data - how data on affordability is currently derived and collected across sectors, and its resulting comparability. This is not just a practical process issue - better quality data might enable greater insight and more joined-up policymaking across sectors.
- Taking into account sector differences when looking at a future of the level of consumer bills, particularly in light of infrastructure investment (regulators not responsible for all costs).

## *Questions*

These are issues regulators have identified when looking at affordability across sectors.

Are there any other issues?

Are there any areas which would benefit from further analysis?

## Phase 2: Proposed main work areas

Work areas to develop a cross sector approach to addressing affordability.

- Develop an approach to coordinate strategies for addressing financial vulnerability across regulators to improve outcomes for consumers. Consider what areas are for Government and what are for regulators.
- Align data collection, sharing and presentation across regulators to help develop including consideration how this is done across sectors, regions and countries.
- Undertake an assessment of future (next 10 years) bill impacts, particularly as a result of infrastructure investment.

## *Questions*

View on the proposed work areas for 'phase 2 of the affordability project?

Are there other areas for regulators to focus on?

Potential issues to consider in taking forward these work areas?

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**