

**Ofgem Future Insights:  
The Future of Networks – RIIO-2**

**Breakout A:  
Giving Consumers a Stronger Voice**  
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#RIIO2  
@Ofgem



- New models for stakeholder engagement
- Customer Engagement Group for distribution companies. User Group for transmission companies
- Both of these groups will be independent and provide us with a report
- We are setting up an independent RIIIO-2 Challenge Group that will assess the business plan proposals in both the sectors
- We are also consulting on holding Open Hearings, once we have received business plans



- The demands placed on the energy system are changing, but there is uncertainty on the nature, rate, timing and location of these changes. Networks will need to anticipate, enable and respond to these changing demands
- Stakeholder engagement fulfils two key purposes:
  - **Insight:** Companies that have insight into stakeholder needs are more able to deliver the investment and services consumers want, at a price they are willing to pay
  - **Challenge:** Stakeholder views provide a counterbalance and challenge to company views and our own decisions. This helps us address issues of information asymmetry when assessing company plans and improves the quality of our decision making



- Stakeholder engagement improved the quality and transparency of plans.
- Hard to assess the consistency of engagement and challenge. The role it played in setting the price control was more limited than it could have been
- **We believe enhancements are necessary to:**
  - Raise the bar - more effective engagement and more ambitious plans
  - More customer-centric business plans – reflecting the trade-offs between current and future needs
  - Support our assessment - address the information imbalance
  - Enable more flexible regulation – reflecting regional differences



## Characteristics of distribution

- Companies are closer to end consumer
- Stakeholders are a diverse group with more limited resource – less able to 'agree' the business plan
- Geographic differences might necessitate different approaches between companies

## Characteristics of transmission

- Less close to end consumer
- Network users are a less diverse group & more likely to have capability of challenging plans
- Where there is agreement with large energy users, generators, suppliers, DNOs, consumer reps then less scrutiny by us may be necessary



## Distribution sector

1. The **Customer Engagement Group** will scrutinise business plans including **forecasts for demand, expenditure proposals, outputs and incentives**.
  - Not a proxy/audit of engagement, but a test of whether a company has explored key issues – including with new, disruptive market entrants
2. The groups will have an independent Chair and members with specialist knowledge, for example new business models, fuel poverty, academics, consumer advocates etc.
3. The group will submit a report to us on the extent to which a plan has fully addressed key issues

## Transmission sector

1. The **User group** will input to the business plan as it is being developed (with particular focus on **outputs, incentives and totex**, but not cost of capital).
2. The groups will have an independent Chair and be populated by users of the transmission networks (for example suppliers, shippers, DNOs, generators and new business models offering alternatives to network solutions).
3. The group will submit a report to us on the areas of agreement and disagreement



1. The **RIIO-2 challenge group** will sit across both transmission and distribution
2. This Group will assess the overall business plan for affordability and ambition and provide a report to us on their findings. They can consider all aspects of the plan.
3. This Group will meet with and challenge both ourselves and the Companies during the development of each sector's methodology, the preparation of business plans and on receipt of submission.
4. We intend to draw membership of this Group from experts in either strategic energy issues, consumer advocacy or regulation. This could include Citizens Advice, ex-regulation, academia, ex-government
5. Ofgem will recruit the Chair and members of this group and will provide access to any technical advice requested



1. Focus on areas on disagreement that have been highlighted through the engagement Groups
2. Opportunity to take views and further evidence from companies and stakeholders
3. Providing further input to our decision making and more transparency of areas of contention





1. What support will these groups need?
2. How do we ensure the views of future users and those who might disrupt traditional network activities, are captured?
3. What does success look like?



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**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.**