

March 2019

Citizens Advice Scotland - Response to Ofgem's RIIO 2 Sector Specific Consultation

About Citizens Advice Scotland

Citizens Advice Scotland (CAS) uses research and evidence to put consumers at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations.

CAS is the Scottish consumer advocate on energy network issues. Although we are separately funded organisations, we work closely with colleagues in Citizens Advice England and Wales in this area.

Our response focuses on areas where we have had involvement with Ofgem working groups, CEGs and stakeholder groups. The majority of our detailed response relates to specific proposals for GD2 and in particular questions related to customer and social.

We thank you for the opportunity to comment on the consultation and our response is not confidential.

Please find a summary of our key points below:

- 1)** CAS welcomes Ofgem's approach for RIIO 2 - with a focus on driving consumer value and protecting against excessive network company returns.
- 2)** We support Ofgem's approach to giving consumers a stronger voice (such as through CEGs) and would encourage stakeholder engagement to be incentivised for both ET2 and GD2.
- 3)** We agree with Ofgem's focus on support for vulnerable customers and in particular the proposed combined vulnerability package for GD2.
- 4)** We encourage Ofgem to ensure that innovation continues to be a strong component of the RIIO process – and that projects with social benefit should be a particular focus for innovation funding.
- 5)** We support the proposal for bespoke PCDs and ODIs which may help to ensure that regional variation in customer needs and wants are deliverable through the price control – but recognise the need to ensure that these are tested with customers and through CEGs.

CAS view on overall package

1. CAS is supportive of Ofgem's overall package and welcomes the focus on driving consumer value and protecting against excessive network company returns. We believe that protection against excess network company profits¹ (with more tracking against real costs) should not lead to a reduction in companies operating in an innovative and progressive way. We believe that with the right mixture of tightened licence obligations and incentive packages, the networks can continue to deliver a reliable and safe network whilst facilitating the low carbon transition and providing more support for customers.
2. We support Ofgem's ambition to give consumers a stronger voice in the way that energy networks develop and think that the programme of enhanced engagement (e.g CEGs) is a positive step forward in this direction. While we think that stakeholder engagement amongst energy network companies has improved substantially though RIIO 1, we believe it should continue to be incentivised - especially given the significant changes which are underway in the energy system.
3. We believe that bespoke outputs (when tested through CEGs and broader stakeholders) could also be an important factor in enabling energy network companies to deliver the right solutions for Scottish customers – that align with Scottish Government policy.
4. As highlighted in the Scottish Government Energy Networks Vision² we agree that the networks must be developed in a way that is consistent with fuel poverty reduction targets – especially in Scotland where fuel poverty rates are at 24.9%³. We also believe that the transition to a decarbonised energy system must be inclusive and that the appropriate advice and support will be needed for all households and businesses⁴ - and especially for those who are currently less able to engage.
5. We think the RIIO framework – with a further focus on supporting customers and driving consumer value- has a crucial role in shaping how the energy system outlined in the networks vision turns into a reality.

Innovation

6. We recognise the benefits that programmes like the NIC and NIA have brought to drive forward innovative solutions. While much innovation has focussed on delivering technical solutions to drive operational efficiency (which we recognise does benefit consumers through

¹ <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/energy-consumers-missing-billions/>

² <https://www.gov.scot/publications/vision-scotlands-electricity-gas-networks-2030/>

³ <https://www.gov.scot/publications/scottish-house-condition-survey-2017-key-findings/>

⁴ <https://www.cas.org.uk/news/cas-welcomes-publication-scottish-government%E2%80%99s-vision-scotland%E2%80%99s-electricity-and-gas-networks>

bill reductions) we think that innovation should evolve to support programmes that can bring about more direct social benefit. In electricity, an example of this is SSENs 'Social Constraint Managed Zones' which aim to deliver smart network management solutions to reduce the need for network reinforcement whilst reducing the bills of customers involved in the project⁵. We believe that 'social benefit' should be a criteria considered when innovation funding is awarded.

Gas Distribution Sector Specific Questions

Chapter 3: Meet the needs of the consumers and network users

General Outputs (GD Questions 1-4)

7. CAS is supportive of Ofgem's proposal to have a combined package to support vulnerable customers in RIIO 2. We believe the mixture of principle based licence conditions, a use-it-or-lose-it allowance and a reputational incentive could be an effective way of both ensuring that vulnerable customers in all GDN areas receive a consistent service while performance is also driven up and best practice shared. CAS is also supportive of CEGs having a role in challenging and supporting GDNs to deliver vulnerability support programmes. We also think that the expertise and oversight of the CEG chairs could be used to ensure that GDNs are working in a collaborative fashion and that best practice is shared and disseminated – not only between GDNs but with DNOs and the wider sector.

Below we comment on each output area in more detail.

Consumer vulnerability minimum standards

8. CAS supports the proposal to have a principals based licence obligation to provide minimum standards for vulnerable consumers. While GDNs have made good progress in supporting vulnerable consumers in GD1, a licence obligation will help to drive up standards and ensure that vulnerable consumers in all regions receive a consistent service. The principle based condition should enable GDNs to take a flexible customer orientated approach that seeks to deliver real positive outcomes for consumers. Ofgem should ensure that they proactively monitor this to ensure that the licence obligation is consistently met.

Customer vulnerability incentive

9. CAS supports the proposal for a reputational incentive for customer vulnerability. As has been discussed in working groups, scores could be based on a show case event which will also encourage the sharing of best practice. Ofgem should also consider how collaborative

⁵<https://new.theclaymoreproject.com/uploads/entities/1230/files/Events/Conference%202018/SEN%20workshop.pdf>

approaches can be incentivised. CAS is also supportive of the use of CEGs in this area to both challenge GDNs and provide support. However, given the limited time resource of CEGs and the potential lack of oversight of other GDN performance, we are cautious about any proposals for GDNs to formally assess GDNs performance in the reputational incentive.

Consumer vulnerability and carbon monoxide safety awareness use-it-or-lose it- allowance (GD Questions 5-9)

10. CAS supports the proposal for a use-it-or-use-it allowance for GDNs to support vulnerable customers. This non-prescriptive allowance would allow GDNs to be flexible and meet the needs of their customers in regional areas. For example fuel poverty support programmes could be of particular value in Scotland where fuel poverty levels remain high. We also think that a use it or use it allowance – where each GDN has a fair share of a central fund – may be a good way of ensuring that there is not a postcode lottery. This is something we highlighted in our essay on vulnerability in RIIO 2⁶.

CAS agrees with Ofgem's approach that GDNs should

- Assist vulnerable consumers during outages
- Recognise and take proactive measures to address vulnerability when responding to emergencies
- Provide subsidised connections to fuel poor households
- Recognise and appropriately take into account vulnerability through their customer service functions
- Identify consumers in vulnerable situations and offer them some additional assistance free of charge.

11. While CAS broadly agrees that the price control should not be used to fund areas which are not related to the energy networks role, we think that a use-it-or use-it allowance could be used to broaden the support given to vulnerable households. We think that in a circumstance where no government funding is available to install a heating system for example – some GDN funding (especially if leveraged with ECO funding) could be effectively used to reach the desired outcome of an affordable warmth solution for a household. Given the scale of the challenge however, this process would have to prioritise the most vulnerable customers and GDNs could be assisted by third parties in this process.

12. CAS strongly supports Ofgem's desire to encourage GDNs to coordinate better with government schemes to have energy efficiency measures and new heating systems installed. This could be incorporated into the reputational customer vulnerability incentive to encourage GDNs to build effective partnerships. GDNs should evidence how partnerships are delivering

⁶ <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/consumer-coalition-sets-out-riio-2-vulnerability-proposals/>

real outcomes for consumers rather than being rewarded for listing a number of referral partners.

13. There is also evidence that energy network company funding has been used effectively to deliver affordable warmth solutions for fuel poor households. In Scotland, SSEN have delivered a 'gap funding' pot which is used to assist households to pay for measures that are not included in Government schemes for energy efficiency measures or for new heating systems. The fund pays for measures such as removing and replacing floorboards to allow new central heating pipes to be installed and is often seen as an essential component of enabling households to take up government schemes and grants. We believe that similar funds could be developed by GDNs to reduce fuel poverty levels in their regions.

14. CAS is supportive of a higher limit of circa £30M for the use it or use it allowance. As by means of comparison, SGNs recently announced 'Central Heating Grant Scheme' has an allowance of £20M for one scheme and highlights the level of finance needed to run support programmes that are both consistent across a region and lead to real positive outcomes.

15. We also think it's important that projects delivered by GDNs or partners - using the use-it-or-use-it allowance - can be funded over multiple years. This will ensure that projects can focus on delivering outcomes to consumers rather than spending time securing funding for subsequent years. However we think that reporting should be done on an annual basis to ensure that projects are delivering positive outcomes. We also think it's important that GDNs communicate and coordinate with DNOs – who may be delivering similar support programmes through the SECV incentive – to ensure that funding is used efficiently and effectively.

Fuel Poverty Network Extension Scheme (GD Questions 10-14)

16. CAS support Ofgem's approach to continue with the Fuel Poverty Network Extension Scheme. As recent CAS publications show consumers who rely on off-gas heating sources often face particular issues. In Scotland the latest figures show that 24.9% of all Scots are in fuel poverty while fuel poverty rates for properties off the gas grid are higher at 38%. The fuel poverty rate for households with electric heating is at 51%⁷. Our report Hard-Wired Problems⁸ highlighted that the 11% of Scottish households are using electric heating can pay up to three times as much as gas central heating for a whole house heating solution. Our report also showed that those who rely on electric heating often have lower incomes and widespread disengagement from both the energy market and support services. As a result, this group often requires additional, holistic support to lower costs and resolve problems. For this reason and while gas remains the lowest cost heating option for households we support the continuation of the FPNES.

⁷ <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics-publication/2018/12/scottish-house-condition-survey-2017-key-findings/documents/scottish-house-condition-survey-2017-key-findings/scottish-house-condition-survey-2017-key-findings/govscot%3Adocument>

⁸ <https://www.cas.org.uk/publications/hard-wired-problems>

17. While we support the continuation of the FPNES scheme we feel that a number of improvements could be made which broadly align with Ofgem's proposals for GD2:

- Improved targeting to increase effectiveness in reducing fuel poverty
- Improved co-ordination with partners to ensure that gas connections result in affordable warmth solutions (whether this is through energy efficiency improvements or through installation of new heating systems)
- More thorough assessment, prior to connection, to ensure that a gas connection is the best solution for the household i.e. to consider whether for example a heat pump (with available grant support) could provide a cheaper (and lower carbon) affordable warmth solution.

18. Given our third recommendation, we believe that a fixed target (such as by setting a target for number of gas connections) may not be the most effective way to lead to the best long term affordable warmth solutions for households. Instead GDNs could be incentivised to improve targeting and by evidencing a reduction of fuel poverty rates in their region. This will ensure that schemes delivered within the price control lead to real long term benefits for households.

19. Ofgem should also consider how GDNs could be incentivised to connect fuel poor households to district heat schemes – especially those that have potential to connect to low carbon heat sources – such as medium to high capacity heat pumps. These schemes could be particularly effective if installed in high density housing in off-gas areas (beyond the footprint of the current gas grid) where fuel poverty rates are high. Again CEGs could be utilised to work with GDNs to explore what the best heat option may be for an area.

Guaranteed Standards of Performance (GD Questions 15-22)

20. CAS supports Ofgem's approach of tightening the GSOPs to drive up performance. We support proposed changes to GSOP 1 to reduce time to restoration for planned interruptions. We are also strongly supportive of the proposal to automate compensation payments for GSOPs not already automated - given the Citizens Advice research which shows that consumers are missing out on unclaimed compensation⁹. Ofgem should however make sure that the proposed benefits to consumer outweigh the costs of developing the payment mechanism.

⁹https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Living%20up%20to%20the%20Standards-2015-2016_Final.pdf

21. Given the potential for a 'significant' increase in operational expenditure needed to implement the proposed GSOP on timed appointments we think more research is needed to make sure that this is truly valued and wanted by consumers.

22. We support the proposal for a new GSOP to provide PSR customers with additional support in the event of an interruption.

Unplanned interruptions average restoration time incentive (GD Question 23-25)

23. We support Ofgem's ambition to reduce the time taken to re-connect customers after an interruption and think a penalty only incentive could be used where significant under performance is evidenced- and where it can be evidenced that GDNs have been responsible for the long reconnection times. We think the hybrid approach appears to be the most appropriate option.

24. While this incentive could encourage companies to reconnect customers quicker – it's important that other mechanisms ensure that companies deliver the appropriate advice and support to customers whilst they are disconnected and the overriding aim should be to reduce the number of unplanned interruptions altogether.

Stakeholder Engagement Incentive

25. While we agree that stakeholder engagement has significantly improved in RIIO 1 and is to some extent becoming BAU, we think there is room for further improvement. As shown in Figure 1 there is a scale of customer and stakeholder engagement and we believe that GDNs are still broadly at the 'consult' and 'involve' stage – although CEGs are a step forward to developing 'collaborative' stakeholder engagement. GDNs should look to take forward more advanced stakeholder engagement methods to tackle particularly complex issues and we believe this should continue to be incentivised.

26. The stakeholder engagement incentive – that requires annual reporting- also ensures that stakeholder engagement remains as a structured component of network companies operations. We also believe that the financial incentive ensures that stakeholder engagement is incorporated at a senior level within companies and that companies are striving to improve in this area.

Level and Purpose	Promise to consumers and stakeholders	Examples of methods
Inform to provide consumers with balanced and objective information	<ul style="list-style-type: none"> • We will keep you informed • We will not withhold relevant information 	<ul style="list-style-type: none"> • Company website • Direct mail to consumers • Information distributed as part of the billing process • Media campaigns
Consult to obtain consumer feedback on analysis, alternatives and/or decisions	<ul style="list-style-type: none"> • We will keep you informed • We will listen to and acknowledge your concerns and aspirations • We will be open to your influence • We will provide feedback on how your input has influenced the outcome 	<ul style="list-style-type: none"> • Surveys • Formal consultation papers • Focus groups • Randomised control trials
Involve to work directly with consumers to address a pre-set question and understand their concerns and aspirations	<ul style="list-style-type: none"> • We will keep you informed • We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed • We will provide feedback on how your input has influenced the outcome 	<ul style="list-style-type: none"> • Focus groups • Deliberative workshops • Citizens Assemblies • Deliberative polling
Collaborate to partner with consumers in each aspect of the decision, including defining the issue, developing alternatives and identifying preferred solutions	<ul style="list-style-type: none"> • We will look to you for advice and innovation in formulating solutions • We will incorporate your advice and recommendations into the decision-making process to the maximum extent possible 	<ul style="list-style-type: none"> • Stakeholder Groups • Citizens Juries • Action Research
Empower to place final decision-making in the hands of consumers - to delegate	<ul style="list-style-type: none"> • We will implement what you decide 	<ul style="list-style-type: none"> • Negotiated settlements • Participatory budgeting

Figure 1 – Typology of levels of engagement – taken from Citizens Advice *Strengthening the voice of consumers in energy networks' business planning*¹⁰

Customer Satisfaction Survey

27. We support the retention of the customer satisfaction financial ODI. We also welcome Ofgem's approach of working collaboratively with the GDNs to reshape the methodology of the survey to ensure that it is asking the right questions in the right way. We believe that Option 4 – the 'Defined Penalty and Reward Pot' approach is the option most likely to improve the incentive to improve customer service, and that Option 2 the dynamic relative approach is the best option for setting the target. We also think the balanced score card approach should also be explored further.

¹⁰https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/CitA_Strengthen%20Consumer%20Voice%20in%20Energy%20Networks%20Price%20control%202018.pdf

Chapter 4 - Deliver an environmentally sustainable network

Removal of Discretionary Reward Scheme (GD Questions 29, 30)

28. In relation to social and CO elements we think it is appropriate to remove the DRS as the new combined vulnerability package is an improved substitute. However we have some concerns that proposed loss of incentives for GDNs to innovate and develop best practice in environmental initiatives. We are not aware of any other incentive packages that encourage GDNs to reduce their business carbon footprint, and yet this is an issue that is important to consumers. Customers often have little exposure to network companies and seeing diesel vans running in city centres may be the most awareness they have. We think Ofgem should incentivise network companies to reduce their BCF (beyond shrinkage) - with e.g. with programmes such as low emission vehicles where appropriate - and show that network companies are operating progressively with regard to the decarbonisation agenda.

Decarbonisation of heat (GD Question 31)

29. We strongly support Ofgem's proposal to allow GDNs to propose network investment for low and no regret projects driven by heat decarbonisation in their Business Plans – where sufficient customer support and evidence of benefit is provided.

30. Beyond this and given the uncertainty over the future of heat we support Ofgem's approach to having a heat policy re-opener for RIIO 2. As noted above we think GDNs could be exploring whether low carbon district heat schemes could be installed in off-gas areas to ensure that the decarbonisation agenda supports fuel poor households who are off the gas grid.

If you have any queries about anything in this response please don't hesitate to get in touch.

Dr Jamie Stewart,
Energy Policy Manager
jamie.stewart@cas.org.uk