

## Enhanced engagement for RIIO-T2: a stronger stakeholder voice in the price control outcome



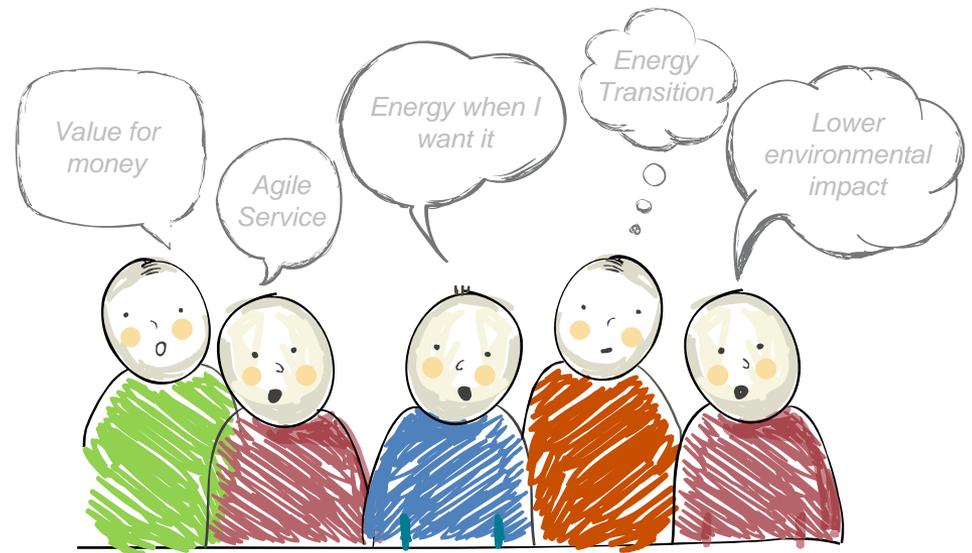
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24<sup>th</sup> January 2018

## Enhanced engagement for RII0-T2

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- 1 Rationale
- 2 Lessons and challenges from other sectors
- 3 Engagement model options
- 4 A workable model for transmission
- 5 How it could work in practice
- 6 Next steps



## A step-change in engagement for RIIO-T2 is a win-win for all

- Better stakeholder outcomes (customer, consumer and other)
- Legitimacy of regulatory contract and role of companies
  
- Aligned with trend across public policy development and other regulated sectors (notably water and airports)
  
- Evolution of RIIO framework, congruous with RIIO principles and clear direction of travel in open letter and October workshop
  
- Consistent with T1 advances in company engagement – National Grid examples:
  - Forums & ‘town hall’ events
  - Willingness-to-pay
  - Talking networks website
  - Electricity Scenario Illustrator
  - Stakeholder Advisory Panel



nationalgrid



## A challenge, but we should be ambitious given the benefits



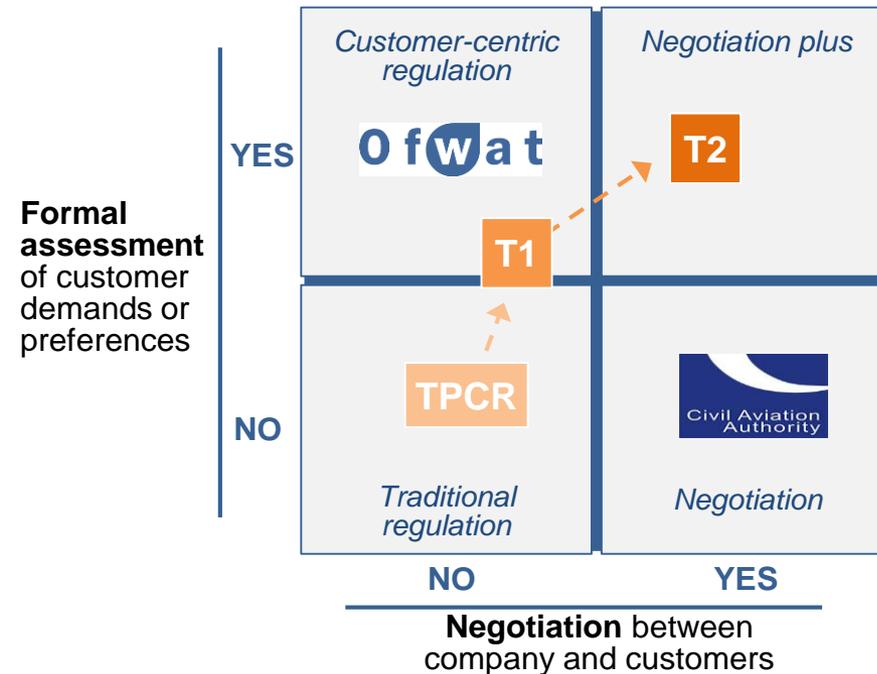
- Consider in context of evolution in approach over T2, T3 and beyond
- Accelerate through leverage of lessons learned from other sectors

### Challenges / lessons:

- |                 |  |
|-----------------|--|
| i) Impact       | ▪ Maximise impact; regulatory confidence & commitment                    |
| ii) Timing      | ▪ Early start and availability of right info at right time               |
| iii) Resource   | ▪ Capacity to engage; time and knowledge constraints                     |
| iv) Remit       | ▪ Clear roles and responsibilities for all participants; incl. regulator |
| v) Independence | ▪ Panel set-up, transparency and framing of engagement                   |
| vi) Inclusivity | ▪ Of all stakeholders, but consumers in particular                       |

## Use lessons to develop best approach for our sector

### Engagement Approaches in Regulation\*



### Insights

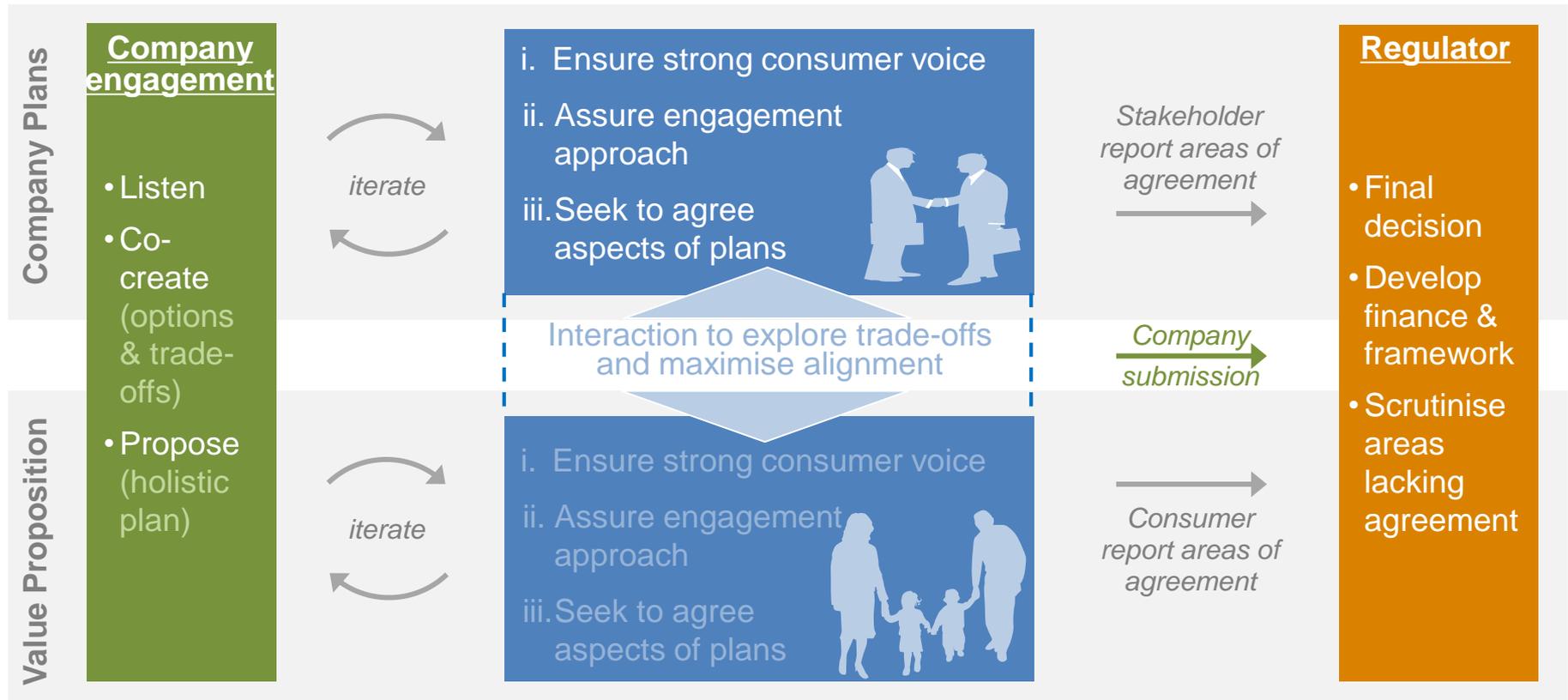
- RIIO-1 evolution of stakeholder in energy network regulation
- Ofwat formal assessment – advances in quality of company engagement
- CAA constructive engagement – better customer and passenger outcomes
- Opportunity to evolve RIIO-2 to capture benefits of both formal assessment and negotiation

- Transmission network customers relatively well informed – similarities to airlines and airports
- Consumer engagement and experience limited – benefits of formal assessment

How can we develop a flavour of constructive engagement that works best in energy?

## Stakeholder (and consumer) panel(s) to provide assurance on engagement and seek to agree on aspects of business plans

### COMPANY STAKEHOLDER PANEL



### CONSUMER PANEL (or expert sub-group)

- Companies provide quality and timely information – material checked to avoid potential bias / ‘capture’
- Panel (or panels) direct / steer company and external expert resources to undertake work
- Strong, consistent regulatory involvement and guidance required throughout process

## Panel(s) membership, set-up and governance

### Membership



- Independent chair
  - **Consumer rep.**
  - **Independent consumer expert**
  - Large energy user
  - Large customers (wholesale, retail)
  - Small customers (retail)
  - Distribution network
  - Academic
  - Environmental
  - Government
  - Senior company rep. and secretariat
- (NDAs\* may be required)

### Set-up



- Criteria for chair and members (e.g. credible, capacity, no conflicts, collaborative)
- Appoint chair through external, transparent process (see water CCGs\* or Xoserve) – **potential role for consumer rep in process**
- Work with chair (**and maybe consumer rep**) to populate panel with breadth of knowledge and experience
- Company provides secretariat and other resources

### Governance / ToR\*



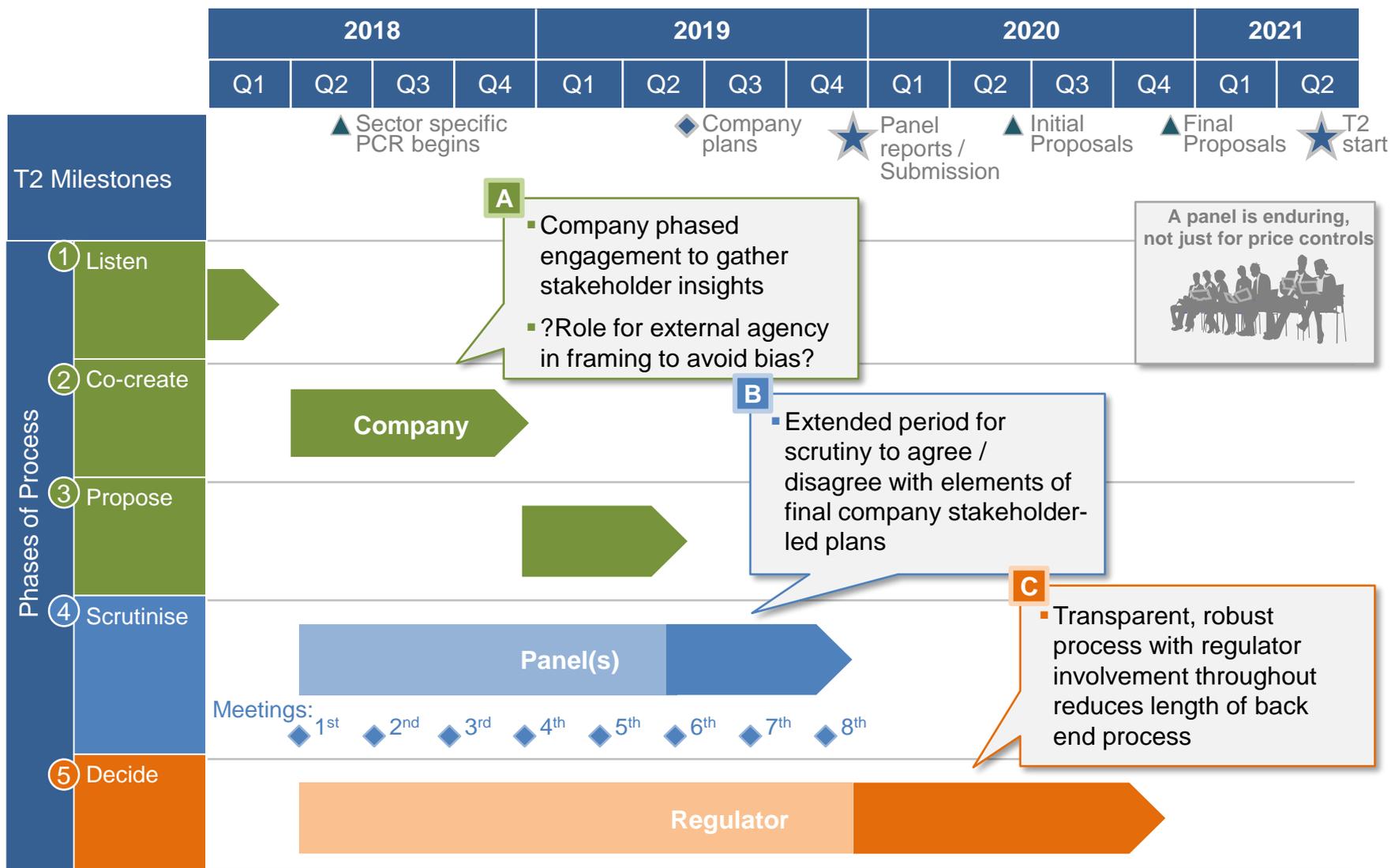
- Clear remit and prescriptive process for constructive engagement
- Suitable during price review and on enduring basis
- Appointment and remuneration approach
- Define **special role of consumer reps to ensure consumer voice**, and relative role of customers and other stakeholders
- Dispute resolution process
- Transparency arrangements (website, minutes, etc.)

CCG = Customer Challenge Group – water company panels proposed in 2010/11 and set up for PR14 review

ToR = Terms of Reference

NDA = Non-disclosure agreement

## Potential timeline of engagement / price control activities



## Quarterly panel meetings and intervening collaboration

### 1 Mid-April

- Formally agree most of ToR\*
- 2018 ▪ Understand T1 company performance
- Challenge company engagement approach
- Review outputs of 'listen' phase (priorities)

### 2 Mid-July

- Formally agree CE\* aspects of ToR
- Review initial, draft company T2 plans and outputs
- Review emerging outputs from 'co-create'

### 3 Mid-October

- Review benchmarking information and other sources
- Discussion on incentives, uncertainty and risk allocation principles

### 4 Mid-January

- Seek to agree outputs of 'co-create' phase
- 2019 ▪ Invite comments on submission docs
- Challenge & review overarching business plans

### 5 Mid-April

- Review initial draft of complete company stakeholder-led plans (outputs of 'propose')
- Structure discussions to identify areas of alignment

### 6 Mid-July

- Seek to agree areas of company plans:
  - i. Significant alignment
  - ii. Some alignment
  - iii. Minimal alignment
- Final opportunity to commission additional work

### 7 Mid-October

- Opportunity to review outputs of any additional work
- Final discussion to align on areas of company plans
- Agree structure of report to regulator

### 8 Mid-December

- Further comment on company submission documents / website
- Final agreement / sign-off of report to regulator

Empower	Implement what you decide
Collaborate	Incorporate recommendations to max extent possible
Involve	Aspirations reflected in alternatives
Consult	Acknowledge aspirations
Inform	Keep you informed

## Strength of stakeholder panel(s) voice on price control elements

### Price control elements:

### 'Strength' of panel(s) voice

#### 1 Company plans and value proposition

- i. Options and WtP
- ii. Service levels
- iii. Outputs & deliverables
- iv. TOTEX
- v. Efficiency

Empower
Empower
Collaborate
Collaborate
Collaborate

#### 2 Regulatory framework

- i. Risk allocation
- ii. Incentive principles
- iii. Uncertainty principles
- iv. Incentive parameters
- v. Uncertainty parameters

Collaborate
Involve
Involve
Consult
Consult

#### 3 Regulatory finance

- i. CAPM and WACC
- ii. Asset lives
- iii. Pensions
- iv. Tax

Inform
Inform
Inform
Inform



- Importance of clarity on, and commitment to, remit of panel(s) upfront
- Maximum benefits require engagement on all aspects of the price control
- 'Strength' of stakeholder / panel voice will vary for different price control elements
- **What should the role of the panel(s) be on each element?**

WtP = willingness to pay  
 TOTEX = CAPEX + OPEX  
 CAPM = capital asset pricing model  
 WACC = weighted average cost of capital

## How this approach addresses challenges and lessons

### Challenges / lessons:

### How proposal addresses these:

<b>i</b> Impact	<ul style="list-style-type: none"> <li>▪ Establish robust process and success criteria addressing all challenges</li> <li>▪ Strong consistent regulator involvement throughout</li> <li>▪ Company plans (stakeholder) &amp; value proposition (consumer) interaction</li> </ul>
<b>ii</b> Timing	<ul style="list-style-type: none"> <li>▪ Start as soon as possible (given time remaining)</li> <li>▪ Regulator involvement (i) and commitment allows more time for process</li> <li>▪ Clear process of what is needed when to facilitate engagement</li> </ul>
<b>iii</b> Resource	<ul style="list-style-type: none"> <li>▪ Optimise interaction between meetings and panels (company vs. sector)</li> <li>▪ availability of company &amp; external resources</li> <li>▪ Companies provide educational content (guidance to ensure unbiased)</li> </ul>
<b>iv</b> Remit	<ul style="list-style-type: none"> <li>▪ Agree panel(s) remit upfront and implement through terms of reference</li> <li>▪ Clarity upfront on 'strength of stakeholder voice' for each element of control</li> <li>▪ Regulator commitment to outcomes of process (provided robustly followed)</li> </ul>
<b>v</b> Independence	<ul style="list-style-type: none"> <li>▪ Transparent recruitment and remuneration through external agency</li> <li>▪ Panel website containing all details of panel business (log-in for sensitive)</li> <li>▪ Clarity on company plan starting point, allowing demonstration of impact</li> </ul>
<b>vi</b> Inclusivity	<ul style="list-style-type: none"> <li>▪ Panel(s) role in assuring company engagement</li> <li>▪ Panel(s) include broad representation of all network stakeholders</li> <li>▪ Governance / ToR clearly defines roles for different stakeholder segments</li> </ul>

## Associated questions to explore today...

Challenges / lessons:	Questions arising
i Impact	<ul style="list-style-type: none"> <li>How can the success of the process be measured?</li> <li>How can panels evaluate their performance on an ongoing basis?</li> <li>How should the stakeholder and consumer groups interact?</li> </ul>
ii Timing	<ul style="list-style-type: none"> <li>What needs to happen when – impact on T2 timeline?</li> </ul>
iii Resource	<ul style="list-style-type: none"> <li>What support would the panel(s) need to be effective?</li> <li>Are specialist skills or expert advice needed?</li> </ul>
iv Remit	<ul style="list-style-type: none"> <li>What should be the role of the panel(s) / Ofgem / companies?</li> <li>Separate stakeholder and consumer groups needed? Is the later sectoral?</li> <li>Which specific areas of the price control should the panel(s) focus on?</li> </ul>
v Independence	<ul style="list-style-type: none"> <li>What should the recruitment process be?</li> <li>What should the remuneration arrangements be?</li> <li>How can capture of Chair and panel members be avoided?</li> </ul>
vi Inclusivity	<ul style="list-style-type: none"> <li>Who should be on the panel(s)?</li> <li>Who should not be on the panel(s)?</li> </ul>
Other	<ul style="list-style-type: none"> <li>What is needed now to kick-start the process? Any guidance?</li> <li>What else is needed to make this a successful process for RIIO-T2?</li> </ul>

## We need to move quickly to grasp the opportunity

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- Step-change in engagement for T2 is a win-win for all involved
- This is challenging, we should think long-term but be ambitious
- Benefit from lessons learned and develop our own model; building on RIIO-T1 using both Ofwat and CAA approaches
- Instigate before Framework Strategy consultation or risk inability to implement
- Next steps:
  - 1) Agree remit of panels (company/sector, plans/value proposition)
  - 2) Consider impact on assumed T2 milestones
  - 3) Agree principles for constituting panel (chair and members)
  - 4) Start recruiting and collaborate to develop next level of detail (e.g. governance)

# APPENDIX



## How could the effectiveness of panel be measured

Extract from RII0-ED1 Consumer Challenge Group Open Letter to Ofgem:

<b>LEGITIMACY</b>	<p><b>Legitimacy:</b> including skills &amp; experience and diversity of group, approach to recruitment, clarity and appropriateness of Terms of Reference, nature and levels of engagement with wider stakeholder groups (potentially including at the local level), etc</p> <p><b>Transparency:</b> openness of reporting of activities and issues raised</p>
<b>UNDERSTANDING</b>	<p><b>Vision:</b> clarity of CCG view of (a) the consumer interests the CCG is representing and (b) of the desirable regulatory outcome in terms of business behaviours</p> <p><b>Context:</b> CCG understanding of the context of the price control and its implications (e.g. developments in technology, relevance of issues of affordability and consumer vulnerability, wider system trends and policy priorities)</p>
<b>PROCESS</b>	<p><b>Access:</b> to information, Ofgem staff, and regulated companies</p> <p><b>Timeliness:</b> of involvement in process (so that interventions have opportunity to influence key decision points and between price controls themselves)</p>
<b>IMPACT</b>	<p><b>Challenge:</b> to Ofgem and to regulated businesses (and the balance between the two)</p> <p><b>Influence:</b> on Ofgem processes and decisions and on the regulated businesses</p>