

Annex 2 - Stakeholder research

1. Background and research

Stakeholder engagement

- 1.1. In the 'Targeted Charging Review: a consultation'¹ published in March 2017, we sought stakeholder views on whether an SCR should be carried out to address the issues of distortion encouraged by residual charges. Most respondents agreed with our view that the potential for current residual charges to fall increasingly on groups of customers who are less able to take action needed to be addressed and agreed that an SCR was the best way to do it.
- 1.2. A significant proportion of respondents asked that we widen the scope of the proposed SCR, in most cases to include forward-looking charges and/or connection charges. We subsequently announced a review into the access arrangements and forward-looking charges for electricity network usage, and have recently consulted on launching an SCR.² We have worked closely with the Access Reform project to ensure that any reforms set out for residual charges align with potential future access reforms.
- 1.3. Throughout the SCR, we have engaged with a range of stakeholders through focused workshops, webinars and the Charging Futures Forum (CFF). We maintained regular communication with interested parties throughout the SCR process, ensuring all stakeholders had opportunities to input to this process.
- 1.4. We recorded the key messages from both our stakeholder sessions in November 2017³ and April 2018⁴ to ensure we captured and considered these views carefully when reaching our 'minded to' decision. We have used our TCR principles when reviewing stakeholder feedback to ensure that we design a charging framework that works in the interests of current and future consumers as a whole. We also collected views on what information stakeholders felt was necessary to ensure that they could accurately understand the implication of any changes on their bills and implications for businesses. We have considered how best to present the information within the draft impact assessment to best reflect those needs.

¹ <https://www.ofgem.gov.uk/system/files/docs/2017/03/tcr-consultation-final-13-march-2017.pdf>

² 'Getting more out of our electricity networks by reforming access and forward looking charging arrangements', https://www.ofgem.gov.uk/system/files/docs/2018/07/network_access_consultation_july_2018_-_final.pdf

³ 'Targeted Charging Review: Significant Code Review, November 2017 stakeholder workshop note' - https://www.ofgem.gov.uk/system/files/docs/2018/02/targeted_charging_review_workshop_note_fw_external_note_final.pdf

⁴ 'Targeted Charging Review: Significant Code Review, April 2018 a stakeholder workshop note' - https://www.ofgem.gov.uk/system/files/docs/2018/06/targeted_charging_review_workshop_note_april_18_external.pdf

- 1.5. A key theme from our stakeholder sessions was to ensure we undertook detailed assessment of the impact on the largest users of the system who are more able and willing to respond to residual charges.
- 1.6. To respond to these issues, in addition to an economic analysis undertaken by our consultants to understand the behavioural impacts of reform (see sections 4 and 5, and Annex 4), we have undertaken additional work to assess the behavioural response of large users. We wanted to understand in particular the potential for harmful distortive effects on residual charges of load reduction or grid disconnection by large users, as this would lead to residual redistribution on to other network users. We engaged with large users and discussed in more detail the nature of their sites, their relationship with the electricity networks and the broader impact of energy costs on their business decisions. We have also looked at the literature surrounding large-user responses and have taken these into account in our assessment. The large users annex provides more information (Annex 6).
- 1.7. We also need to consider the impacts of change on consumers in vulnerable situations when we think about how any changes will impact all consumers. Electricity networks are natural monopolies which provide an essential service, making it particularly important that we consider the distributional effects of any changes. Reductions in bills for some network users will lead to increased bills for others. To understand better the impacts on consumers in vulnerable situations, we have carried out analysis to consider this specifically and have engaged with groups who represent consumers to understand their views and any concerns.
- 1.8. Most stakeholders identified simplicity and predictability as being important qualities of any charge. To avoid additional complexity and regulatory burden stakeholders expressed a desire to use existing data and systems in calculating any new charges to minimise requirements for introducing new data or processes.
- 1.9. Stakeholders highlighted a desire for us to consider transitional arrangements, given the size of the residual revenues, and for the potential for impacts of any changes on different customer types to be clearly set out.
- 1.10. Our launch document⁵ stated that we would be proportionate when we considered changes to residual charges and whether any reforms were justified by consumer benefits and the pursuit of fairer distribution of charges. In particular, we stressed a preference for network charges to be predictable and to reduce the extent to which some users' relative contributions to residual charges change materially as a result of other users' behaviours.

Consumer panels

- 1.11. We were eager to seek consumer views on our approach to fairness and residual cost recovery, to ensure our policy is informed by the views of Britain's energy consumers. Our Consumer First research programme helps us to understand the priorities, views and experiences of a wide range of consumers, including business consumers and more

⁵ <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-consultation>

vulnerable groups. We met with a group of everyday domestic customers recruited from four locations across Britain and commissioned independent qualitative consumer research, to test our positions.

1.12. We set out three specific research objectives for the consumer panels, to understand better the following:

- a) whether consumers believe it is fairer for them to pay towards residual network charges based on consumption or a fixed rate;
- b) consumers' views on the appropriateness of change to the *status quo* and the degree of change they would be willing to accept; and
- c) whether consumers think it is fair to give more consideration to specific consumer groups for network charges, e.g. vulnerable consumers.

1.13. Consumer panels were held in four locations across Great Britain, Chelmsford (South of England), Llanelli (Wales), Manchester (North of England) and Aberdeen (Scotland). This was designed to try to capture a range of consumer types, with the respondents being further divided up into three groups based on their perceived energy usage: high users, low users and middle users. The intention of these consumer panels was to try to understand what consumers perceive as a 'fair' approach to setting a new charging framework for residual charges.

1.14. Consumers generally perceived the current methodology, whereby residual charges are levied mostly on volumes, to be fair. Their views on what 'fairness' is, was typically assessed against the *status quo* rather than them considering what a fair regime could potentially look like. Panellists also tended to default to their own behaviour, and often struggled to consider the rest of society's perspective.

1.15. The majority of panellists thought that users should continue to pay for what they used, and that this was the 'fairest' method in which to pay for the network. There was no consensus on this, however, with some users (particularly some high-consuming users) expressing that a flat, or fixed rate, was more favourable, given that these different users had the same access to the network. Comparisons were drawn with other services that require extensive shared networks, such as home-phone lines/internet and fixed-line rental.

1.16. There was a general consensus on the idea of providing relief to certain consumer groups, particularly vulnerable users who might need to consume more due to a medical condition. However, some panellists recognised that vulnerable individuals receive state benefits and questioned whether exceptions should be made through network charges.

1.17. There was also little consensus on how users who had invested in ecological initiatives (solar/electric vehicles) should pay. Some considered that they should pay the same, as they had the same option of using the network, whilst others thought that if they used less, they should pay less and that this helped to incentivise these initiatives.

- 1.18. These key findings and others have been presented in Revealing Reality's 'Understanding consumers' views on residual network charges', one of the supporting documents. These consumer views have been incorporated into this work and have informed our final minded to position.