

Northern Powergrid CEG response to Ofgem's Consultation on frameworks for future systems and network regulation: enabling an energy system for the future

Introduction

We welcome the opportunity to respond to this consultation.

As an independent Customer Engagement Group (CEG) our role is principally to scrutinise the work of Northern Powergrid (NPg) to ensure that it is conducted in the best interests of its customers and stakeholders¹. But in view of the importance of the issues raised in this consultation for this same group of people we want to offer our views to Ofgem for consideration in its policy development. Having been established in 2019 with a mandate from Ofgem to scrutinise the development of NPg's business plan, and having now agreed a new set of terms of reference with Northern Powergrid to scrutinise their delivery during ED2, but with no mandate from Ofgem, we feel well placed to comment in particular on Question 1 in this consultation.

We agree with the aim set out in the document *"Our aim, therefore, is to make effective whole-system plans the foundation of future price controls in gas and electricity"* and would like to emphasise that these plans must be fully consistent and coherent with the spatial plans being developed in parallel with energy system ones. As we said in our response to Ofgem's recent consultation on the future of local energy systems and governance:

"A critical consideration for any proposed change is whether or not it will facilitate effective coordination between the energy system and local/regional spatial planning."

Q.1. What should the role of the 'consumer voice' be and through what institutions and processes should it be channelled?

The 'consumer voice' should be an integral part of a process through which all plans are assessed and an ongoing input to monitor and assess how well delivery is meeting the continually evolving needs of customers and stakeholders. But it is important to recognise from the outset both that there is no single 'consumer voice' and that the needs of some other stakeholders – such as spatial planning authorities – must also be taken into account.

We welcome Ofgem's recognition in the consultation document that:

"... residents, businesses, local communities, and regional councils will all play a part in shaping where demand increase will materialise first, and at what pace. It will require that there is a far greater, and more sophisticated, understanding shared

¹ CEG Terms of Reference can be found here: <https://ceg.northernpowergrid.com/?tax-download-type%5B0%5D=5&keywords#documents>

across many institutions of the likely future needs of network connected consumers than has been required to date.”

This implies that a granular knowledge and understanding of consumers’ current and future needs must be at the heart of the energy system plans, and acquiring such knowledge can only reliably and sustainably be achieved by giving consumers a central role in the planning and monitoring processes. This implies a shift in emphasis from a process characterised as ‘experts talking to experts’ to a more inclusive and broader conversation. This does not reduce the importance of expert input to the process, but this needs to be augmented by a better understanding of the needs of consumers. Another way of putting this would be say that the fields in which expert input to the process is required need to be expanded to include this more granular/detailed understanding of consumer needs.

Many of the topics that need to be determined during the price control process are highly specialist and detailed, and do not easily lend themselves to input from ‘ordinary’ customers. Even expert groups need to have substantial resource in order to be able to contribute to many of the detailed topics under consideration. CEGs have been able to act as an impartial bridge between the many stakeholder groups with which the regulated companies engage and the specialist teams drawing up the business plans. In this way they have given a significantly stronger ‘consumer’ voice in such plans than was previously possible. Their scrutiny, and their direct line to Ofgem has provided an added check on the companies’ interpretation of the stakeholder feedback they receive.

The establishment of the Customer Engagement and User Groups with mandates from Ofgem has been found² to have improved the quality of the business plans submitted and had a number of other benefits. There are certainly ways in which the operation of these groups could be improved (and we urge Ofgem to undertake a rigorous independent evaluation of the RII0-2 enhanced engagement process) but they have already demonstrated the effectiveness of such an approach. We recommend that Ofgem mandate the continuation of such groups both to contribute to the business planning processes and also to add to the scrutiny of delivery. A mandate from Ofgem will both ensure that a consistent approach is taken by regulated companies (and the current situation already demonstrates the lack of consistency that follows from an absence of Ofgem mandate) and will enhance the ‘soft power’ of these groups. Their voice is strong within the companies partly because they have a transparent role to report to Ofgem.

Ofgem has been in discussion with the Chairs of the CEGs about how they could usefully contribute in future and this discussion has generated a number of ideas. We think these ideas should be built on in a number of ways.

² Ofgem: Findings of the Enhanced Engagement Evaluation and proposed recommendations for ED2 CEGs (Michael Kattirtzi and Ayesha Uvais 12/04/21)

First, there should be clear and transparent links established between these CEGs and the proposed RSPs. This could be through cross membership (or mutual observer status) or other means of ensuring close cooperation between the groups.

Secondly there should be more formal and transparent ongoing engagement between the Chairs of these groups and Ofgem to ensure that any common issues and themes they identify are being considered by the regulator.

Both of the above changes would be in line with the wider stakeholder feedback Ofgem has already received on its previous letter on this subject. As the consultation document states *“A common theme in all stakeholders’ feedback was that to achieve whole system outcomes in a cost-efficient manner, new governance structures and capabilities would be required across the energy sector. This included within Ofgem, but also in the FSO and other public sector and stakeholder bodies. Under these new regimes, responsibilities need to be clear, coordinated and understood by all.”*

We also think that Ofgem should review the types of consumer/stakeholder research that are most appropriately conducted by each regulated company, and which types are more appropriately conducted once nationally on behalf of the whole industry, or sectors of it. While some issues benefit significantly from local analysis, there is a significant extra cost in this compared with a single national approach, and other issues might be more cost effectively investigated nationally. For instance, both Ofgem’s Challenge group and some of the CEG Chairs advised Ofgem during the ED2 plan development process that it might be a better use of customers’ money for Willingness to Pay (WTP) research to be conducted once, nationally, on behalf of the companies. Clearly, any such national research would need to be very carefully planned and undertaken to ensure that the results accurately reflected the views of consumers across the country.

Similarly, Ofgem should consider what incentives are needed to stimulate the regulated companies to innovate to make more use of the new digital stakeholder research techniques, in line with good practice elsewhere. Practices like A/B testing of different product options and service elements are now fairly common, but we did not observe network companies making significant use of such techniques in RIIO-2. It wouldn’t be impossible for regulated companies to build such testing around issues such as using peak pricing to drive down peak demands, or to drive recruitment into flexibility markets. It may initially be appropriate for this to happen within the context of innovation projects, but it should be happening to start improving the quality of the consumer insight that the companies can gather.