



Consumer Challenge Panel

National Consumer Roundtable on Energy

Angela Bourke - 8 March 2013

Outline of presentation

- ‘Consumer challenge’ concept
- Ofgem and Ofwat experience
- Australian context
- Current thinking on the objective and roles of the AER’s Consumer Challenge Panel
- Panel timeframes and processes
- Questions

The 'Consumer Challenge' concept

- Consumer Challenge models developed by regulators Ofgem and Ofwat in Great Britain were the starting point to assess how such a panel could work in Australia
- Technical experts with consumer expertise
- Provide advice & consumer perspectives on more technical, complex issues – not a decision making body
- Provide individual views, not organisational/policy line
- Provide challenge and act as a 'critical friend'

Ofgem's Consumer Challenge Group

- Ofgem's Consumer Challenge Group started July 2008, electricity distribution price review (DPCR5) – new price controls from April 2010
- Initiative of the regulator, in recognition of the limited nature of customer engagement in price reviews, because the process is technical and consumer groups have limited resources
- The group acts in an advisory capacity to help inform the Authority's decision-making process
- Continued for review of electricity and gas transmission and gas distribution price control (RIIO T1 & GD1), to come into effect in 2013 and review of electricity distribution price controls from 2015 (RIIO ED1)

Ofgem's Consumer Challenge Group

Terms of reference

- “To get consumer input into some of the more complex issues that we are unable to address through market research
- To provide a ‘critical friend’ from the consumers perspective ensuring that we have not missed any key issues and that the final package is a fair one for consumers
- The Group will act in an advisory capacity to help inform the Authority’s decision-making process
- Ofgem will commit to taking the Group’s views seriously and giving them due weight in the deliberation process but will not be obliged to act on the views expressed
- We would not expect members to sign up to the decisions or to indicate in any way that they have done so”.

Ofgem's Consumer Challenge Group Members

- Initial group had six members:
 - four with knowledge and expertise relevant to household consumers, and
 - two with knowledge and expertise relevant to business consumers
- A further two members were added for RIIO T1 and GD1.
- For RIIO ED1 seven members were appointed (three of these were from the previous Groups)
 - Expertise included consumer (both household and industrial/commercial) and environmental experts

Ofgem's Consumer Challenge Group process

- A number of full day meetings were held with senior Ofgem staff working on the price review
- Two meetings with the Committee of Authority – the main decision making body on the price control
- Two meetings with network businesses
 - DPCR5 there was a joint roundtable meeting with all businesses
 - RIIO T1 and GD1 met businesses individually to discuss their business plans (this was felt to be more useful than the roundtable)
- Also presented views at price control review forums (alongside other stakeholders)
- Published short reports on the work of the group for each review

Examples where Group added value in DCPR5

- Clearly defined, agreed outputs that Ofgem expects network businesses to deliver in return for the revenues collected from customers
- New measures to significantly improve the level of connection service and enable effective competition in connections.
- Targets and incentives for network reliability
- “Use it or lose it” allowance for improving service to worst served customers
- New incentive that rewards or penalises DNOs in relation to how they fare on a broad measure of customer satisfaction
- Low Carbon Networks fund – aims to stimulate trials of technologies, commercial and operating arrangements for the “smart grid” future. DNOs bid in competition with each other, rather than each receiving an innovation allowance; DNOs bid in partnership with others such as electricity retailers; DNOs share learning (including from projects that "fail") to maximise industry benefit

Ofwat Consumer Engagement approach

- “Involving customers in price setting” - August 2011
- Three tiered approach to customer engagement:
 - Direct local engagement between customers and their water company on issues including local services and tariffs
 - Company Customer Challenge Groups which challenge the shape of the company’s overall business plans
 - Ofwat sector-wide customer advisory panel to influence and inform Ofwat’s decisions

Water Company Customer Challenge Groups

- Companies are responsible for setting up and running their own challenge groups. Each has independent Chair (usually from the statutory consumer body - Consumer Council for Water)
 - Company Boards develop and propose outcomes, associated commitments and incentives that reflect their customers' views and priorities
 - The CCGs will challenge the quality of the companies' customer engagement and the extent to which the business plans put forward reflect their customers' views
 - The CCGs will provide an independent report to Ofwat at the same time as companies submit their business plans
 - Ofwat will make the final assessment of companies' outcome commitments as part of its risk-based challenge to companies' business plans and use the views of each CCG as a key input into this

Ofwat's Customer Advisory Panel

- First meeting held in February 2012
- Established for consistent policies or assumptions across water and sewerage sector
- Used to inform Ofwat's decisions on methodology for price reviews and subsequent determinations (including cost of capital and provisions for pensions etc)
- Run through a series of round table meetings on specific subjects, such as the form of future price controls.
- National perspective (not local)
- Doesn't review company business plans or feedback from company specific challenge groups

Differences between Britain and Australia

- Our approach to the Panel has been informed by the experiences of regulators in GB and adapted to reflect the Australian context and regulatory framework
- Ofgem and Ofwat are required to balance environmental and social objectives
- Unlike Ofgem and Ofwat, the AER does not have any specific duties or powers in respect of environmental or social considerations
- However, AEMC Power of Choice review and initiatives by Commonwealth and state governments to promote energy efficiency (and other matters) means that networks (and the AER) will be facing some similar challenges to those in the UK

The Australian context

- Network costs are a more significant part of the consumer's bill in Australia (45-50% compared to <25% in Great Britain)
- Highly technical and complex nature of the regulatory framework and limited resources makes it difficult for consumers and their representatives to engage
- Concerns that this can lead to an imbalance in the range of views reflected in determinations
- To ensure that consumer interests are explicitly considered, we have implemented a range of mechanisms and initiatives under our Better Regulation reform program – this aims to deliver an improved regulatory framework focused on the long-term interests of consumers

Objective of the Panel

- The objective of the Panel is to assist the AER make better regulatory determinations through advising us on issues that are important to consumers
- Enhanced consumer focus and improved decision making
- The Panel will:
 - Challenge our emerging thinking
 - Ensure key consumer issues are not missed
 - Enable expert consumer input into more complex and technical issues that arise during regulatory determinations

Key roles of the Panel

- Advising on whether businesses' proposals are justified in terms of the services to be delivered to customers; whether those services are acceptable to, and valued by, customers
- Assist the AER in ensuring businesses' proposals reflect the level of service, price, quality, safety, reliability and security of supply that customers value and whether the proposals are in the long terms interests of consumers
- Advising the AER on the effectiveness of network businesses' engagement activities with their customers and how this engagement has informed, and been reflected in, the development of their proposals
- Provide advice to other bodies—such as the AEMC and SCER—on consumer perspectives in relation to energy issues under consideration

Key roles of the Panel cont...

In performing its roles, we expect the Panel will:

- consider materials provided during determinations, including businesses' proposals, stakeholder submissions as well as materials prepared by the AER
- meet with network businesses to discuss their proposals
- Liaise, consult with consumer representatives so can provide an effective consumer perspective
- meet regularly with AER staff and Board to provide consumer views and feedback on our emerging thinking
- advise us on any components of businesses' proposals where it considers the business has not adequately responded to consumer issues/concerns
- provide written advice and reports when requested
- provide views on issues identified that could apply to, and inform, other determinations, including feedback to improve AER and Panel processes

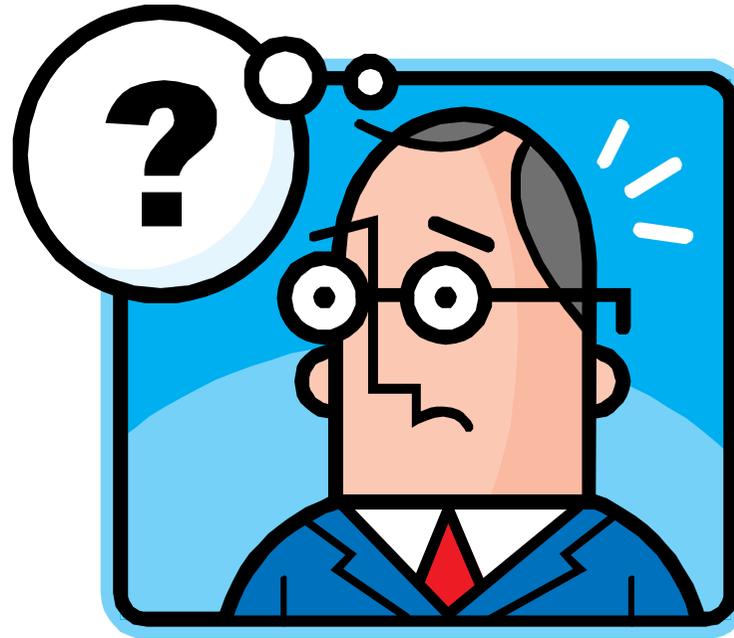
Key roles of the Panel cont...

- The Panel will act in an advisory capacity to help inform and improve our decision making – it is not a decision-making body
- We will give due weight and consideration to the advice and views provided by the Panel
- Whilst not obliged to act on the views we will provide a clear rationale for our decisions and provide feedback to the Panel on how their views have been considered and addressed
- The Panel will help to ensure that we have a focus on matters that are important to consumers in each of the regulatory determinations we make
- Complements other consumer engagement/empowerment mechanisms: CCG, CRG, jurisdictional consultative groups, national advocacy body etc

Appointment process & timing

- Calling for expressions of interest for suitable Panel Members in April 2013
- Prospective candidates will be asked to consider the Panel Member's Charter and to submit an application outlining their suitability, expertise and to address the key selection criteria
- Selection Panel will assess applications and interview those short-listed. Merits based selection process with appointments made by AER Board – established by 1 July 2013
- Fixed term appointments – initial three year term
- Members will be paid for their participation on the panel

Questions?



Further information

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