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**Report of Study Visit to United Kingdom,**

Focusing on the “how?” of consumer engagement

May – June 2017

**by:**

Mark Henley, September 2017

Thanks ECA, ESCoSA and Uniting Communities for the funding to enable the visit and thanks also to the many people in the UK who freely gave their time, expertise and candid perspectives to an Antipodean with a thousand questions. Meeting the people involved face to face and just ‘being there’ has certainly helped make more sense of the countless reports, submissions, spreadsheets and diagrams ‘on the screen’. Some people centered communication certainly helps with advocating for customer centered regulation and network business practice.

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**In Memorium**

Sadly, during my time in the UK undertaking this study tour, two particularly tragic events occurred in London.

On the evening of 3th June 2017 an attack on innocent people occurred on London Bridge and the nearby Borough Market area. Then on 14th June the Grenfell Tower, a 24-storey building in north Kensington, London, was engulfed in flames, many people were trapped inside.

I recognise the tragic deaths of many people as a result of these two events and share the sadness for family, friends and communities of the people who died.

In the face of tragedies, the efforts of many people who sought to help and the resilience for London communities remains inspirational and a reminder that whatever any of us are doing, our shared goal should always remain that of creating a better world with promoting human dignity for everyone central to this.

**Section 1: Background**

This report is a combination of description and thoughts arising from a study tour of the UK undertaken by Mark Henley, 29th May to 15th June, 2017 to focus on how best engagement with consumer interests, by network businesses is undertaken. This coming at a time when these same questions are under active consideration in Australia

Mark is employed by Uniting Communities a major community service organisation in South Australia that is a part of the national UnitingCare Australia policy network.

Uniting Communities has had a long-term commitment to ‘community development’ approaches with the language of ‘community engagement’ being the more common language in Australian energy markets. The organisation has a strong interest in energy affordability since it is the most commonly mentioned concern for clients of financial counselling services and energy affordability is an ongoing concern for people involved with many other services provided by the organisation and our peers.

Uniting Communities has taken a lead on energy network costs for a number of years including the rule changes debated during 2012 and the development of the consumer engagement guideline as part of the Australian Energy Regulator’s 2013 “better regulation” process. In 2015, through UnitingCare Australia, a concept report was released that is generally referred to as the ‘DNA of network regulation.’ In this report it was observed that the network regulatory processes of the day could be characterised by the network’s proposing, defending and litigating (through Limited Merits Review). The alternative that was proposed was for network regulatory processes that sought agreement between consumer interests and network businesses, with processes of negotiation and for more complex issues, deliberative processes being utilised to seek such agreement, hence the DNA approach referred to Deliberative processes and / or Negotiation seeking Agreement.

This study visit was intended to build on this background and in particular to explore the nitty-gritty details of ‘how‘ of consumer engagement is undertaken by network businesses in the United Kingdom and gain a sense of consumer views on the effectiveness of various approaches from network businesses as well is from different regulators. This with a view to whether there were any UK experiences that could be applied in Australian settings.

Note that the term ‘consumer engagement’ is widely used and has many interpretations.

The Canadian Tamarack Centre for Community Engagement[[1]](#footnote-1) is recognised as a leader in developing and documenting community engagement practice. They define community engagement as:

*“people working collaboratively, through inspired action and learning, to create and realize bold visions for their common future.”*

So the meaning of consumer engagement in energy markets used in this paper is:

*“end consumers and network businesses with regulators working collaboratively, through inspired action and learning, to create and realise bold visions for their common future.”*

**Questions – a priori**

Primary Focus

This visit to the UK was primarily to explore the key question of:

1. How effective consumer engagement is undertaken by utilities?

In particular I was keen to explore the experiences of businesses who have good reputations for their consumer engagement to find out ‘the how’ of their consumer engagement along with gaining a clear sense of what works and what doesn’t and to gain understanding of why consumer engagement matters, if indeed it does the extent to which consumer engagement functions are internal or externally undertaken by regulated businesses

Consolidating questions

Coming from this primary focus, there are a number of questions that emerge that are of interest:

1. What is the role of regulators and businesses in the fostering good consumer engagement practice?
2. Who leads and how to achieve good practice in consumer engagement?
3. Are there particularly helpful incentives for networks to undertake effective consumer engagement?
4. Is there a ‘business case’ for consumer engagement being undertaken by regulated network businesses
5. How are consumer interests organised (selected) in order to be able to engage?
6. Where are ‘Fuel Poverty’ considerations up too?
7. How do consumer representatives who are doing the engaging maintain credibility / accountability with a much broader consumer base?
8. How far can consumer engagement go? (some argue for example that setting rate of return parameters for regulated networks beyond the remit of consumer engagement)

Supplementary questions

Then there were some supplementary questions issues that are also of interest. Including:

1. Are there energy / water consumer advocate peers that Australian advocates can be relating to? Is their interest? How could this be undertaken?
2. Who does consumer engagement on energy issues in Europe
3. What is the relationship between energy consumer advocates, fuel poverty focused advocates and environmental groups?
4. And then there’s the big question of what the thinking is about where future energy markets are heading?
5. And then the overarching question is also about observations or ideas that may have application somewhere in the Australian energy and water regulatory systems, with my particular focus being on national energy regulation and future water regulation in South Australia

The key determiner of timing for the visit was the hosting of the European Commission’s Citizens Energy Forum with the 2017 forum held in London on May 30th and 31st 2017.

**Section 2: Citizens Energy Forum[[2]](#footnote-2)**

By way of background the Citizens Energy Forum was established in 2007, by the European Commission and is held annually and organised with support from Ofgem.

This year’s forum, the ninth, was focused on the ‘Clean Energy for all Europeans’, legislative package.[[3]](#footnote-3)

Clean Energy in Europe

Europe has a target of 27% renewable energy by 2030.

A report by Cambridge Econometrics (CE) says that solar PV will be crucial in achieving this target, which they describe as ambitious. Part of the issue is that the further north, the longer the payback time for PV.

CE conclude that even with rapidly falling capital costs of PV systems, further policy support of PV will be required if the renewable target is to be met.

Interestingly, Chinese made solar panels are not to be imported into Europe, where “anti dumping” legislation has been invoked to block Chinese PV panel imports. Therefore, the question of whether to loosen the restriction on cheaper Chinese made PV panels adds another level of policy complexity.

Meanwhile, the environmental groups that I spoke with are livid about Spain’s “sun tax” a measure designed to reduce oversupply of electricity particularly produced by renewable means, and no doubt to assist fossil fuel industries too.

There was certainly a sense of urgency in getting support for the ‘Clean energy for all Europeans’ package of measures because time is limited and European politics cautious. The current European Parliament will be replaced in 2019 so this Parliament and associated Commission are very keen to get legislative packages approved by the end of 2018, the ‘Clean energy for all Europeans’ package being but one of the legislative agendas of the current European Parliament, but one with high importance particularly in light of the Paris agreements and some might suggest also recognising Brexit and the USA’s decision to withdraw from the Paris agreement. I was certainly convinced that the European Commission has not lost any enthusiasm for this package despite those potential setbacks.

On arrival at the Forum venue, the Business Design Centre, near the Angel Islington I was a little surprised at the size of the event, about 200 people from my estimates, all seated formally at tables with microphones and a very long head table for speakers and panels. I was also a little surprised by the range of people present, regulators and government officials from the member states, representatives of peak groups and major energy business sectors as well as a number of interested industries, housing and construction, energy aggregators and emerging third party energy businesses for example.

In fact, not knowing anybody at the forum, it took me a while to find some consumer advocates. It would appear that the history of the forum was that it started as officials and selected industry representatives talking about citizens and energy issues, without citizen representatives actually being present. This changed with advocacy by consumer groups and perhaps some initial surprise at the calibre of the consumer participation. Over the last couple of forums some NGO environmental groups have also been able to participate; early on I met representatives from Friends of the Earth, Greenpeace and REScoop[[4]](#footnote-4), who describe themselves as “a federation of groups and cooperatives of citizens for renewable energy in Europe’.

Context

The forum started with introductory comments from European Commissioners who emphasised that the ”clean energy for all Europeans” meant that “every single consumer” needed to benefit from the package. There were also urgings for governments to facilitate participation by all players and also strong calls for energy companies to innovate and for calls for markets to be unencumbered. For example it was stated that wrong price signals for investment in generation had led to excess capacity in some European states with a consequence being that consumers were paying more for energy than they should do. The various subsidies applied by differing member states are also criticised with a call to roll back subsidies with this leading to the lowest possible prices for consumers.



Citizens Energy Forum in “full swing”

Curious that excess supply in Europe leads to higher energy prices for consumers while in Australia shortage of supply means consumers pay more!

Experiencing energy poverty was also regularly mentioned with the major focus of the package being on the data challenge, the point was that data needs to show that there are real benefits flowing from money put into energy poverty programs by governments.

The view was repeatedly put that consumers need to be empowered so they can better engage in the market, i.e. turn to the best energy deal for them. The belief was that this would be driven by technology, in particular rolling out smart meters with dynamic price contracts to follow, supported by strong data management all contributing to give consumers the best choices.

Some consumer groups said that the major issues for European energy consumers were market design issues specifically:

1. Over capacity. Particularly in some nations
2. subsidies for fossil fuels continuing in a number of states - Spain’s “sun tax” was singled out as a particularly bad subsidy
3. exemptions for energy intensive industries.

Voices

It has been largely the case in Australia (except ECA since its establishment as a dedicated energy consumer organisation) that energy consumer advocacy has come from organisations with a wide range of service and policy involvements, energy policy and advocacy being part of the mix. In general it is broad based consumer organisations across Europe that have become the most active energy advocates, BEUC, the organisation formed by National consumer organisations, and based in Brussels, is the consumer group that has taken the lead with high level policy development and with energy advocacy. BEUC’s CEO was one of the first presenters at the forum and most panel sessions included a person with expertise on the topic from a national consumer organisation, which in turn was a member of BEUC. It was apparent that consumer organisations have been accepted by the European Commission as a legitimate and indeed important participant in energy policy developments, while some environmental groups have been brought ‘into the tent’ over the last couple of forums.

The role of regulators was also of particular interest, ACER is the Agency for European regulators providing a formal voice of regulators with their role and responsibilities included in some European Parliament legislation, as best as I can understand. Meanwhile CEER[[5]](#footnote-5), the Council of European Energy Regulators is a more informal grouping of regulators that is able to provide some leadership with ideas, suggestions and thinking. Their papers are akin to staff papers or discussion papers issued by Australian agencies including the Productivity Commission and the Australian Energy Market Operator. CEER was also one of the first groups to present to the forum, they announced the release of three ‘White papers’, including one on “consumer empowerment” released on the first day of the forum.

Forum format

The forum commenced with introductory comments from European Commissioners then followed by a plenary with the number of speakers responding to the ‘Clean Energy for all Europeans’ legislative package. There were then two simultaneous sessions on the afternoon of day one and the morning of day two, for a total of four sessions. Rapporteurs provided fairly detailed reporting back from each of these four sessions to the plenary. The final session was consideration of a communiqué. This is attached at the end of this section.

Session highlights

The following are some summary notes of what I considered highlights to be:

CEER – Council of European Energy Regulators

CEER was one of the first groups to present and they focused on their consumer empowerment White Paper which gives four areas to improve consumer empowerment:

1. fast and free switching between suppliers, with the proposal being that this should be executed within 24 hours on any working day
2. clear and accurate information to customers including bills
3. highlight the importance of comparison websites, but rejected the notion of Europe wide regulated twitching site arguing that these should be at member state level
4. monitoring progress on energy poverty.

[I suggest that this is a pretty narrow view of consumer empowerment!]

They also spoke about technology for consumers noting another White Paper released the week before the Forum which focus on their view of the importance of smart metering with dynamic price contracts and strong data management.

They concluded with reference to new business models noting that they have not yet developed a full understanding of all issues that are emerging further. They did talk about the rise of “local energy communities”, Australians would call these community energy organisations. The regulators highlighted some important issues pertaining to local energy communities, these being:

* consumer rights, i.e. everyone has the right to be a member of a local energy community
* metering and the responsibilities of relevant energy communities
* cost reflective tariffs
* reducing cross subsidies
* in particular important is the regulator’s role in sorting out how local energy community can operate.

BEUC

The first consumer advocate to speak was Monique Goyens, the Director-General of Bureau Européen des Unions de Consommateurs (BEUC), the ‘peak body’ of European consumer organisations. *(I thought that this acronym would be pronounced ‘bewk’ as in ‘Newk’, but no, the prevailing pronunciation (thanks Heidi from Citizens Advice Bureau, UK) is French with less emphasis on the B, more on the E and a soft C, finishing a little like “spook” but with soft c finish.)*

BEUC is the body formed by European consumer organisations and has been a very active player in energy debates, over recent years. They responded to the European Commissions “Clean Energy for all Europeans” package by saying that this was the biggest overhaul in energy related polices for decades *(maybe echoes of Australia’s Finkel review and NEM 2.0?).* BEUC also said that the package was an important step in a consumer friendly direction. They focused on the themes of energy being “Smart and Flexible”. The flexibility theme recurred with all speakers.

“Green is the new black,” was one of Monique’s ‘takeaway’ messages.

Monique said that the clean energy for all Europeans legislative package was the “biggest overhaul of energy-related policies in decades” and drew attention to the profoundly changing reality of energy markets in particular:

* transition to the electrification of energy
* the Internet of things
* big data

She also stressed that energy markets should work for people rather than being focused on working for the market itself.

After commenting that “Green is the new black” Monique said that:

* consumers should be enabled to appropriate the energy transition
* fair rules are needed for consumers who generate individually or collectively
* energy efficiency continues to be a no-brainer, a more ambitious energy efficiency policies needed
* enforcements still need to be beefed up and implemented
* independent dispute resolution schemes must include capacity to respond to the newly emerging components of energy markets.

A second speaker from BEUC, Monika Stajnarova listed a set of elements needed to facilitate effective switching:

* easy access to independent and impartial comparison tools
* capacity to compare current contract with other contracts
* comparison of the quality of service, not just price including complaint handling and customer satisfaction
* accreditation schemes for comparison sites
* awareness of savings and processes
* shorter switching periods
* termination fees only for breaking fixed term contracts early
* early termination fees only when energy companies are able to demonstrate the real cost.

She then talked about nine consumer principles for current and future markets:

1. our choice
2. it’s not just the techies
3. lower electricity bills
4. clear information
5. increased levels of trust still needed
6. no bill shock
7. respect privacy
8. be clear about who to contact in case of problems
9. tools to enable interoperability.

There was also a warning about the risk of a two-tiered energy Society.

(One grid operator commented to me that BEUC and other consumer groups are way too focused on the bill and customer service! I think that at best this is an outdated perspective from a network business!)



BEUC presenting their 9 principles.

Citizens Advice Bureau – UK

“consumers need protection against mad bills”

The Citizens Advice Bureau is a large non-government organisation across the UK providing a wide range of advice to consumers and assistance. They have also been funded for a number of years to provide energy advocacy and are a member of BEUC where it could be argued they have played a leadership role in consumer protection and consumer engagement approaches. A key person in all of this has been Heidi Ranscombe, who spoke in the panel session about “encouraging active consumers through new products and services.”

in a forum that was very focused on how to ensure that consumers are actively involved with the market through switching and responding to dynamic price signals, Heidi emphasised that the role of regulators is to encourage consumers to participate (at active levels) in the market but consumers need to be free to choose how and whether they participate.

Attention was drawn to a CAB report: “the destructive decade” as further context for current considerations, noting low take-up by consumers of new technologies.

It is evident that some technologies will support better engagement in energy markets by consumers, but equally there are some technologies that won’t help consumers.

Regarding smart meters, Heidi noted a pragmatic problem with some smart meters no longer usable upon switching, so for smart meters to be effective, and trusted they need to retain functionality upon switching.

Alternative dispute resolution platforms remain crucial both at a time of change and with new technologies emerging and continued protection is needed against “mad bills.”

Citizens Advice are planning to release a report in July 2017 about “time of use tariffs“ - it will be worth looking out from this report

Heidi’s final comments reinforced the importance that not all consumers can engage (actively in the market) and they should not be discriminated against because they can’t engage. Extra supporters still needed to vulnerable customers, maybe more so than ever.

I couldn’t help but think that this contribution to the forum added an important degree of reason and common sense. Highlighting limits to the market remains an important role for consumer advocates, I suggest.

Selected comments

This section is a grab bag of comments that were made during the forum that seemed to me pertinent in some way or other, with partial reference to the current situation Australia. My bias and interests should also be noted, there were many comments about unfettered markets delivering the best outcomes for consumers. I haven’t repeated these comments because they are widely made and I don’t think deal with the realities of a host of market failures, inevitably borne by consumers.

* BEUC: we don’t have a well-functioning market
* BEUC: consumers need the right means to be able to navigate the energy market
* BEUC: we need to make electricity use smart and simple
* Upower /Oracle: to what extent have we actually tried to understand decision-making by customers rather than trying to impose a particular approach on them. (I confess this fits into a bias of mine, I have often talked about noble laureate Daniel Kahneman who wrote “thinking fast and slow”, highlighting that most of our decision-making is instinctive and emotional rather than the deliberative and logical processes that are all too frequently assumed to be those used)
* Italian regulator: we need to understand the development of vulnerability from complexity
* Latvian Association for consumer protection: we can’t rely on all consumers engaging but can work closely with consumer organisations who are engaged at different levels.
* Energy commission in Ireland : we are getting better at describing the problem, less so the solutions.
* Energy commission in Ireland: new players entering energy markets there is a trade-off between regulation and innovation, but both are needed.
* BEUC: how can dynamic pricing be made comparable for consumers?
* Netherlands regulator: regulation is important, so is standardisation were possible
* Belgian ombudsman: we still need a better shared understanding of the roles and responsibilities of each party in energy markets.
* A Commissioner: local energy communities can be an effective way of managing energy at community level and are another way of enabling consumers to be engaged.
* A Commissioner: local energy communities should contribute in a fair way to any collective financing systems, we need to ensure that local energy communities do not step out of the market
* Paul De Wit: provided a matrix to consider options for aggregator structures and arrangements
* Manuel Sandez Jineze; consumer empowerment is built on information, choices and tools - the three sisters.
* Cambridge econometrics: a 27% renewable target by 2034 Europe is ambitious, solar PV is the key. Despite significant reductions in capital costs the solar PV, further policy support is required. A reduction in anti-dumping measures would help to increase the uptake of PV. (This refers directly to a European directive disallowing Chinese made PV panels, using anti-dumping legislation.
* Ofgem: to make energy markets work in the consumer’s best interests there is no change needed in the key objectives but the nature of markets will change dramatically.
* Retailer: the biggest challenge for consumers is how prices are set, with 37% of electricity bills being from taxes and levies. Consequently taxes and levies are rewriting price signals.
* Sustainability First: regarding smart meter rollouts the focus has been logistics, including data collection, but little attention has been given to how smart meters can be better used to support the public agenda
* Sweden: and customers receive two bills, one a network charge and a separate one for use, since this has occurred for quite some time is widely accepted by consumers.
* VZBV: uptake of new technologies is very limited because there are very few new services available so far
* consumer organisations: more enforcement is needed from regulators because there is unethical business behaviour which is not enforced;alternative dispute resolution is critical into the future with new products and rapidly changing markets
* Lord Mogg, retiring president of CEER: the forward facing challenge must be accepted by the European Parliament as a matter of some urgency otherwise there will be significant delays as a new European parliament is established.

VaasaETT

“massive, amazing things will happen in the future”

I will conclude my reporting of the Citizens Energy Forum with some comments from Dr Philip Lewis from VaasaETT, as this was the most significant future looking presentation from the forum.

VaasaETT is a research project established in 2004 with a particular focus on monitoring energy customers switching rates and associated dynamics that emerge across the world in competitive energy retail markets. The project was established by Dr Philip Lewis and Paul Grey.

Dr Lewis spoke at the Citizens Energy Forum on the topic of “key principles for the next energy markets,” he made the following observations:

* the new market is not here yet, it will appear in 4 to 6 years time
* electric vehicles will be a major driver for the new market
* the home will support electric vehicles more than electric vehicles supporting the home
* future energy markets will be transaction driven, consequently there will be much greater interest and involvement of financial institutions
* the new market will be more bottom-up
* there will be many new platforms for interaction - though there are currently too many platforms scrambling for attention
* energy will only be part of the future business model
* new market models will caution and customers from price signals
* new market models will garner greater flexibility
* all succeeding models will be global and will bypass the country if it’s market doesn’t fit the model
* regulation will determine the extent of pickup by succeeding models
* simpler well-regulated markets will thrive
* access to data will be crucial
* politics, media and regulation will all need to be positive.

He concluded his presentation by saying “massive, amazing things will happen in the future”

Particularly interesting for me were the observations that the emergent market is still 4-6 years away and that electric vehicles play a major role in how the market settles. Sounds like more fun times ahead for energy consumer advocates. (as well as regulators, government and businesses).

I think that this is a useful perspective for Australians energy policy and debates. Energy markets are in transition at the moment, a period of unprecedented change and we are not going to reach a new ‘normal,’ or ‘synthesis’ (in an Hegelian sense) for some years yet, so we all need to work on finding the best short term outcomes during ongoing transition, than focus too much on the long term. (There is little point focussing on the long term maintenance of the forest if all the trees are cut down in the short term future)

**Conclusions of the Citizens Energy Forum as published by the European Commission**

 **9th meeting of the Citizens' Energy Forum**

**London, 30-31 May 2017**

*Conclusions*

**1. The Clean Energy for all Europeans Package**

The Forum:

* Supports to a very large extent the European Commission's future-oriented retail market proposals and the comprehensive chapter dedicated to consumer empowerment and engagement in the ‘Clean Energy for All Europeans’ Package.
* Recognises that the proposals resonate with a number of recommendations made by this Forum in previous years, notably regarding barriers to market entry, ensuring more choice and better information and strengthened protection for consumers, including the possibility for vulnerable consumers and the energy poor to get involved in the energy market.

**2. Encouraging active consumers**

*On empowering consumers to make better choices in the market the Forum:*

* Recognises the impact of market design on the way consumers exercise their rights and the need to create inclusive retail energy markets that provide benefits to all consumers, including non-active ones.
* Emphasises that easy to understand, comparable and transparent information – through essential information on bills, improved pre-contractual and contractual information, and free of charge access to a reliable comparison tool that is certified – is key to consumer engagement.
* Calls on Member States to ensure that switching processes are easier, shorter (aiming towards switching within 24 hours by 2025) and smoother and that the provisions on contract termination fees provide adequate clarity on when such fees are justified.
* Calls for strong provisions on bundled offers and on regulators to monitor the development of those offers, inter alia to ensure that they do not represent a barrier to switching.
* Invites Member States to ensure that Obligation Schemes and Alternative Measures under the Energy Efficiency Directive improve the housing stock of all consumers and especially the energy-poor. Recognises the need to have a more energy efficient building stock, including energy use at home, to have innovative financing and to remove legal obstacles to renovation of older building stock, and consider measures to drive behavioural change among consumers including through the availability of energy advice**.**
* Welcomes the establishment of an EU Energy Poverty Observatory to guide Member States' reporting on energy poverty incidence and measures, and invites them to share information on best practices.

*On the role of the new energy technologies and data management for the consumers the Forum:*

* Recalls the benefits of smart meters for switching, precise and fast billing, data portability, dynamic price contracts and energy services, enabling better network management and fault detection.
* Supports the Commission's proposal that consumers should be able to access and control their data free of charge near real time, requests that data management procedures provide consumers with an oversight of who uses their data and calls for clarity on the responsibilities of National Regulatory Authorities and data protection authorities to enforce this in a consistent way.
* Recalls that principles of privacy by design and by default, avoidance of customer lock-in and priority for aggregated over individual data should be applied in the smart energy system.
* Calls for the creation of an accessible, usable and interoperable data ecosystem with the aim to allow all eligible market actors to have non-discriminatory and transparent access to data according to their specific role and purpose. Emphasises that the goal must be to create value for consumers, to lower energy system costs and to better inform public policy making.
* Calls for information to consumers about what switching to dynamic price contracts entails, in order for them to decide if it suits their needs and enable them to save on their energy bills.
* Underlines the importance of efficient data management and transparent procedures and rights for access to data, which is well reflected by proposals on interoperability in the Clean Energy Package.

*On engaging consumers in demand response, smart-consumption and self-generation through new products and services the Forum:*

* Shares the Commission's ambitious proposals to create a level playing field for self-generation, self-consumption, storage and sale of electricity by removing administrative and market barriers to active consumers and to incentivise the use of demand side flexibility without penalising non-engaged users.
* Supports the proposed right of consumers to request a smart meter and a dynamic price contract under the Clean Energy Package, which will link retail and wholesale market prices, improve price signals and enable consumers to respond to them, and enable new business models to develop. Stresses the importance of clarity, simplicity and automation to make participation in demand response easy for consumers.
* Calls on the appropriate national authorities to update the regulatory frameworks to keep pace with technological changes in the market and to ensure a fair and cost-reflective contribution to network charges by active consumers whilst taking into account the overall benefits they bring to the energy system.
* Supports the extension of existing consumer protections to all third party intermediaries in the Clean Energy Package, including to new energy service providers such as aggregators.
* Calls on MS to ensure that independent ADR schemes are available to address consumer complaints in the energy market, including on bundled offers, new products and service providers such as aggregators, and expresses its opinion that the mandatory dispute resolution as established under the 3rd energy package is maintained.

*On the role of local energy communities in the energy transition the Forum:*

* Supports the Commission’s proposal granting each citizen a right to be a member of a local energy community as a way of participating collectively in the energy market and being rewarded for it. Stresses the importance of keeping such membership optional.
* Recognises the role of local energy communities in fostering public acceptance of renewable energy, mobilising private capital towards achieving the EU renewables target, and facilitating the up-take of new energy services and energy efficiency measures, empowerment, local economic, social and environmental benefits.
* Notes, however, that the Commission’s proposals on energy communities contain a number of concepts that need to be further clarified, including the intertwining definitions of renewable energy communities and local energy communities, on how these relate to DSOs and local energy companies and how local energy communities are distinct from traditional commercial energy companies.
* Supports removing barriers, including the administrative and market ones, for local energy communities and integrate them fully in the energy market noting that all relevant regulations shall apply to them according to the activity they carry out.
* Underlines that to ensure solidarity local energy communities should contribute in a fair and cost-reflective way to network charges taxation and levies. Cross subsidisation should be avoided.
* Recognises that National Regulatory Authorities will have an important role in overseeing local energy communities and ensuring that they are able to emerge and develop on equal, non-discriminatory terms.

**3. The future of retail energy markets**

The Forum:

* Calls on the European Parliament as well as on Member States to swiftly advance on legislative proposals under the ‘Clean Energy for All Europeans’ package while ensuring future energy markets are more secure, cleaner, inclusive and affordable for all consumers.
* Emphasises the need for an effective implementation and enforcement of the Clean Energy Package to ensure that European consumers do not face any undue barriers or delays as regards their rights to be key players in the energy transition through better-functioning retail energy markets.
* Calls for enhanced cross-sectoral cooperation between regulatory agencies to address more effectively challenges related to energy markets that combine initiatives by suppliers from different sectors and are therefore supervised by different regulatory authorities.

**Section 3: Visits**

In considering the initial questions that I posed for this study visit, a focus was to meet with utility network business regarded as doing consumer engagement very well. The following summarises observations and highlights from three leading UK businesses, electricity distribution businesses Western Power Distribution (WPD) and UK Power Networks, then Scottish Water. As some background for the first two summaries, I first highlight two relevant elements.

Background: RIIO and SECV

RIIO

It seems that everywhere in the world of energy, the current search is to find the balance between certainty  and innovation, they are not complete opposites, but the principles required for innovation are generally at odds with certainty, and indeed perception of what is certain and what is innovative also vary.

Vulnerable consumers, prosumers, businesses, energy businesses and governments all want certainty, but tend to have different understandings of what certainty is. For welfare organisations assisting low income people, certainty of energy bills means them being able to budget for a known electricity bill, and for that bill to be as low as possible. For energy businesses certainly means being able to invest with the expectation that such investment will yield a profitable return for a predictable period into the future. For an Energy Minister, certainty probably means not being “beaten up” by high energy prices at the next election. Then there is the sort of certainty that is about the lights going on when required and the air conditioner being used on a hot (or cold) day.

For an energy market to deliver cheaper prices to consumers, there needs to be competition and the capacity for innovative new products and services that are cheaper but deliver the same or better service. Innovation, by definition involves some risk, which can mean higher costs at the establishment or failure stages of an innovation being applied or trialed.

The UK’s energy regulator, Ofgem, undertook a major review of their regulatory approach, with the certainty vs innovation dilemma in mind and they came up with the RIIO model,

Regulation = Innovation + Incentives + Outputs. (R=I+I+O)

The approach also moved to 8 year regulatory periods for network businesses, with a mid term review. And there’s the rub, greater certainty, particularly for network businesses due to 8 year regulatory periods. However, the question is the extent to which innovation in a rapidly changing market can be undertaken within an extended regulatory period

At the same time, in Australia, the Energy Security Council as recommend by Professor Finkel had just been accepted by the Commonwealth Government. This new Security Council will wrestle with this dilemma too. The search for innovative certainty goes on!

To provide a little context, for Australians, the UK electricity regulator is Ofgem, who in 2014? Moved to a new regulatory model generally referred to as RIIO, (regulation = incentives + innovation + outputs), with regulatory periods moving to 8 years rather than the historic five years, there is a mid-term review. Businesses whose regulatory proposals were regarded as being of a particular standard were able to be “fast tracked” meaning that they could get on with arrangements for the new regulatory periods sooner saving money and time through transactions costs particular associated with the regulatory process.

The UK Stakeholder Engagement and Consumer Vulnerability (SECV) incentive scheme for network businesses.

One of the incentive schemes now been put in place is the Stakeholder Engagement and Consumer Vulnerability (SECV) incentive scheme. As this was a significant part of my discussions, a summary of the scheme follows, note that a guidance paper can be found at:

[www.ofgem.gov.uk/system/files/docs/2016/04/electricity\_distribution\_secv\_guidance\_document.pdf](http://www.ofgem.gov.uk/system/files/docs/2016/04/electricity_distribution_secv_guidance_document.pdf)

Ofgem says that the scheme is to “ensure the ongoing delivery of an efficient network that embraces wider social and environmental objectives, electricity distribution network operators need to engage with a range of stakeholders. Key stakeholders will include parties are affected by, or reprinted by, decisions made by the network companies.

In particular, network companies have an important role to play in helping consumers in vulnerable situations….

The stakeholder engagement and consumer vulnerability incentive drives network companies to engage with stakeholders and address consumer vulnerability issues.”

 Businesses lodge a submission for each year which the regulator says must include three parts:

* part one: demonstrate that minimum requirements are met
* part two: network performance against panel assessment criteria (given later)
* part three: demonstrate network performance against customer tolerability criteria

The assessment of the network submissions is a three stage process

1. Assessment by Ofgem (internal assessment) against the minimum requirements
2. an assessment by an expert panel of stakeholder engagement
3. a consultant assessment of vulnerable customer approaches.

The Panel is comprised of at least four “scoring members” chaired by an Ofgem employee, it is not score. Panel members are drawn from organisations with expertise in stakeholder and consumer engagement, e.g. CAB, Sustainability First etc who score each network proposal against a published assessment criteria.

Businesses who score greater than nine points receive the full award that is on offer, businesses receiving less than four receive no reward businesses scoring between four and nine receive a proportion of the reward.

The reward is a maximum of 0.5% of annual revenue allowance, so is paid for by customers, so the network business needs to demonstrate that the customer improvement through stakeholder engagement and supporting vulnerable customers is greater than the value of the reward on offer. Businesses who receive a reward and return this to business owners are unlikely to obtain a significant reward the following year.

The panel assessment criteria (with the stakeholder engagement focus) are:

1. incentives are part of a holistic approach embedded in the business
2. initiatives reflect innovative thinking that maybe recognised as smart/best practice and could be replicated across the industry
3. initiatives which best serve specific interests of challenging groups or hard to read stakeholders
4. initiatives resulting measurable benefit to stakeholders
5. the quality of the network company strategy to address consumer vulnerability and the quality of the outcomes derived

The consumer vulnerability criteria are

1. strategic understanding and commitment to the role the network companies can play in tackling social issues relevant to vulnerable consumers
2. engagement with stakeholders to improve the data and information that they hold on vulnerable consumers and what they do with it
3. approach taken to management and use of the priority service register and associated services
4. approach taken to develop and utilise partnerships (e.g. referral networks) to identify and deliver solutions (both energy and non-energy) for vulnerable consumers
5. embedding this strategy for addressing consumer vulnerability in their systems, processes and how they manage consumer interactions.

The following table is published by Ofgem and shows the Panel scores and ranking for each of the UK network businesses in 2015/16

|  |  |  |  |
| --- | --- | --- | --- |
| **Rank** | **Organisation** | **Sector** | **Score 2015/16** |
| 1st | Western power Distribution | DNO | 8.75 |
| 2nd | UK Power Networks | DNO | 7.53 |
| 3rd | Electricity North West | DNO | 6.9 |
| 4th | National Grid (GDN) | GDN | 6.9 |
| 5th | Northern Gas Networks | GDN | 6.8 |
| 6th | Scottish Power | DNO | 6.78 |
| 7th | Northern Powergrid | DNO | 6.5 |
| 8th | National Grid electric | Trans | 6.25 |
| 9th | Scottish power | Trans | 6.25 |
| 10th | National grid Gas | Trans | 6.15 |
| 11th | Wales and West Utilities | GDN | 6.05 |
| 12th | SSE Hydro Electric | Trans | 6 |
| 13th | Scotia Gas | GDN | 5.75 |
| 14th  | SSE | DNO | 5.73 |

DNO = Distribution Network Operator (electricity)

Trans = Transmission Business (electricity)

GDN = Gas Distribution Network

I am really interested in this approach and the question of whether it might have relevance to Australian context. I suspect that currently there is much more interest in the stakeholder engagement aspects of SECV than customer vulnerability. Annual reporting of stakeholder and consumer engagement is certainly something that warrants careful consideration in Australia, both because it provide some ongoing, public focus on consumer/stakeholder engagement and also because it provides a much more transparent platform for regulatory proposals because the pattern and experience of engagement can be seen over time rather than concentrated into one big rush before a regulatory proposal is due. Independent assessment of engagement is also a very useful concept, with this being achieved through an independent panel comprising people with stakeholder engagement experience as well as peers from other industries.

My sense is that there is a greater acceptance of energy companies working with vulnerable customers in the UK than I suspect is the case in Australia. No doubt the fact that fuel poverty has been part of the UK policy debates for well over a decade is a factor.

I am well aware that the gas distribution industry in Australia has made proposals for stronger incentive arrangements in Australia, maybe something like the SECV, adjusted for Australian circumstances, would be worth exploring? Maybe a much stronger focus on regular reporting of consumer engagement coupled with the development of outcome measures is the sort of thing that STIPIS could morph into. A useful debate to be had in Australia?

**Energy Distribution**

* + 1. **Western Power distribution**

Western power distribution (WPD) is distribution business, (referred to in the UK as distribution network operators or DNOs) that serves the eastern West Midlands of England along with Southwest England and southern Wales. It provides electricity to 7.8 million customers (connection points) which is about 25% of UK customers, making WPD one of the largest of the six UK distribution businesses distribution businesses, UK power networks which services London, has a similar number of customers. As a very rough comparison for Australian readers, there are aspects of WPD which remind me of Essential Energy, namely large geographic areas to cover (relative to peers) and with very divergent climatic conditions in the distribution region. Both also have significant and relatively isolated communities to support.



Here is the Ratcliffe-on-Soar power station in the English Midlands, very close to the offices of Western Power Distribution. It is one of the largest coal fired power stations in Europe and a galvanizing image for the debates around Europe and the world about future energy.

I met with Western power distribution two working days before they presented their submission to the stakeholder engagement and vulnerable consumer Panel, a significant element of assessment under this incentive program.

I was advised that term “well justified” would be recurring throughout discussion, that was central to the approach taken by the regulator, Ofgem and of a concept become embedded in WPD’s culture. I was also reminded that Ofgem has significantly reviewed regulatory processes on the understanding that there was a tendency for at least some network businesses put investment ahead of need, the resulting RIIO process much more focused on questions of “what is the output? What is the gain for customers?”

Why engage with consumers?

WPD gave for main reasons:

1. it’s the right thing to do; i.e. ensure that business is addressing stakeholder priorities, after all customers pay for everything.
2. to justify business plans; i.e. that business plans are ”well justified” from abroad consumer perspective.
3. Identify improvements to services; including identification of opportunities for co-working
4. it’s a key regulatory requirement!

This business has identified four levels of consumer engagement:

* level iv: customers who are impacted, in the future by decisions the business makes, their lowest level of stakeholder knowledge and interest
* level III: customers impacted by WPG but it don’t have a whole of knowledge about the business
* level II: customers who interact regularly with the business and have a good knowledge of the range of services offered
* Level I: stakeholders with whom which the business works closely to build shared knowledge or whose role necessitates a detailed interest (e.g. retailers).

Western power distribution says that they consult with stakeholders on every aspect of their business, except safety, with the argument being that this is nonnegotiable. I’ve put it that some Australian networks, in my opinion, attend to over guild the Lilly, with some expenditure proposals put up in the name of safety, with the safety component fairly tenuous. I was assured that there was enough trust between WPD and stakeholders, this is not seen as an issue.

The how of consumer / stakeholder engagement

the business engaged stakeholders using three main approaches which is now been in place for about 10 years, most predating the major regulatory reviews leading to the RIIO approach. The three key elements of their consumer engagement are:

1. customer panel
2. stakeholder workshops
3. bilateral relationships

Note that the company has also made 1.4 million contacts with Priority Service Register (life support) customers over the past two years, to ensure that their records up-to-date so these customers can be readily contacted at any time. This is a substantial, targeted consumer engagement strategy as well

Customer panel

This is a panel of 34 permanent members who come from a wide range of stakeholder interests including domestic customers, SME customers, local authorities, utilities and vulnerable customer representatives. Customer panel meets four times a year, with venues moving around the region meaning that it is highly unlikely that all 34 members will ever be in the same room, but teleconferencing is encouraged for members distant from the meeting location. Customer panel is chaired by the Chief Executive Officer with a board member also present.

Panel m the early embers are not paid sitting fees but travel expenses associated with attending meetings are covered.

Member only pre-meetings and some closed sessions have been introduced more recently for customer panel members to further build member expertise and to enhance active engagement / challenge of proposals put by the business. Panel commissioned research is also undertaken now and the customer panel “Spotlight report” is now included with the annual business plans commitment report.

Their submission to Ofgem and the associated Panel lists the following is amongst 28 outputs for the customer panel over the last 12 months:

* review of social obligation strategy and creation of £90,000 innovation fund
* co-hosting a “stronger together” fuel poverty conference
* the new policy was established to make key account managers available as points of contact for major connections customers
* major review of the PSR - Priority Service Register (life-support customer) policy and a new process to review participants on the register, i.e. to remove out of date records where there has been no successful contact in three years, noting the business seeks to find every customer on the PSR list each year.
* New storm bulletins have been created to stakeholders with application before during and after forecast weather events
* produced YouTube videos as part of social media activity

Stakeholder workshops

Annual stakeholder workshops are conducted throughout the businesses region, with six workshops conducted in early 2017, and six locations throughout the regions served 270 participants in these workshops.

The 2017 workshops comprised four sessions being:

1. WPG’s business plan reporting
2. long term strategic priorities
3. future networks and environmental sustainability
4. topic specific “surgeries” providing participants with a choice of
	1. connections and distributed generation
	2. social obligations
	3. emergency resilience.

Bilateral relationships

what is heard, what is done?

* + 1. **UK Power Networks**

By the time I met with UK power networks, I had heard a number of quite conflicting views about the merits or otherwise of RIIO, so a discussion started with the effectiveness of this new regulatory approach.

I was advised that prior to RIIO, the overwhelming focus of network businesses was on ‘outages,’ but not much else. Under RIIO, the regulator and network businesses take all aspects of consumer experience seriously. Businesses need to report regularly on customer contact and customer satisfaction.

“Credit to the regulator” I was told “they have transformed the industry”. A ringing endorsement the regulatory approach not often heard from network business.

Consumer Engagement Approaches

UK power networks utilises a broad range of engagement mechanisms, Including:

* a CEO panel which includes CEOs and senior staff from key stakeholder groups including charities and NGOs
* forums which are to codesign services and seek solutions on single issues. These are conducted with other utilities and not-for-profit organisations
* critical friends panel (cf challenge panel) which includes representation from local authorities, non-government community organisations, other utility businesses parish councils and community energy organisations. The purpose is to obtain feedback on activity plans and seek endorsement of programme outcomes
* focus groups, these are quite specific with particular stakeholder groups involved including first home buyers and dementia patients and their carers.
* Bespoke events, 90 separate events were conducted with a broad range of interest groups including members of Parliament as well as children and young people. The main focus being to provide information and raise awareness. Market research activities are ongoing with over 87,000 people contacted in one form or other during 2016 17
* a diversity of targeted publications are produced to raise awareness on specific topics including priority service register initiatives.

A more recent development has been conducting of “energy cafes“ (cf “show us your bills days”) in conjunction with community energy groups and including other services including fire services for example to deal with fire safety issues.

UK power networks is also encourage the establishment of a cross utility forum that involves water and gas networks across the network areas in which UK power networks operates shared outcomes have included:

* joint promotion of the PSR, including common branding with water companies
* production of a cross utility energy efficiency and safety leaflet
* co-delivery of community outreach activities
* cross utility input into design and content of the “power cut emergency pack”

Vulnerable Customers.

As with WPD, UK power networks has based their vulnerable customer strategy on identifying their PSR customers and building on advice received from them.



A particularly tangible outcome was the distribution of 2500 “power cut emergency packs” for PSR customers which include a torch, ‘snap light’, emergency numbers, information etc.

An example of how all supporting vulnerable customers is embedded in the culture of the business is the following example from their 2016-17 SECV submission:

“Last year we piloted sensory training to help staff empathise with customers with a range of impairments. Co-designed with a UK the training is now business as usual for our customer service teams and available to all employees. We shared our approach with other organisations and stakeholders at our spring CFP’s and endorsed the development of further sensory training.”

Another example of the sort of partnerships developed is the following from the same publication:

“at employees are trained to recognise vulnerability and they highlighted that power cuts had a particularly detrimental impact on people with autism, who are not currently covered by APS our code, because of the disruption they cause to daily routines. (Repetitive behaviour and routines can be a source of enjoyment for autistic people and a way of coping with everyday life - National Autistic Society ). Working with the national autistic Society, we co-designed pioneering virtual reality training that gives employees and insight into autism. Currently developed to train our trainers, if successful the course will become part of our customer service training.”

According to UK power networks however, the greatest achievement in recent years has been the development of a very broad range of partnerships dealing with public safety, first home buyers and particularly with PSR customers.

Has RIIO been successful?

In considering these examples of network businesses and have been regarded as dong well out of the RIIO Model, WPD in part as the first ‘fast tracked’ business and UK Power networks as an enthusiastic supporter, this section provides a brief reflection on the success of RIIO, particularly from a consumer perspective.

Citizens Advice Bureau has recently released a report that essentially argues that UK energy network businesses have enjoyed unreasonably high profits, effectively saying that RIIO has not been successful for end consumer, in part because of these high profits. The report, “Energy Consumers Mission Billions”[[6]](#footnote-6) says:

“Energy networks, the companies that run the pipes and wires that carry gas and electricity, are forecast to return over **£25bn** to investors and creditors in the course of the current price agreement.

Our central estimate is that **£7.5bn** of these returns are excess profits **1** - that is, profits that are entirely unjustified, not reflective of performance, and in excess of what is required. The regulator intended the best-performing companies to earn double-digit returns while the worst earn only enough to pay the cost of their debt. Instead, the ***average* company profit is 10% and none earn less than 7%.**

Energy networks are enjoying a multi-billion pound windfall, paid for by consumers.

Our modelling is based on revisiting several key decisions Ofgem, the energy regulator, made in its latest price negotiations with energy networks. Our modelling shows how, in each of five key decisions, the numbers went considerably in networks’ financial favour.

It is hard to see how the companies could have failed to make large profits.

We also explain why this happened. Partly, estimates were made that always seemed generous to industry. Partly, this was a highly uncertain period, in which interest rates and bond returns were unprecedentedly low. Because of the approach used (for example, some forecasts were fixed, rather than being indexed to market conditions), network companies profited from these trends.”

# Citizens Advice UK has recently written to Ofgem proposing changes for RIIO-2, they say:

“In this open letter on the future of energy network price controls, we argue Ofgem should

* Seriously consider models of consumer engagement that could provide detailed scrutiny of energy networks’ business plans;
* Use greater indexation and tougher incentive benchmarks to ensure that networks earn a fair return on investment that represents good value to consumers;
* While supporting the alignment of ED1 and T1 in principle, be mindful of practical constraints on this;
* Review how the IQI and fast-tracking worked in RIIO-1, with the aim of encouraging network companies to submit more efficient costs for outputs;
* Scrutinise whether the 8-year price control length is really delivering the benefits for consumers that network companies have often argued they do.”

These views from Citizens Advice were echoed by other consumer focussed groups and some academics, believing that RIIO is not in the best interests of consumers, the high profits garnered by some network businesses being one important indicator.

**Water**

* + 1. **Scottish Water**

Thanks to the Water Industry Commission of Scotland (WICS), I met with WICS, Scottish Water, Citizens Advice and Customer Forum members. The “Scottish Water model” is widely recognised as being up with the best example of consumer engagement anywhere.

Scottish Water has around 5 million customers and provides drinking water to 2.4 million households and 150,000 business customers in Scotland, it does not have water meters and does not issue bills. Income is collected as part of the equivalent of Council Rates. So the context of the Scottish water situation is quite different from that of Australian water businesses. It means finding an efficient cost for consumers needs to be achieved without price or use signals.

**Customer Forum**

In 2011 the Customer Forumwas jointly established by the Commission, Scottish Water and Consumer Focus Scotland, as a response of the Scottish people rejecting the UK Parliament’s decision to privatise water supply. The Scots are proud of their water and strongly believe it to be a public asset.

The Customer Forum has nine members. The chair being a former politician; five members are persons with “strong customer-focussed reputation”, two members represent the retailers, and the remaining member is from the chamber of commerce. Together with Scottish Water, the Customer Forum is tasked with devising a business plan, which would be consistent with the regulatory guidance of the Commission. The guidance notes reflect a range of issues including finance and environmental. One of the salient aspects of the Consumer Forum is that its ability to bring together the representatives of a wide-range of organisations, including licensed retailers, to ensure that both household and business customers get the value for their money. Significantly, the customer forum is charged with seeking written agreement with Scottish Water for their regulatory proposals. In the last regulatory round, this was achieved through a ‘minute’ that was provided to the Regulatory, who accepted it as an agreement.

The Customer Forum also has a significant budget, of the order of £175k. Citizens Advice Scotland also receives funding for their consumer engagement. This is funded by a levy on water and sewerage revenue.

The role of the Consumer Forum is considered to be significant and influential as its Engagement Committee negotiates with Scottish Water on matters related to its business plan as a whole. The *modus operandi* of negotiation between the Forum and Scottish Water is this: providing the service at the most reasonable price and balancing the interests of all parties. The agreement was incentivised and supported while the failure to reach an agreement would be penalised by the Commission. If there is a disagreement, both Forum and Scottish Water should make it public the grounds of their disagreement and the Commission would step in to use its statutory powers, an outcome that no party wanted. Hendry argues that this is the reason for the success of the Forum.

The **Citizens Advice Scotland** (**CAS**) is a statutory representative of Scottish Water consumer interests, in addition to energy and postal services. CAS scrutinises policy and practice in the water industry. The consumer engagement strategy of CAS is backed up by four thematic research projects: promoting support for vulnerable consumers, sharing best practice on debt recovery in the non-domestic market, supporting consumer engagement and improving outcomes for communities at risk of floods.

As a consumer champion, CAB works with government, regulators and competition authorities, to identify problems early and hold the behaviour of providers of services to account. Most significantly, they undertake extensive consumer surveying and engagement, sharing results with the Consumer Forum.

The Citizens Advice and Citizens Advice Scotland’s work plan for 2016/17 states that CAS will become accountable to the Scottish Government for delivery of their elements of the Work Plan, following the enactment and devolution of the Scotland. The interesting aspect of CAS, however, is its focus on the non-domestic water consumers, such as small and medium-sized enterprises and sole traders.

**Research**

Scottish Water works with its research partner, Accent, to do in-depth research with customers. The research is conducted through an online panel, namely The Consumer Panel. It is an online community of customers who have signed up to offer their thoughts on Scottish Water’s strategy, processes and services. The Consumer Panel engages in conversation with its customers/panellists on issues, such as involving customers and letting them have a say in the type of innovations that Scottish Water implements.

Scottish Water employs innovative approaches to customer research. Some of the innovative techniques that the Scottish Water is using to engage with its customers are (June 2012, p: 5):

* Online Customer Panel
* Online Stated Preference
* Youth Research

Online Customer Panel

Scottish Water has a pool of 50 household customers available to participate in online panel activities. These customers take part in a number of activities over the course of a year so. The customers can build up a good understanding of all the issues Scottish Water deal with, and give a customer’s perspective. A key advantage of this research is panellists are able to contextualise each new issue with all the topics they have already covered, giving Scottish Water a “bigger picture” insight. Scottish Water claims that this is extremely valuable to them (Scottish Water), helping them (Scottish Water) improve their service and inform their strategy.

Online Stated Preference

Online Stated preference research is used to identify which issues customers think Scottish Water should be investing and the level of investment they think should be committed. This research has to be carried out a few years before the investment is made to ensure Asset Strategy team can analyse the customer feedback and develop a business plan. This approach allows Scottish Water to double check customers’ priorities over the next two years and make sure Scottish Water is addressing and investing in the issues which remain important to customers.

Youth Research

As Scottish Water is currently looking at investment until 2020 and informing their strategic direction beyond this means it is important that young people’s views are considered. Scottish Water has commissioned a series of online activities with 16-25 year olds and will be carrying out workshops at secondary schools to understand young people’s views. Scottish Water will mirror many of the topics covered with our current customers to ensure we have a fully rounded view of what customers are likely to expect in the future.

According to the Scottish Water’s in-house journal, *Involve Scotland* (Jan 2013), participants at the Young group (aged 18 -25) panel expressed that they “knew very little about the role or the extent of the services provided by Scottish Water”. Therefore, Scottish Water realises the significance of “educating the public and raising brand awareness was seen to benefit Scottish Water.” These future customers accepted that both short-term and long-term interruptions occur but specified that they “would like to be kept informed” and advised advanced notifications and progress reports are essential, particularly during long-term interruptions.

Maybe it because I’m a former youth worker, but I find this youth specific focus particularly impressive

Your Views Count - Plans for the future

*Involve Scotland* (Jan 2013) also states that it has launched major consultation, namely *Your Views Count*, **encouraging customer to help shape the future of water services** in Scotland between now and 2040. *Your Views Count* identified potential challenges and opportunities such as climate change, population growth and technological advancements that could arise in the next 25 years. The idea behind this consultation is to hear customer’s views on the extent to which Scottish Water should prioritise its issues. Customers are also asked about the future charge levels and the extent to which they would like to see service improvements in return.

**One response that is more relevant to the Australian situation** (in the context of September 2016 blackout) is this: When asked about the future service, “participants agreed that they prefer Scottish Water to invest in protecting its assets against more frequent events rather than rare events. They also felt that areas with a higher population density and areas which were more prone to the effects of extreme weather should be prioritised when investing.”

**Observations**

Consumer engagement approaches are of particular interest for Australian utility network regulation. The development of the Consumer Forum, as a tripartite agreement between regulator, business and a leading consumer organisation, now Citizens Advice Scotland, is of interest and potential application. Key roles of the Customer Forum are to be able to enter into some form of documented agreement with Scottish Water when regulatory proposals are presented to the regulator. The Customer Forum does not represent consumers directly but is regarded as able to represent a broad customer perspective. This is backed up by extensive consumer engagement which is undertaken by bodies who include the Customer Forum as a stakeholder. We are not aware of any bodies in Australia that have a strong role in negotiation and agreement as the Customer Forum, though some network businesses have customer reference or advisory groups which are starting to place some of the basic roles undertaken by the Customer Forum for Scottish Water regulation.

In short, application for Australia includes:

1. The achievement of documented agreement
2. The structure and processes of the Customer Forum
3. Youth specific research – the views of young people and sought and apparently valued
4. Significant on-going resourcing is available to the Consumer Forum and to Citizens advice too.

**Section 4: Headline Observations**

Note that current changes and developments in the UK have come about after an extended period of advocacy and community activism, as well as more years of operation for the UK market bodies / regulators, than in Australia. The following summary observations are given, before returning to my initial questions, in the next section. These summary observations are grouped under the headings of; Consumers, Vulnerable Consumers, Community Energy, Climate and renewables, Network Businesses and Regulators:

Consumers

* The mechanics / techniques of better practice consumer engagement are also found in Australia, with a moderately wide divide still between the very good and the not so good. An approach being used is to bring together about 80 – 100 consumers for a “deliberative forum”. About 4 hours seems to be the norm. Recruitment through advertising or more jury type selection processes to get a demographic range undertaken by a market research company. Short introductory comments on a topic, then facilitated table discussion in small groups, process repeated 3 maybe 4 times. Electronic voting also used for quick responses to more specific questions. I observed Essential Energy using this approach just before I left Australia. Some companies do this sort of process with their reference committees and / or challenge panels.
* major if not excessive focus on better informed energy customers, with switching rates are major indicator of effective market functioning
* Data – big / Data: consumers and privacy
* Data was a recurring theme, particularly ‘big data’, and how to ensure that as much data as possible is made public to inform policy makers as well as advocates. Understanding how data is being used to develop new products and services will be crucial over the coming years. Maintaining privacy will also be a part of the mix of future data issues.
* future uncertainty
* Resourcing for ongoing consumer engagement will be increasingly important. As businesses engage with more people and rely more heavily on consumer advocates with greater levels of knowledge and understanding, existing advocates will be more stretched than ever. Quite a bit of consumer time involved with negotiation and consultation is currently voluntary, a deeper understanding will be needed by all parties about the extent to which consumer involvement should be voluntary and what input and expertise will need to be funded and maintained.

Vulnerable Consumers

* relative acceptance of shared responsibilities to vulnerable energy consumers
* Responding proactively to vulnerable customers is accepted as part of the role of network businesses, I didn’t meet any Transmission businesses. A major focus has been through PSR (Priority Service Register) customers (life support customers). Regulators have lead on this with strong support (now) from network businesses. Some really interesting partnerships are emerging.
* Shared approaches to vulnerability. More “joined up” approaches to vulnerable people are needed, which is a matter that the UK regulators and Audit office are giving attention to.
* risk of two tier energy markets, Prosumers and fuel poor

Community Energy

* local Energy Communities (CF Community Energy organisations) including aggregators
* Community Energy is doing some impressive things, and the regulators and businesses are starting to talk with them more seriously. Being part of a community energy organisation is regarded as an important aspect of consumer engagement. Community energy organisations are more likely to have a community development / vulnerable customer perspective than individual ‘prosumers’. There are some big projects in the pipeline, but the jury is still out about the extent to which community energy will be significant in future energy markets. As in the USA, conservative governments have slashed funding support that helped to get community energy groups off the ground.

Climate and Renewables

* renewables integration into networks
* Climate Change is barely questioned. A lower carbon future is accepted by businesses, regulators and consumers as well as consumer and advocacy groups. Though not much clarity at political level about what Paris decisions mean. I get a strong sense of “we need to get on with it anyway” – reducing carbon emissions that is.
* Extreme weather. Increased Instances of extreme weather events will likely lead to differing views about reliability of supply and roles of governments and regulators. Building community resilience to enable and enhance responses will also be increasingly important.

Network Businesses

* future uncertainty
* “Well justified”

Regulators

* capacity for and preparedness of regulators to lead. Regulators have been able to lead, without compromising independence or stepping into policy space. The approach has been to announce directions that they are ‘minded’ to endorse, e.g. setting expectations about consumer / stakeholder engagement outputs (e.g. a social obligation to vulnerable customers) or announcing ‘tram tracks’ within which they expect a certain parameter total budget to be located within regulated resets. (Note that where tram tracks are set before a regulatory period, there is extensive discussion, including with consumer interests, and iteration to narrow the width of the tram tracks over quite a bit of time). Networks of regulators also have a useful role in testing current practice or floating new ideas; for example UK Regulators Network and the Council of European Energy Regulators, there are other networks too.
* incentives for network businesses including innovative stakeholder engagement and vulnerable communities
* energy business annual reporting on stakeholder engagement
* future uncertainty
* Challenge Panels are quite widely used and in a diversity of settings. The internal, informed ‘critical friend’ group is used by regulated businesses, by the regulator for regulatory determinations, note that in UK, Ofgem regulates all electricity Distribution Service Operators (DSO’s) at the same time, similarly all electricity transmission businesses and separately gas networks as a group. Ofgem appoints Challenge Panels to consider specific regulatory proposals, from network businesses, much as the AER does in Australia. Some network businesses appoint their own Challenge Panels, to be the ‘critical friend’ to encourage and challenge processes of consumer engagement as well as other aspects of a regulatory proposal. This approach is different from more traditional consumer reference or advisory committees.
* Regulators are also using challenge Panels to assist in considering policy and other aspects of regulation, including enforcement. Challenge Panels are also used by the regulators to help look at policy emerging issues and many regulators use challenge panels, including airport and financial services regulation.
* “Tram Track” Regulation. This approach is coupled with strong consumer engagement. The regulator sets a range for key values (Opex, Capex etc) within which it is “minded” to accept a proposal that is supported by consumer perspectives and the business. With WICS, there is a series of iterations of the “tram tracks” as they start with some starting ranges which are quite broad and then through discussion, research and negotiation, the ranges are narrowed. The approach has the advantage of not requiring a single number as a final determination, thereby allowing room for negotiation. The role of the regulator includes ensuring that the final decision is based on good faith negotiation, with reasonable outcomes for all parties, including consumers.
* We are not there yet! No question that energy markets are changing rapidly, but no clarity about what the next energy market ‘synthesis’ (in Hegelian sense) will look like. Best estimate is that things will start to become clearer re future markets in about 4-6 years and be much more ‘transactions’ based.
* Return to capital, in particular, ensuring that consumer-focussed advocates are able to engage in the debates and influence decisions about return on capital in network regulatory determinations. Note that Ofgem considers the regulated prices for all electricity distribution businesses at the same time, so unlike Australia, the costs of financing parameters will be the same for every electricity distribution business.
* Systematic, national approach to infrastructure development. Significant net cost savings are possible from integrated infrastructure planning and roll out. The UK has a National Infrastructure Commission that is supposed to be moving in this direction. Energy and water should be major elements of infrastructure planning.

Other

* Brexit matters

The decision by the United Kingdom to leave the European Union (Brexit) matters at national level and also at energy consumer advocacy level as well.

The Citizen’s Energy Forum for example is auspice to buy the European Commission and has been held in London for all nine forums conducted with Ofgem providing substantial Secretariat and organisational support. What happens next with the forum is unclear.

It is also apparent that individuals from UK energy consumer organisations, Citizens Advice in particular, have played very active roles in supporting and enabling consumer focused policy and regulatory development across European processes. The extent to which the considerable UK energy consumer engagement experience will continue to be active in Brussels is also very unclear.

**Section 5: Thoughts and Learning**

This section returns to the ‘a priori’ questions that I posed before leaving Australian shores. I return to them now.

*Q1.* How effective consumer engagement is undertaken by utilities?

*Firstly, what is meant by Engaged Consumer?*

It was apparent at the Citizens Energy Forum that what the European Commission meant by engaged consumers was that consumers had smart meters with retailers providing cost reflective pricing and that comparison websites existed that encouraged customers to shop around and change their retailer, to get a better deal.

This is a widely held perspective from a neo-classical economics paradigm.

However, I find myself increasingly railing against this approach to both the ‘market solves all’ perspective and to the idea that if only consumers weren’t so lazy, they would have cheaper electricity (to paraphrase the argument!)

A couple of challenges to the notion that energy consumers are empowered by smart meters, cost reflective tariffs and price comparator websites:

* Can anyone seriously suggest that a useful price comparator website comparing cost reflective tariffs is really possible, at a reasonable cost?
* How often should a consumer reasonably be expected to compare the market and switch to a cheaper tariff? I have yet to see any reasonable tracking of ‘best deals’ over say 12 months, to see if these deals were still best, or even reasonable 12 months later. It is difficult for consumers to trust a market where today’s apparently best deal is no good in six or twelve months’ time.
* Why is it that most of the companies I deal with regularly, hardware stores, airlines, clothing companies, hotels, coffee shops all reward the customer for loyalty, yet energy companies (and banks) penalise loyalty by charging higher prices (reducing interest rates)? A customer focussed business seeks repeat business and rewards loyalty. What would this look like for energy companies?

Back to consumer engagement / empowerment models. The ‘smart meter – cost reflective prices – churn’ view seems way to0 narrow for me, so the following is an attempt gives a perspective on consumer empowerment from more of a principles perspective.

* Treated with respect and honesty by government, regulators and businesses
* Protected, (minimum engagement is still in best interests of the customer)
* informed as necessary, for them to engage as and when is necessary
* loyalty is rewarded
* able to be a member of a community energy association – choose a level
* supported by consumer organisations

*How effective Consumer Engagement is undertaken*.

The following picks up on the aspects of consumer engagement that had most impact on me, intuitively. I have not used any particular assessment tool, rather I have applied my sense of what might have resonance in the rapidly changing Australian context. So the approaches:

1. Many Approaches

Probably the most important element of best practice approaches to consumer engagement by the firms that do well in the UK, is that there is no single ‘best practice’ methodology, rather a commitment to applying a wide range of approaches with different audiences, on an ongoing basis.

* A selection of the process is that I encountered include:
* focus groups (for UK power networks this included first time energy buyers and dementia patients with their Carers as stakeholders)
* market research undertaken by external companies
* in-depth focus groups (e.g. for Western power distribution dealing with future networks and environmental sustainability topics)
* third party research (e.g. citizens advice Scotland conducts quite extensive consumer research which is provided to Scottish water on their associated Consumer Forum
* stakeholder workshops
* critical friends / challenge panel groups using methodology similar to the challenge panel is used by regulators
* CEO Panel, (again for UK power networks the stakeholders here include CEOs and senior staff from key stakeholder groups, specifically charities and NGOs)
* bespoke events (WPD conducted a Parliamentary reception, UKPN had contact with 44,000 stakeholders over 90 events on a broad range of topics over a 12 month period)
* joint research with academic institutions
* Web-based surveys

The range of methodologies used by network businesses is impressive with many thousands of stakeholders engaged over a 12 month period. Also impressive is that most approaches are ongoing.

1. Annual reporting

Annual reporting is a requirement of the Ofgem stakeholder engagement and consumer vulnerability incentive program, however the reporting is well presented and provides an ongoing narrative of the better practice undertaken by network businesses. The fact that the reporting is annual also means that embedding stakeholder engagement in network businesses is reinforced and the reporting aids with transparency.

1. Stakeholder Workshop (Deliberative forum)

The stakeholder workshop approach has mainly utilised local organisations and Associations to recruit 70-100 people representative of the demographic spread of a network businesses’ end customer base to attend a half day (or longer) session. The forum is facilitated by network operational managers. The process used is for some focussed input being provided to the group, on an issue that is of importance to the business and participating consumers. The input leads to a specific question / issue that participants are asked to discuss in small groups of 8-10 people, with each group facilitated. Network staff are available to answer any questions related to the operation of the business, from any of the groups. There is then some reporting back to the whole group. The process can conclude with a prioritisation exercise and most importantly, some brief reflection from a senior member of the network business staff or Board about what has been heard and advise of the follow up processes.

Stakeholder workshops are particularly useful for network businesses going to a range of population centres (which can be both within a large city like London or more rural regional centres) within their network region. Since stakeholder workshops tend to be conducted on an annual basis by the network’s is this approach, they are finding that many participants keep coming back and many look forward to the annual workshop.

1. Customer forum

The Scottish Water Customer Forum has nine members; with five members being independent who would be persons with “strong customer-focussed reputation”; two members would represent the retailers; and the remaining member from the relevant chamber of commerce and industry. Together with Scottish Water, the Customer Forum devises a business plan, seeks ongoing consumer input through many processes and a range of organisations, particularly Citizens Advice Scotland. They are required to present a written statement of agreement to the regulator when a new regulatory proposal is lodged. One of the salient aspects of the Consumer Forum is that its ability to bring together the representatives of a wide-range of organisations, including licensed retailers, to ensure that both household and business customers get the value for their money.

All the customer forum approach is used to varying degrees by network businesses.

1. Direct Dial

While ringing people up on the telephone is not a radically new concept, the commitment by Western Power Distribution, to ring every one of their priority service register, PSR customers every two years is an outstanding application of this technology (for Australian network businesses, PSR customers can be thought of as akin to do not disconnect / life support customers). By March 2017, they had contacted over 1.4 million priority service register customers (from a total number of 7.8 million customers) as an outcome of committing to contact every such customer once every two years. Since 2014 the number of people on the PSR has increased by 64%, which is about 18% of the total customer base of 7.8 million customers.

Making contact with priority service register customers has provided a basis for a wide range of other measures initiated by WPD to assist informed customers.

1. Topic specific “Surgeries” (Deep dive)

Topic specific surgeries are conducted on issues including connections for distributed generation , social obligations and emergency resilience and can be conducted for up to a day, often with partner organisations for example Chambers of commerce for issues relating specifically to small and medium businesses.

The topic specific surgeries bring together people from a range of perspectives and interests and provide detailed input and enable in-depth exploration of the specific topic and are normally led by a senior manager from the network business.

1. Agreement.

Scottish Water and there Customer Forum and airports are the only two examples at this stage of some form of written agreement being struck between the regulator business and consumer interests. So agreement to this extent is not widespread across UK regulatory processes, however I regard seeking such agreement as excellent practice.

*Q 2. . What is the role of regulators and businesses in the fostering good consumer engagement practice?*

# Regulators have played an active role in setting expectations about the importance of consumer engagement and how consumer engagement will be used by network businesses in putting their regulatory proposals together. Regulators have been quite specific in their expectations and provided leadership also ‘prodding’ where they have regarded this to be necessary. A strong focus on vulnerable customers has been actively encouraged by regulators, noting that there has been keen political interests as well; the final report of the Independent Fuel Poverty review: getting the measure of fuel poverty, chaired by John Hills is the most recent comprehensive review, this was released in 2012.

While businesses may have resisted some requirements from the regulator to take much greater account of consumer input, I did not experience much resistance to the concept now. Network businesses except that they have a responsibility to engage with customers and to take into account what their customers tell them.

*Q 3. . Who leads and how to achieve good practice in consumer engagement?*

One of my surprise observations was that consumer engagement is almost exclusively conducted by staff from the network businesses, rather than by expert consultants. Part of the rationale put to me was that by staff taking responsibility for all aspects of conducting the diversity of consumer engagement activities, the feedback and advice from customers is heard by the very people who will be responsible for implementing agreements that are reached.

*Q 4. Are there particularly helpful incentives for networks to undertake effective consumer engagement?*

The Ofgem, “stakeholder engagement and consumer vulnerability incentive” scheme has been discussed elsewhere in this report and I suggest is the most important incentive for effective consumer engagement.

While financial incentive is often presented as the only incentive the businesses readily respond to, I was in fact hold about 4 areas of benefit for network businesses that arise from effective consumer engagement, these being:

* 1. Reputation, including being seen to be ‘decent’ members of society / social license to operate
	2. Saved money and time - including for fast tracked businesses the opportunity to go to market earlier for contracted services and to have a bit more time available means that more cost-effective subcontracting arrangements can be entered into.
	3. Efficiency in regulatory process - reduce transactions costs for the network business.
	4. Increased financial return - noting that the network businesses with the higher financial benefit from their SECV assessment, were very likely to reinvest all of this back into supporting vulnerable customers and perhaps enhancing stakeholder engagement.

*Q 5. Is there a ‘business case’ for consumer engagement being undertaken by regulated network businesses*

“Stakeholder engagement is key to the sustainability of UK power networks. It provides us with valuable insights into the thinking, expectations and priorities of all our stakeholders, ranging from customers through suppliers, from regulators through the media.” Basil Scarcella, CEO, UK Power Networks.

“I expect every decision taken at WPD to be underpinned by stakeholder engagement. We serve 7.8 million customers who rightly expect the highest levels of performance from a business that refuses to stand still.” - Robert Symons, Chief Executive, WPD

The CEOs of the two best performing (by independent Panel scoring) distribution businesses clearly understand that there is a sound ‘business case’ for regulated network businesses to be taking consumer engagement really seriously.

*Q 6.How are consumer interests organised (selected) in order to be able to engage?*

There is certainly no overarching coordinator of energy consumer advocacy interests across the UK nor in Europe. Rather there are organisations that are taken strong leadership, Citizens Advice UK for example. But there is a range of energy consumer and consumer organisations that engage broadly or on more specific policy issues, quite similar to the situation in Australia.

Individual network businesses have their own processes for seeking representation on consumer panels on their own networks for recruiting participation in consumer forums and other engagement activities. Local networks are actively utilised often through national organisations like the British Red Cross society, citizens advice bureaus etc.

Regulators use their own processes to appoint challenge panel members and independent panel members for SECV incentive assessment, using public advertising for talent panel members and a mixed public advertising and networking for other consumer representation, again the process is quite similar to those applied in Australia.

*Q 7. Where are ‘Fuel Poverty’ considerations up too?*

It appears to me that there is a much greater awareness of fuel poverty in the UK than in Australia, and a much greater willingness to act and wide community acceptance of the value in shared action to reduce fuel poverty. There is a much better range of responses to fuel poverty than telling poor people that they just need to switch to a better deal and all will be well!

Part of the reason is likely to be that the term fuel poverty has been used and discussed in policy debates, regulation and media commentary since about 1991 when Dr Brenda Boardman, an Oxford Academic, highlighted the term and the extent of fuel poverty in the UK. Fuel poverty referred to anyone needing to spend more than 10% of their income to keep warm.

Since then the UK has specifically addressed fuel poverty in legislation, conducted reviews and provided funding for programs to address fuel poverty. A fuel poverty indicator has been developed.

WarmWorks in Scotland for example has been established “to deliver the Scottish Government’s national energy efficiency scheme.” This includes providing insulation, efficient heating and access to renewable technologies – a young and impressive organisation.

What’s impressive about some UK responses to fuel poverty is that they are ongoing, rather than a short term scheme that is closed down after the following election.

I have had a strong sense that across the UK there is a greater sense of acceptance of energy companies and governments taking action on “fuel poverty” then there is in Australia, so little bit more thinking on this hypothesis.

In 2012, the UK energy policy Journal produced a commemorative edition focusing on 21 years of research and policy, stating that fuel poverty had come of age in policy and research terms as of 2012. In other words the work of people like Dr Brenda Boardman (an Academic from Oxford) and others who have carefully considered fuel poverty in the UK have been working on the topic for at least 25 years.

The term fuel poverty is mainly used in the UK, but I think it also get some traction across the Tasman, and has been defined in the UK by the warm homes and energy conservation act as “a person is to be regarded as living in fuel poverty if he is a member of a household living on a low income in a home which cannot be kept warm at reasonable cost” initially fuel poverty was statistically defined as a household being spent more than 10% of their income to keep warm.

So the UK has had over 25 years of consideration and debate about the notion of fuel poverty, suggesting it is well embedded in debates, the academic work and indeed in the nation’s legislation.

More recently the hills review into fuel poverty to find fuel poverty has when a household is required fuel costs are above the median level and if they were to spend what is required in the household would be left with a residual income below the official poverty line. A fuel poverty indicator has been developed to give effect to this definition.

There have also been organisations established to specifically respond to fuel poverty. WarmWorks in Scotland is one such example, the organisation is a joint-venture between the Energy Saving Trust, Everwarm and Changeworks and their website says they were “formed to deliver the Scottish government’s national energy efficiency scheme. Warm works provides insulation, efficient heating a renewable technologies in the homes of households were struggling with the cost of high energy bills.”[[7]](#footnote-7) No such organisation exists Australian despite various short-term and ad hoc - and effective, household energy efficiency and assistance programs. The crazy politics of the home insulation scheme has not helped either.

Perhaps in Australia fuel poverty is less visible or less tangible than millions of people shivering is cold clammy houses. While in Australia energy to heat homes isn’t as obvious as it is in colder climates. Though recent research in Australia shows that many more people die from cold than heat.

The reality is that many Australians are effectively fuel poor that there is little appetite politically or even within the industry to move beyond retailer hardship programs for less than 2% of households.

*Q 8. How do consumer representatives who are doing the engaging maintain credibility / accountability with a much broader consumer base?*

I asked a number of people how consumer advocates involved with negotiation on utility network regulatory proposals can assume and / or maintain legitimacy from the perspective broader consumer base? I have categorised responses under four broad headings.

1. Don’t claim to be representative

The Consumer Forum that operates in Scotland through water regulatory processes is a very interesting case in point. The Consumer Forum was established as a joint agreement between the Water Industry Commission Scotland, the regulator; Scottish Water, the state owned business and Citizens Advice Scotland, the community-based advocacy and policy organisation which is also funded to support consumer advocacy in both energy and water regulation.

There are 10 people are appointed by the three bodies including an independent chair. Interestingly the Forum is not representative of consumers but can provide their perspective on what consumers would want and also gain evidence from consumers. The group is required to negotiate with Scottish Water on their regulatory proposal because they are charged with this task by ?????? so the approach taken under the first regulatory process with which they were involved was to sign a Minute of Agreement. This has weight because the Regulator gives it weight but is never understood to be an agreement that has been agreed to by a broad-based consumers it is however understood to be reflective of broader consumer view.

Some really interesting nuance here. The Consumer Forum is not representative but because the Regulator gives its views weight, it has legitimacy. Of course that legitimacy must be continually earned by the Customer Forum in ensuring that they undertake or are familiar with processes that engage directly with a breadth of consumer interests.

The three bodies appointing the Customer Forum have a Research Governance Group which strives to ensure that research conducted by any party is rigorous and useful for all parties. High-quality rigorous research adds to the legitimacy of Customer Forum opinion.

All of the consumer groups that I spoke with were very clear that the Forum of which they were part would never claim to represent consumers but that would pass on consumer perspectives that they derived.

1. Transparency and Governance

How consumer groups function is critical to how they are perceived, wittingly or unwittingly

For groups presenting a consumer perspective (customer forums, challenge panels, customer councils etc), transparency is the great protection. The way groups are appointed, members, declarations of potential conflicts of interest in an accessible place matter and mean that individuals have nothing to hide, and vulnerability to potential criticism is minimised.

All information provided to such groups also needs to be publicly disclosed and the nature of the information needs to be established. For example a regulator proving a paper to a challenge panel could be providing background information, an opinion that they are supportive of, or a direction.

Clearly documented governance arrangements are also crucial

1. Do the research

Justification of decisions matters and a clear evidence base makes justification of decisions made and even opinions presented, defendable. Most groups won’t have to justify their decisions or input formally, but some will, so evidence base is important. Evidence base can be the perspectives gathered from colleagues from nominating organisation or broader networks too. Academic papers and commissioned research are also very useful. Groups providing consumer perspective in regulatory or policy settings should seek to have the capacity to commission their own research, preferably shared with regulator and the business which is the subject of the pending regulatory decision.

1. Multiple engagement actions needed

A crucial observation from all consumer representatives was that their process could never be ‘the only game in town.’ They would not be singled out for negative attention while there is a broad range of consumer engagement activities going on and there was a place for any consumer to express their point of view, or grievance; including through social media, surveys, focus groups, consultative forums and public meetings.

Consumer group members also talked about their ongoing discussion with their personal networks and the networks associated with the organisation that either nominated them. A volunteer from Red Cross would never claim to represent a formal British Red Cross Society perspective, but very legitimately reflected the perspectives of the branch of which she was part and other community-based networks with whom she spoke. This ongoing informal engagement has legitimacy and invariably brings a solid reality to the consumer group table.

So in summary, consumer advocates involved in high level negotiation and regulatory proposal development do not need to be representative of a broad consumer base, as long as they do not claim to be representative but do provide perspective from their own personal networks and experience then there is legitimacy.

The really important point is that no single group or process should be seen to be reflective of consumer perspective. A range of consumer engagement processes is always needed providing both breadth and depth of consumer perspective with opportunities for anybody who is interested to be involved in getting their point across some way or another, all backed up by transparency and a sound evidence base. Get these right and a consumer process is very likely to be effective

*Vulnerable Customers?*

Who’s responsibility ?

My sense is that there is a greater acceptance of energy companies working with vulnerable customers in the UK than I suspect is the case in Australia. No doubt the fact that fuel poverty has been part of the UK policy debates for well over a decade is a factor.

*Q 9. How far can consumer engagement go? (some argue for example that setting rate of return parameters for regulated networks beyond the remit of consumer engagement)*

I did not hear the arguments about the limits to which consumers can be actively involved with more complex policy and regulatory issues, that I’ve heard in both the USA and Australia.

Consumer interests have had to push their case for involvement actively for a number of years it was apparent to me that the consumer expect experience is increasingly valued at all levels of policy and regulatory debate. In other words there should be no limits on the issues to which consumer engagement can and should occur, there are just different engagement techniques that are more effective in some situations than others. This

*Q10. Are there energy / water consumer advocate peers that Australian advocates can be relating to? Is their interest? How could this be undertaken?*

Energy consumers Australia have set up a Facebook page is a means to start building an international network of energy consumer advocates and their interests, building up participation in this network is one of the actions I will support as a consequence of this visit.

*Q 11. Who does consumer engagement on energy issues in Europe*

Europe wide it is the broader consumer movement that takes much of the lead on consumer energy issues, in particular through BEUC.

There are also a number of environmentally focused non-government organisations, including Greenpeace, friends of the Earth and REScoop, the European Federation of Renewable Energy Cooperatives were all active participants in the Citizens Energy Forum.

*Q 12. What is the relationship between energy consumer advocates, fuel poverty focused advocates and environmental groups?*

UK-based utility focused consumer organisations appear to have fairly active working relationships with European consumer groups, while relationships with more environmentally focused NGOs and community energy groups are more ad hoc.

The organisation, Sustainability First was regularly mentioned in the discussions I had along with the organisation / network that they are established; New-Pin[[8]](#footnote-8).

“In July 2015 Sustainability First launched the New Energy and Water Public Interest Network, 'New-Pin'.

New-Pin brings together public interest advocates, companies, regulators and government departments with an interest in energy and water to:

* develop clearer alignment between different stakeholders as to what the long-term public interest looks like in these sectors;
* increase understanding of any differences in views between stakeholders;
* develop capacity and expertise amongst public interest advocates to ensure a more level playing field in long-term company and regulatory decisions; and,
* improve understanding amongst company and regulatory boards of the value of public engagement in these sectors and what successful engagement looks like.”

*Q 13. And then there’s the big question of what the thinking is about where future energy markets are heading?*

I asked about emerging and future issues faced by energy consumer advocates and which issues should they be giving consideration too.

There was little doubt that energy markets are rapidly changing. There is scepticism amongst consumer advocates in particular, about the ability of entrenched energy businesses and excessively market focused regulators (particularly in continental Europe) to genuinely put consumers at the centre of these rapidly changing markets.

BUEC captures these concerns in their response to the “Clean Energy for all Europeans” package which they welcome and make four strong recommendations to EU regulators and legislators about building a “consumer centric energy market which is flexible and allows consumers to easily navigate, engage and benefit from it.” Their priorities for the immediate future are:

* 1. Guarantee consumers can easily navigate the energy market through transparent and easily comparable offers, clear contracts and accurate bills in a user friendly format. There should also be easy access to independent, impartial and accredited comparison tools which allow a comparison of the current contract with other contracts. Switching suppliers should be smooth and faster without any fees.
	2. Modernise the consumer rights framework to support consumer’s participation in flexible electricity markets. The existing consumer protections should be extended to all third party intermediaries, including new generation electricity service providers such as aggregators…. The market should incentivise consumers that are willing and able to engage in demand-side flexibility schemes so that they can save on their energy bills.
	3. Enable consumers to engage in the energy market by making it easy for those consumers who are interested in producing their own electricity to install self generation technologies, access the grid and be able to sell access electricity that they do not consume. Tenants should also be enabled to engage in renewables.
	4. Ensure effective market surveillance and dispute resolution by reinforcing powers and enlarging the monitoring duties of regulators to respond to new challenges resulting from new technologies, new services and possible cross sectoral issues which will require cooperation among regulatory authorities and dispute resolution bodies across sectors.

Consumer organisations emphasise the importance of strong regulatory oversight as current market participants are changing their roles and structures and while new actors are entering energy markets. Periods of rapid change invariably bring out companies that seek to exploit more vulnerable customers for short-term gain. Consumer protection needs to be strengthened during times of rapid change. The art of policy and regulation development continues to be finding the balance between strong consumer protection against bad practice and exploitation while enabling new technologies and innovation to flourish that will benefit customers.

Electric vehicles is a new technology development that is invariably raised when looking to the future for electricity markets. There was clear recognition that electric vehicles are on the way, but I left with a strong sense that electric vehicles are a fair way down the list of priorities when considering future and particularly near future energy markets. Ensuring that consumer protection is robust irrespective of changing new and emerging players remains the top concern for consumers for the near future at least.

**Section 6: Australian Application**

*Q.14. Observations or ideas that may have application somewhere in the Australian energy and water regulatory systems, with my particular focus being on national energy regulation and future water regulation in South Australia.*

**Energy**

The following comments relate to observations from the UK that I believe may have application, conceptually, to current Australian energy markets.

Consumers

1. Towards documented agreement: consumer interests and networks

Uniting Communities has promoted the idea of agreement seeking between consumer interests and network businesses for some time. Meeting with a range of people involved with the Scottish water customer forum reinforced the usefulness of this approach. The customer forum and Scottish water are required to seek agreement and to document the extent of their agreement as part of Scottish water lodging their regulatory proposal with the regulator. I recognise that Stephen Littlechild and others have promoted agreement seeking, and have drawn parallels with North American “negotiated settlements” which are quite different processes in very different regulatory environments, but which have is a common objective seeking some form of documented agreement through open transparent and informed negotiation between consumer interests and the regulated network business.

Given the substantial progress has been made on consumer engagement by number of network businesses in Australia, over recent years, the concept of developing some form of documented agreement to be presented with the regulatory proposal lodged by the network business, is more possible in Australia now than ever before. Some boldness is still needed by all major stakeholders to make it happen, but the advantages to all parties can be considerable.

1. Direct assistance services for housing energy efficiency

The concept of fuel poverty has been in place in the UK for about 30 years, so it is certainly had time to percolated into policy, regulation and practice. The practical assistance provided to vulnerable customers by organisations like warm works and others that provide direct assistance with housing energy efficiency and heating bills is a substantial benefit. Australia has flirted with this sort of program often on over many years with the household energy saving scheme (HESS) arguably been the most successful of the programs of this ilk that have appeared sadly all been short lived.

With energy prices being exceptionally high in Australia, and likely to get even higher, the time is right to again develop and introduce a well-run, targeted this program across the country to improve the energy efficiency of housing for very low income people and to provide other direct assistance to improve comfort levels for poor people so that there energy purchase can be at a lower cost and much more effective.

1. Data / big data

I was surprised how frequently concerns were expressed about data and in particular “big data.” I understand big data to refer to computer-driven analysis of very large data sets which enable trends and economic activities to be derived. The consumer concern when applied to energy markets is that the very large data sets coming from interval meters particular those with communications capabilities, can lead to product marketing, billing arrangements and other processes that end up disrupting privacy considerations for individuals, households and small businesses and which can also lead to customers paying more for services that they don’t need. There is a strong sense that consumers need more protection against exploitation from companies mining ‘big data’ and stronger privacy protections these include consumer ownership and control of data that is collected about them, for example by their meeting coordinator, from December 2017.

I think there is real scope frustration consumer groups to be working with North American and European energy advocacy and consumer groups on shared issues of concern regarding ‘big data’ ownership and utilisation.

1. Rejection of “leave it to the market”

The European Commission, in general, is very strong on market based solutions to problems and perceived problems with energy markets. This includes the notion that empowering consumers occurs for those that switch regularly. Energy and consumer groups are increasingly rejecting this application of neoclassical market economics to energy markets and seeking much stronger consumer protection and much clear communication to consumers with regard to their energy use and bills. Putting excessive reliance on consumers to simply ‘switch for a cheaper price’ seeks to absolve retailers, policy makers and regulators from “protecting consumers from mad bills.”

1. Citizens energy forum

The Citizens Energy Forum around which my visit was built was very interesting and useful event to observe. While initially it was EU Commission, regulators and energy businesses talking about energy using citizens, not with them, the event has become a significant forum for interaction between consumer interests, regulators, policy makers energy businesses and other stakeholders in a manner that does not exist as overtly in Australia. There would be considerable value in a high level policy forum in Australia but which is directly consumer facing. European Citizens Energy Forum is hosted by the European commission, which begs the question of who the Australian (approximately) equivalent host would be? To give an Australian type Citizens Energy Forum the gravitas of the EU’s forum, maybe it is the COAG energy Council or even the new Energy Security Council that would be an appropriate host for an Australian citizens energy forum?

1. Community Energy.

While I did not spend a lot of time with community energy groups, my visit to “Powering London” in Brixton, one of the more disadvantaged districts in Greater London, left me even more convinced about the potential for community energy organisations to both empower individuals and communities to be more energy savvy as well as empowering communities to create energy businesses. The potential for a diversity of partnerships with community energy groups is also substantial. Community based energy also does not have to a large sector before it can have market influence in tempering excessive oligopolist prices

1. Stronger consumer and academia links

There is an excellent consumer orientated academic work being undertaken in the UK and constructive partnerships involving consumer groups and academics some with business and/or regulator partners as well. I think there is room for Australian consumer groups and academics to be working more closely together. There is also room for shared research and exploration of a range of emerging energy issues that impact on consumers, across countries.

Regulator Focus

1. SECV incentive scheme application

If there was one program that I observed in the UK that I could introduce into Australia, it would be a form of the Ofgem “Stakeholder Engagement and Consumer Vulnerability” incentive scheme, adjusted for Australian circumstances.

Maybe the pairing of stakeholder engagement and consumer vulnerability does not work as readily in Australia is the UK, incentive for network businesses to actively respond to both and to report annually is significant and highly constructive. What was even more impressive for me was that the businesses that I spoke to about the SECV incentive were clearly excited about their participation in the scheme and excited about what their businesses were doing to ever improve their customer and stakeholder engagement and to think through the practical action that they could take to assist vulnerable customers.

I suggest that for Australia, the starting point would be to explore the development of the stakeholder engagement incentive, recognising that the incentive does not need to be a direct revenue incentive - although no doubt some businesses would prefer cash incentive. This said, some businesses are of the view that the cash benefit from the SECV incentive should go straight back into stakeholder engagement and vulnerable customer programs and strategies that deliver greater net benefit than the value of the cash injected. This way the SACV gives even better net benefits to consumers. Maybe the existing Service Target Performance Incentive Scheme (STPIS) could provide a starting point for a more stakeholder engagement focussed incentive arrangement.

1. Annual reporting on Stakeholder engagement

Under the SECV incentive, network businesses are required to report annually presenting a total of 30 pages in three parts: 1/ stakeholder and consumer vulnerability strategies, 2/ stakeholder engagement outcomes and 3/ consumer vulnerability outcomes.

The process is that this three-part submission is presented to the regulator, Ofgem who assesses the application against general acceptability criteria. Once given the all clear by the regulator and network business then engages an auditor to ward at all aspects of their submission and in the third part is assessment by an independent panel, which includes consumer interests. The ‘Panel’ then assesses its business against fairly detailed criteria established by the regulator and allocates a score out of 10 to the business. The score is then used to determine the amount of the incentive that the business receives.

The resultant ‘league table’ drive significant competition between network businesses to constantly improve on both the stakeholder engagement and work with vulnerable customers. Further the annual reporting, including strong focus on outcomes, provides ongoing accountability to consumer and community interests for every year of the regulatory period.

1. Tramtracks

The Water Industry Commission Scotland (WICS) develops a range for key parameters associated with a regulatory proposal within which it believes a network businesses proposal is acceptable. The tram track parameters themselves are the subject of extensive engagement between the regulated network businesses and their stakeholders, including consumers. The initial documentation of tram track values by the regulator (WICS) starts fairly wide, but then the “tram tracks” are narrowed through further consultation with the final tram track values known well before the regulatory proposal is lodged. This approach takes some of the heat out of argument about specific values for parameters and allows some room for negotiation between the network business and consumer interests. There is clear scope for the development of tram track type signals from Australian regulators.

1. Regulator collaboration

An advantage that European regulators have over Australian regulators is that there is a lot more of them and so more capacity to collaborate, the UK regulators network and CEER being clear examples. I recognise that Australian regulators to get together and do keep in regular contact with overseas regulators, but maybe there is more capacity for regulator collaboration across industries on issues like consumer engagement.

Networks

1. Where is the best practice?

So who would win “the Ashes” of network regulation consumer engagement? My observation at the moment is that it would be drawn series!

That is to say that the best practice consumer engagement by Australia network businesses is on a par with UK network best practice.

Currently UK network businesses are much more likely to conduct all aspects of consumer engagement themselves, whereas Australian network businesses are more likely to utilise consultant expertise to assist with all drive consumer engagement. I do not have a strong sense that either approach is better, just a bit different in who does the work. Perhaps a stronger focus on network staff conducting the engagement has the potential to give more ownership of consumer and stakeholder input to the business, but I have no evidence to support this notion.

Both in the UK and Australia there is a considerable spread in the calibre of consumer engagement between the better and not so good network businesses. The challenge in both countries is for continuous improvement to be applied to consumer engagement, but with some networks having a lot further to go than others.

UK networks are much more advanced in Australian networks in strategies to support vulnerable customers, this I suggest is largely because of a much longer period of time thinking about fuel poverty in the UK and because of strong driving from the regulator.

1. Stronger focus on Vulnerability

My strong perception is that there is a much stronger focus on vulnerable customers in the UK, while there are a number of reasons for this I strongly believe that an enhanced focus on vulnerable customers in Australia energy markets is needed. The occasionally heard argument that there is no role for network businesses in dealing with vulnerable customers, because they don’t have direct access to bill paying customers is inappropriate and strongly rejected by UK network businesses.

I was impressed by a culture that embeds some shared responsibility for assisting vulnerable customers by UK network businesses. Some businesses were quite candid in saying that it was difficult to know where to start, but once starting actions had been implemented there were very positive responses from staff as well is communities and engage with vulnerable customers and hearing what they said made subsequent action steps much easier to identify and to take.

The very highly electricity prices that Australian customers are paying means that there is growing financial stress on vulnerable customers, both customers who are vulnerable from an income point of view as well as those vulnerable for health and related reasons.

There is considerable scope for Australian network businesses to play a role in assisting formal customers, there is also a strong need for retailers, policy makers and regulators to recognise the moral and ethical imperatives along with economic reasons for supporting vulnerable customers

1. Network starting focus on Priority Service Register (PSR) customers

The starting point for engaging with vulnerable customers for a number of network businesses was, in hindsight, a fairly obvious starting point namely priority service register (PSR). The UK’s PSR customers can be thought of as “do not disconnect” or “life support” customers of Australian network terminology.

There is considerable scope for Australian network businesses to observe their UK counterparts and to adopt a more proactive role in assisting vulnerable customers. The making sure they know who that do not disconnect customers are and that contact information is up-to-date and communication strategies robust is an important starting point. Direct dialogue with these customers could then lead to development of some of the sort of referral options and partnerships that UK network businesses have also developed.

1. Range of consumer engagement approaches

UK network businesses use an extended range of techniques for consumer engagement and have clearly learned over recent years the approach is the work best for their business for different audiences. There is no single or even small group of engagement approaches that are regarded as ‘best,’ rather an extensive range of engagement approaches are in the ‘toolbox‘ for each network business. Quite possibly the undertaking of consumer engagement by staff teams from the network businesses means that there is a greater chance for skill development, and trying new approaches, within network businesses. The expectation of improvement each year through the SECV incentive also provides additional incentive for continual improvement.

1. Use of ‘choice modelling’.

The application of choice modelling in Australia has been something of a vexed issue, particularly for consumer groups. The view being that there has been a tendency for network businesses to use choice modelling approaches to ‘guide’ consumers towards supporting an approach wanted by the network business. For example, “would you be prepared to trade off the cost of a cup of coffee a week for an X% reduction in outages?” In some applications of choice modelling, the choices given to the consumers involved have been limited, not necessarily providing the choice that customer might want to make and giving a very narrow range of options. Choice modelling can only be useful when consumers have very good information about their options and the implications of those options so that they are able to make informed choices.

 I observe that the choice modelling type numbers in the UK are more likely to be used ex post (after the event) rather than ex ante, (before the event).

For example UK networks were more likely to listen to consumers and implement a measure that was widely agreed as being a good thing to do. Network businesses were then more likely to say for X pence per customer per week, this particular agreed measure has been implemented. Or implementing this measure as requested by consumers has resulted in a Y pence per customer per week saving.

Choice modelling type metrics are being used more as a check of impact of implementation of agreed measures rather than as a driver for them.

**Section 7: Key reports and publications of interest**

* European Commission “Clean Energy For all Europeans” legislative package.
* Citizens Energy Forum: <https://ec.europa.eu/energy/en/events/citizens-energy-forum-london>
* CEER white paper on “Consumer Empowerment”
* UK Energy Regulators paper on Consumer Engagement.
* Citizens Advice Bureau (CAB) : “The disruptive decade”
* CAB July 2017 “time of use tariffs”

**Section 8: Organisations of ongoing Interest.**

* BEUC: [www.beuc.eu](http://www.beuc.eu)
* Citizens Advice Bureau (UK): <https://www.citizensadvice.org.uk/>
* Citizens Advice Scotland: <http://www.cas.org.uk/>
* Sustainability First: <http://www.sustainabilityfirst.org.uk>
* New-Pin **(New Energy & Water Public Interest Network):** <http://www.sustainabilityfirst.org.uk/index.php/new-pin>
* Repowering London: <https://www.repowering.org.uk/>
* Friends of the Earth: [www.foeeurope.org](http://www.foeeurope.org)
* Greenpeace: <http://www.greenpeace.org/eu-unit/en/campaigns/Climate/>
* REScoop: [www.rescoop.eu](http://www.rescoop.eu)
* WarmWorks: <https://www.warmworks.co.uk/>
* VaasaETT: [http://www.VaasaETT.com/](http://www.vaasaett.com/)

Regulators

* CEER: <https://www.ceer.eu/>
* ACER: <http://www.acer.europa.eu/en/Pages/default.aspx>
* UK Regulators Network: <http://www.ukrn.org.uk/>
* Ofgem (UK): <https://www.ofgem.gov.uk>
* Ofwat: <http://www.ofwat.gov.uk/>
* WICS (Scotland): <http://www.watercommission.co.uk/>

 Academic and Research Groups

* London School of Economics

**Post Script**

UK election

I was fortunate to be in the UK for their 2017 election. On election eve in I couldn’t help but do a little comparison. I wrote the following:

After watching the couple of debates, TV news and reading a bit in the papers, there is a whole lot of issues running that I would expect much the same debates in Australia: terrorism and security, sadly more pronounced since the madness at London Bridge last weekend and Manchester. Then there is immigration, the economy, taxation, health and welfare payments. Similar issues and similar arguments.

But the points of difference? Brexit, not surprisingly is big in the UK but won’t be an election game changer in Australia. And what is missing in the UK is any mention of climate change and energy policy! So I’ve asked the few people I’ve met about climate change and the overwhelming opinion is that climate change is widely accepted as reality in the UK and across Europe. It is also accepted that responses are needed, so climate deniers are far fewer in UK politics.

As for energy costs, they aren’t anywhere near the top of the  political priorities list, not sure why given that prices are still high, maybe earlier consideration of fuel poverty issues has led to a sense that energy issues have been dealt with. Maybe, the separation between the roles and responsibility of the regulator and government as policy maker are better understood. Or, maybe the big issues are just too big.

For now, time to watch for the next developments in energy markets and particular engagement with consumers.

1. See Tamarack Centre for Community Engagement at http://tamarackcommunity.ca/ [↑](#footnote-ref-1)
2. www.ec.europa.eu/events [↑](#footnote-ref-2)
3. Insert later [↑](#footnote-ref-3)
4. www.rescoop.eu [↑](#footnote-ref-4)
5. www.ceer.eu [↑](#footnote-ref-5)
6. https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/EnergyConsumersMissingBillions.pdf [↑](#footnote-ref-6)
7. www.warmworks.co.ak [↑](#footnote-ref-7)
8. <http://www.sustainabilityfirst.org.uk/index.php/new-pin> [↑](#footnote-ref-8)