

How regulation can address changes in behaviour

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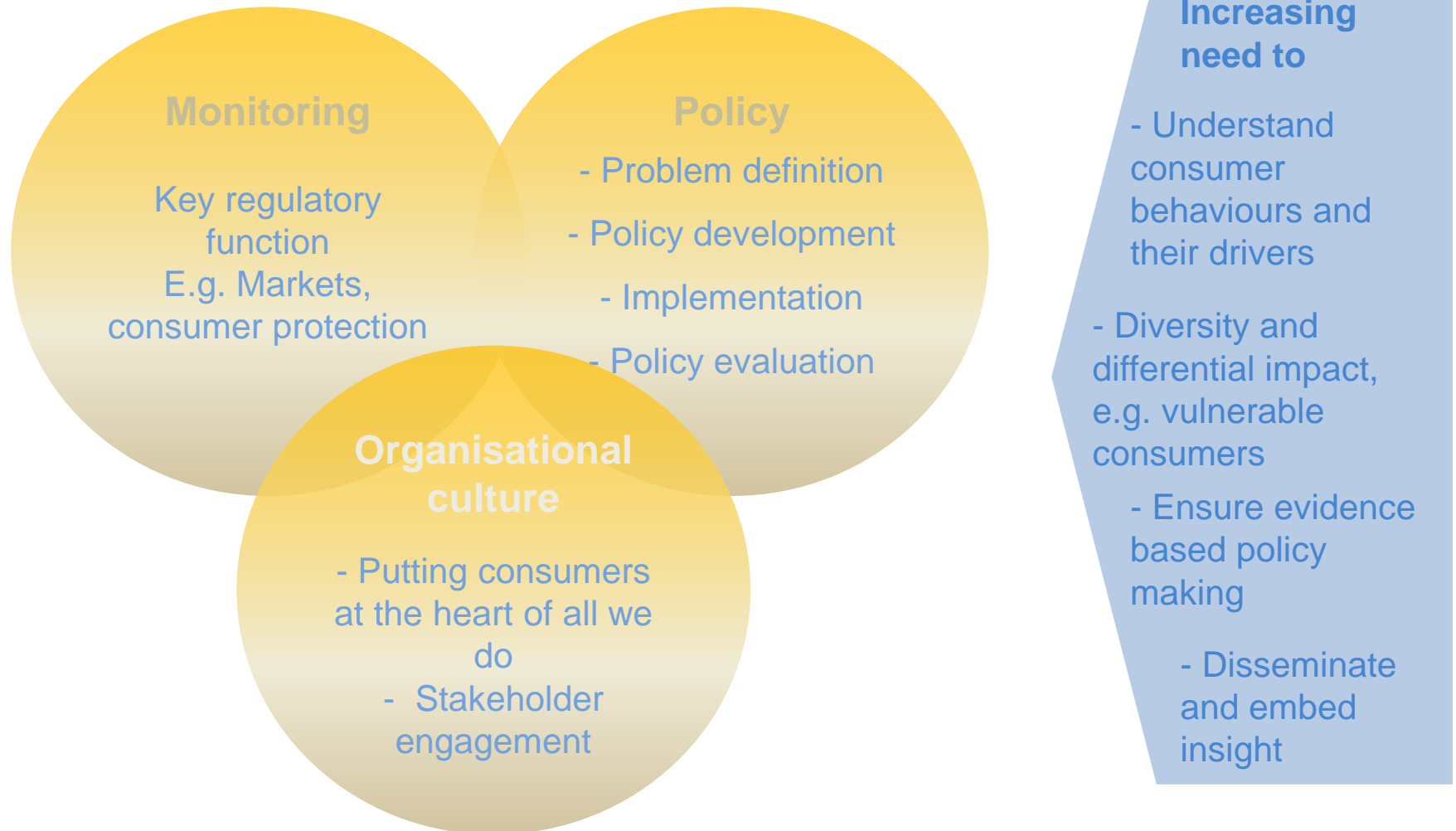
Two situations

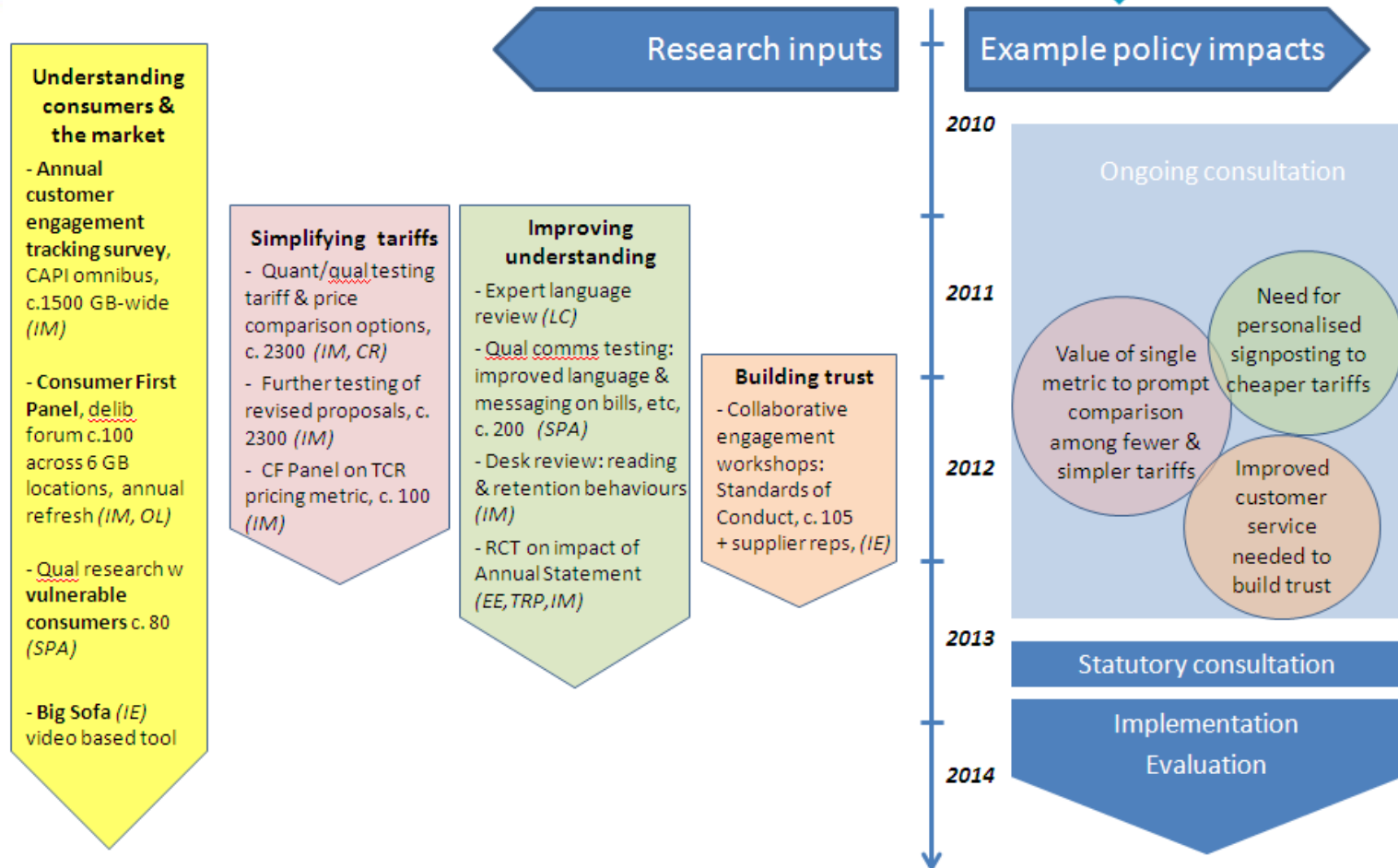
- Energy retail markets
 - Opened up to competition in 2000-2002
 - Low proportion of consumers switching
- Energy network companies –
 - Traditionally reactive and risk averse
 - Significant technological and other change happening

Retail Markets

- Two dimensions –
 - Competition and market structure
 - Consumer behaviour
- Ofgem conducted extensive consumer research to examine how consumers behaved
- Ofgem trialled different options designed to reduce complexity
- Reforms introduced to try to get market working

Why do we gather consumer insight and research?





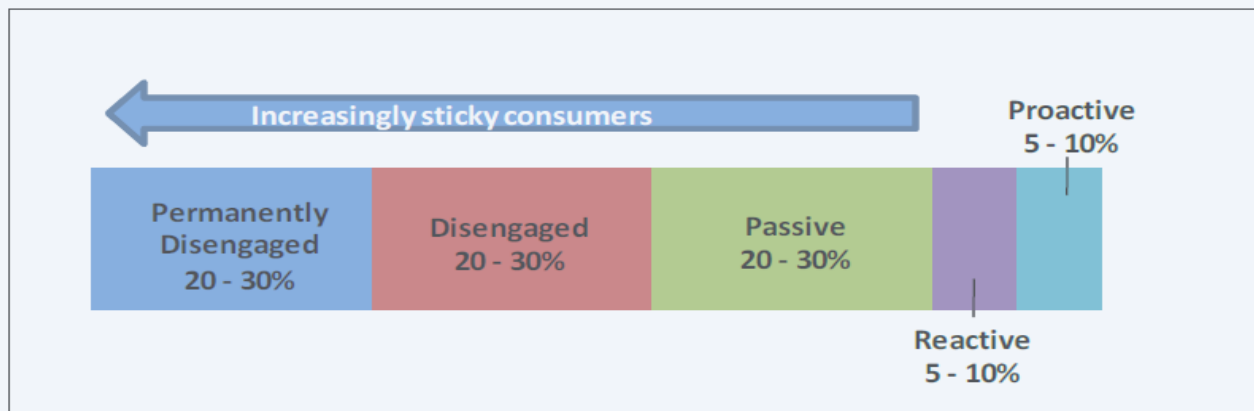
Why don't consumers engage?

Willingness to engage

- Sense of powerlessness as prices rise
- Dissatisfaction with suppliers
- Lack of trust
- Don't have time and inclination
- 'Status quo bias'
- 'Loss aversion'

Ability to engage

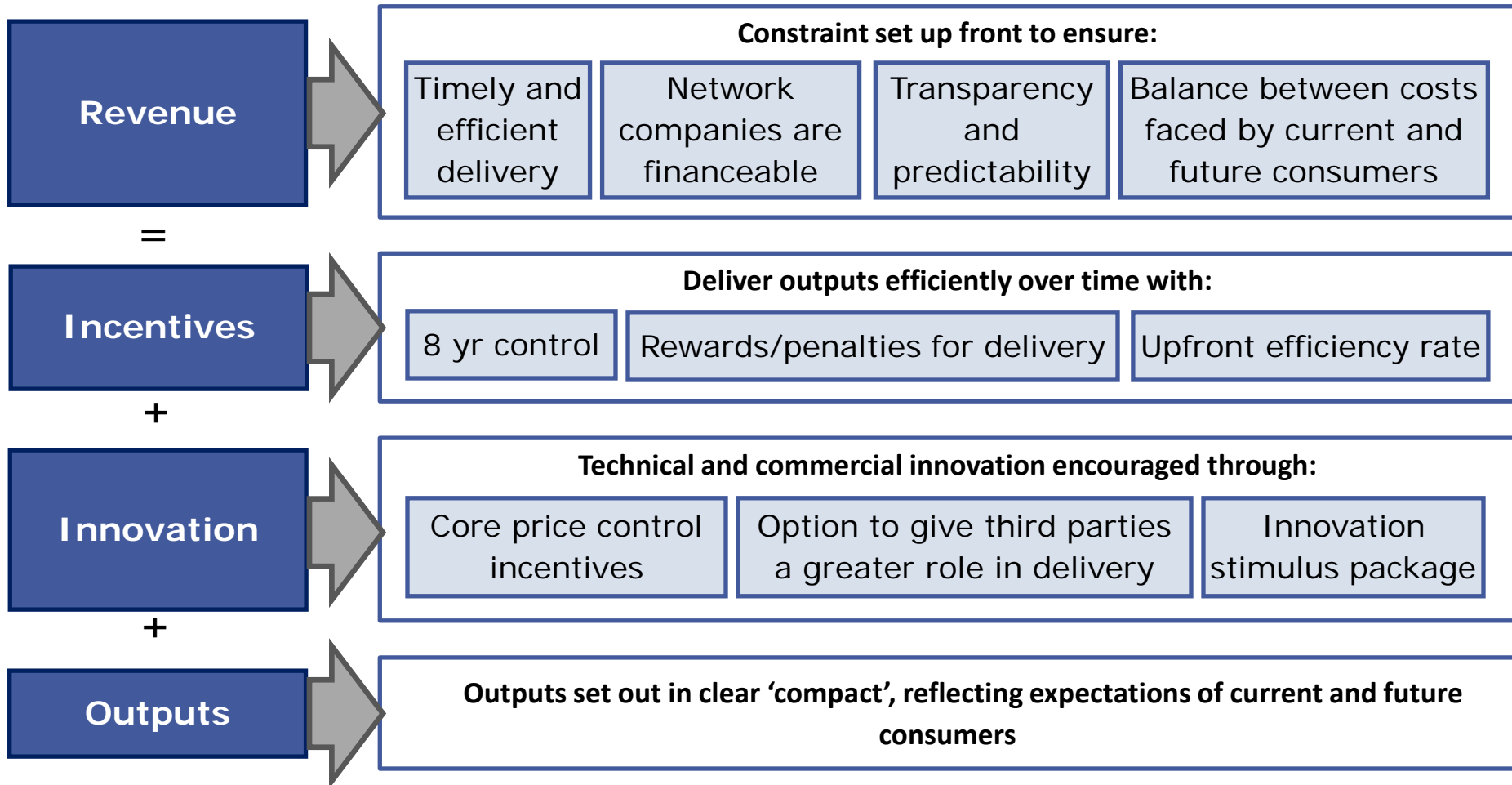
- Complexity
- Inaccessible language
- Low literacy and numeracy skills
- No access to internet
- In debt
- 'Limited consumer capacity'



Energy network companies

- Facing unprecedented change
- New technology
- New stakeholders
- New ways of doing things
- Blurring of roles

RIIO: A new approach to regulation



Network regulation - Consumer Challenge Group

- Issue
 - New RIIO approach
 - Need to ensure this is appropriate for consumers
- Insight approach
 - ‘Consumer Challenge Group’ of independent consumer experts/representatives
 - Give insight into the more complex issues we are unable to address through market research to ensure decisions fully reflect consumers’ views
 - Challenge Group meet with network companies, the Ofgem Board and views are included in published documents
- Consumer Challenge Group insights include
 - Whether network companies have properly engaged stakeholders to inform their business plans
 - The role of innovation and the scope of any ‘innovation package’ in the price controls
 - Customer satisfaction measures and social obligations (eg incentivising the expansion of the gas network to areas of fuel poverty)

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.