

Decision to modify gas and electricity supply, electricity distribution and gas transporter licences for Priority Services Register arrangements

Ofgem

RPC rating: validated

Description of proposal

The measures introduced a number of reforms to the Priority Services Register (PSR) arrangements. The PSR requires energy suppliers to provide additional non-financial services to consumers who experience problems in relation to safety, access and communication. The measures aim to improve the current PSR system and make sure it works in the best interests of consumers, as the current arrangements do not allow companies to be flexible to tailor services for customers. They include measures in the following areas:

- *Eligibility and identifying customers* – requiring energy suppliers and network operators to take all reasonable steps to identify eligible customers.
- *Services* – requiring suppliers to focus on delivering positive consumer outcomes.
- *Data recording and sharing* – requiring suppliers to take all reasonable and legal steps to record and share relevant data about the customers with identified vulnerability needs.
- *Awareness of priority services* – requiring suppliers to take all reasonable steps to promote the PSR.

Impacts of proposal

The measures mainly affect gas and electricity suppliers, of which there are 48. These suppliers are expected to incur costs as a result of providing support teams for customers, gas safety checks and quarterly meter readings.

In 2014 the regulator (*Ofgem*) consulted 26 energy suppliers about the impact of the proposals. Eight suppliers responded, including all of the six largest suppliers in the market. The responses covered more than 97 per cent of all PSR customers. The regulator therefore considers that they are representative of the totality of industry views in this area, which seems appropriate.

Based on these responses, the estimated total costs of complying with the revised PSR arrangements (including both existing and new requirements) amount to £7.9 million per annum. This includes the cost of meeting existing requirements, which the regulator estimates at £6.1 million (page 4). This estimate comes from cost data provided by suppliers. The difference, £1.8 million, is the estimated total additional cost of the new measures to gas and electricity providers.

The regulator estimates that the new PSR arrangements will also involve a one-off additional cost of £1.8 million to the eight gas distribution networks (GDNs). This arises as a result of a requirement on them to implement new data capture systems. The regulator does not, however, include this in the calculation of equivalent annual net direct cost to business (EANDCB) on the basis that the “...costs are related to the effective network and systems operation and coordination of monopoly providers, which do not qualify under the BIT” (page 7).

The EANDCB of the measure for business impact target purposes is, therefore, estimated at £1.77 million.

On wider impacts, the regulator expects that the measures will mean that the PSR will cover more vulnerable customers and increase their safety. The regulator does not, however, quantify the benefits because of insufficient data.

Quality of submission

As initially submitted to the RPC, the regulator’s assessment did not include sufficient information for the RPC to see how the EANDCB figure had been arrived at. The regulator stated that it was unable to include a breakdown of the cost estimates provided by suppliers because it was illegal (under section 105 of the Utilities Act 2000) to do so without approval from suppliers. Following extensive and lengthy correspondence between the RPC, Ofgem and BEIS, Ofgem has approached the suppliers and obtained their approval to supply this information to the RPC. With this breakdown of the cost estimates, the regulator has provided sufficient information for the RPC to be able to validate an EANDCB figure.

The regulator has not provided sufficient information for the RPC to assess whether its treatment of the cost to GDNs falling under the ‘monopoly providers’ business impact target (BIT) exclusion is appropriate. It is only on the basis that the inclusion of this one-off cost would increase the EANDCB only marginally, that the RPC is able to validate the regulator’s (rounded) EANDCB of £1.8 million on proportionality grounds. This validation must not, therefore, be taken as setting a precedent for the application of the ‘monopoly providers’ BIT exclusion.

The assessment could be improved by further discussion and explanation in a number of areas, outlined below.

- i) Potential impacts on small and medium energy suppliers. This would provide additional assurance that the estimate is fully representative of the whole industry, particularly in view of the apparent increase in the number of small suppliers since the consultation in 2014.
- ii) How distribution network operators, independent distribution network operators and independent gas transporters are affected by the measure and why there are no significant costs to these businesses.
- iii) Since some suppliers used slightly different cost headings, it would be helpful if Ofgem provided additional explanation around the aggregation of these estimates, either in the BIT assessment or in a separate note.
- iv) The nature of the costs to the GDN and a clear and full justification of why Ofgem considers it appropriate to treat them as falling under the 'monopoly providers' exclusion from the BIT.

The assessment would be enhanced by some further discussion of wider impacts, notably the benefits to vulnerable customers.

Departmental assessment

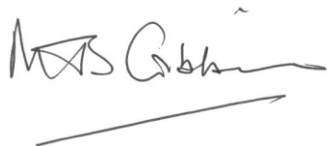
Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£1.77 million
Business net present value	-£8.55 million

RPC assessment¹

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated	£1.8 million
Business impact target score	£9.0 million

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: domestic
RPC reference number: RPC17-4183(2)-Ofgem
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