

Beginning to see the light

Why we need greater transparency in the RIIO model of energy network regulation, and how to deliver it

The logo for Citizens Advice, featuring the text "citizens advice" in white lowercase letters inside a dark blue speech bubble shape.

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The reporting discussed is mostly web-based. References to particular web pages are accurate at the time of writing but some are likely to change over time.

Executive summary

All three parts of Ofgem's RIIO price control for energy networks are now in place. Between them, RIIO-ED1, RIIO-GD1 and RIIO-T1 will allow gas and electricity network operators to collect over £70bn from consumers' energy bills over the next eight years. This represents the culmination of years of hard work by the regulator, the companies and a huge range of stakeholders.

To ensure that consumers receive value for money and a 21st-century level of service, the greatest need is now for active scrutiny of how the RIIO system is playing out in practice.

At the heart of this is adequate reporting on network performance. Consumers must be able to check up on how their network is doing and how their money is being spent. So must industry bodies, civil society groups, think tanks, journalists, politicians and consumer representatives, Citizens Advice among them.

As things stand, networks lack transparency. Earlier this year, the Energy and Climate Change Committee reviewed concerns that a 'lack of information makes it more complex to assess whether or not the price controls are providing value for money', and recommended that 'a standard form of reporting would bring clarity to the performance of the network companies and the impact of the RIIO price framework.'¹

Ofgem provides some information on performance of networks under RIIO and most (not all) of the companies produce public-facing reports of some kind. Some are helpful, but mostly these have unfortunately tended to be obscure, irregular, tendentious, non-comparable and hard to find.

To redress this lack of transparency, we are calling for a refreshed focus on openness and good reporting under RIIO, based on five principles: reporting by both Ofgem and the network companies should be **findable, simple, comparable, non-whitewash** and **timely**.

The basic framework of reporting requirements needed to achieve this is in place already. Better reporting should be primarily principles-based and driven by the companies themselves. This should, however, be underpinned by a basic minimum standard set by the regulator.

¹ House of Commons Energy and Climate Change Committee. (2015) *Energy network costs: transparent and fair? - Sixth Report of Session 2014-15* (p.19).
<http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenergy/386/386.pdf>

To realise this, and create an effective, coordinated process for reporting, Citizens Advice recommends that Ofgem should:

- **Provide a one-page template under the Regulatory Instructions and Guidance (RIGs) to be completed by each network company, showing performance in those areas that are financially incentivised plus a brief summary of non-incentivised areas.** This would act as the front page for each network's report, to be displayed prominently on their website, and also be collated on Ofgem's website. A suggestion of how this template might look and work is attached to this paper as an annex.
- **Extend the requirement for Business Plan Commitment Reporting to all networks.** This is an obligation for electricity Distribution Network Operators (DNOs) already, and should equally apply to Transmission Operators (TOs) and Gas Distribution Networks (GDNs).

I: Why network reporting matters

- **The operation of energy networks is too important to be carried on behind closed doors. It has a great impact on consumers but at the moment it does not always receive the level of scrutiny it deserves. We need better reporting to open up the debate about the future of the networks.**
- **Networks have made great improvements in reliability and efficiency over the last twenty years, but better reporting can help set realistic expectations and stimulate progress where there is room for improvement.**
- **The low carbon transition is likely to see a transformation in the way that many customers and stakeholders relate to the networks. An improved transparency regime is essential groundwork for this.**

This report looks at how gas and electricity networks in Great Britain report on their activities and performance, and how this could be improved. As the dust settles around Ofgem's new 'RIIO' price control approach ('Revenue = Incentives + Innovation + Outputs'), improving network transparency and openness - to allow all parties a clear view of what happens next - must now be a priority.

To understand the materiality of this issue, it is worth noting the huge importance to consumers of network infrastructure. Within the energy debate, networks often receive less attention and scrutiny than generation or retail, but:

- The average household in Great Britain pays around £300 in network charges annually (just under a quarter of the total energy bill),² more than 1.5 times the cost of the average mobile phone contract.³
- Consumers pay more than £7bn towards maintaining and improving the energy networks each year, approximately twice the BBC's licence fee.⁴

² Ofgem website. *Supply Market Indicator*

<https://www.ofgem.gov.uk/gas/retail-market/monitoring-data-and-statistics/understanding-energy-prices-great-britain/supply-market-indicator>

³ The latest available data indicates that the average monthly mobile phone bill in 2013 was £15.63, or £187.56 annually. Ofcom. (2014) *The Communications Market 2014*

http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/UK_5.pdf, p.334.

⁴ The BBC's licence fee income in 2013-14 was £3,726m. BBC. (2014) *Full Financial Statements 2013-14*. http://downloads.bbc.co.uk/annualreport/pdf/2013-14/BBC_Financial_statements_201314.pdf.

- Taken together, the pipes, wires and other assets that make up the networks are worth around £48bn,⁵ more than twice the cost to replace the UK's Trident nuclear deterrent.⁶
- As well as providing an essential service to all energy consumers, networks have a vital role to play in sustainability strategy, in that their development is essential - and potentially rate-limiting - for the growth of renewable energy.⁷

Scrutiny of network regulation is therefore clearly an important consumer issue. Network charges are non-discretionary costs for consumers, made indirectly via the bill to a small group of regulated companies. Those companies primarily operate as local monopolies, regulation has to fill the gap left by the absence of competitive pressure and consumer choice. Luckily Ofgem's price control methodology is exemplary by international standards, and the new RIIO framework in many ways represents a further step forwards.

“We also heard that there is further scope to reduce complexity by standardising the reporting between network companies, to enable more ‘like-with-like’ comparisons. [The alleged] lack of information makes it more complex to assess whether or not the price controls are providing value for money.”

House of Commons Energy and Climate Change Committee, 2015

So, if regulatory checks are in place, is transparency important for energy networks? Does it matter how the licenced companies report on their activity, to stakeholders and the public? It might be said that network reporting - giving a public face to an infrastructure that operates fundamentally behind the scenes - need not be a priority. After all, in a recent survey, nine out of ten consumers said they had little or no interest in finding out more about their energy network companies.⁸ It also appears that networks have made substantial progress over recent decades, with costs 17% lower than at privatisation and power cuts 30% less common than in

⁵ Based on Ofgem's statement of each company's Regulated Asset Value (RAV) final determinations of each price control.

⁶ Valued at a replacement cost of £17.5-23.4bn in: House of Commons Library. (2015) *The Trident Successor Programme: An Update*.

<http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06526#fullreport>

⁷ The development of smart grids for this purpose has been identified as one of four priorities for energy research by the 'Global Apollo' programme: Centre for Economic Performance. (2015) *A Global Apollo programme to combat climate change*.

http://cep.lse.ac.uk/pubs/download/special/Global_Apollo_Programme_Report.pdf

⁸ Ipsos Mori for Citizens Advice. (2015) currently unpublished.

2002.⁹ And not only have these gains been made without high levels of transparency, but it has been suggested that the relative lack of public attention and hence political interference may actually have given networks an advantage.¹⁰

In fact, however, the relative opacity in how networks are currently run represents a serious risk within the sector. Clear communication (generally) exists between the networks and Ofgem itself, but to other stakeholders and consumers, the transactions between regulator and companies are highly difficult to tap into. Even when important data is in the public domain, it is sometimes the case that the way is presented makes it so hard to navigate and make sense of that it might as well not be. But the operation of the networks is too important to be conducted in this way, behind de facto closed doors.

The benefits of transparency as a means of promoting efficiency, reliability, good conduct, trust and collaboration are well recognised. In its recent report on network costs, the Energy and Climate Change Committee commented that:

‘We also heard that there is further scope to reduce complexity by standardising the reporting between network companies, to enable more ‘like-with-like’ comparisons. British Gas wrote that some network companies provide information sporadically, and delay publishing information on their performance by up to two years. This lack of information makes it more complex to assess whether or not the price controls are providing value for money.’¹¹

The Committee recommended that ‘a standard form of reporting would bring clarity to the performance of the network companies and the impact of the RIIO price framework’, and in its response the then Government agreed that ‘this transparency is important in helping to drive down network costs.’¹²

More specifically, there are two important reasons why better reporting from networks would be beneficial:

- First, improved reporting can give a fuller account of how good network performance really is and stimulate further improvement. Network companies often cite their impressive performance figures, but it remains hard to be sure that consumers are really getting the best possible service and value for money. Recent research by Citizens Advice has highlighted the high profit margins that

⁹ Ofgem website. *The energy network: how it works for you.*

<https://www.ofgem.gov.uk/network-regulation-riio-model/energy-network-how-it-works-you>

¹⁰ George Yarrow made this point, speaking at an event organised by Policy Exchange at the Conservative Conference 2014 (27:00). <https://www.youtube.com/watch?v=39SjOgK3r5E>

¹¹ House of Commons Energy and Climate Change Committee. (2015) *Energy network costs: transparent and fair? - Sixth Report of Session 2014-15.* p.19.

<http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenergy/386/386.pdf>

¹² House of Commons Energy and Climate Change Committee. (2015) *Energy network costs: transparent and fair?: Government Response to the Committee’s Sixth Report of Session 2014-15 - Seventh Special Report of Session 2014-15.* p.5.

<http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenergy/1144/1144.pdf>

networks have consistently made in recent years, finding evidence that 'run-of-the-mill levels of competence are being rewarded as if they were extraordinary'.¹³ At the same time, there may be emergent issues behind the general trend of improvement that better reporting would allow to be better understood and explored. As one industry insider put it:

'The CEGB [Central Electricity Generating Board, responsible for the networks until privatisation] had this fantastic control of what happened to the network and it was very conservative and everything had plenty of margin built in... we've lived off all of those good things in the last 20 years and we've basically worked our way through all those margins.'¹⁴

This is not to deny the real progress that has been made over the last two decades. The point is that better, more accessible scrutiny could play a valuable role in fleshing out the debate.

- Second, greater transparency around networks would lay essential groundwork for the low carbon transition. Thanks to developments such as the growth of distributed generation and more active demand-side management, in future the way the networks are run may need to become more participatory and less centralised, and this would put all the more importance on transparency and engagement. While at present the stakeholder audience for network reporting is fairly specialist, it is likely to become broader over time. DECC has identified a lack of network transparency as one of the current barriers to the development of community energy.¹⁵ Better reporting would foster a greater sense of shared responsibility for the energy system, and help enable the innovation the low carbon transition needs.

In this short report, we look at the current state of network reporting and propose a set of principles for best practice (section II). We then examine the stated aspirations for greater transparency under RIIO, and how this can be realised within the current framework (section III). We make a small number of targeted recommendations, all which we believe can be implemented within the next twelve months (our conclusions are listed in full in section IV). Our vision for better reporting will facilitate a fuller, more dynamic debate about what needs to change within networks, while building confidence in what works already.

¹³ Citizens Advice. (2015) *Many Happy Returns: The consumer impact of price controls in regulated network*. p.4.

[https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20\(2\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20(2).pdf)

¹⁴ anonymous interviewee quoted in R Bolton and TJ Foxon. (2011) *Governing infrastructure networks for a low carbon economy: co-evolution of technologies and institutions in UK electricity distribution networks*. p.20

http://www.research.ed.ac.uk/portal/files/12474596/Governing_infrastructure_networks_for_a_low_carbon_economy.pdf

¹⁵ DECC. (2014) *Community Energy Strategy: Full Report*. p.62

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/275163/20140126_Community_Energy_Strategy.pdf

We do not envisage that a large proportion of non-specialist domestic consumers will suddenly start taking an active interest in the intricate workings of their network companies. But better reporting will open up the debate to the vast range of stakeholders that, in terms of expertise and resource, fall between consumers on the one hand and the regulator and networks themselves on the other: businesses, community groups, charities, think tanks, government at both the local and national level, and consumer representatives such as Citizens Advice. Over time, consumers themselves may also want to join the debate. Better network transparency will not only meet a clearly defined need for information, but also invite responses, questions and suggestions from all quarters, some of which may be completely unforeseen.

II: Principles for reporting

This section of the report looks at the state of recent reporting, and suggests a short set of principles that could improve it. The source of these is partly our own research and experience as stakeholders trying to make sense of the networks' activities, partly that of others we have spoken to, and partly common sense. Like any principles, those we identify here will only be useful insofar as they are constructively interpreted and internalised.

The need for a more principles-based approach to reporting is clear from the current mismatch between effort going into reporting and benefit to stakeholders coming out of it. There is seldom a lack of public-facing material from the companies. All of the networks operate up-to-date websites, which are easily accessible and reasonably easy to navigate. But the quality of material available here is highly variable.

As well as a wide range of introductory information about the role of the network, each of the websites contains a number of reports from the last few years. Some of these meet requirements common to all companies, such as the publication of annual reports and accounts. Others reflect specific requirements from Ofgem, such as the 'Long Term Development Statement' and reports on business carbon footprint. Others again are published on the networks' own initiative, some of which are highly informative.¹⁶ Good and bad points can be identified in the approach of each network.

The nature of this reporting as a whole is already changing. Even within the relatively short period covered by records online, there are signs of a trend of improvement. Newer reports are easier to find and generally more useful than older ones. Furthermore, the Transmission Operators (TOs) and Gas Distribution Networks (GDNs) have recently produced their first annual performance summaries under RIIO. (The electricity Distribution Network Operators (DNOs) have not yet done so, since their price control period started later.) The quality of these reports have been mixed but in most cases they have shown movement in the right direction.

As well as individual company reports, there is an equally important role for reporting by Ofgem, the regulator. It is essential that individual companies are

¹⁶ A good example is: Western Power Distribution. (2014) *Annual Stakeholder Report 2013/14*. <http://www.westernpower.co.uk/docs/About-us/Stakeholder-information/Stakeholder-reports/2014/SH-Report-1314.aspx>

To maximise their usefulness to stakeholders and improve the standard of debate, all reports should be...

Non-whitewash

Reports should give an exhaustive and unbiased account of network performance that clearly links outputs to returns. If things haven't gone to plan, it shouldn't take specialist knowledge to spot that this is the case.

Findable

Reports should be prominent on both the networks' and Ofgem's websites, and should be disseminated as part of stakeholder engagement. To avoid confusion, a single, overview report should stand out. It should be easy to stumble across this by accident.

Simple

Reports should be concise, direct and fully understandable by non-specialist readers. Where detail is omitted for the sake of simplicity, hyperlinks can be used to more extensive documentation.

Comparable

Standardisation of form and content, links from one report to another and comparative tables should be used to make it easy to compare networks of the same kind, and ideally those of different kinds, perhaps even in different regulated sectors.

Timely

Reports should be at regular, frequent intervals (at least yearly) and should not be allowed to lapse. Where necessary their publication should respond to circumstantial requirements e.g. reports should always be available well in advance of a new price control determination.

responsible for their own accountability, but Ofgem can provide an overview and space for comparison that allows for more objective judgement. This is discussed in more detail below, but again, Ofgem has already published some useful reports in recent years and dedicated substantial effort to making the relevant pages on its website clear and accessible.¹⁷

Overall, however, network reporting still fails the basic test of giving interested parties a clear and straightforward account of what pressures are being faced, what consumers' money is being spent on and why. To an informed but non-expert visitor to any of the network companies' websites or Ofgem's it is difficult to work out such basic information as general trends in performance, outturn against spending targets or financial incentives the network is receiving. This makes it hard for stakeholders to fulfil the role of informed critical friend.

To identify how reporting can improve, we have analysed recent performance in the light of possible stakeholder needs. The conclusion is that good reporting should adhere to five principles (see box above): reports should always be **non-whitewash**, **findable**, **simple**, **comparable** and **timely**. Below we examine some recent examples of reporting against each of these principles, and identify where there may be room for improvement.

Non-whitewash

Reporting on outputs needs to be complete and objective. Reports should not become brochures full of good news.

Thorough and accessible detail on financial performance is needed. The impact of output and spending incentives on the company's financial results should be easy to comprehend even for readers unfamiliar with price control regulation.

Possibly the greatest weakness of the current system is that too often network companies' reports are effectively advertising broadcasts, emphasising the good news and skating over the bad. It is natural that any company's publications would try to present itself in a positive light. But the networks' role as custodians of a natural monopoly providing an essential service means that a more balanced and thorough presentation of performance is needed, for public scrutiny and debate to take place at a meaningful level.

It is essential that networks report their output performance completely and objectively, whether good or bad. In the section of Wales & West Utilities' stakeholder report 2013-14 on safety, all three targets mentioned in the table labelled 'We delivered...' are given a green tick and there is no mention of the

¹⁷ In particular on the page of its website called 'Network performance under RII0'
<https://www.ofgem.gov.uk/network-regulation-riio-model/network-performance-under-riio>.

metric known as repair risk.¹⁸ According to Ofgem's annual report, though, Wales & West Utilities has 'not met this annual output in the first year'.¹⁹ This should be made more clear. (There is a related issue that most networks have historically outperformed almost all of the targets set by Ofgem, suggesting that the targets may be set too low. This could be another reason, besides lack of objectivity, that reports seem to be disproportionately full of good news.)²⁰

As well as output performance, there is a need for clarity on financial performance. This should cover both financial outturn relative to expectations and explanation of consumer impacts. If networks have spent more than anticipated this should be made clear and the reasons for it given - but this point is currently almost academic, since in the first year of both RIIO-T1 and RIIO-GD1 all eight networks concerned have substantially underspent. It is therefore equally important to communicate this underspend, and to be specific about the scale and causes. It is not sufficient, as Northern Powergrid do in their 'Annual Stakeholder Report 2015', just to say 'we have already delivered what we said we would deliver but for less money' without giving a single actual financial figure in the whole section on 'finances'.²¹

The figures on financial performance should not only be included, they should also be given due prominence and explained. It is counterintuitive that National Grid Electricity Transmission includes the figure for 'percentage spoil from our London Power Tunnels projects that will be reused in remediation of old gasworks' in large, bold font as part of an eye-catching infographic in 'Our performance 2013-14', but only includes its overall spend in small print on the final page.²²

On financial performance, results should also be communicated in a way that is intelligible to those without a detailed knowledge of the regulatory system. National Grid Gas Distribution's 'Our performance 2013-14' states, 'In the first year of RIIO,

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http://issuu.com/wwutilities/docs/wwu_annual_stakeholder_report_2013-43530c9f21094d?e=10568322/9671232. p.15.

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https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/riio-gd1_annual_report_2013-14-final.pdf p.6.

²⁰ For more on the problem of consistent outperformance, see: Citizens Advice. (2015) *Many Happy Returns: the consumer impact of price controls in regulated markets*

[https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20\(2\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20(2).pdf)

²¹ <http://www.northernpowergrid.com/asset/1/document/1676.pdf>

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http://consense.opendebate.co.uk/files/nationalgrid/transmission/NG_Electricity_Transmission_Our_Performance_Publication_.pdf. p.17, p19.

and taking into account our output performance, we have delivered additional estimated savings of about £120m. This is great news for our customers.²³ While it is true that this is good news for customers if the savings represent genuine efficiency beyond the frontier as opposed to an over-generous allowance, it should also be explained that under the totex efficiency incentive less than half of the £120m will be returned to customers, and that most of it will still be collected from bills and added to National Grid's profits.

Ofgem's own reporting can add some much needed objectivity. However, there is a risk that as the regulator and negotiator of price controls Ofgem also has a reputation to consider, and its public assessments of network performance could be oversensitive to this. Ofgem should not shy away from making it clear where things have not turned out according to expectations, and in particular it should be ready to distinguish between genuine new advances and faulty projections.

Findable

- **Reports should be easy to find from the website homepage, or to stumble across if not looking for them. Careful thought should be given to the user experience of finding the report on the website and ideally there should be a direct link from the homepage.**
- **Each network should have a single clear, up-to-date, overview report on its activities, given more prominence than other documentation. This should contain clear links to further information, rather than a long list of documents to choose between.**

Transparency is not simply a matter of putting information into the public domain. So much detail and so many network documents are available online that finding the relevant ones can be a major challenge for stakeholders. In some cases, an individual may be looking for a specific piece of information and willing to spend a considerable time tracking it down. More often, though, the audience for reports is or should be passing traffic looking for a basic insight into what the network does.

Reports should be eye-catching and accessible enough to draw the attention of new interested parties. A minimum requirement to gain this kind of attention is that reports should be easily findable online. Opportunities should also be taken to disseminate physical copies.

A good metric for how findable a report is on a website is how many clicks are needed to access it from the homepage. Scottish Power Transmission have probably produced the best report we have so far seen from the industry, but it

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<http://edition.pagesuite-professional.co.uk//launch.aspx?pbid=61101cbb-1a2a-4f64-81ae-e269f219f061>. p.14.

takes four clicks to reach it from their homepage (five from Scottish Power's homepage), making it unlikely that anyone would find it unless they already knew specifically what they were looking for.²⁴ At the time of writing, each of the GDNs have placed reports on the first year of their RIIO price control on their websites, but with varying prominence. The Northern Gas Networks homepage links directly to a dedicated reporting section of the site, even if the link is small and faint at the top of the page.²⁵ It takes three clicks from both the Wales & West Utilities and SGN homepages to find their RIIO reports,^{26 27} though SGN includes a link to the less useful formulaic annual report on the homepage itself. From this it seems that three clicks is slightly more than it should take to find a report, and networks should aim for two clicks as a maximum and one as best practice.²⁸

However, the presentation of the latest report from the fourth GDN, National Grid Gas Distribution, shows how hard to find these documents can be. Since National Grid Gas Distribution does not have its own website, an internet search leads to the National Grid homepage. Navigating from there to the report takes at least three clicks, but a more serious issue is that the links are so confusingly labelled and placed that it is unlikely that a first-time user would know which to follow.²⁹ Even having reached the 'performance booklet', this actually contains less revealing detail than the full 'Regulatory Reporting Supporting Narrative',³⁰ which requires another click to reach, and tellingly is located on a page with the URL 'talkingnetworksngd.com/price-control-hidden.aspx'. The key point this illustrates is that the whole of a network company's website should be set up to facilitate communicating with stakeholders, not just one part of it, and the most relevant report should be prominently positioned within it.

A second metric for how findable a report is is how many other documents it might be necessary to pick through to find the right one. This is a challenge when a company publishes several different kinds of report, perhaps required by regulation, ranging from technical to financial to environmental. Different stakeholders might need to see different reports. There should, though, be a

²⁴ http://www.spenergynetworks.co.uk/userfiles/file/SPT_2013_14_Annual_Performance_Report.pdf

²⁵ <http://www.northerngasnetworks.co.uk/>

²⁶ <http://www.wwutilities.co.uk/>. The route is About us / Publications - Our Performance - WWU Stakeholder Report April 2013 to March 2014 (<http://www.wwutilities.co.uk/media/1316/wwu-stakeholder-report-april-2013-to-march-2014.pdf>).

²⁷ <https://www.sgn.co.uk/>. The route is Publications - RIIO Reports - SGN Annual RIIO Report 2013-14 for either Scotland or Southern (e.g. <https://www.sgn.co.uk/uploadedFiles/Marketing/Pages/Publications/Docs-Annual-RIIO-GD1-Reports/RIIO-GD1%20Scotland%20Gas%20Networks%202013-14%20Annual%20Report.pdf>).

²⁸ Making a report findable in two clicks is only a rule of thumb. Number of clicks is important, but companies and Ofgem should also explore the wider field of expertise that exists around this kind of online user experience (UX). For example there is a whole body of research on the 'scent of information' on websites, which does not seem to have been applied to placement of reports.

²⁹ <http://www2.nationalgrid.com/>. The route is Talking Networks: Gas Distribution - Price Control and FAQs - Our Performance 2013-14 (<http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=35952>).

³⁰ <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=35846>

general overview report which is easy to find, with others available elsewhere, to avoid confusion. UK Power Networks does this well with its 'annual reviews', though judging by their website the most recent of these appears to be from 2013.³¹ An example of less good current practice is Northern Powergrid, which presents all its reports as part of a 'document library' containing more than 500 items. This can be filtered, but it is not immediately clear which filter to choose, or which report is most relevant. Meanwhile Electricity North West, while it has a number of documents available for download on a page titled 'public information', does not appear to have any single report that serves as an overview of recent operations.

Simple

- **Reports should be as concise and punchy as possible while communicating the key information needed (see below, 'reporting under RIIO', for our view of what the key information is). As a guideline, it should be possible for a non-expert reader to take in the bulk of a report in five minutes.**
- **There is a need to balance simplicity with provision of detail that is needed by some stakeholders. The best way to approach this may be by producing a primary headline report that is of interest to all stakeholders and sufficient to most, with hyperlinks to more detailed documents.**
- **Technical jargon and unnecessary acronyms should be avoided.**

The operations of networks can be complicated, especially from a regulatory perspective. This makes it all the more important that reports are presented in a clear and concise form that can be understood without specialist knowledge. The good news is that current public-facing network reports, where they exist, are generally good at using comprehensible language and finding intuitive ways to present systems and data. The problem is that this can often come at the expense of dumbing down important elements. The challenge is therefore to find simple ways to communicate simply the full complexities of the technical and commercial pressures the network is facing.

Probably the most important factor for simplicity in reporting is concision. Some stakeholders and consumers may want a detailed overview or to check a specific area, and this should be possible, but others will want to be able to gain a clear impression of a network's performance by spending only a few minutes with a report (as a rule of thumb, it would be a good target to try to make reports readable in five minutes). If a report includes measures on 57 different outputs, and each of these across four different regions, as National Grid Gas Distribution's

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<http://www.ukpowernetworks.co.uk/internet/en/about-us/documents/UKPN%20Annual%20Review%202013%20web.pdf>

performance report for 2013-14 does, it will not meet this requirement.³² As a general rule, a network's main public report should not include more detail than it seems likely that an interested stakeholder would want to read.

This assumes that other, more detailed documentation is available elsewhere. Dividing documentation in this way into a single, simple, concise report with links to more detail elsewhere is a sensible approach. However, it creates the risk of leaving too detail much out of the first part. In Northern Gas Networks' user friendly reporting section on its site, under the results summary section, above some high level figures, there is a note that reads, 'A technical document aimed at industry professionals and developed in line with Ofgem's stringent guidance, provides a detailed analysis of our performance in 2013/14 against all of our targets. Visit Northern Gas Networks to download and read the full report.'³³ The problem is not the division into front end and 'detailed analysis', but what is shown in the front end. For example, this does not include any information that allows the reader to understand how Northern Gas Networks has performed against its RIIO incentives as such, nor about the company's increased returns due to its underspend (see above, 'non-whitewash').

Although most networks do well at avoiding unnecessary jargon and technical digressions in their reports, there is still room for improvement. It is an oversight that SGN's first RIIO report uses acronyms such as EEI and NTS without explaining what they mean (environmental emissions incentive and national transmission service, respectively).³⁴ On the other hand, the SGN report deserves credit for its good executive summary, which in a page and a half gives clear details on important metrics such as spend vs allowance and incentives received for outputs.

Comparable

- **The most prominent part of each network's reporting should be based on a brief standard template provided by Ofgem, which shows the key performance metrics, including ranking relative to the other networks and trends over time. A suggestion of how this template should look is annexed to this report.**
- **Ofgem has done well with its annual reports on networks and the 'network performance under RIIO' section of its website. It should continue to develop these by giving them more detail and prominence,**

³²

<http://edition.pagesuite-professional.co.uk//launch.aspx?pbid=61101cbb-1a2a-4f64-81ae-e269f219f061>

³³

<http://corporate.northerngasnetworks.co.uk/stakeholder-reports/2014-stakeholder-report/results-summary-2014/>

³⁴

<https://www.sgn.co.uk/uploadedFiles/Marketing/Pages/Publications/Docs-Annual-RIIO-GD1-Reports/RIIO-GD1%20Scotland%20Gas%20Networks%202013-14%20Annual%20Report.pdf>. p.2.

and use these as a platform to provide clear comparative performance tables.

In isolation most network performance metrics will be almost meaningless to the majority of stakeholders. They need to be contextualised, and the best way to do this is by presenting them in comparison to other networks. This will also be useful in promoting the benefits of competition between utilities, and moving to a system where the best performers are rewarded but companies are not given incentive payments for below average performance.³⁵

An important part of making reports comparable is ensuring they are presented in an appropriately standardised form. This will allow stakeholders to be sure they are comparing like with like, and reduce the possibility of misleading spin. This is not to say that the entirety of reports should have a mandatory template, but it would be very useful if a short section at the start of each had certain aspects in common. At present each network reports on different measures in a different format, making it hard to draw any conclusions about how they are doing.

The best option would be for Ofgem to provide a one page template, with a fixed form and content to be filled in by the companies, which could stand alone if sufficiently prominent, or serve as a front cover to the main report. This would include a minimal overview of annual performance on key metrics, including ranking relative to other networks, trend in performance over time, and links to more detail. We include a straw man for this template as an annex. After this, the companies would be free to put together their report however they wanted.

Reports should also be placed in equivalent locations on company websites, and be given equivalent names (it is helpful that SGN's and Northern Gas Networks' reports are called 'RIIO-GD1 Annual Report' and 'RIIO-GD1 Year 1 Report' respectively, but confusing that NNGD have gone for 'Our performance for 2013-14' and WWU for 'Annual Stakeholder Report' with no mention of RIIO). This would support the principle above that reports should be findable.

Networks do already sometimes use comparisons in their reporting, but this is undermined by their tendency to be selective. [WPD](#) and [WWU](#) both emphasise that they received the highest results for customer satisfaction in their category, but do not mention their relative performance in any other categories where they did less

³⁵ See recommendation 3 in: Citizens Advice. (2015) *Many Happy Returns: the consumer impact of price controls in regulated markets* [https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20\(2\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20(2).pdf). 'Ofwat and Ofgem should investigate whether a dynamic benchmarking system is suitable for ensuring that all companies are held to the standards set by best performers, and that gains made in previous price controls are banked in future ones.'

well.^{36 37} By contrast UKPN deserve credit for making it clear that their customer satisfaction, although improving, was below average.³⁸

In addition to a standardised front page in the companies' own reports, Ofgem has a key role to play in publishing all the networks' performance in one place. This is a role it is already starting to play with the section of its website 'Network performance under RIIO'.³⁹ This usefully brings together information on the spending against allowance of each network, and though it does not currently include other performance information or the opportunity to compare networks directly, there is scope to build on this as a focal point and platform.

Ofgem has also provided an effective tool for comparability in its annual reports on networks. These provide a very useful starting point, especially in their summary traffic light tables, for example the following, taken from the gas distribution report for 2013-14:

| Primary output | Deliverable | EoE | Lon | NW | WM | NGN | Sc | So | WWU |
|---|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Connections | Guaranteed standards performance | Green | Green | Green | Green | Green | Green | Green | Green |
| Environmental | Leakage | Green | Green | Green | Green | Green | Green | Green | Green |
| Safety (emergency response) | 97% Controlled interruptions | Green | Green | Green | Green | Green | Green | Green | Green |
| | 97% Uncontrolled interruptions | Green | Green | Green | Green | Green | Green | Green | Green |
| Safety (repair) | GS(M)R 12 hour escape repair requirement | Green | Green | Green | Green | Green | Green | Green | Green |
| | Management of repairs (Repair risk) | Green | Red | Red | Red | Green | Green | Green | Red |
| Safety (major accident hazard prevention) | GS(M)R safety case acceptance by HSE | Green | Green | Green | Green | Green | Green | Green | Green |
| | COMAH safety report reviewed by HSE | Green | Green | Green | Green | Green | Green | Green | Green |
| Customer satisfaction | Planned interruptions survey | Green | Red | Red | Red | Green | Green | Green | Green |
| | Emergency response survey | Green | Green | Green | Green | Green | Green | Green | Green |
| | Connections survey | Green | Red | Red | Red | Green | Green | Green | Green |
| | Complaints metric | Green | Green | Green | Green | Green | Green | Green | Green |

▲ Figure 1: Ofgem's comparative table of outputs under RIIO-GD1. Source: Ofgem. (2015) *RIIO-GD1 Annual Report 2013-14*
https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/riio-gd1_annual_report_2013-14-final.pdf

This could be even more useful if it included more nuance (perhaps using ranking) and more detail on how these outputs linked to performance incentives (see section III). It could also be given more prominence, for example if this table was extracted from the report and placed on Ofgem's website, and/or the networks were required to put it on their homepage. Overall, though, it is a good start and the rest of network reporting should be made equally comparable.

Timely

- **A clear annual schedule and format for reporting should be established and stuck to.**

³⁶ <http://www.westernpower.co.uk/docs/Stakeholder-info/2011-12-Stakeholder-Report.aspx>. p.17.

³⁷ http://issuu.com/wwutilities/docs/wwu_annual_stakeholder_report_2013-43530c9f21094d?e=10568322/9671232. p.27.

³⁸ <http://www.ukpowernetworks.co.uk/internet/asset/245e2943-546b-4a84-bfaf-913d054ebcbC/UKPN+Annual+Review+2013+web.pdf> p.13.

³⁹ <https://www.ofgem.gov.uk/network-regulation-riio-model/network-performance-under-riio>

- **Reports should not be delayed or cancelled, even if not all the data is available. Imperfect data collection is not an excuse for lack of transparency.**

Reports are only as useful as they are up to date. As the debate moves forwards, network reports need to keep up with it. There is also a need for consistency over time, to allow stakeholders to judge trends and progress and hold companies to account for what they have said in the past. Looking back over the networks' report libraries, they are strikingly patchy, with some series of report appearing for a few years and then being suspended again. There is an opportunity at this early stage of RIIO to provide a valuable resource of information by establishing an annual reporting regime and sticking to it.

Unfortunately the worst offender in this respect has been Ofgem itself. In March 2011 it published a useful report on performance in the last two years of the DPCR4 price control period, 2008-10,⁴⁰ and then in March 2012 it followed this up with another report for 2010-11, the first year of DPCR5.⁴¹ But after this reporting was allowed to lapse, and Ofgem did not publish another report on DPCR5 performance until November 2014, when it was included as an annex to the final determination for the slow-track DNOs in RIIO-ED1.⁴² This meant that the performance information for the last three years under DPCR5 was not available to stakeholders over the course of the new RIIO price control settlement, making meaningful engagement difficult.

The delay in Ofgem's reporting may have been due to a lack of reliable data. Collecting and verifying sufficient information can often be a barrier to timely reporting, and there is extensive anecdotal evidence of delays caused by the desire to ensure data is exact and reliable. This is an important goal but it should not be allowed to become the enemy of transparent reporting, which if necessary can be accompanied by appropriate caveats. If necessary, data collection processes should adapt to facilitate reporting on time. Beyond this, though, there may be cases where it is necessary to make a tradeoff between absolute sanitised reliability and pragmatic timeliness. If reporting on network operations is to be effective, the latter should win.

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<https://www.ofgem.gov.uk/ofgem-publications/46630/electricitydistributionannualreportfor2008-09and2009-10v21.pdf>

41

<https://www.ofgem.gov.uk/ofgem-publications/46553/electricitydistributionannualreportfor201011.pdf>

42

https://www.ofgem.gov.uk/sites/default/files/docs/2014/11/riio-ed1_final_determination_overview_updated_front_cover_0.pdf

III: Reporting under RIIO

- **One of the aims of RIIO was to facilitate greater, more meaningful stakeholder engagement. Better reporting was always recognised as central to this. But it has not yet been delivered.**
- **The most important route for reporting are the performance summaries required under the Regulatory Instructions and Guidance (RIGs). This should be the basis of a coordinated reporting approach. Meanwhile, the obligation to carry out Business Plan Commitment Reporting, which applies to some networks already, should apply to all.**
- **To ensure reporting is accessible, concise and comparable, Ofgem should issue a one-page template to act as the front page for each network's performance summary, giving an instant summary of the performance areas which are financially incentivised.**

RIIO's engagement ambitions

Ofgem's review of its price control approach, RPI-X@20, set out twelve key features that would be distinctive of the new RIIO regime. The third of these was 'enhanced engagement', so that 'stakeholders will be given greater opportunities to influence Ofgem and network company decision making'.⁴³ Partly this was to do with building in greater scope for consultation and direct intervention. But it was also recognised that this would need to be based on increased transparency and explanation of the considerations going into the process. As long ago as 2008, Ofgem's then chief executive recognised in a speech that 'while undoubtedly very clever, some schemes in our price controls... are virtually unfathomable to those outside the cognoscenti'.⁴⁴ RIIO was designed to redress this.

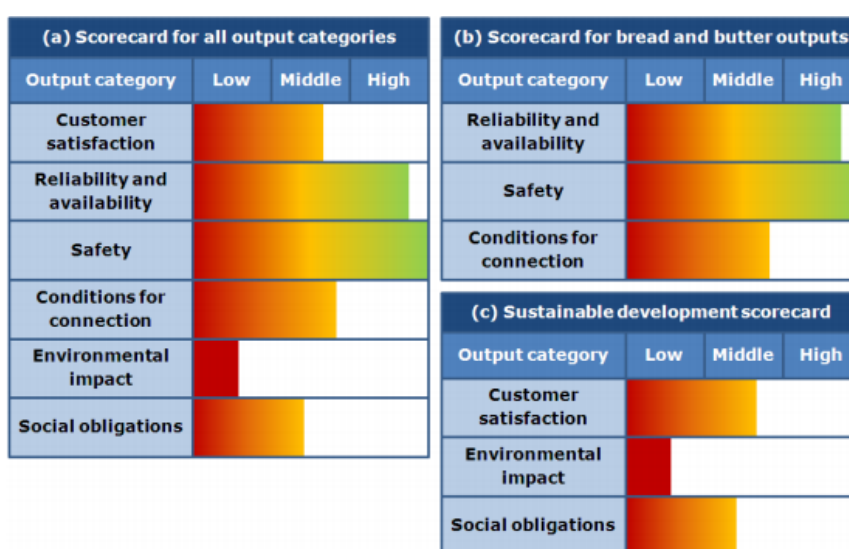
The new price control approach should also offer an opportunity for the network operators to take a genuinely new approach to engagement and collaboration. To this end, a new stakeholder engagement incentive has been introduced with a financial reward of up to 0.5% base revenue, but this will only lead to an exercise in box-ticking and company broadcast unless it is underpinned by the availability of rigorous data. The regulatory compact for RIIO depends on meaningful, well-informed engagement and challenge.

⁴³ Ofgem. (2010) *RIIO: A new way to regulate energy networks: Final decision* https://www.ofgem.gov.uk/sites/default/files/docs/2010/10/decision-doc_0.pdf, p.vi.

⁴⁴ Alistair Buchanan. Speech at SBGI, 'Ofgem's "RPI at 20" project', 6 March 2008. <https://www.ofgem.gov.uk/ofgem-publications/64130/sbgi-6-march.pdf>

Better reporting is central. Like all companies, the network operators are obliged to publish an annual report and accounts, and it is welcome that at the time of writing Ofgem is in the process of considering how these accounts can be better fitted to the realities of regulated utilities.⁴⁵ However, these accounts, as Ofgem notes, are primarily for the information of shareholders and prospective investors. They do not meet the need for thorough explanation accessible to a wide range of stakeholders. There remains a separate need for public reporting under RIIO.

Public reporting has a vital role to play in both the theoretical set-up and practical outcomes of RIIO. This was recognised at an early stage of planning in the the 'RIIO Implementation Handbook', where one of the main mechanisms given for 'incentivising delivery of outputs' was a 'balanced scorecard' to be published for each company:



▲ Figure 3: Ofgem's original plans for reporting under RIIO. Source: Ofgem. (2010) *Handbook for implementing the RIIO model* <https://www.ofgem.gov.uk/ofgem-publications/51871/riiohandbook.pdf>. p.81.

This balanced scorecard approach has not in fact been adopted, and given the rather vague information it contains - with nothing on financial performance and parity given to output areas that may not have comparable impacts - there is room to improve on it. As yet, though, Ofgem has not provided a substitute that matches the scorecard idea for concision and clarity.

Reporting so far

The main focus of reporting under RIIO is currently on reporting directly to Ofgem, as opposed to a broader range of stakeholders and the public. This is governed by the Regulatory Instructions and Guidance (RIGs) issued by Ofgem under the

⁴⁵ Ofgem. (2015) *Open letter consultation on our proposals to develop and introduce RIIO accounts* https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/riio_accounts_open_consultation_letter_0.pdf

standard licence conditions for each network type. These require the networks to fill in a range of data in Regulatory Reporting Packs (RRPs) throughout the year, along with a supporting commentary.

However, the RIGs also establish a basis for public-facing reporting, in that they require this supporting commentary (or a document based on it) to be published on the companies' websites, at least in the case of TOs and GDNs.^{46 47} In the case of DNOs, the ED1 RIGs at time of writing only state that 'future versions of the RIGs will require DNOs to publish information each year', but this is 'likely to include a summary of information contained in the RIGs'.⁴⁸ The GDNs and TOs are in addition required to publish certain data tables.⁴⁹

Reporting requirements are still being developed, and there are a few discrepancies within the current arrangements. Whereas the TOs are required by the RIGs to publish the same supporting commentary they submit to Ofgem, GDNs have the option of producing a separate annual report which is 'consistent with the commentary'.⁵⁰ This gives a little more licence for lack of precision. Northern Gas Networks specifies that its public report is the same as that 'submitted to our regulator',⁵¹ but National Grid Gas Distribution has a separate copy of its supporting commentary,⁵² less prominent on its website but more detailed than its glossier 'performance booklet'.⁵³ For example the former but not the latter specifies that NNGD underspent by 12% in the first year of RIIO-GD1, and gives more detail on why this is. It would be useful if this detail was also included in the more public-facing document, or if only one document was produced containing all the relevant information.

Apart from the RIGs, the other major reporting requirement under RIIO applies only to DNOs: the 'Business Plan Commitment Reporting' under by the new standard electricity distribution licence condition 50.⁵⁴ This requires each DNO 'to publish an annual report on how it has performed against commitments made in its RIIO-ED1

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https://www.ofgem.gov.uk/sites/default/files/docs/2014/04/riio-t1_electricity_transmission_rigs_version_1.5_1.pdf. Paragraph 1.30.

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https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/riio-gd1_gas_distribution_rigs_version_2.0.pdf. Paragraph 12.1.

⁴⁸ https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/rigs_overview_0.pdf. Paragraph 2.11.

⁴⁹ Under paragraph 1.31 of the GD1 RIGs and also paragraph 1.31 of the T1 RIGs.

⁵⁰ Paragraph 12.1 of the GD1 RIGs.

⁵¹

<http://corporate.northerngasnetworks.co.uk/wp-content/uploads/2013/12/RIIO-GD1-Year-1-Report.pdf>. p.3.

⁵² <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=35846>

⁵³

<http://edition.pagesuite-professional.co.uk//launch.aspx?pbid=61101cbb-1a2a-4f64-81ae-e269f219f061>

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<https://epr.ofgem.gov.uk//Content/Documents/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20-%20Current%20Version.pdf>

Business Plan.’ The licence conditions mentions that Ofgem may issue further guidance on this reporting, but at time of writing it has not yet done so.

This is an important aspect of reporting, and there is no reason it should not apply equally across the different network sectors. Therefore we recommend that **Ofgem should extend the requirement for Business Plan Commitment Reporting to the TOs and GDNs**. The results may be somewhat complicated, since many of the networks’ business plans contain over 50 commitments, and these documents should be presented as subsidiary to the main supporting commentary in the RIGs. But this will provide a vital resource for holding the networks to account against what they have said they will do.

Further reporting burden includes a requirement under ED1 (again, not GD1 or T1) to publish an annual Environment Report, and further relevant requirements that each DNO must have an innovation strategy and a distribution losses strategy documented on its website. In addition to this, more reporting has been prompted by the ‘stakeholder engagement and vulnerable consumers incentive’. The draft guidance on this calls for a submission to Ofgem on the network’s engagement activities for the year,⁵⁵ and although it is not compulsory to make this public, several of the networks have opted to make this (or a document closely based on it) prominent on their website as a further engagement resource in itself, albeit a fairly limited one. For example, SSE Power Distribution’s various stakeholder engagement documents are currently the closest thing to a performance report on its website.⁵⁶

Realising the ambition

The best route to provide a single, clear, comprehensive report is the existing requirement under the RIGs for each network to publish a commentary on its own performance. Once this is in place across all the network sectors, the presentation of these reports should largely be left to the discretion of the networks themselves, to be delivered in accordance with the principles that reporting should be non-whitewash, findable, simple, comparable and timely. Properly adhered to, this should provide a solid basis for open engagement in future.

The one need that these commentaries will not meet on their own, though, is for objective concision and comparability. This could be the one vital missing piece of the reporting puzzle. However, it is within Ofgem’s powers to fix this: **Ofgem should provide a one-page template under the RIGs to be completed by each network company, showing performance in those areas that are financially incentivised plus a brief summary of non-incentivised areas**. This would act as the front page for each network’s report, to be displayed prominently on their

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https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/ed1_se_incentive_-_guidance_doc_con_151214.pdf

⁵⁶ <https://www.ssepd.co.uk/Library/StakeholderEngagementPublications/>

website, and also be collated on Ofgem's website. A suggestion of how this template might look and work is attached to this paper as an annex.

This solution would realise the ambition for clarity and openness in RIIO established by the balanced scorecard model proposed by the RIIO handbook. It would also be an appropriate follow-up to the 'plan on a page' initiative that was part of the price control settlement process.

Focussing on those performance areas where networks are financially incentivised would hone in on what really matters to stakeholders. This is not only because of the direct bill impact of performance incentives, but also because these areas are incentivised in the first place for a reason: they are the most important and clear-cut issues on which networks can do either well or badly, and detailed data is necessarily available on them, because this data is already being used to calculate networks' allowed returns. They are essentially a ready made list of Key Performance Indicators (KPIs).

Basing reporting around incentivised areas would also have the advantage this is a short, to-the-point list. For DNOs, for example, the only issues where they can receive a financial reward or penalty according to their performance are as follows:

- The efficient spending incentive, based on the sharing of over- or underspend between company and customers.
- The broad measure of customer satisfaction, based on complaints, a satisfaction survey and assessment of stakeholder engagement.
- Two reliability incentives, based on customer interruptions and customer minutes lost.
- Two connections incentives, based on connections engagement and time to connect.
- In some years, a discretionary reward for reducing losses.

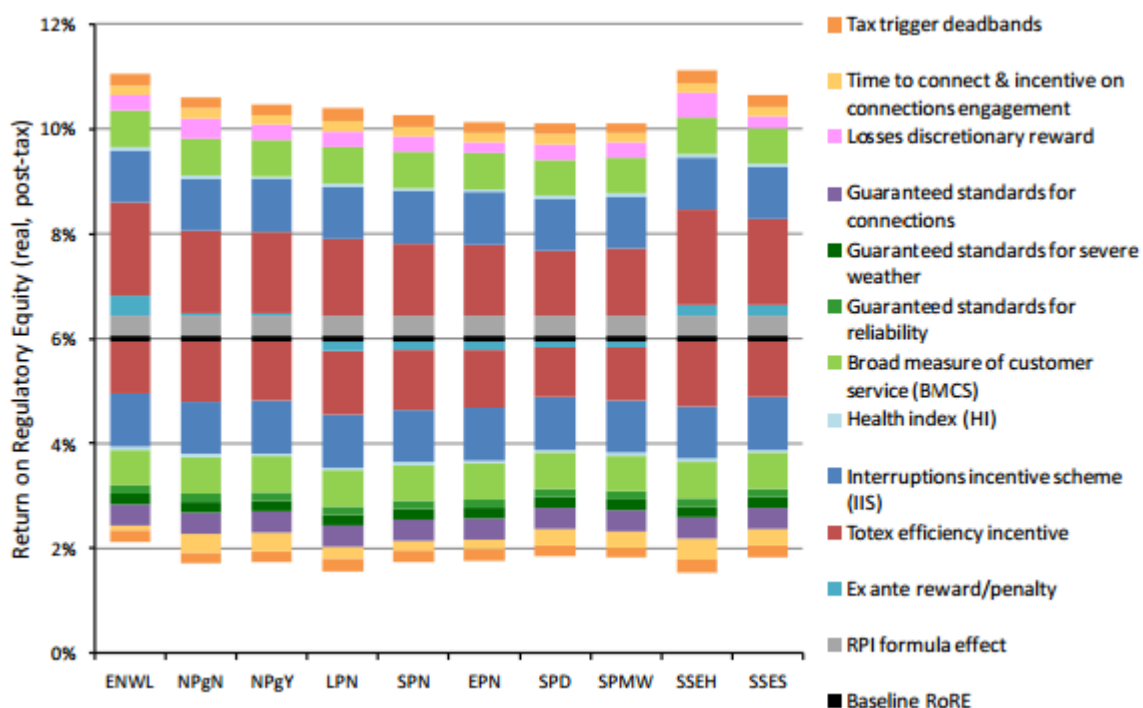
Between them, these five areas cover the vast majority of what stakeholders need to know about how a network is performing under RIIO. This focus of reporting would also show the direct link between performance and a network's reward.

There are a few important areas which would not be covered by this focus on financial incentives because they are not directly incentivised. This includes safety performance, innovation, social obligations and environmental impact. In the front page template, it would therefore also be useful to give a very short summary of developments in these areas, with links to more information.

On each incentivised metric, it is important to make it clear how the network is being assessed, how it compares to its competitors, and what reward or penalty it

received. It would also be helpful to contextualise this with past performance.⁵⁷ Based on this, there should also be a clear statement of the network's return on its regulated equity (RoRE). This figure is at the centre of all the wrangling between regulator and companies that goes into setting the price control in the first place, so it should be much easier than it currently is to see how the RoRE turns out.

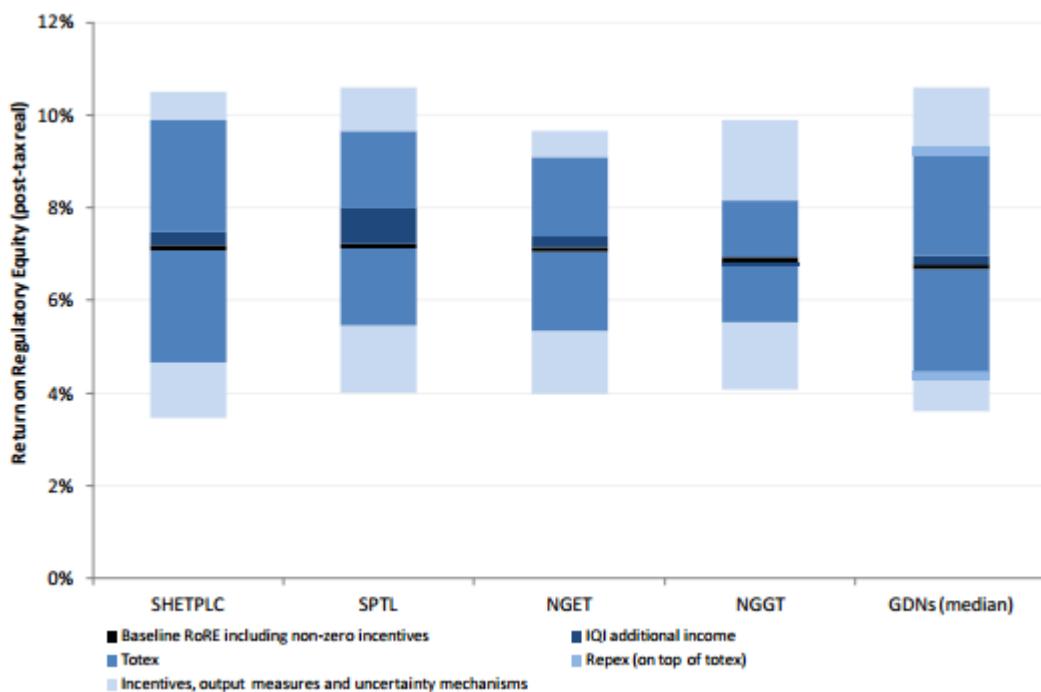
More generally, at present there is a lack of connection between performance and reward. The language used around the price control suggests that only the best performers will receive returns more than the cost of capital, but in reality there has been a tendency for most or all of the companies to do so.⁵⁸ Essentially, reporting should make it obvious where on the charts below (taken from the final determinations for ED1 and GD1) the networks have ended up:



▲ Figure 4: Expected ranges for return on regulated equity under ED1. Source: Ofgem. (2014) *RIIO-ED1: Final determinations for the slowtrack electricity distribution companies: Overview* https://www.ofgem.gov.uk/sites/default/files/docs/2014/11/riio-ed1_final_determination_overview_updated_front_cover_0.pdf. p.46.

⁵⁷ This could be hard to fit on a page, but - as an example of an innovative and useful way to present data - could be achieved by using 'sparklines', small inline line graphs without axes, as per the suggested template in the annex to this report.

⁵⁸ See: Citizens Advice. (2015) *Many Happy Returns: the consumer impact of price controls in regulated markets* [https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20\(2\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Corporate%20content/Publications/ManyHappyReturns-NewBrandEdition%20(2).pdf).



▲ Figure 5: Expected ranges for return on regulated equity under GD1. Source: Ofgem. (2012) *RIO-GD1: Final Proposals - Overview* <https://www.ofgem.gov.uk/ofgem-publications/48154/1riogd1fpoverviewdec12.pdf>, p.38.

Focussing on the financially incentivised areas of performance would as always mean putting less emphasis on other possible metrics. However, this would be the best and simplest approach. In particular it would be preferable to two other alternatives that might present themselves, both of which would be a mistake:

- The first would be to place too much dependence on the six output categories, as per the original balanced scorecard idea. While these are a useful guide to how Ofgem initially steered the networks, the categories are in fact fairly arbitrary, overlapping and non-comparable. A single measure of how the network is doing in each category would give too little information, and a measure of how it is doing in each output would give too much.
- The second would be trying to structure the summary to closely around the 'RIO' equation of 'Revenue = Incentives + Innovation + Outputs'. This equation is often used to introduce the price control model, but it can sometimes be an unhelpful oversimplification.⁵⁹

⁵⁹ 'R = I + I + O' should be compared, for example, to the equation in the [Charge Restriction Conditions](#) that actually sets allowed revenue under ED1: $AR_t = BR_t + IP_t + PT_t + NIA_t + LCN_t - AUM_t + CGSRA_t + PPL_t - K_t$. It is not unreasonable to disregard some of these terms, as they correspond to technical financial adjustments. But even reduced to $AR = BR + IP + NIA$, or Allowed Revenue = Base demand Revenue + Incentive Payment + Network Innovation Allowance, the approximation from this to Outputs + Incentives + Innovation is misleading. This is first because base demand revenue is not actually tied to delivery of outputs (except via incentive payments), and second because the NIA (and even the NIC, which is counted separately) is a relatively small driver for innovation compared to the incentive to innovate to achieve efficient spending. This might seem fussy, but this imprecision really matters because it makes the basic mechanics of the price control much harder

At present, the mechanics of the RIIO price control are hard to grasp for any stakeholder who is not a dedicated expert. Better reporting would not only allow an insight into the performance of individual companies, but also make it much easier to understand what is at stake in the price control mechanism, why it matters, and what consumers gain from it. With the two recommendations made in this chapter - to extend the Business Plan Commitment Reporting obligation across all networks and to provide a standardised front-page template for performance reporting - RIIO can be made the clear and user-friendly price control that it should be.

for stakeholders to grasp. It would be more accurate to expand RIIO as 'Revenue subject to Incentives, with an emphasis on Innovation and Outputs'.

IV: Conclusions

The regulated part of the energy sector needs better, more transparent reporting. This will lay the groundwork of flexibility and openness that the industry needs at the start of a new price control, going into the low carbon transition.

The basic framework is in place. Our recommendations are based on the principles and process needed to achieve this standard: we need a concerted, principles-based focus on reporting from the network and from Ofgem, and a small amount of coordination that clarifies the process.

Firstly, network reporting, whether by the companies or the regulator, should be guided by the following principles. The practical suggestions in the table below are based on a review of reporting to date:

| | |
|----------------------|---|
| Non-whitewash | <ul style="list-style-type: none">● Reporting on outputs needs to be complete and objective. Reports should not become brochures full of good news.● Thorough and accessible detail on financial performance is needed. The impact of output and spending incentives on the company's financial results should be easy to comprehend even for readers unfamiliar with price control regulation. |
| Simple | <ul style="list-style-type: none">● Reports should be as concise and punchy as possible while communicating the key information needed. As a guideline, it should be possible for a non-expert reader to take in the bulk of a report in five minutes.● There is a need to balance simplicity with provision of detail that if needed by some stakeholders but not all. The best way to approach this may be by producing a primary headline report that is of interest to all stakeholders and sufficient to most, with hyperlinks to more detailed documents.● Technical jargon and unnecessary acronyms should be avoided. |
| Comparable | <ul style="list-style-type: none">● The most prominent part of each network's reporting should be based on a brief standard template with the key |

| | |
|-----------------|---|
| | <p>performance metrics, including ranking relative to the other networks and trends over time, to be provided by Ofgem.</p> <ul style="list-style-type: none"> ● Ofgem has done well with its annual reports on networks and the 'network performance under RIIO' section of its website. It should continue to develop these by giving them more detail and prominence, and use these as a platform to provide clear comparative performance tables. |
| Findable | <ul style="list-style-type: none"> ● Reports should be easy to find from the website homepage, or to stumble across if not looking for them. Careful thought should be given to the user experience of finding the report on the website and ideally there should be a direct link from the homepage. ● Each network should have a single clear, up-to-date, overview report on its activities, given more prominence than other documentation. This should contain clear links to further information, rather than a long list of documents to choose between. |
| Timely | <ul style="list-style-type: none"> ● A clear annual schedule and format for reporting should be established and stuck to. ● Reports should not be delayed or cancelled, even if not all the data is available. Imperfect data collection is not an excuse for lack of transparency. |

Secondly, to create an effective, coordinated process for reporting, Citizens Advice recommends that Ofgem should:

- **Provide a one-page template under the RIGs to be completed by each network company, showing performance in those areas that are financially incentivised plus a brief summary of non-incentivised areas.** This would act as the front page for each network's report, to be displayed prominently on their website, and also be collated on Ofgem's website. A suggestion of how this template might look and work is attached to this paper as an annex.
- **Extend the requirement for Business Plan Commitment Reporting to all networks.** This is an obligation for DNOs already, and should equally apply to TOs and GDNs.

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