

Ofgem and the low carbon economy

Ofgem's actions and those of the industry it regulates have an important impact on the environment.

The Energy White Paper, for the first time, puts the UK on a path to cutting CO₂ emissions by 60% of 1990 levels by 2050. This is against a backdrop of maintaining security of supply, promoting competitive markets and ensuring every home is adequately and affordably heated.

Ofgem is committed to working with Government to meet the challenge of achieving a low carbon economy, at least cost to consumers. Ofgem particularly welcomes the White Paper's emphasis on emissions trading as a central plank of its energy policy going forward.

Ofgem contributes to the Government's objectives by seeking to minimise any negative environmental impacts associated with its policies, while promoting policies where there is synergy between its economic, social and environmental objectives.

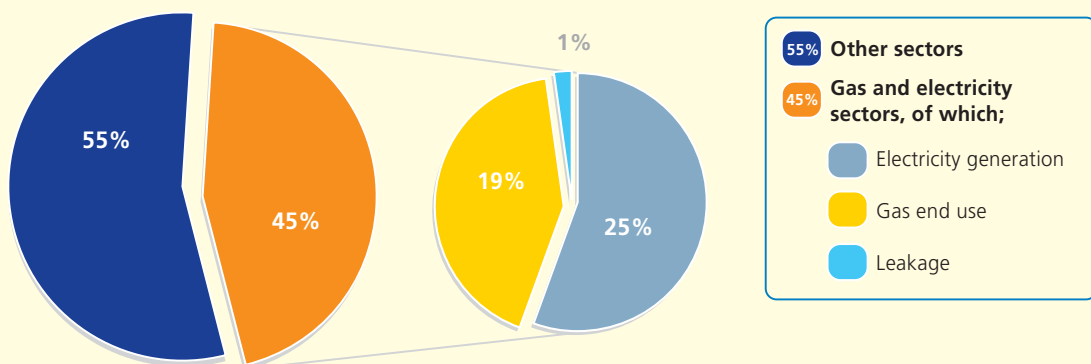
The White Paper has important implications for Ofgem's environmental work programme over the coming year and beyond.

These include commitments to participate in the following:

- a new joint working group on environmental issues including DTI, defra and other departments as required,
- an energy services group including DTI, defra and energy suppliers to consider how to facilitate an effective market in energy services,
- a high level group on development of the Energy Efficiency Commitment from 2005,
- preparatory work for the Government review of the Renewables Obligation in 2005/6 and the accompanying strategy for renewables for the decade to 2020.

Ofgem will continue to take its work forward within the framework of its Environmental Action Plan.

UK greenhouse gas emissions

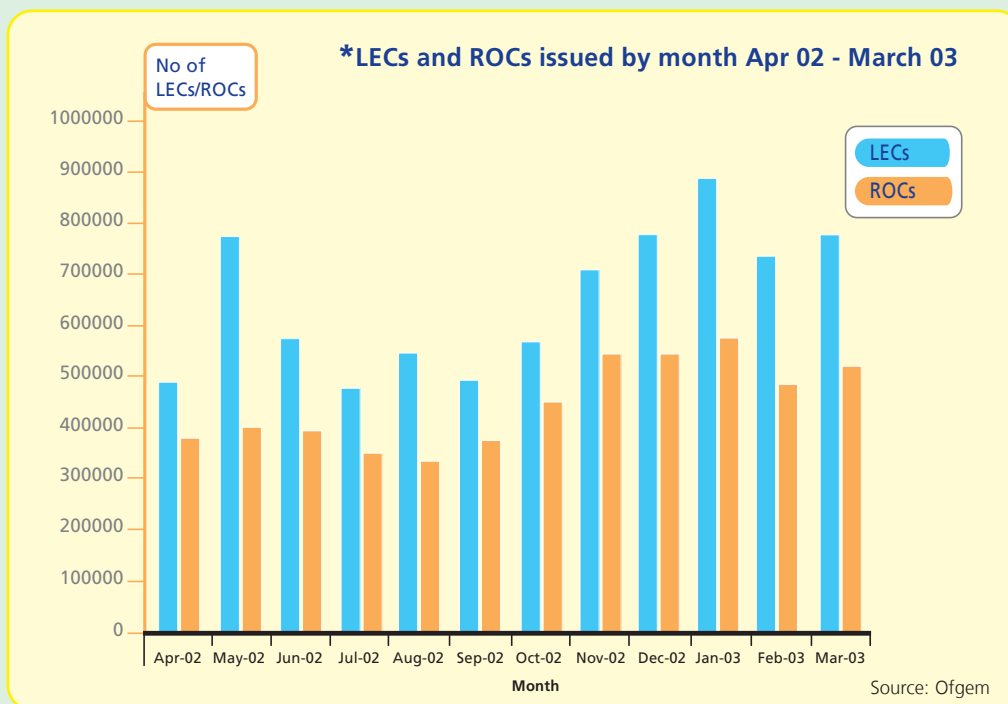


Source: National Atmospheric Emissions Inventory, Digest of Environmental Statistics, Defra, DUKES. Figures for 2000

Key achievements from the past year

On the environmental front, Ofgem has made progress in a number of important areas over the past year:

- Ofgem has started work to assess the impact of its policies on the environment.
- Ofgem has been conducting research into the cost to customers of CO₂ (carbon dioxide) reductions under a number of different schemes.
- Research projects have also been completed on:
 - the effects on household consumption from increased awareness of energy use
 - the implications of disclosing the type of generation used to produce the electricity used by the customer
 - the impact in terms of energy savings of installing insulation in customers' homes.
 - the use of SF₆ (sulphur hexafluoride) in the electricity industry, and its environmental impacts
- Ofgem has taken forward important work on developing incentives through the price controls to reduce electricity transmission and distribution losses. These have economic, social and environmental benefits.
- Ofgem has, with the DTI, continued to work through the Distributed Generation Co-ordinating Group (DGCG) to look at the barriers that could hinder the connection of small scale generation in GB.
- Ofgem has administered key Government schemes to promote renewables and energy efficiency (see below). Ofgem has agreed procedures and systems to administer a Government scheme to promote 'Good Quality' Combined Heat and Power (CHP).
- Ofgem has installed a CHP unit which covers its base load energy demand in its main building. Ofgem has been re-certified under ISO14001 for its internal environmental practices.



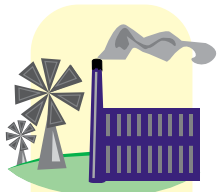
* **LECs** - Levy Exemption Certificates

ROCs - Renewables Obligation Certificates

NB: Each LEC and ROC represents 1 MWh of renewable generation

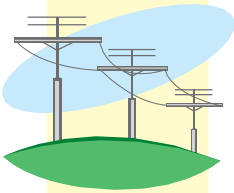
The year ahead

Ofgem's Environmental Action Plan (EAP) sets out how it will work to benefit the environment. Priorities for the coming year include:



Generation

- Ofgem will continue to administer Government programmes to promote renewables and CHP.
- Ofgem will work closely with Government on plans to implement the EU Emissions Trading Scheme.
- Ofgem will continue to ensure that the wholesale trade in electricity allows full participation from small generators and large users of electricity, to the benefit of customers.
- Ofgem will ensure that the development of the electricity transmission and trading arrangements across all of GB give non-discriminatory access to small generators and open up access to wider markets for small and renewable generators.
- Ofgem will continue to work with defra and the Environment Agency to promote trading for SO₂ and NO_x emissions from power stations.



Electricity transmission and distribution

- Ofgem will continue to take full account of its environmental duties in taking forward work for the Distribution Price Control Review (DPCR) which will take effect from April 2005 including:
 - analysis of the possible environmental impact of specific mechanisms such as incentives for reducing losses and connecting distributed generation
 - development of an environmental assessment of the final proposals.
 - consideration of whether electricity distribution companies (DNOs) should be subject to some environmental output measures such as reporting requirements



Supply

- Ofgem will work with the DTI, energy companies and energywatch to explore the options for providing better information to customers on their energy usage, such as where the energy has come from and how much they have used.
- Ofgem will continue to work with Government on ways to incentivise more efficient use of energy in the home and in industry; and contribute to an evaluation of existing energy efficiency programmes.

UK greenhouse gas emissions from the gas and electricity sectors



Source: National Atmospheric Emissions Inventory Digest of Environmental Statistics, Defra
DUKES, Figures for 2000 (weighted by Global Warming Potential)

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Promoting choice and value for all gas and electricity customers

Promoting openness, transparency and better information

Ofgem strives to work in an open, transparent and informed manner. Some examples of ways it does this are:

Environmental Advisory Group

- Ofgem has set up a high level, independent external group to advise on priorities for Ofgem's work in relation to its environmental responsibilities.
- The group consists of members drawn from the electricity and gas industry, the small generator community, consumer and environmental groups and Government organisations.
- Ofgem consults and draws expert views from a group of environmental economists.

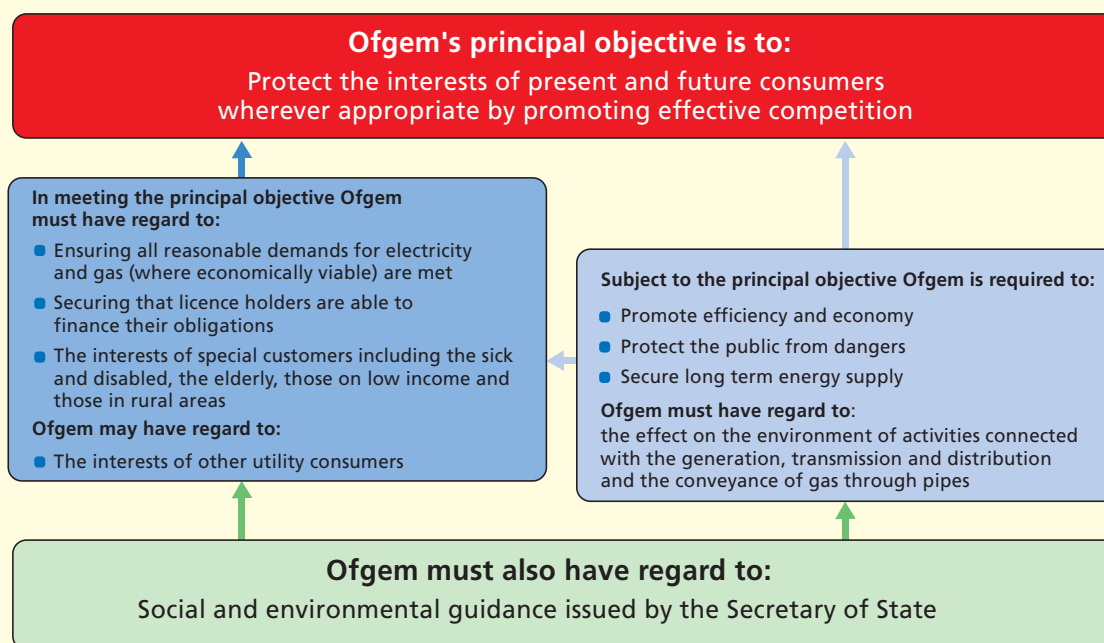
Regulatory impact assessments

- Ofgem is committed to producing regulatory impact assessments, which will include environmental assessments, for all significant new policies.

Environmental research

- In 2003/04 Ofgem will continue to progress a programme of research into environmental issues to inform policy options, as well as wider environmental and energy debates. Issues currently planned for research in 2003/04 are:
 - system costs of meeting renewables targets
 - options for more advanced metering
 - improved consumer information
 - trends in emissions from power stations (joint work with the Environment Agency)
 - further evaluation of energy efficiency programmes.

Ofgem's statutory duties



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