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Dear Mr Chapman

20 October 2003

### **OFGEM'S THREE-YEAR STRATEGY 2004-7**

Many thanks for Sir John Mogg's invitation of 1 September to our Chairman, Jonathon Porritt, to help determine your future strategy. I apologise for the delay in responding.

I attach a short paper which outlines our views on framing, and key elements of, the strategy. In essence these are as follows, and make similar points to those we recently submitted in (welcome) response to DTI's consultation on draft '*Social and Environmental Guidance to the Gas and Electricity Authority*':

- the strategy to be developed within a sustainable development framework, drawing on our six principles (see (also) Annex 1 to our paper); in effect, that it be more reflective than Ofgem's activities hitherto of (an integration of) social and environmental considerations, as well as economic ones;
- the strategy to take account of the Government's recently-published '*Changing Patterns: UK Government framework for sustainable consumption and production*', noting in particular the plan to establish a Round Table to develop the debate about sustainable consumption (the SDC and the NCC have been invited by the Government to put together proposals for such a Round Table). This element of the strategy should include measures to reduce energy use, such as helping create an effective market in energy services, and cost internalisation.

- The strategy also needs to address the local dimension, both in terms of delivery, including engagement with the work of RDAs and planning authorities (and linking to the Government's Communities Plan), and also in easing the way for small generators, including promoting the domestic use of micro-CHP, PV etc.

We consider all these proposed activities need to be actioned 'now'. Although the Energy White Paper's 60% carbon-dioxide emissions reduction target is a long-term one, we consider that urgent steps are needed to set the UK 'on track' – not least because that, without further measures, the prospects for achieving the Government's 2010 target for carbon-dioxide emissions reduction are not good. Furthermore, recent 'brownouts' in North America, Italy and London, have reinforced our concerns about the social impacts of supply interruptions. The SDC understands you are studying the causes of these events, but to minimise the risks of similar occurrences becoming more widespread here does argue for prompt action on any recommendations your assessment makes.

I hope this is useful. Please contact me if you need any further information or wish for any points to be clarified.

I am copying this letter to Rob Wright at DTI.

Yours sincerely

*Neil Hornsby*

Neil Hornsby  
SDC Secretariat

## **RESPONSE TO CONSULTATION ON OFGEM'S THREE-YEAR STRATEGY 2004-7**

### Overview

The Sustainable Development Commission (SDC) welcomes this opportunity to respond to Ofgem's three-year strategy 2004-7 consultation.

The Commission believes that sustainable development should be the central organising principal guiding policy choices on all issues and at all levels of government. More specifically, we believe that the processes of assessing the impact of any Government-inspired system (such as the renewables obligation), cost-benefit analyses and wider policy options should be informed by considerations against our six principles of sustainable development (see annex 1).

The Commission considers that regulated market economies offer the best prospects for achieving sustainability. We believe that regulation, including the use of economic instruments, should be one of a number of market-influencing options for helping achieve sustainability; others include the provision of advice and information, partnerships, financial incentives, self-regulation, and community involvement.

The SDC's perspective stems from more detailed work undertaken by our predecessor – the UK Round Table on Sustainable Development. The Round Table recognised that economic Regulators had secondary environmental and social duties, while environmental regulators had secondary economic and social duties. It made various recommendations to Government, including:

- establishing a strategic framework for economic regulation, within which sustainable development could be pursued,
- and that Regulators should have a duty to promote sustainable development.

The SDC itself is endeavouring to persuade the Government that all economic Regulators' terms of reference should be revised to incorporate a duty to address sustainable development (which may also helpfully minimise any difficulties a Regulator might perceive in addressing this role under their existing remits).

In addition, the Commission has been investigating one of the key issues for sustainable development: the relationship between economic growth and wellbeing.

Our starting point for this work has been one of the Prime Minister's observations: "*Real progress cannot be measured by money alone. We must ensure that economic growth contributes to our quality of life, rather than degrading it.*" As a contribution to this debate, and which may be useful to Ofgem in developing its strategy, I enclose a link to the Commission's recently published report '*Redefining Prosperity: Resource productivity, economic growth and sustainable development*' (<http://www.sd-commission.gov.uk/pubs/rp/index.htm>); a hard copy is also being sent to you. May I draw your attention, in particular, to those elements of the report (predominantly in section 4 of Annex 1: Redefining the debate) dealing with (sustainable) consumption, wellbeing, and (in section 2) cost-internalisation.

### Recommendations

- **Integrating the three pillars of sustainable development:**

As indicated above, our preference is for Ofgem, and indeed all economic Regulators, to have a specific duty to promote sustainable development. We therefore welcome the Government's intention that Ofgem take account of social and environmental, as well as economic, guidance. But this is not enough; the guidance should clearly be sustainable development-based. So from Ofgem's perspective we recommend your strategy be developed within a sustainable development framework, drawing on our six principles (see Annex 1). We would be happy to assist Ofgem in the detail of this process.

- **Sustainable consumption and production**

The strategy should take account of the Government's recently-published *Changing Patterns: UK Government framework for sustainable consumption and production*, including in particular the provisions of its vision and policy objectives/approach sections, and of our own recent report *Policies for sustainable consumption* ( <http://www.sd-commission.gov.uk/pubs/suscon/index.htm> ). Our report (section 2) explains why we can no longer dodge the subject of sustainable consumption. It highlights the links between consumption and environmental pressure and resource use; the issue of inequality and the social and political tensions that arise from it; and (again) how consumption patterns and trends are failing to contribute to an improvement in wellbeing.

The Commission's challenge to government is to move us away from the 'consume more' mentality that governs all our life choices, and towards better health, improved quality of life and environmental sustainability.

Specific issues the Ofgem strategy should address include:

- As an Ofgem priority for 2003-2004, 'Work to ensure that competition and regulation contribute to a sustainable energy policy, at least cost to consumers' ie all the costs - not just economic, but environmental and social too - to all members of society, not just those that directly consume energy.
- engaging business interest in the skills and innovation provisions of the Energy White Paper, and to give due weight to the social dimension when developing measures to minimise the risk of national and local supply failures.
- helping create an effective market in energy services, (which Patricia Hewitt spoke about, in her speech to the Environment Forum on 14 July), in effect to encourage business to move from selling energy to selling, for example, energy efficiency, lighting, heating/hot water, washing facilities etc. The underlying principal here is to provide for society's need for comfort and mobility, rather than supplying gas and electricity per se.
- reviewing the infrastructure needs and costs of a 30%, and larger, (E&W) renewables supply contribution (drawing on the studies that contributed to the PIU's '*Energy Review*' report). We recognise that the cost of reinforcing the grid, or even 'regridding', may be significant, but such information needs to be in the public arena.
- easing the way for small generators to have greater 'level playing field' access to the market, including (continuing to) address the implications for them of NETA and BETTA (the latter with particular regard to Scotland's 40% renewables target); plus promoting the domestic use of micro-CHP, PV etc including connection and metering issues.
- on environmental costs (more specifically), estimating and subsequently taking account of the costs of transmission based on the form and location of generation, and generally make greater use of distributed/embedded generation systems. In addition, developing measures aimed at both internalising the costs of environmental impacts generated by business activities, and at improving energy efficiency; possibilities include:
  - Advising Government on shifting generator taxation from profits to energy sold or fossil fuels used
  - Payments to generators for lowering per capita energy use;
  - Lower or flat-rate charging for consumers dependent on energy-efficiency targets being met (either by meeting norms, or year on year reductions);
  - Lower rate charging for consumers agreeing to limit energy use;

One effect of such measures would be to shift the burden of energy efficiency from the demand side, where cost savings may not be a strong incentive, to the supply side, where the cost savings might be much more persuasive.

- And providing better consumer information (via fuel bills?) about the full environmental costs and impacts of consumption, including carbon-dioxide emissions.

Ofgem might consider holding workshops on some of these proposals, including infrastructure provision and the localisation issues.

- **Regional delivery**

The Energy White Paper sees an increasing role for local and regional bodies in delivering the Government's energy objectives, including the need for developing and implementing a strategic approach within each region. We fully concur with this view, and we recommend Ofgem's strategy take account of, and integrate its activities with, this regional activity. This should include engagement with the work of RDAs and planning authorities, and link where appropriate to the Government's Communities Plan, and our forthcoming commentary on the Plan (I will send you a copy).

SDC October 2003

## **PRINCIPLES FOR SUSTAINABLE DEVELOPMENT**

### **1. Putting Sustainable Development at the Centre**

Sustainable development must be the organising principle of all democratic societies, underpinning all other goals, policies and processes. It provides a framework for integrating economic, social and environmental concerns over time, not through crude trade-offs, but through the pursuit of mutually reinforcing benefits. It promotes good governance, healthy living, innovation, life-long learning and all forms of economic growth which secure the natural capital upon which we depend. It reinforces social harmony and seeks to secure each individual's prospects of leading a fulfilling life.

### **2. Valuing Nature**

We are and always will be part of Nature, embedded in the natural world, and totally dependent for our own economic and social well-being on the resources and systems that sustain life on Earth. These systems have limits, which we breach at our peril. All economic activity must be constrained within those limits. We have an inescapable moral responsibility to pass on to future generations a healthy and diverse environment, and critical natural capital unimpaired by economic development. Even as we learn to manage our use of the natural world more efficiently, so we must affirm those individual beliefs and belief systems which revere Nature for its intrinsic value, regardless of its economic and aesthetic value to humankind.

### **3. Fair Shares**

Sustainable economic development means "fair shares for all", ensuring that people's basic needs are properly met across the world, whilst securing constant improvements in the quality of peoples' lives through efficient, inclusive economies. "Efficient" simply means generating as much economic value as possible from the lowest possible throughput of raw materials and energy. "Inclusive" means securing high levels of paid, high quality employment, with internationally recognised labour rights and fair trade principles vigorously defended, whilst properly acknowledging the value to our wellbeing of unpaid family work, caring, parenting, volunteering and other informal livelihoods. Once basic needs are met, the goal is to achieve the highest quality of life for individuals and communities, within the Earth's carrying capacity, through transparent, properly-regulated markets which promote both social equity and personal prosperity.

### **4. Polluter Pays**

Sustainable development requires that we make explicit the costs of pollution and inefficient resource use, and reflect those in the prices we pay for all products and services, recycling the revenues from higher prices to drive the sustainability revolution that is now so urgently needed, and compensating those whose environments have been damaged. In pursuit of environmental justice, no part of society should be disproportionately impacted by environmental pollution or blight, and all people should have the same right to pure water, clean air, nutritious food and other key attributes of a healthy, life-sustaining environment.

## **5. Good Governance**

There is no one blue-print for delivering sustainable development. It requires different strategies in different societies. But all strategies will depend on effective, participative systems of governance and institutions, engaging the interest, creativity and energy of all citizens. We must therefore celebrate diversity, practice tolerance and respect. However, good governance is a two-way process. We should all take responsibility for promoting sustainability in our own lives and for engaging with others to secure more sustainable outcomes in society.

## **6. Adopting a Precautionary Approach**

Scientists, innovators and wealth creators have a crucial part to play in creating genuinely sustainable economic progress. But human ingenuity and technological power is now so great that we are capable of causing serious damage to the environment or to peoples' health through unsustainable development that pays insufficient regard to wider impacts. Society needs to ensure that there is full evaluation of potentially damaging activities so as to avoid or minimise risks. Where there are threats of serious or irreversible damage to the environment or human health, the lack of full scientific certainty should not be used as a reason to delay taking cost-effective action to prevent or minimi