

## Greenpeace Response to Ofgem's Corporate Strategy 2005-2008

Apologies for our late submission to your important consultation. Greenpeace believes that longer-term environmental challenges demand urgent attention by Ofgem and the industry in the short to medium term. We would like to set out a few succinct points below, which we trust are sufficiently short for consideration in your review and which we hope will be of interest.

1. Greenpeace would like to see the emissions reduction target of 60% reductions by 2050 achieve far greater prominence than it achieves in Ofgem's current corporate strategy. The target presents a major challenge to the industry and its achievement demands that emissions reductions become the organising principle for the energy sector, and society in general. The scale of the challenge, and Ofgem's readiness to meet it, does not come across in the existing strategy. Greenpeace hopes Ofgem will give renewed emphasis to environmental objectives given the statutory duty on Ofgem to contribute to sustainable development for the benefit of consumers set out in the recent Energy Act 2004 (s. 83).
2. Greenpeace is concerned that costs associated with climate change, which fall outside the remit of Ofgem, need to be given adequate recognition by Ofgem for the wider benefit and protection of UK citizens/consumers. Many of Ofgem's consultative methodologies present clear cost-benefit analyses, which fail to make reference to the costs of inaction on climate change (for example, in relation to grid investment in Scotland to support renewable power). Of course the costs of inaction on climate change cannot be readily quantified, both as a result of risk uncertainties and the problem of attributing economic cost to social and environmental damage. Nevertheless those costs are real and escalating and we would therefore question the economic conclusiveness often sought and conveyed by Ofgem in its approach. We would encourage Ofgem to embrace wider economic considerations in its analyses than is currently the case. We believe this will open up greater opportunities for innovation and progressive reform of the industry. We would like to draw Ofgem's attention to HM Treasury's recommendation of £70 social cost per tonne of carbon in its 2002 study of social cost approximations<sup>1</sup> – we would be delighted to see Ofgem develop a similar economic tool.
3. The short time horizon of Ofgem's strategy is itself a problem. Greenpeace would like to see more emphasis on long term perspectives which would encourage Ofgem and the industry to confront the big questions facing UK energy supply. The current incremental shift approach, which focuses on protecting short-term consumer interests appears out of step with the scale of the challenge. Of particular concern is the lack of any vision for what the supply infrastructure would look like in 2020, yet alone 2050. Without this vision it is difficult to conclude how the grid/regulatory regime should proceed and what charging structures/market/institutional responses should be developed to realise that vision. This is particularly important to resolve given the long-term nature of investments in energy infrastructure and indeed, the need for those investments to take place now. If reducing the environmental impacts of the UK energy system

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<sup>1</sup> Government Economic Service Working Paper 140, Estimating the Social Cost of Carbon Emissions, Clarkson R and Deyes K, HM Treasury, 2002

– a target of the Energy White Paper - is to mean anything, Ofgem needs to be proactive in its brief to make that happen.

4. A practical step Greenpeace would like to see Ofgem commit to taking in its revised strategy is to increase the opportunities available for participation in decision-making for civil society. Greenpeace finds some key Ofgem's consultations impenetrably technical, and therefore a drain on scarce resources. Conversely, key energy actors in the UK are exceptionally well-resourced and therefore enjoy relatively very low costs of participation in Ofgem's energy debate. Greenpeace would welcome any initiative by Ofgem to address this imbalance by clearly communicating the content of key debates to civil society in terms which can be understood by the relative lay person. Indeed, in its efforts to secure clarity on some consultations Greenpeace has discovered that even those in the energy industry often cannot decipher the content of Ofgem papers! In particular, Greenpeace would welcome a workshop held by Ofgem and National Grid Company on "Grid to 2050" to encourage business, academia and civil society to develop a common vision and sense of purpose.
5. One of the key challenges the energy industry faces is opposition to change by vested interests. There is also the danger of entrenched thinking/ideology due to the historical dominance of fossil-fuel/centralised technologies. We have heard frequent complaints from renewable energy actors about the ideological mindset of Ofgem which is perceived to favour traditional energy producers. In this context, Greenpeace re-emphasises its concern that Ofgem commits to diversifying stakeholder participation. Greenpeace would like Ofgem to take care to ensure that its thinking and action is not constrained by the momentum of business as usual. An area where Greenpeace has concerns about objectivity is the forthcoming new charging/connection methodologies for embedded generation where methodology proposals have been put forward by the Distribution Network Operators themselves and where Greenpeace notes the business stake of many of their parent companies in the centralised energy model.
6. Economic assessments we have seen<sup>2</sup> suggest that, particularly in response to rising demand/new development, it can ultimately be more cost effective for tax payers (and hugely environmentally beneficial) if investments are made in embedded generation rather than in the centralised network upgrades and reinforcements demanded by power companies. Where upgrades are demanded by major energy operators, Greenpeace would like Ofgem to undertake cost comparisons of centralised vs decentralised responses – including the associated environmental costs.
7. Ofgem needs to think carefully about how to support microgeneration and the myriad of future energy producers which renewable energy technologies are likely to bring forth, particularly given the requirements of the Energy Act 2004 (s 82). The cost of participating in Ofgem's regulations can be prohibitive and disproportionately high – for example the form which households producing more than 0.5 megawatt-hours per annum must fill in to claim a ROC (or two) is 25 pages long and expensive metering is also demanded. Ofgem should take

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<sup>2</sup> See the economic model of the World Alliance for Decentralised Energy available at [www.localpower.org](http://www.localpower.org)

care not act as a barrier to the proliferation of embedded generation and needs to develop an alternative and proportionate approach to small scale energy producers to demonstrate that it is embracing and enabling the energy vision set out in the Energy White Paper.

8. Greenpeace would also fundamentally question underlying assumptions that shape the regulatory framework. Of particular concern to Greenpeace is the failure of the regulatory framework to value the heat energy created, and largely wasted, within the UK's energy system. The consequence is that optimum system efficiency is not incentivised under the current regulatory regime – where NETA rewards only the cheapest electrical output – and true costs are externalised on the environment and society. The associated wastage of primary energy is highly regrettable given the urgency of climate change and at a time when key questions are being raised about the future security of energy supply. Ofgem highlights its commitment to protecting security of energy supply in its existing strategy. This is difficult to square with the wastage fostered by a regulatory regime that ignores heat energy loss/capture and thereby increases overall energy requirements.
9. In addition to the environmental/social costs of “cheap” energy, Greenpeace has also previously questioned the role of cheap energy in underpinning a successful economy. We remain interested to see what empirical evidence Ofgem has which supports its belief that cheap energy costs are necessary to support a successful economy. Cheap energy has proved a poor policy response to the problem of fuel poverty – as energy costs begin an inevitable rise, vulnerable consumers are exposed by the regrettable lack of investment in energy efficiency.
10. Greenpeace would like to see a regulatory framework emerge that attuned to the distinct characteristics of renewables. The renewable energy sector was forced to do battle after the initial Balancing and Settlement Code proposed by Ofgem under BETTA, illustrating an institutional reflex to consider the characteristics of fossil-fuel powered stations, and neglect the characteristics of renewables. It was only after concerted lobbying by the renewables sector, who can ill afford such effort, that Ofgem made the concession to allow producers to transfer their balancing obligations. While Greenpeace accepts and supports Ofgem's remit to foster competition within the UK energy markets, Greenpeace believes that competition plays out within the constraints and opportunities set by the regulatory framework devised by Ofgem. The framework is critical to delivery on energy policy and is the product of human, rather than market, invention. It must be more sensitive to the nature of renewable technologies and more responsive to the key political concerns of the day.

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