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Your Ref:

Andy MacFaul
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Ofgem
9 Millbank
London SW1 3GE

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Email: Andy.macfaul@ofgem.gov.uk

Dear Mr MacFaul

OFGEM'S PROPOSED STRATEGY AND PLAN 2009-14

Thank you for giving the Scottish Environment Protection Agency (SEPA) the opportunity to contribute to the development of Ofgem's five year strategy 2009-14.

The proposed five year strategy seems to cover many of the key challenges facing the energy sector in the coming years. SEPA is pleased to see consideration of sustainable development as a central theme within the strategy, alongside an increasing emphasis on energy efficiency and demand reduction. However, demand reduction still appears to be of secondary importance compared with generation technologies. Ofgem has an opportunity to highlight demand reduction measures through improvements in efficiency as a primary tool in delivering sustainable energy in Great Britain. SEPA would welcome a more structured approach throughout the strategy that highlights energy efficiency as the primary objective, and how each theme can contribute.

SEPA welcomes the futures work taken forward through the LENS process and would be interested in further discussions in this area.

Energy demand reduction through smart metering and novel tariffs is welcomed, however an accelerated timetable would be more appropriate given the urgency of climate change. Ofgem should also consider demand reduction through the design of products and technologies that are inherently more efficient. Ofgem has an important role in influencing policy that can effect these changes. These actions are essential to ensure that we make progress towards climate change targets in the short to medium term.

SEPA considers climate change to be the biggest threat facing the UK. We are particularly interested in taking account of the quantity of carbon associated with our activities and would be keen to see OFGEM taking a similar account of the carbon impacts associated with transmission and distribution networks. For example, we are unclear as to both the level of carbon losses within the gas and electricity transmission and distribution networks, and the potential carbon savings from the proposals and regulatory actions within the timescale of the strategy. More generally, the environmental performance indicators in the strategy and annex appear limited in scope, and of a secondary order compared to the other indicators.

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SEPA has recently produced a Climate Change Plan, presenting our response to climate change over the coming years. The Plan places a strong emphasis on partnership working, advice and influencing to help Scotland adapt and minimise our contribution to climate change. SEPA's strategy aims to deliver mutually beneficial outcomes with other regulatory agencies and partners and we would welcome the opportunity to work more closely with Ofgem to this end.

Theme 2, regulating networks effectively, discusses networks for distribution of renewable energy sources, and its contribution to climate change mitigation. However, climate change adaptation appears to have been omitted. The distribution network was identified as at risk in Scotland from climate change impacts by the UK Climate Impacts Programme. This needs to be considered by Ofgem in its future strategy both in the medium and long term, to ensure that appropriate investment is put in place to protect distribution networks from future climate change impacts.

SEPA welcomes Ofgem's commitment to sustainable development and is keen to know what arrangements are in place for Scottish representation on the Environmental Advisory Group?

SEPA provides advice and information to business and industry on environmental issues including energy efficiency. SEPA also has a role in regulating the Emissions Trading Scheme and forthcoming Carbon Reduction Commitment, as well as the Large Combustion Plant Directive and the forthcoming Industrial Emissions Directive. SEPA is also producing revised guidance on Thermal treatment of Waste. These functions necessitate closer working with Ofgem, to help to effect real changes to the UK's energy demands and energy security. These actions must contribute to real reductions in greenhouse gas emissions, sustainable development and associated benefits. The strategy should consider the impacts that these environmental regimes may have on the sector more fully. Neither the Large Combustion Plant directive nor the forthcoming Industrial Emissions Directive is mentioned in Section 3.21, despite their potential to have a significant impact on the energy sector. Also in theme 3, Section 3.32 should refer to 'non carbon *dioxide* greenhouse gases'.

SEPA welcomes Ofgem's objective to provide clear information and education for consumers on green energy, and support the need for greater transparency of information to support claims of green energy status. SEPA also welcomes Ofgem's proposals to work closely with government energy efficiency programmes such as Warm Front. However, this scheme only operates in England, and SEPA is keen that Ofgem also considers similar schemes operating in other regions of Britain.

It would be appropriate for Ofgem to instigate a review of adaptation required from the gas and electricity networks to cope with the effects of climate change. This could also address the connections between the regulatory regimes of energy generation and environmental regulation to ensure the greatest synergy between the two and examine any additional regulatory powers that would benefit climate change mitigation/adaptation.

SEPA is concerned at the potential effect the proposed lack of funding for administering new programmes relating to renewable heat, feed-in tariffs and community energy savings will have on the timing of these important programmes.

Scotland faces particular challenges in terms of the energy sector now and in the coming decade. The rapid increase in intermittent renewable sources of electricity and the geographical isolation of many of the generating sites poses particular issues for Scotland that are not the same as in the rest of Britain. Ofgem must ensure that its activities consider Scotland's needs within this context,

as well as considering specific issues relating to isolated communities and generating locations. Innovative solutions may be required to maximise the potential of Scotland's resources, and Ofgem is in a key position to encourage and develop innovation within Scotland. Energy self sufficiency at different scales could be examined, especially in the Scottish context, alongside moves to increase connections to the mains grid.

There remains a tension between what Ofgem sees as its core business of "protecting and advancing consumers' interests" and the need to reduce the demand for energy (as all forms of generation have some environmental impact) and thus protect the environment. It is important that as the UK develops an overall strategy for energy generation, transmission and management, that the environmental issues are addressed and appropriate management responses play a key role.

As a public body committed to openness and transparency, SEPA feels it is appropriate that this response be placed on the public record. If you require further clarification on any aspect of this correspondence, please contact Anna Douglas (anna.douglas@sepa.org.uk) SEPA corporate office at the address shown below.

Yours sincerely

A handwritten signature in cursive script that reads "Dave Gorman". The signature is written in dark ink and is positioned above a thin horizontal line.

Dave Gorman
Head of Environmental Strategy