



CIWEM

The Chartered Institution of Water
and Environmental Management

8th April 2010

Ofgem
2nd floor
9 Millbank
London
SW1P 3GE

Dear Sir/ Madam,

Ofgem consultation on regulating energy networks for the future: RPI-X@20 Emerging Thinking.

The Chartered Institution of Water and Environmental Management (CIWEM) is the leading professional and qualifying body for those who are responsible for the stewardship of environmental assets. The Institution provides independent comment, within a multi-disciplinary framework, on the wide range of issues related to water and environmental management and sustainable development.

CIWEM welcomes the opportunity to provide comment in response to the Ofgem consultation on regulating energy networks for the future. Our comments reflect the views and experiences of our members that work in the areas of energy and regulation.

And we refer you to our recently published manifesto, *Fitting the Bill: A Manifesto for Environmental Action* which calls for the creation of a low carbon society through the fast tracking of offshore wind, wave and tidal energy production and a much more innovative approach to energy production and regulation – with the integration of economic and environmental regulation.

CIWEM is currently undertaking a full review of water industry regulation and considers that there are many parallels to be drawn between the water and energy sectors, namely that regulation is not delivering sustainability, there is a lack of real innovation and an over-reliance on market forces in each sector.

CIWEM agrees with Ofgem that the energy sector is facing a cross-roads and that current challenges and opportunities are being driven by the need to decarbonise

Britain's energy sector whilst maintaining a safe and secure supply. CIWEM considers that as a nation we need to radically increase our supply of renewable energy, with electricity generation virtually decarbonised by 2030. This will provide a relatively cost effective option of achieving carbon savings compared with other sectors.

CIWEM is concerned that new energy investment is orientating towards mega-scale electricity supply rather than energy efficiency and decentralised energy production. The present system is failing to provide rational investment for the future and could preclude the development of a decentralised energy system in the future. Investment in new gas-fired power stations have no CCS commitments and their siting far from demand (e.g. in South Wales) will cause transmission losses to be borne by the national grid. New 300MW biomass plants are currently dependent on speculative imports of wood wastes which exceed traded biomass totals for the North Atlantic and grid access delays are reaching several years for new entrants. CIWEM therefore agrees with Proposition 2 that RPI-X regulation is *not fit for purpose for delivery of a sustainable energy sector* and would welcome a new regulatory framework.

CIWEM considers that the decentralisation of energy supplies and investment into stronger local and regional grids would help to achieve a more resilient system in response to the challenges of climate change. Grid access needs to be improved to hasten the progress of more renewables into the energy mix. Long range transmission and improved grid stability will also allow the UK to become part of a wider European transmission network. CIWEM feels that progress towards transmission sharing has been slow and that a regime to encourage sharing of grid capacity and prioritising renewables needs to be implemented, especially to tackle the queue of generation waiting to connect to the grid. This will also enable those wishing to implement micro-generation to do so.

CIWEM welcomes the proposed regulatory framework of *emerging thinking* that has a longer term focus and is more outcomes based. However we consider that abstract management systems such as that of figure 1 may not necessarily lead to improved efficiency and environmental outcomes and real-world trial and amendment will need to take place to ensure its success. A number of tried and tested measures could be implemented such as 'energy supply companies' which in the US provide energy services that include energy efficiency savings. Here a watt saved is worth more than a watt generated. The current UK requirement to promote energy efficiency (through % revenue) is providing skewed results with low energy bulbs being distributed in huge numbers but largely not being used. This revenue could be spent elsewhere to achieve more cost-effective savings.

Regulators of the UK's utilities ought to align their principles with one another so that certain issues such as climate change and carbon emissions can be considered and addressed. An example of where this would help is in heating water in the home. Water heating is a major use of water and energy in homes so the development of innovative low flow low energy solutions should be supported. Measures in water and energy regulation need to address this and support innovation in this area. Communication

between regulators in different sectors could also share lessons learnt, especially in relation to the move towards sustainability.

As with the water industry a lack of enough innovation has been a consequence of a tightly regulated sector. Whilst there has been investment, it is difficult for new products and processes to be implemented. CIWEM agrees with the recommendations of the Energy and Climate Change Committee's report (February 2010) that the new incentives from Ofgem for innovation should be kept under review with a view to increase funding, and that regulatory and policy uncertainty should be minimised for investors. In particular, CIWEM supports the development of multi-utility metering to enable consumers to view and actively manage their water and energy usage within the home.

Finally, CIWEM considers it imperative that the energy sector has an environmental regulator, with a similar role to that of the Environment Agency in the water industry. The energy sector currently only has an economic regulator concerned, mainly, for the economic sustainability of energy businesses as opposed to the environmental sustainability of energy operations. This is inadequate in an industry which impacts the environment so significantly and at a time when there needs to be a joined up approach to the environmental and climate change challenges we face. An environmental regulator (or the present regulatory regime with additional responsibility for environmental regulation) would help to ensure that the ambition of a more sustainable sector is realised. Whilst Proposition 3 states that *the [new] regulatory framework would focus on delivery of our desired outcomes for the long term*, CIWEM considers that this system would need to allow for more public involvement and independent scrutiny to deliver real value.

We hope that these comments are of value to you. Should you wish us to expand on or clarify any of the points raised please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nick Reeves', with a stylized flourish at the end.

Nick Reeves
Executive Director