

Natural England's response to Ofgem Consultation on 'Project Discovery' – the future regulatory framework of the energy industry

Introduction

1. Natural England is a non-departmental public body. We work to ensure that England's unique natural environment, including its flora and fauna, landscapes, geology and soils, is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.
2. We recognise the primary importance of the energy sector in the transition to the low carbon economy that needs to be delivered over the next few decades and we support the key energy policy objective of achieving substantial cuts in greenhouse gas emissions while maintaining secure, affordable supplies. Our role in respect of energy issues is to advise on how those objectives can be met in a sustainable manner, integrating environmental security with both economic and social goals.

General comments

3. We welcome the timely publication of the Project Discovery consultation and the aim to analyse the effectiveness of current arrangements and explore options for increasing certainty that the UK meet the challenge of delivering secure and sustainable energy supplies.
4. Natural England has always advocated a more strategic and integrated approach to energy policy and market regulation, as a means of ensuring that we meet security of supply and greenhouse gas (GHG) reduction objectives as swiftly, efficiently and as sustainably as possible. The scale of the challenges and investment required mean that markets require a policy and regulatory structure which provides greater certainty, and support in the right areas, yet fosters the flexibility and innovation that is needed to make the changes at least cost to society as a whole.
5. We acknowledge that the consultation document only considers environmental sustainability in respect of climate change mitigation. It is perhaps understandable at an operational level, that the wider implications for the natural environment are not appraised in this document, focused as it is on the broad measures for shaping the policy and regulatory framework. Nonetheless, we would welcome clarification on when and how different packages will be assessed and compared in respect of their impacts on the natural environment. To achieve optimal (and sustainable) outcomes it is imperative that the implications for the natural environment are considered as early as possible so that solutions can be identified quickly enough for actions to be taken efficiently and economically, as well as effectively.
6. The document rightly recognises that some of the options put forward need to be led by Government, some by regulators and some by industry; and that all would need to work together to agree and develop those options. We note that this latest

stage of Project Discovery is being undertaken at the same time as DECC's assessment of the energy market and, plainly, there is a need to ensure that findings of both reports inform decisions about the final policy and regulation options that could be taken forward.

7. A key theme emerging from the document is the need to reduce the uncertainties that are likely to impinge on the unprecedented level of investment that is required to meet energy policy objectives. This further underlines the need to build a broad consensus, so that policy and regulatory measures introduced are acceptable across the political spectrum, to consumers and key stakeholders so that they are far more likely to create a stable, long term framework for investment.
8. We advise that enabling demand side responses and distributed generation should be a priority for any new policy and regulatory measures that are taken forward.

Comments on the consultation questions

Question 1: Do you agree with our assessment of the current arrangements?

We welcome the OFGEM's recognition of the scale of the challenge; the need to consider a wide range of options; and the need to develop a coherent package of measures rather than a piecemeal approach.

We also agree that significant change is needed to current arrangements if Government, industry and society are to deliver environmentally sustainable outcomes as well as, secure and affordable supplies

Question 2: Are there other aspects of the current arrangements which could have a negative impact on secure and sustainable energy supplies, or costs to customers?

Yes.

Currently, environmental impacts tend to be considered at the stage of infrastructure deployment. This can result in the natural environment being viewed as a 'constraint' to be crudely addressed through trade-offs in the final stages of an applications progress. As a result, delays and unnecessary expense can follow, with outcomes which are sub-optimal for all interests concerned, including other legitimate stakeholders in the natural environment.

The UK (and England in particular) is a small and densely populated country, so our landscapes (urban and rural) frequently have to deliver multiple public policy goods, which demands a different framework for planning and decision making from the adversarial trade-off conversations with which we are all familiar.

Delivering sustainable energy supplies in the future will require a coherent policy and regulatory framework which actively supports the successful integration of environmental, economic and social goals at the strategic level, and doesn't leave them to be traded off one against the other at the end of the process.

Question 3: Do you agree that the five issues we have highlighted are the most important?

Yes.

Question 4: Do you have any comments on our description of what might happen if no changes are made to the current arrangements?

We agree that under current arrangements there are real risks that both energy security and climate change abatement objectives will not be met. It is clear that early actions are critical if we are to meet climate change objectives and we agree that a failure to rapidly develop demand side measures or double the rate of renewables deployment will increase longer term costs of decarbonisation to society as cumulative emissions grow.

Question 5: Do you believe that our policy packages cover a sufficient range of possible policy measures?

It is important to consider a wide range of measures, and the range appears to be sufficient, though without delineating the environmental costs of each it is possible that they paint an incomplete picture.

Question 6: Do you have suggestions for variants to these policy packages?

We would welcome a clearer indication as to how different energy technologies or types, particularly heat, fit into the possible packages that are set out.

Question 7: What other policy measures do you believe should be considered, and why?

No comment.

Question 8: Do you agree with the assessment criteria that we have used to evaluate the policy packages?

We agree with the criteria that have been used, but in addition, we believe there may be merit in using a criterion around the confidence in delivering a diverse energy system, in terms of generation, supply technologies, and scales of deployment. Diversity of supply is likely to be a key feature of a secure and sustainable energy system, and whilst some more and less favoured options will need to be identified to provide the certainty sought by investors, it will remain important to have a diverse mix and keep options open where possible.

While we note that the implications for natural environment have been scoped out at this stage, it remains essential that environmental criteria are developed and set as this work progresses. We would be happy to work more closely with OFGEM in this regard.

Question 9: Do you have any comments on our initial assessment of each of the packages?

We agree that a minimum carbon price could be beneficial in reducing uncertainty and risk around investment in low carbon infrastructure.

The recent recession is likely to have a lasting impact on reducing carbon prices within the EU emissions trading scheme, which could further reduce the incentive to invest in low carbon energy infrastructure.

We also agree that a centralised renewables market, which features in several of the packages, may prove necessary to help manage the intermittency of a growing renewables sector.

We suggest that while the Central Energy Buyer package may increase certainty over delivering security of supply objectives, we have concerns over the scale of changes that would be required and over the degree to which those targets would be achieved sustainably. The report suggests that it may be difficult to implement this package alongside decentralised solutions and that innovation may be stifled - neither of which would benefit the natural environment.

From a pragmatic perspective, there are also question marks around the degree to which consensus could be built around this package.

Question 10: Do you agree with our summary of the key benefits and key risks of each policy package?

Yes, although the environmental risks and benefits have not been included.

Question 11: Do you have a view on which package is preferable or alternative policy measures or packages that you would advocate? We are particularly interested any analysis you may have to support your views.

We have not undertaken detailed analysis of different packages, given the implications for the natural environment are scoped out at this stage, but we do have broad points to make .

We support packages and measures that are most likely to deliver the decarbonised, secure and efficient energy system that we need at least cost to society and the natural environment, since the costs of a damaged environment will fall on taxpayers and wider society, directly or in the form of loss of quality of life, amenity, etc.. Many of this group will also be bill payers, who may reasonably expect the costs of environmental protection to be covered in part through industry investment (as part of companies insuring their own long term viability) as well as through general taxation, rather than see it identified as an added extra to their utility bill.

In our view, this means balancing the need for reducing uncertainty and risk, with the need to foster greater efficiency, diversity and innovation in our energy system. We don't underestimate the size of the challenge, but recognise that, if successful, the prize is worthwhile.

We strongly support measures that enable far greater efficiency and demand side responses, which must be of very high priority in any package taken forward. These measures are known elsewhere to make a swift, cost-effective and sustainable contribution to security of supply and climate change objectives. There should also be a level playing field for local distributive energy systems and access to the national grid. The success of demand side measures is heavily dependent on the removal of barriers (real and perceived) and the action of Government and energy companies in actively ensuring their take-up. US research points to the so-called 'hassle-factor' as being a major stumbling block to take up, alongside affordability.

We would advise that during the assessment of packages, added weight should be given to the lessons learned from implementation of different measures overseas when considering 'deliverability', especially delivery lessons from within the EU where they have been subject to similar legal, economic and political frameworks.

Question 12: Do you agree with our assessment of the timing for important investment decisions?

Yes.

There is an urgent need for investment in low carbon infrastructure and demand side measures if we are to address anthropogenic greenhouse gas emissions and avoid dangerous levels of climate change. The fundamental conclusion of the Committee on Climate Change's recently published first annual report was that a 'step change' was needed in emissions reduction trends, a conclusion with which we agree.

Question 13: Do you believe that early actions should be considered?

Yes, for the reasons given in response to the previous question.

Question 14: Do you think that the issues are such that policy measures should be considered as a package or should they be considered on a case by case basis?

It is essential to consider policy measures as part of packages because the interaction of some measures will be a key factor in their success or otherwise. When operating together, individual policy measures always have the potential for compound impacts on the market (and the environment), as well as unintended consequences (positive and negative). Therefore, their collective impact should be considered and evaluated at the outset, with lessons from case work routinely used to refine the whole model over time.

Consideration should also be given to how the packages and measures will work with the many other frameworks relevant to achieving secure and sustainable supplies, such as the planning regime. At present, there is no overall joined-up picture of 'energy' to which any stakeholder can refer in order to understand the whole, the value added by the different component parts, or their sum.

Natural England, March 2010.