

Minutes of the Thirteenth Ofgem Environmental Advisory Group meeting

Date: Wednesday 7 February 2007

Time: 10.30 – 12.00 hrs

Place: 9 Millbank, London

Present

Chair

Sir John Mogg

Gas and Electricity Markets Authority Members

Steve Smith, MD Markets

Robin Bidwell

Members

Juliet Davenport, Good Energy

Andy Duff, RWE npower

Paul Ekins, Policy Studies Institute

Ian Marchant, SSE

Mark Candlish, Renewable Energy Systems

Russell Marsh, Green Alliance

Jeremy Nicholson, EIUG

Claire Durkin, DTI

Philip Wright, Scottish Executive

Philip Jones, CE Electric UK

Ofgem staff

John Costyn

Mark Feather

Tricia Wiley

Apologies

Eoin Lees, Eoin Lees Energy

Tricia Henton, Environment Agency

Paul Jefferiss, BP

Henry Derwent, Defra

1. Chairman's welcome and opening address

Sir John welcomed everyone to the meeting and presented apologies received.

2. Minutes from previous meeting

The Minutes were confirmed as circulated.

3. Sustainable Development objectives in industry codes

Juliet Davenport introduced the topic. She stated that her main area of interest and experience was the Balancing and Settlement Code, but that she understood that similar issues exist in relation to other industry codes and agreements.

The issue arose because modifications to industry codes were considered by the relevant panels under the objectives for the codes set out in licences. These are generally based on efficient operation and promoting competition, and did not include consideration of the impact on the environment or sustainable development. However when adjudicating on proposals the Gas and Electricity Markets Authority is required to take into account the full range of its statutory duties.

As well as being a logical inconsistency it meant that:

- proposals that delivered environmental benefits could not be considered on their merits;
- small renewable generators were often not aware of the changes that may affect them in advance;
- the intellectual input of experts in the way the codes worked was not being applied to environmental considerations.

The following points were raised in discussion:

- There is a need to assess changes to the codes from the view point of the environment and sustainable development, giving consideration to future customers and markets. Members discussed that it might not be necessary to make major changes to codes; it was very much an awareness issue.
- The need to assess the environmental impacts and the need to consider environmental objectives were separate questions.
- An assessment would be an aid in finding out the size of the problem and identifying alternative ways of resolving the issue, without tremendous change to the codes.
- The codes are not policy instruments or incentives - they are just the rules which govern the operations.
- The codes were designed for a specific energy infrastructure, issues such as small generators were not considered in the framework. A member raised the option of exempting small generation/ microgeneration from part of the codes, eg allowing them to be treated differently for connection.
- The range of opinions and discussion reflects the complexity of the issue and it will be important to take a cautious approach. Serious consideration needs to be given to the codes and the sustainability and environmental issues.
- It would be helpful to have a list of specifics identifying the issues and the real problems that the proposal is addressing.
- In considering the code objectives a member raised the importance of considering the practicalities and issues of transparency, and it would be essential to consider the large number of codes and licences that would be affected by changes.
- Designing the codes to meet the existing objectives is not an exact science and the technical and market efficiency objectives are not necessarily always consistent.
- Sustainability in code objectives can be treated as a separate issue to the wider sustainable development duties for Ofgem.

4. European Energy Strategy

Steve Smith briefly described the European Commission's Strategic Energy Review. The review sets a target to reduce greenhouse gas emissions by 20 per cent by 2020, and includes a ten point action plan. He invited members' views on the package.

Sir John Mogg outlined the opinion of the regulators in Europe in regard to liberalisation issues including unbundling issues, and for EREG-plus as the preferred model for a Europe wide regulator. The environment and regulation are very much interlinked, and it is likely that regulators will have a larger influence over energy policy going forward.

The following points were raised in discussion:

- A member expressed the view that the targets are ambitious; however they do not view them as unrealistic, although there are uncertainties.

- The importance of market liberalisation and reducing the underlining cost of energy, and that delivering an appropriate price for energy would make it easier to accommodate the increased environmental costs.
- The EU targets are a good start in terms of leadership and should be helpful when participating in international negotiations.
- A carbon capture and storage target provides a signal to developing countries, and could be useful in terms of the global debate and help the EU in negotiations.
- Making carbon capture and storage a standard technology, was a very brave decision, given there are no demonstration sites of the technology.
- The issue of biofuels and a renewable heat obligation equivalent to the renewables obligation were raised.
- A member commented they were in favour of the EREG plus and stronger regulators. Effective ownership unbundling is key in many countries; however this should not be forced upon them.
- The UK is seen as a model in Europe for unbundling and there was support for Ofgem's view on unbundling.
- There was some discussion on Germany's generation issues and also connection opportunities.
- A member commented the review was internally progressive but there were still issues of national champions, it is too focused on electricity, and raised the issue how a secure energy zone could be achieved.
- The strategy is only the first base, in the spring there will be discussions with the European Council. The regulatory framework will have an important role, as well as working in tandem with business and the EU ETS which will be critical.

5. Green Supply

Ian Marchant introduced the green supply agenda item identifying the three types of broad tariffs which are on offer to consumers, and the issues associated with each. People are more interested in green supply but not sure what they want, and there is confusion regarding what constitutes green.

He suggested a form of voluntary accreditation scheme to enable consumers to make choices and have confidence that they are genuinely getting green energy. It is an evolving market so it is important any scheme is not static, the standards have to be realistic, and it should be tailored for the different types of tariff but with accreditation standards for each one. Industry and consumer representatives could agree and form an industry code. Ofgem could have a role in providing a forum and acting as a facilitator.

In the following discussion members' views on accreditation scheme varied:

- One member commented that green energy remained a niche product, although climate change receives unprecedented attention in the media this is not yet reflected in major buying behaviour of consumers. It is a growing sector with an impressive breadth and depth of offerings and attempts to differentiate products. The way forward is to encourage confidence and commitment, with a focus on building awareness, establishing the benefits and the real value. They would have concerns over a certified scheme, and as long as companies are not making untrue claims, the market should be allowed to reach a significant size before introducing a formal scheme.
- Some members raised the issue that verified claims would lead to a growth. It was pointed out that confidence and commitment were being undermined, and regulation could lead to market growth. The guidelines

from the ASA are not always clear and the rules change, as it is unlikely they cover the business market.

- The issue of double selling in the market was raised as the green claims do not seem to add up to available renewable generation.
- One member pointed out the difficulties of reaching an agreement, raising the issue of an independent body setting a standard. Currently there is a need for information to be made easy to understand, allowing customers to see the differences without value judgements.
- A member observed that consumers look for green tariffs not different shades of green, there is a need for the tariff structure to be simple. The NCC and energywatch reports could be confusing for the average customer. The Government needs to send consumers a simple message to change behaviour.

This is an issue that Ofgem will continue to consult on following the developments in the market and could be a topic in the seminar series.

6. Any other Business

No other business was raised at the meeting

7. Dates for next meeting

The dates agreed for meetings in 2007 are:

Wednesday 13 June 2007 10.30 am – 12.00 pm

Thursday 11 October 2007 10.30 am – 12.00 pm