

## **Minutes of the Fourteenth Ofgem Environmental Advisory Group meeting**

**Date:** Wednesday 13 June 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

Russell Marsh, Green Alliance

Jeremy Nicholson, EIUG

Paul McIntyre, DTI

Philip Wright, Scottish Executive

Philip Jones, CE Electric UK

Eoin Lees, Eoin Lees Energy

Jim Gray, Environment Agency

#### Ofgem staff

Jo Witters

#### Apologies

Mark Candlish, Renewable Energy Systems

Paul Jefferiss, BP

Tricia Henton, Environment Agency

### **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. Energy White Paper: DTI update following publication**

Paul McIntyre delivered a presentation covering the key elements of the recently published Energy White Paper. Paul highlighted the following as key actions arising from the paper:

- To deliver an international framework to tackle climate change
- Legally binding carbon targets for the whole UK economy
- More progress in achieving competitive and transparent international markets
- More energy saving
- More support for low carbon technologies
- Right conditions for investment

The group discussed three 'issues' to be taken forward as next steps by the white paper team, namely Europe, Prices and Investment. The following points were raised in discussion:

- In respect to the estimated 3-4% price increase of new measures, members discussed that while they appreciated the Government's recognition that these measures were going to have a price impact, the estimated range was low and the measures combined with existing measures such as the RO were likely to see a much large increase in prices paid by customers.
- The extent to which the white paper is 'giving the option' to parties to invest in new nuclear build was debated. Members asked whether nuclear had ever not been an option and that it was only due to the relative economics of new build nuclear to other forms of generation as to why it had not been developed in the past few years. It was pointed out that, in the absence of a government green light to the principle of new build, it was unlikely developers would come forward.
- The importance of having a long term carbon price was discussed. DTI were queried as to whether there could be an energy tax applied to domestic customers in the absence of the long term price signal, although it was recognised that tax was a matter for Treasury. There was discussion that in the current political climate, and period of high oil prices, a tax of this nature was not likely to be pursued by government.
- In respect to new large scale investment, there was some discussion as to whether this would be 'low carbon', and whether the government was continuing to explore options such as carbon contracts to achieve the carbon reduction goals. DTI indicated that the white paper scenarios being discussed assumed investment in new gas, renewables, and limited new nuclear and coal plant (some of which could be CCS ready), plus potentially nuclear, depending on the government's decision following the consultation.

#### **4. Update on Markets Restructuring**

Steve Smith gave a brief overview of the rationale behind the recent restructuring of the Markets division at Ofgem. Steve highlighted that this was largely in response to the changing external focus on issues relating to the environment, and also that the reorganisation meant we are now better able to realise the growing synergies between the European and environmental policy agendas. Steve noted that Sonia Brown was the Director for the new European Strategy and Environment team and that Jo Witters and Giles Stevens were now working for Sonia, heading up two teams of people working across European and environmental policy issues.

#### **5. Green Supply: Ofgem Update**

Steve Smith updated the group on the work Ofgem is taking forward in respect of the green supply guidelines. Steve highlighted that since the last meeting of the EAG, Ofgem had published a consultation proposing a number of revisions to the existing guidelines and outlining initial proposals to establish a third party accreditation scheme for green tariffs. These proposals built on feedback received at the last meeting of the EAG and were also consistent with the findings of Ofgem's recently published Consumer First paper, which highlighted the high levels of customer uncertainty surrounding green tariffs.

As part of the consultation, Ofgem is holding a series of workshops, together with the Energy Saving Trust, to further engage with key industry stakeholders and interested parties on its proposals. The first workshop was held this week with a

range of views debating key questions such as what a green tariff should constitute and how to determine additionality with supplier offerings.

Following this period of consultation, Ofgem intends to publish a final set of guidelines in September of this year.

*Action: Ofgem to update the group regarding the updated guidelines and accreditation scheme for green supply at the next meeting,*

## **6. Energy Efficiency: Update on Commission's paper**

Eoin Lees presented an overview of the EU Commissions Action Plan on Energy Efficiency. The headlines of the action plan include an EU level commitment to achieve 20% reduction in energy use by 2020 (compared to 2005 levels), with an estimated 12-14% of this reduction to come from end use energy efficiency.

There was some discussion regarding how the targets were being defined (with qualifying actions including some of those taken since 1995), meaning that in some Member States the targets would be relatively much easier (e.g. Finland, Sweden) than they will be for others (e.g. UK). This was particularly the case in respect of building standards, where the percentage of housing as new build in UK was much lower. Changes to appliance standards however were likely to be much easier to implement, and for the UK in particular 'A' ratings are already standard on a number of appliances (such as fridges).

The action plan was also discussed in the context of the government energy white paper, where it was considered that the 'spirit' and direction of the white paper was consistent with the Energy Services Directive.

## **7. EU 2020 Targets: what are the barriers to meeting these targets in GB, and how can we address them together**

Steve Smith led a discussion regarding the potential barriers in GB to meeting the European-wide targets for 2020; namely, to reduce end use energy by 20%, to reduce greenhouse gas emissions by 20%, to increase energy from renewables by 20%.

The point was made that it was very easy for government's to set targets but much harder to actually implement them in practice. This was viewed as being particularly the case in GB given the low starting point of renewable generation at present (where even accounting for all operational renewables, those that are installed as well as all those at various stages of the planning process, this only equated to approximately 10% of GB generation). In respect of what this would therefore mean for the UK to get to 20% (or more, depending on burden sharing discussions at an EU level), there was discussion and general agreement that this was a very challenging target.

Against this, there was also discussion about the growing public awareness of the effects of climate change and environmental issues more generally. Members discussed whether historic assumptions regarding demand were therefore relevant going forward.

There was some concern within the group regarding the accuracy of the carbon abatement cost curve published recently by Vattenfall. Members discussed that it was not clear what assumptions had been used to inform the analysis, and viewed the estimates as less useful in GB on the basis that they considered the cost of abatement at a global level rather than being GB specific. Steve

highlighted that Ofgem was currently taking forward work developing a range of generation-demand scenarios for 2020, with part of this work looking at the cost curve for carbon abatement technologies in the energy sector. There was general discussion that this was a positive piece of work and members offered their support to helping develop and test assumptions used in this analysis.

#### **8. Any other business**

The group discussed agenda items for the next meeting. It was suggested that a discussion with colleagues from the Office of Climate Change would make a useful addition to the agenda.

*Action: Ofgem to speak with colleagues at OCC to arrange.*

#### **9. Dates for next meeting**

The date agreed for the next meeting, to be held at Ofgem's Millbank offices, is:

**Thursday 11 October 2007 2.00 pm – 3.30 pm**

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