

Minutes of 19th Ofgem Environmental Advisory Group meeting

This is a record of Ofgem's Environmental Advisory Group meeting, held 17 February 2009.	From Date and time of Meeting Location	Tom Handysides 17 February 2009, 10.00-12.00 Millbank
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1. Present

Chair

Lord Mogg

Gas and Electricity Markets Authority Members

Robin Bidwell, Non Executive Member

Andrew Wright, Executive Member

EAG members

Ian Marchant (SSE)

Philip Jones (CE)

Tricia Henton (Environment Agency)

David Densley (SSE)

Jeremy Nicholson (EIUG)

Eoin Lees (Eoin Lees Energy)

Mark Candlish (Renewable Energy Systems)

Philip Wright (Scottish Exec, via videoconference)

Invited to present

John Cooper (BP)

Ofgem staff

Martin Crouch

Tom Handysides

Sarah Samuel

Hannah Cook

Hannah Nixon

2. Apologies

Juliet Davenport (Good Energy)

Jonathan Brearley (OCC/DECC)

Paul Ekins (KCL)

Paul Jefferiss (BP)

3. Minutes from the previous meeting

3.1. The minutes were confirmed as circulated.

4. Ofgem's RPI-X@20 project – Hannah Nixon

4.1. Hannah Nixon (Ofgem, Regulatory Review) introduced the RPI-X@20 project, which will report in summer 2010. The first price control review likely to be affected is TPCR5. The project will consider whether the existing regulatory regime remains fit for purpose in the

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light of new challenges. The project is currently in the 'vision' phase identifying issues and areas for change. Outcomes are not being prejudged and the team are very open to new ideas but will not advocate 'change for change's sake'.

4.2. A number of members commented that the timescale for the project was quite long given urgency of the 2020 targets. John Mogg emphasised the need to be thorough and that the issues are very complex. One member commented that it takes some time to gather views from a wide range of stakeholders and, only DPCR5 is outside the scope of the project. Some changes could be implemented before the end of the project, if there was strong enough evidence and the project team is working closely with the DPCR5 team. The review could be seen as either too short or too long, depending on whether it is judged to be a fundamental review of how to provide future energy network investment or a less ambitious sense-check of existing arrangements. John Mogg commented that the 20 year timeframe for the Offshore tendering process implied a move to an approach which exceeded the five year price control model.

4.3. Other points raised in discussion included:

- Wide consultation is difficult to do but important and needs to include groups such as technology providers and R&D community; Better Regulation Executive; other regulators, etc;
- It appears likely that different solutions will be needed for gas and electricity and for transmission and distribution;
- Integrated Resource Planning is making a comeback in the US as part of its climate change strategy, and could this could also become a component of European and/or UK policy;
- Some degree of flexibility will be needed as we don't know what technical changes will emerge, including the possibility of smart grids but need to find a way of putting the technology decision in the hands of the operator;
- RPI-X is focused on squeezing costs with little focus on innovation so there is a question about the role of the regulator in shaping development of the network. It was also noted that the incentives introduced in the last DPCR have had a larger cultural impact than the statistics imply;
- technology, market mechanisms and consumer behaviour could be considered by developing scenarios with probabilities; and
- There may be a role for government in representing the consumer interest as this is an issue that customers are very unlikely to actively engage with.

4.4. In response to the views expressed by EAG members, Hannah Nixon commented that it takes time to bring stakeholders along, particularly the financial community, which explains the length of the project. However, a paper on emerging thinking is due to be published at the end of 2009, and if agreement has been reached at this stage then deployment of some measures could be quicker; there is no bar to early action. Hannah noted that the purpose of the project is not to 'pick winners', and there is a question as to what can be left to the market or whether a 'guiding mind', which could be Government, industry or others, is needed. Encouraging innovation and greater legitimacy for consumers are big issues. There is no wish to hold up investment, and the Transmission Access Review is dealing with shorter term issues.

4.5. John Mogg noted that comparable projects, such as the Foresight project on Energy and the Built Environment, had similar timescales. Ofgem is aware of time pressures, however the project needs to reflect the views of those who provide investment.

5. Update on Ofgem's European Work

5.1. Martin Crouch (European Strategy and Environment) provided a brief update on Ofgem's work in Europe. The Green Package has led the UK to review its targets for renewable electricity, with the Renewable Energy Strategy consultation now envisaging a

contribution of approximately 30 percent by 2020. Ofgem is promoting the importance of pricing carbon into decision-making processes, and contributing to the second Strategic Energy Review, which is accelerating the Security of Supply Directive. We have also been working on the Third Package and assessing the Industrial Emissions Directive.

5.2. Ofgem's environmental work in Europe is focused primarily through John Mogg's chairmanship of Council of European Energy Regulators (CEER) and the Sustainable Development Task Force, which Ofgem also chairs. The taskforce has recently published a review of support schemes for renewable energy in Europe, and is currently working on the first Europe-wide Sustainable Development Report, drawing on our experience of publishing a similar report for the UK. It will then look at the impact of increasing wind generation on European energy regulation.

6. Electric vehicles – Devid Densley, SSE

6.1. David Densley (SSE) presented on the opportunities and challenges of electric cars, which have the potential to reduce carbon dioxide emissions and smooth the UK's peak energy generation requirements. He mentioned that the Technology Strategy Board is running a competition to pilot electric cars.

6.2. The current CO₂ savings of electric cars are around 17 percent for plug-in hybrid vehicles at the current grid mix emissions, or around 100gCO₂/km. Electric-only cars can reach as low as 90gCO₂/km. However, as the UK generation mix decarbonises, the emissions figures for electric cars will decrease.

6.3. The group discussed the practicalities of electric cars. 'Fast charging' would make people feel more comfortable with the technology; however charging is unlikely to become as fast as filling a petrol tank for technical reasons.

6.4. The group also discussed the impacts on the electricity distribution network. Because substations are sized for existing demand there could be overloading issues, especially in urban areas that may embrace electric cars, and in areas where heat pumps place additional pressure on the system. Smart meters would be needed to regulate demand. 'Smart charging' would enable cars to draw electricity during periods of low demand, and sell back to the grid during peak demand, providing balance to the system.

6.5. John Cooper (BP) presented BP's views on electric cars. He noted that it will be a significant challenge to produce batteries that can last for ten years, especially at a sufficiently low cost. Batteries are currently expensive, though this is mitigated by the comparatively low cost of electricity relative to petrol. He also touched on the charging issue, noting that an eight megawatt cable would be required to charge the battery in the time it takes to refuel a conventional car, which is impractical. At present, a thirty minute charge would provide a range of a few extra miles.

6.6. Finally, the group noted the need to understand the costs of decarbonising energy supply. Electric vehicles currently cost €500/tCO₂, making them a comparatively expensive way of decarbonising the UK's energy mix.

7. Evaluation of EEC2 – Eoin Lees

7.1. Eoin Lees gave a brief outline of his evaluation report on Phase 2 of the Energy Efficiency Commitment (EEC2), commissioned by the Department for Energy and Climate Change (DECC). He concluded that the scheme had been a success, with suppliers exceeding their targets at a lower cost than Defra had estimated. The scheme had also enabled suppliers to meet their target using a number of different measures, focusing on their areas of strength. However, he expressed disappointment that the contributions of households not classified as low income had declined from 44 percent in EEC1 to 39

percent in EEC2. Eoin finished with his initial impressions of Carbon Emissions Reduction Target (CERT), which replaced EEC2 last year.

7.2. In discussion, the comments included that the proposed 20 percent uplift of the CERT target was just achievable, with the help of an expanded 'priority group' that now includes everyone over the age of 70, and the ability to carry over extra savings from EEC2. The 'whole-house' approach to reducing consumption and improving energy efficiency, which will be pioneered by the proposed Community Energy Saving Programme (CESP), was welcomed.

8. Date of next meeting

8.1. The next meeting is scheduled for 9 June 2009, 10.00 – 12.00.