

## Minutes of 20<sup>th</sup> Ofgem Environmental Advisory Group meeting

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This is a record of Ofgem's Environmental Advisory Group meeting, held 09 June 2009.	From Date and time of Meeting Location	Tom Handysides 09 June 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)

Jeremy Nicholson (EIUG)

Eoin Lees (Eoin Lees Energy)

Mark Candlish (Renewable Energy Systems)

Jonathan Brearley (OCC/DECC)

Paul Ekins (KCL)

Thomas Lingard (Green Alliance)

#### Ofgem staff

Giles Stevens

Tom Handysides

Sarah Samuel

Anna Kulhavy

Graham Knowles

### 2. Apologies

Paul Jefferiss (BP)

Philip Wright (Scottish Exec)

Jeremy Nicholson (EIUG)

### 3. Minutes from the previous meeting

3.1. The minutes were confirmed as circulated.

### 4. Ofgem's tariffs, household consumption and environmental obligations project – Anna Kulhavy

4.1. Anna Kulhavy (Ofgem, European Strategy and Environment) introduced the tariffs, household consumption and environmental obligations project, which is planning to publish a discussion document in the next month or so. The scope of the project includes:

- Consideration of whether different pricing structures used to calculate energy bills can encourage household energy efficiency;
- Looking at the current position, prior to the widespread deployment of smart meters; and
- Publishing a discussion paper that integrates issues, informs debate and encourages stakeholder participation.

4.2. A number of points were raised in discussion:

- Concerns were expressed that moving away from existing tariff structures would risk jeopardising the cost reflectivity of tariffs that Ofgem and suppliers have worked towards, and reduce the efficiency and efficacy of cost signals.
- The issue of consumers' capacity to respond to price fluctuations was discussed. A supplier noted that it is reducing its forward demand estimates for gas, but is witnessing less of a response to electricity prices. Falling domestic gas demand was considered to be due to a combination of factors including the energy efficiency programmes (EEC and CERT), high prices and regulation (condensing boilers). Prices were seen to contribute less to falling gas demand than the other factors.
- Ofgem's slides showed the incidence of high energy consumption broken down by income decile. It was suggested that Ofgem should be more concerned with effects on low-income consumers that have a medium to high energy use.
- Interpreting the data used in this project is very complicated, and different conclusions could be drawn from the same data. Though rising block tariffs and other energy pricing structures should not be seen as a panacea, they should be investigated carefully, as should environmental tax reform. An important part of any pricing structure approach would be making consumers aware of prices and their energy consumption. Consumers are sensitive to price when they are aware of the effects of their consumption. Government's Heat and Energy Saving Strategy consultation that closed last month had a high level of ambition. Although rising block tariffs provide volume-related incentive to suppliers to sell more units of energy, they also provide consumers with a strong incentive to reduce consumption which could outweigh suppliers' incentives.
- It need not be counter to suppliers' interests to incentivise demand reduction, and a tariff designed to enable this has been successfully launched. Some tariffs structures make some consumers more 'desirable' than others, which could lead to cherry-picking of certain consumers to the detriment of others. The tax and benefits system remains the best way of dealing with distributional issues, though some 'dos and don'ts' should be noted in the event that the Government retains the levy approach to funding environmental programmes.
- The priority group used to target CERT measures at more vulnerable groups is a poor proxy for fuel poverty, and would benefit from revision. For example, between a quarter and a third of the fuel poor is not part of the priority group.
- Regulation may be needed at some point, and fuel poverty is a big concern.
- Finally, it was suggested that the network charge could be used to exclude certain consumers from paying for segments of energy charges and/or environmental programmes.

4.3. Ofgem responded that this paper is intended to stimulate debate amongst diverse stakeholders and welcomed the range of views expressed.

## 5. Ofgem's Sustainable Development Report 2009

5.1. Tom Handysides (European Strategy and Environment) provided a brief update on proposals to update the Sustainable Development Report (SDR) in 2009 with a view to improving Ofgem's communication with a diverse set of sustainable development stakeholders. He informed members that Ofgem was considering how to make the report more accessible to smaller organisations, including NGOs and charities that may have less

time and resource than others (i.e. industry and Government) to assimilate reports and consultation papers. Possible solutions included considering the creation of an easy-access web micro-site, and improving the interconnectedness and design of the summary factsheet and the main document.

5.2. It was felt that SDR has proved a useful report, particularly for looking at historical data, and is a unique resource for having a breadth of industry information on sustainable development in a single document. Support was expressed for the SDR continuing to provide updates on existing data areas to compare progress on SD issues.

5.3. It was also noted that SD is a moving topic, and that it would be important for the SDR to look forward and show how Ofgem is responding to the challenges of climate change, and its revised duty to contribute to the achievement of SD. In addition, the report should cover all aspects of SD, including Ofgem's work on grid access and renewables.

## **6. European Update – Giles Stevens**

6.1. Giles Stevens (Ofgem, Head of European Strategy and Environment) gave an update on Ofgem's European SD work. This included

- The publication of the first European Sustainable Development Report in April 2009, which was drafted by Ofgem staff<sup>1</sup>;
- A report on integration of wind generation across EU Member States, again drafted by Ofgem, due for publication in December 2009;
- Ofgem's work within CEER's Sustainable Development group, in connection with the European Commission's consultations on the EU Emissions Trading Scheme and energy efficiency;
- Engagement on the concluded European Green Package, and the second Strategy Energy Review, which will focus on diversification of energy supplies;
- The May G8+ Roundtable of Energy Regulators which agreed the essential role energy regulation has to play in fostering SD through consistent rules, market-based mechanisms where technically and economically feasible, fair and reasonable cost remuneration/tariffs, involvement of stakeholders and transparent monitoring, and the growing need to harmonise regulatory frameworks at the international level within integrated markets and the importance of increasing cooperation; and
- The forthcoming World Forum on Energy Regulation, to be held in October 2009, which will issue an 'Energy Regulators' Statement' ahead of the Copenhagen Climate Change Conference in December 2009.

6.2. It was noted that uncertainty exists around the definition of the EU energy efficiency target for 2020; regulators could help to recast and define this target.

6.3. It was felt that it would be good to have input into the Energy Efficiency Directive. Enthusiasm was expressed for Ofgem's continued valuable work with Europe.

6.4. It was noted that the UK definition of fuel poverty was not shared with the rest of the EU, and that an EU-wide report would focus on the broader topic of poverty. An ongoing difficulty is energy price volatility for what is a fundamental good, something that is difficult to address through the existing benefits system.

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<sup>1</sup> The European Sustainable Development Report is available at the website of the Council of European Energy Regulators (CEER): [www.energy-regulators.eu](http://www.energy-regulators.eu)

## **7. Date of next meeting**

7.1. The next meeting is scheduled for 13 October 2009, 10.00 – 12.00.