

Minutes of 21st Ofgem Environmental Advisory Group meeting

This is a record of Ofgem's Environmental Advisory Group meeting, held 13 October 2009.	From Date and time of Meeting Location	Tom Handysides 13 October 2009, 10.00-11.30 Millbank
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1. Present

Chair

Lord Mogg

Gas and Electricity Markets Authority Members

Sarah Harrison, Senior Partner, Sustainable Development

EAG members

Philip Jones (CE)

Jeremy Nicholson (EIUG)

Mark Candlish (Renewable Energy Systems)

Paul Ekins (KCL)

Juliet Davenport (Good Energy)

Philip Wright (Scottish Exec)

Ofgem staff

Tom Handysides

Graham Knowles

2. Apologies

Paul Jefferiss (BP)

Jonathan Brearley (DECC)

Eoin Lees (Eoin Lees Energy)

Andy Duff (RWE npower)

Tricia Henton (Environment Agency)

Thomas Lingard (Green Alliance)

3. Minutes from the previous meeting

3.1. The minutes were confirmed as circulated.

4. Update on Ofgem's restructure

4.1. Sarah Harrison introduced Ofgem's corporate restructure and highlighted the introduction of the new Sustainable Development division. She commented that careful consideration was being given to the role of the new division and that this included taking account of stakeholder views.

5. Ofgem's Discovery project – Kersti Berge

5.1. Kersti Berge (Ofgem, Head of Energy Economics) introduced the Discovery project, which is investigating security of supply in the medium term. A consultation was published on 9 October, setting out four scenarios and giving indicative investment costs over the

coming decade. Following this consultation, the next publication will be a set of policy recommendations.

5.2. A number of points were raised in discussion:

- It was noted that the Committee on Climate Change (CCC) has been developing medium term energy scenarios and had published a near simultaneous report; one member expressed a desire for Ofgem and the CCC to synchronise this work;
- A member welcomed the scenarios analysis, which was seen as preferable to setting a particular direction for the industry;
- Several members commented that investment forecasts (up to £200 billion investment over next decade, bills up by 60% by middle of next decade) were on the conservative side, though they welcomed the conclusions that substantial investment is needed. A member added that given the scale of the investment required he would prefer a carbon tax that led to investment in the UK, rather than trading for investment elsewhere;
- A member suggested that consumers' bills might not rise as higher prices would curb demand and energy saving measures could be taken up in parallel, and commented that energy saving potential was missing from the report;
- A member commented that renewable energy still appears to be the expensive option in the analysis, which did not take adequate account of the potential for exponential gas price rises;
- A member noted that there appeared to be no demand-side electricity response in any of the scenarios, and drew attention to the volume-related incentive on suppliers;
- A member considered that it would be difficult to raise the investment required for secure, reliable, low carbon energy, and noted that the investment climate has become much more challenging since the Stern review and the IPPC's 4th report called for major investment in the transition to a low carbon future.

6. Innovation in networks

6.1. Hannah Nixon (Partner, Regulatory Review) provided a brief update on the innovation paper that was published as part of the RPI-X@20 review. Due to time constraints, Anna Rossington (Senior Manager, Electricity Distribution) was unable to outline the proposals in the fifth electricity Distribution Price Control Review (DPCR5). Anna's slides are available on the EAG page of the Ofgem website¹.

6.2. A number of points were raised in discussion:

- A member commented that in encouraging innovation it is important to determine the direction, and not merely the pace;
- A member noted that there is uncertainty around which network investments will deliver carbon savings, and it is difficult to see the market delivering on its own – full up-front funding may be needed.
- Members commented that much of the new investment may be in untried and relatively unknown technologies, therefore a degree of failure should be tolerated in the drive for innovation – there is always a risk to 'picking winners'. Funding for exploration in the next decade will be needed, and this is expected to lead to benefits for companies that can prove themselves in the exploration phase;
- A member added that innovation funding should be accessible not just by DNOs but also by other organisations and partnerships.

7. Date of next meeting

7.1. The next meeting is scheduled for 4 February 2010, 10.00 – 12.00.

¹ See www.ofgem.gov.uk/Sustainability/Environment/Policy/EnvAdvGrp/Documents1/AnnaRossingtonDPCR5Innovation.pdf