

Minutes of the third Ofgem Environmental Advisory Group Meeting

Date: 4 November 2003

Time: 14.30 – 16.30hrs

Place: 9 Millbank, London

Present

Members

Sir John Mogg, Chairman
Juliet Davenport, Unit[e]
Andy Duff, Innogy
Paul Ekins, Policy Studies Institute
Rupert Fraser, Fibrowatt
Paul Jefferiss, RSPB
Eoin Lees, Eoin Lees Energy
Jeremy Nicholson, Energy Intensive
Users Group
John Roberts, United Utilities
Bryony Worthington, Friends of the
Earth
Philip Wright, Scottish Executive

Ofgem Authority members

Robin Bidwell
Richard Farrant
John Neilson

Officials

Neil Davies, Environment Agency
Jeremy Eppel, Defra
Graham White, DTI

Ofgem staff

John Costyn
Virginia Graham
Alex Thorne

Apologies

Henry Derwent, Defra
Paul Leinster, Environment Agency
Joan MacNaughton, DTI

1. Chairman's welcome and opening address

Sir John welcomed everyone to the meeting and especially welcomed the new member, Juliet Davenport from Unit[e]. He also mentioned that Ian Marchant from Scottish and Southern Energy would be attending from the next meeting. Members were thanked for responding to the request for views on how to take the group forward. As a result of this the group will meet three times per year from next year. In response to views, the agenda had been kept short with one of the items being presented by a group member, Bryony Worthington, from Friends of the Earth.

Sir John also reported that, following on from the recommendation in the Energy White Paper, the first meeting of the inter-governmental group on energy and the environment was due to be held on 5 December.

2. Minutes from previous meeting

There were no comments on the minutes.

3. Current issues on renewables and grid issues

John Costyn from Ofgem introduced this paper, based on research by Lewis Dale et al.¹ which had been published in Power UK in March 2003. John highlighted that the costs given in the paper were for a high wind scenario (20% in 2020) compared with a conventional scenario using fossil fuel generation. The headline figure from the paper was that a high wind scenario could cost £1.3 billion/year more than a conventional scenario. This figure includes greater capital costs for wind generators, increased intermittency and higher balancing costs. It also reflected lower fuel costs under the high wind scenario, as wind is a renewable source.

John stressed that there were a lot of assumptions underlying the numbers given in the paper. However, he explained that Ofgem had analysed the numbers and concluded that they represented a reasonable estimate within a considerable range of uncertainty. The order of magnitude of the costs was consistent with the expectations implied by the RO buyout price.

John stated that Ofgem had an interest in ensuring necessary changes happen to accommodate more renewables and at the best value for money for consumers. At the moment there was also a lot of work going into the Distribution Price Control Review (DPCR), with distributed generation high on the agenda. Work was also in hand with regard to the implications of more renewable generation for transmission networks.

A number of members thought it would be beneficial if the conclusions of the Dale paper could be more widely publicised, possibly by Ofgem, as this would bring it to the attention to a wider audience and it would help to have Ofgem's name behind it. In particular publicising the carbon implications of a high wind scenario would be useful. This was cautioned against by other members who felt that the £1.3 billion a year extra cost was a worst case scenario and in reality it could be a lot less. It was also stated that intermittency would only be a big issue in a high wind scenario. Biomass, for example, had no such intermittency problems. Therefore a balanced portfolio of renewables was one way to mitigate the intermittency effects, as the paper pointed out.

A number of suggestions were made in relation to the paper:

- More policy analysis could be done on the costs of renewables and fossil fuels. For example, if fossil fuel costs went up by 20%, what would the cost difference between the two scenarios be?
- Maturity of technology also needed to be taken into account. Offshore wind costs were expected to fall significantly, and different cost reductions to those assumed in the Dale paper could be assumed.
- Should the impact of the EU emissions trading scheme be included explicitly?
- The current value of ROCs was still short of investment requirements for many current renewables projects.
- If there were to be a lot of renewables in Scotland then more electricity would need to be transmitted to demand in the south of England. This would require new transmission lines through sensitive areas and be very costly.
- It was stated that current locational signals through transmission arrangements were not strong and that a more sophisticated tariff structure than currently available could ensure optimum location of new renewable investment.

¹ Dale, Milborrow, Slark & Strbac *Total Cost Estimates for Large-scale Wind Scenarios in UK*, Power UK, March 2003

Sir John said that Ofgem was faced with many of these issues currently. To build on the issues raised by the Dale paper it may be worth undertaking additional research. This would contribute to the debate and would help to educate and inform. A seminar on the issues raised might also be a possibility.

4. Demand-side issues

Bryony Worthington introduced her paper by suggesting that reducing demand for energy offered the least cost means of delivering carbon reductions. However, existing measures to deliver end user energy efficiency did not guarantee net reductions in demand. She went on to suggest that prices alone would not deliver the level of savings required and that dedicated economic instruments were needed to deliver demand reductions, such as the cap on supply suggested in her paper.

The principle of moving towards a market based incentive for demand reduction was welcomed; however some members suggested that the specific proposals in this paper were not feasible. A number of points were raised in response to the paper, including:

- How would the policy link into the European Union Emissions Trading Scheme? Would it put a carbon cap on business?
- The proposed policy would put a cap on the supply side rather than the demand side. This would conflict with social obligations, especially with regards to the fuel poor. It would also not look good if the Government was seen as controlling the absolute quantity of electricity supplied to people.
- The similarity was drawn between the proposal and other economic policies, and in that light these proposals may not be so politically problematic.
- It was felt that an absolute cap on supply would be pretty revolutionary and the detailed implications would need to be considered in a lot more detail.
- The suggested policy was an imposed system dressed up as a market mechanism with few incentives. It would be very difficult politically and presentationally.
- It was good to have these issues considered, but very difficult to persuade individuals to adopt energy services and energy efficiency.
- To date at the current level of activities, energy efficiency has not reduced energy demand; it was not clear what level of activity would be required before it would have an impact.
- It was stated that there were many other mechanisms available to the government for meeting their greenhouse gas policies. In addition to energy efficiency measures others included: regulation, information provision such as by the EST and Carbon Trust, and fiscal measures.

Bryony Worthington drew the discussion to a close by acknowledging that her paper had provoked a useful discussion. She thought that her proposals were not so radical; five years ago the EU emissions trading scheme would have been regarded as radical. She added she was not proposing an absolute cap, as there would be a price structure provided through the buyout. 'Fuel profligate' people should be considered in policy measures as well as the fuel poor. She felt that in the future, with the take up of micro generation, people would begin to think a lot more about their energy use.

5. AOB

It was decided that at the next meeting Ofgem would provide an update on the EU Emissions Trading Scheme and also on distributed generation.

Some members raised the issue of voluntary green supply offerings. Bryony Worthington said Friends of the Earth were currently in the process of updating their green supply league table. There had been considerable changes in the green supply market. It was suggested that there was now a clear need for some kind of accreditation system for green offerings. Some felt this could possibly be run by energywatch or Ofgem.

One member suggested that it would be useful to see more information on the Renewables Obligation and NFFO issues in the regular update paper on environmental issues.

6. **Date of next meeting:** Tuesday 17 February 2004 10.30am – 12.30pm