

## Minutes of 22<sup>nd</sup> Ofgem Environmental Advisory Group meeting

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This is a record of Ofgem's Environmental Advisory Group meeting, held 10 February 2010.	From Date and time of Meeting Location	Tom Handysides 10 February 2010, 10.00-12.00 Millbank
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### 1. Present

#### Chair

Lord Mogg

#### Gas and Electricity Markets Authority Members

Sarah Harrison, Senior Partner, Sustainable Development

#### EAG members

Jeremy Nicholson (Energy Intensive Users Group)  
Mark Candlish (Renewable Energy Systems)  
Paul Ekins (Kings College London)  
Juliet Davenport (Good Energy)  
Philip Wright (Scottish Executive)  
David Sigsworth (Scottish Environmental Protection Agency)  
Paul Jefferiss (BP)  
Thomas Lingard (Green Alliance)  
Ian Marchant (Scottish and Southern Energy)  
Tony Grayling (Environment Agency)

#### Ofgem staff

Tom Handysides  
Sarah Samuel  
Sabreena Juneja  
Marek Ligeza  
Maxine Frerk  
Ian Marlee

#### Other presenters

Gill Owen (Warwick Business School)

### 2. Apologies

Philip Jones (CE Electric UK)  
Jonathan Brearley (DECC)  
Eoin Lees (Eoin Lees Energy)  
Andy Duff (RWE npower)  
Tricia Henton (Environment Agency)

### 3. Minutes from the previous meeting

3.1. The minutes were confirmed as circulated.

#### **4. Gill Owen – distributional impacts of environmental programmes**

4.1. Gill Owen gave a presentation outlining the findings of her work on the distributional impacts of Government environmental programmes. The focus of the work was an analysis of the trend to fund these programmes through levies on energy suppliers, rather than from taxation. Levies were presented as being inherently more regressive than the comparatively progressive tax system, potentially to the detriment of households on low incomes.

4.2. The presentation included a summary of the projected costs of environmental programmes to 2020 based on Government impact assessments. On current figures, the cumulative cost of environmental programmes could increase from £79/household/year (2008) to between £294-426+/household/year in 2020.

4.3. A number of points were raised in discussion:

- Maxine Frerk (Partner, Sustainable Development) welcomed Gill's work, and noted Ofgem's continued involvement in this policy area, particularly through a proposed work stream on who pays and who benefits from environmental programmes.
- The polluter pays principle was supported, and schemes such as CERT could be targeted solely at the fuel poor or low income households to help to address the resultant rising energy bills.
- Suppliers lack the skills set required to deliver whole house energy saving refurbishments, adding that other sectors should be involved in delivering CERT and CESP-type measures. The most beneficial measures should be encouraged, e.g. insulation with whole-house assessments rather than energy saving light bulbs and similar measures.
- Implementation of the Scottish Energy Efficiency Plan will be informed by advice from the Committee on Climate Change, a key issue being how to spread costs across society.
- A member suggested that joined-up Government was essential to deliver energy saving measures effectively. For example, investment in efficient and affordable heating could help to tackle health problems and reduce the Government's healthcare costs.
- There was some support for a new approach now that the opportunities for low-cost insulation (which EEC and CERT have delivered) are diminishing.
- Fairness was seen as central to delivering household energy saving policies, and it was suggested that this should include intergenerational and international fairness – which the Government is addressing in part through its international climate change negotiations.
- A member commented on the conceptual shortcomings of the concept of fuel poverty, which has fluctuated considerably over the past decade in spite of Government interventions. The winter fuel payment scheme was seen as a poor use of Government funds (£2 billion annually) that could be better spent installing energy efficiency measures.
- It was suggested that more Government time and resource should be given to understanding energy use: who are the 'essential high users', where they live, socio-economic constitution and property type and tenure.
- Creative financing options, such as the Government's Pay as you Save trials, could deliver energy saving refurbishments. In meeting the target to offer 7 million homes

a whole-house refurbishment, the Government could reach a significant number of households in or at risk of fuel poverty.

- A member commented that there has been substantial interest in CESP schemes, and called for a swift move from the CERT model to the CESP model.

## **5. Ofgem's Discovery project – Ian Marlee**

5.1. Ian Marlee (Ofgem, Partner, Trading Arrangements) gave an update on the Discovery project, which published a consultation on options for delivering secure and sustainable energy supplies on 3 February.

5.2. A number of points were raised in discussion:

- The media coverage had focussed on one of the policy options in particular and there was a discussion to what extent this reflected Ofgem's view
- Some agreed that the Government should intervene to change the design of the energy markets, then step back to let the industry deliver but need to be about the objectives and then design the market framework.
- There is a period of 12-18 months now to put in place the right framework.
- A feature of redesigned markets should be the commercial development of peaking plants.
- A member welcomed the publication of the latest consultation, which was being taken seriously by politicians and industrial energy consumers. He called for a firm, robust carbon price, and warned that the EU ETS carbon price is not 'bankable', i.e. it is currently seen as an insufficient signal for finance to agree to investment.

## **6. Ofgem update – Sarah Harrison**

6.1. Sarah Harrison (Senior Partner, Sustainable Development) updated the group on the publication of Ofgem's RPI-X@20 'Emerging Thinking' document and on the launch of the Green Supply Certification Scheme

## **7. Demand-side Response discussion paper – Sarah Harrison and Sabreena Juneja**

7.1. Sarah Harrison (Senior Partner, Sustainable Development) introduced Ofgem's current demand-side response (DSR) project, and Sabreena Juneja (Regulatory Economist, Environmental Policy) presented the initial findings from research and analysis so far.

7.2. A number of points were raised in discussion:

- A member commented that there is friction between suppliers and industrial consumers, and that legal costs for setting up DSR agreements can prove to be prohibitive;
- It was noted that industrial consumers are not homogenous in their energy use. Not all are equally flexible and able to react at short notice; a profound commercial incentive is required to overcome the barriers to DSR participation.
- A member urged caution about the expected benefits of the smart meter rollout, and commented that more investment was required in understanding consumer behaviour beyond the 'rational economic actor'.

- Product manufacturers, and national/international regulators, should improve the energy consumption of products, which are responsible for some of the increase in energy consumption in recent years. A member added that energy efficient product options (like AAA-rated washing machines with timers) were often more expensive.

## **8. Date of next meeting**

8.1. The next meeting is scheduled for 23 June 2010, 10.00 – 12.00.