ofgem

Minutes

Minutes of 23rd Ofgem Environmental Advisory Group meeting

This is a record of Ofgem's Environmental Advisory Group meeting, held 23 June 2010.	From	Tom Handysides
	Date and time of Meeting	23 June 2010, 10.00-12.00
	Location	Millbank

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)
Juliet Davenport (Good Energy)
David Sigsworth (Scottish Environmental Protection Agency)
Rachel Cary (Green Alliance)
Jonathan Brearley (DECC)
Eoin Lees (Eoin Lees Energy)

Ofgem staff
Tom Handysides
Sarah Samuel
Sabreena Juneja
Cloda Jenkins
Anna Kulhavy
Kate Smith
Graham Knowles

2. Apologies

Philip Jones (CE Electric UK)
Ed Mitchell (Environment Agency)
Mark Candlish
Paul Ekins (UCL)
Paul Jefferiss (BP)
Ian Marchant (SSE)
Thomas Lingard (Green Alliance)
Colin Imrie (Scottish Executive)

3. Minutes from the previous meeting

3.1. The minutes were confirmed as circulated.

4. Ofgem's RPI-X@20 regulatory review – environmental outputs

4.1. Cloda Jenkins (Head of Regulatory Review) gave a presentation outlining the latest thinking on the ways that Ofgem could transform its approach to network regulation. The focus of this presentation was on the way that network companies could be judged on their

performance through the use of environmental outputs, which Ofgem has been developing with other groups through a peer-review process.

4.2. A number of points were raised in discussion:

- There was some support for increasing the duration of price control review periods, which currently last for five years, to facilitate longer term planning. However, it was noted that action needs to be taken now to begin the changes needed to move to a low carbon energy system, and this should be a key deliverable regardless of the length of future price control review periods.

- The Government will be introducing further measures over the coming years to encourage the development of low carbon heat, electricity and transport; Government cannot be certain of what technology will be with us in five years, let alone in 2050. Therefore the twin challenges will be for Government to give network companies a clear, credible steer to develop their forward investment plans, and for the network companies and Ofgem to build in sufficient flexibility to adapt to the inevitable developments in Government policy, e.g. encouragement of electric cars and heat pumps.

- Infrastructure investment takes time, and it is vital that networks are able to accommodate the new electricity and heat generators that will come on line in the next ten to twenty years. A member suggested that the risk of stranding network assets should be weighed against the risk of failure to develop networks that can connect new renewable and low carbon generation.

- Support was expressed for a closer tripartite working relationship between Ofgem, the network companies and the Government in relation to the future planning of energy networks.

- Broad primary output measures, such as a requirement to reduce carbon emissions, were seen as preferable to micromanagement of input measures (i.e. the 'what' rather than the 'how').

- The impact of energy efficiency and demand-side measures had been investigated for electricity networks only, and not on the gas side. It was noted that these topics were of interest to gas networks too.

- Ofgem is changing its approach to network regulation in a number of ways. These include removing demand drivers that incentivise network companies to transport more units of energy, and introducing programmes such as the Low Carbon Networks Fund which will provide £500 million to electricity distribution companies to trial new technological, operational and commercial arrangements in the transition to a low carbon energy system.

- Heat networks are not regulated like electricity and gas at present, but they should be considered as part of the review because they could play a major part in developing community-scale combined heat and power projects. These schemes can contribute to renewable and carbon targets.

- The RPI-X@20 project was seen as breaking new ground by adopting a more open style of engagement and reaching out to stakeholders outside the energy sector.

5. Demand-side Response discussion paper

5.1. Sarah Harrison introduced Ofgem's current demand-side response (DSR) project, and Sabreena Juneja (Regulatory Economist, Environmental Policy) presented the findings of the discussion paper that was due to be released shortly after.

5.2. A number of points were raised in discussion:

- Much of the interest in DSR is in the industrial sector and there is a need to extend to the commercial/service sector. It was suggested that firms would be willing to participate if their processes can accommodate variations in electricity consumption, and if the incentives are attractive.

- Analysis looking into the potential scale of DSR is needed. Ability to respond depends on notice period particularly in industrial sector.

- Concern was expressed about the idea that DSR could be used to counter offshore wind intermittency, because the scale of offshore wind relative to the potential for DSR.

- Members noted that encouraging consumers to shift demand away from peak periods, whether through time of use pricing or demand curtailment, could prove to be very unpopular with the public, and could be subject to severe media scrutiny. Politicians are not aware that prices vary between seasons and not just within day.

- Automated devices such as refrigerators, which could switch off during periods of high electricity demand or low wind generation output, offer significant DSR potential. However, a limitation is that many automated devices can only switch off for short periods. For example, refrigerators can stay cool for a few hours before they need to be switched back on, which is not long enough to counteract fluctuations in wind patterns, which can last for days and weeks.

- A member highlighted the improving accuracy of wind forecasting, which can be 90 percent accurate within 24 hours, and pointed out that this compares favourably to fossil fuel plant failure which can be sudden and unexpected. Improved forecasting can help to predict the level of DSR that would be required for the day ahead, increasing the range of consumers able to respond.

- The rollout of smart meters to all homes in the coming decade will enable more sophisticated time of use tariffs, which can help generation and energy networks to make more prudent investments and manage the system better. However, the 'profile classes' that electricity networks use to charge customers for use of the network will need to be adjusted to provide suppliers with the right incentives to develop products that encourage customers to change behaviour. The costs of changing profile classes needs to be carefully thought out and changes made should result in simple profile classes.

- EAG members' comments on the results of the paper were that:

    - the benefits of demand-side response in the paper (particularly wholesale cost savings and capital costs savings for new generation) appear conservative;

    - large increases in response by residential sector should not be assumed to happen too quickly; and

    - we should expand our work to the gas sector and energy reduction.

6. Date of next meeting

6.1. The next meeting is scheduled for 7 October 2010, 10.00 – 12.00.