

## Minutes of the fourth Ofgem Environmental Advisory Group Meeting

**Date:** 17 February 2004

**Time:** 10.30 – 12.30hrs

**Place:** 9 Millbank, London

### **Present**

#### Members

Sir John Mogg, Chairman

Juliet Davenport, Good Energy

Neil Davies, Environment Agency

Henry Derwent, Defra

Paul Ekins, Policy Studies Institute

Paul Jefferiss, RSPB

Eoin Lees, Eoin Lees Energy

Ian Marchant, SSE

Jeremy Nicholson, Energy Intensive

Users Group

Bryony Worthington, Friends of the Earth

Graham White, DTI

Philip Wright, Scottish Executive

#### Ofgem Authority members

Robin Bidwell

John Neilson

#### Ofgem staff

John Costyn

Virginia Graham

Alex Thorne

### **Apologies**

Andy Duff, Innogy

Paul Leinster, Environment Agency

Joan MacNaughton, DTI

John Roberts, United Utilities

### **1. Chairman's welcome and opening address**

Sir John welcomed everyone to the fourth meeting of the Environmental Advisory Group. He especially welcomed Ian Marchant from Scottish and Southern Energy who was attending his first meeting.

### **2. Minutes from previous meeting**

Paul Jefferiss commented that the minutes of the previous meeting had incorrectly recorded his comments. He had said that Ofgem could have a role in publicising the carbon implications of a high wind scenario rather than to publicise the costs. The minutes will be adjusted to reflect this.

### **3. Ofgem's proposed corporate strategy 2004 – 07**

Sir John reported that there had been a lot of encouraging responses to the proposed Ofgem corporate strategy. Some respondents had argued that there should be more prioritisation between the different areas of our work and duties. Sir John said that this was very difficult as there was no prioritisation of work areas in the Government White Paper. Sir John also mentioned that Ofgem is committed to an RPI-X approach to containing its own costs and that this year Ofgem will be constrained by a 2% reduction

in costs. The final strategy will be issued at the end of March and the corporate plan will be published in May.

Members raised some issues that they thought Ofgem should be getting involved in, these included the following:

- Looking at the forthcoming Energy Services Directive. This, amongst other things, would seek to remove volume drivers from the distribution pricing. It would be useful for Ofgem to look at this to see what the correct way of implementing this is and ensure that it does not send the wrong messages for energy efficiency.
- Strengthening Ofgem's links to Europe and the environment.
- Measuring the environmental impact of Ofgem's own operations
- Developing a set of clear outcomes from the corporate strategy.

#### **4. Green supply – the consumer minefield**

John Costyn outlined the background to this paper. Interest in the issue was highlighted at the previous EAG and Juliet Davenport from Good Energy, has been invited to prepare a paper for the meeting.

Juliet gave a short introduction to her paper. She stated that customers on the whole do not understand specific elements of the renewables market such as LECs and ROCs and that using these terms was not the way for the industry to engage customers in a green supply offering. Suppliers need a simple way of explaining their products, complying with industry guidelines, together with the tools for auditing.

Sir John said that Ofgem was keen to be involved and added that one of Ofgem's deliverables in the coming year was to review the green supply guidelines.

A number of points were raised in discussion of the paper, including:

##### Additionality

- A system that is transparent, universally accepted and acceptable to customers is needed.
- A number of members agreed with the three principles in the paper, the need for: additionality, auditability and transparency.
- Additionality is crucial to these schemes – for some participants retiring ROCs is the best way to prove additionality, while others questioned whether retiring ROCs actually increased the availability of renewables.
- It may be possible to have various types of additionality, for example, non-renewables environmental benefits, a fund for small scale renewables, a fund for the purchase of nature reserves, demand reduction and energy efficiency.
- It was felt that additionality is very complex and difficult to audit.

##### Market

- The market must be simple; otherwise consumers will not have any confidence.
- Suppliers must be free to be creative with their products.
- The example of other badging systems such as Fair Trade coffee was raised. In this instance consumers do not necessarily understand the detail of how it works but they do have confidence in it.
- There must be no double counting.

### General comments

- The question of what an offering does for climate change should be the key question in assessing green supply.
- What is green supply? ROCs don't necessarily cover all green offerings, what about nuclear? 'Green' is a subjective concept.
- Consumer uncertainty could be addressed by a broad advertising campaign which should also explain that consumers are contributing to renewables anyway through the RO, which is not widely understood.

Virginia mentioned that the Ofgem green supply guidelines are based on the Defra guidelines on green claims. They also relied heavily on the Advertising Standards Authority (ASA) to enforce any infringements. However Ofgem has been observed that the ASA work in this area has not been all that helpful.

Additional comments on green supply included:

- It would be useful to have some guidance from Defra on the CO<sub>2</sub> savings from use of green electricity.
- League tables don't help because different NGOs endorse different offerings leading to even more confusion.
- While voluntary green supply may be seen as peripheral to the market in the context of the RO, it will be increasingly important in the longer term.
- Green supply is an important niche market.
- Is there a case for Ofgem or other organisations to run an accreditation scheme?

Sir John stated that additionality is the central issue. Any offering must also be auditable, and there would be benefits if it would be accredited by an independent body. The key questions that need to be addressed are how do we get consumers engaged and how will the message filter down to ensure that customers understand what is on offer. Any system must be workable but also clear.

### **5. Grid issues and renewables seminar**

Robin Bidwell introduced this agenda item by reminding members that the idea for the seminar arose out of the discussion on the Lewis Dale research at the previous EAG meeting. He added that it was timely to have the seminar and asked members for comments on whether the topics and suggested speakers were suitable.

- It was generally thought that the seminar was a good idea.
- It was pointed out that there was no representative from a network operator proposed to speak at the seminar.
- A representative from another European country would be a good idea as it may identify differences or similarities to this country.
- Potential speakers included:
  - Nick Goodall from the Energy Networks Association
  - someone from UMIST
- It is also important to emphasise diversity of renewables and not just focus on wind.

- Ofgem needs to think about who the target audience is. There are some contradictory statements in the draft agenda.
  - Is it for the initiated or non-initiated or both?
  - Possibility of two seminars?
- The seminar should not turn into a lobbying opportunity for DNOs in the context of the distribution price control review.
- It would be useful to have a credible discussion on how much carbon would be displaced by an intermittent source.

## 6. Any other business

Sir John outlined his thinking behind his reaction, announced on 13 February to DTI's proposal to cap transmission charges in peripheral areas of Scotland. He regretted the Government's announcement, stressing that it was important for the independence of the regulator that Ofgem can set transmission charges in a cost-reflective basis.

One member raised the issue of trading under the next phase of the Energy Efficiency Commitment. He also wanted to ensure that there was adequate carry-over between the first and second commitments. He stated that a decision on how this would operate needed to be taken soon otherwise suppliers' EEC operations would have to begin to scale down and the impetus would be lost.

Henry Derwent from Defra responded that a consultation would be issued at the end of April.

Another member asked for some information on the trial 28-day rule suspension, specifically if there were any guidelines on the sort of products that could be offered and how they could be described. John Neilson replied that there were guidelines included in the recent Ofgem consultation paper.

One member asked if Ofgem would examine the implications of the European Energy Services Directive, and suggested that this would be a useful topic for the next meeting. Eoin Lees agreed to prepare a paper.

The update paper prepared by Ofgem was welcomed and members asked if this could be continued at subsequent meetings.

## 7. Date of next meeting: Thursday 24 June 2004 10.30-12.30