

Minutes of the fifth Ofgem Environmental Advisory Group meeting

Date: 24 June 2004

Time: 10.30 – 12.30hrs

Place: 9 Millbank, London

Present

Chair

Sir John Mogg

Members

Juliet Davenport, Good Energy

Andy Duff, Innogy

Paul Ekins, Policy Studies Institute

Jeremy Eppel, Defra

Paul Jefferiss, RSPB

Eoin Lees, Eoin Lees Energy

Jeremy Nicholson, Energy Intensive

Users Group

John Roberts, United Utilities

Graham White, DTI

Ofgem Authority members

Robin Bidwell

Boaz Moselle

Ofgem staff

John Costyn

Virginia Graham

Alex Thorne

Apologies

Neil Davies, Environment Agency

Rupert Fraser, Fibrowatt

Ian Marchant, SSE

Bryony Worthington, Friends of the Earth

Philip Wright, Scottish Executive

1. Chairman's welcome and opening address

Sir John welcomed everyone to the meeting. He mentioned that Ofgem's Environmental Action Plan annual review was due to be published on 30 June and also that the Distribution Price Control Review initial proposals were to be published on 28 June.

2. Minutes from previous meeting

There were no comments from members regarding the previous minutes.

3. Renewables seminar 24 May – de-brief and next steps

Sir John introduced this item by thanking Robin Bidwell for chairing the discussion day and said that he had the impression that it had been a valuable event. He thought that Ofgem should seek to hold similar events from time to time to provide a general forum on issues of interest in the energy industry. He had identified this as an area to develop, especially in regard to contact with academics.

Robin Bidwell thanked Paul Ekins for writing the summary paper and said that it captured the discussion excellently and summarised all the key issues.

Paul Ekins replied that one of the key points to come out of the day was the need for greater clarity on the assumptions and terminology so that everyone understood what was being talked about. For example, people were often confused about terms such as efficiency and load factor in relation to wind. Overall he thought that there had been a rigorous debate and he had enjoyed the day.

Views expressed on this paper included:

- There is a need to explore the effect of different discount rates which are particularly important in regard to high capital/low fuel cost technologies, e.g. wind or nuclear.
- It is not a foregone conclusion that upgrading the transmission system is the best way of facilitating renewables. The impact of substitution effects and the possibility of changes in the flow pattern of electricity after the introduction of BETTA also need to be looked at.

More general issues raised included:

Planning issues

- Most potential renewables developments involve significant consultation with local communities.
- The electricity industry is still fairly new to the development of renewables on a large scale – lessons are still being learnt, especially when communicating with local communities.
- There is a need to expedite transmission system upgrades to parts of the system to meet the 10% renewables target. However the planning system may inhibit reaching this target.
- If upgrades are forced through these could undermine the credibility of the planning system and this could have a knock on effect on renewables.
- When we are talking about a national transmission network should a strategic overview to planning be taken?

Sir John commented that a debate is needed on the planning system and renewables, especially as a transmission upgrade could take three years rather than three months to get planning approval. These sorts of delays mean that the renewables target may not be met.

Graham White stated that the DTI is in the process of developing a number of community wind projects. These projects are aiming to improve the perception of wind as local people will see the benefits

Myth busting

- The press is very often misinformed on a lot of renewables issues which is not helpful when trying to get support for potential developments.
- Research has shown that 40% of applications go through the planning stage at the first attempt and this rises to 50% on appeal.
- In most cases opposition to renewables is vocal but thin. It was suggested that the silent majority need to be induced to show their support, possibly by highlighting local benefits of renewables.

- It would be interesting to examine the German experience of public perception in relation to renewables which happened in a relatively short space of time.
- One member questioned how you could address criticism of renewables by high profile celebrities.
- What is needed is an organisation such as DTI/Ofgem or the Carbon Trust to produce a 'myth busting primer'
- The problem with this though, according to one member, was that planning debates were not based on facts but more about 'hearts and minds'.

Sir John summed up and noted that at a recent Council of European Energy Regulators (CEER) meeting there had been some discussion on intermittency issues. Papers written by other countries would be useful and will be made available to members.

4. Proposed EU Directive on energy end-use efficiency and energy services.

Eoin Lees gave a presentation on the proposed EU Directive on energy end-use efficiency and energy services. He stated that the Directive has had a mixed history and has been influenced the German and Italian experience which doesn't fit easily in the liberalised UK market.

Views expressed included:

- Graham White replied on behalf of the DTI and stated that the Directive is clearly drafted in a way that does not reflect the UK market. However the DTI is keen to be positive about the Directive and is looking for ways to revise the proposal. The DTI is also keen to see improved metering but doesn't want to be prescriptive
- Jeremy Eppel, for Defra, stated that the UK is in a strong position to influence the Directive. He thought that it is an ambitious plan and would reinforce the UK's energy efficiency programmes and help other EU countries.

Energy Efficiency

- One member questioned the need for the directive. The mandatory targets would be hard to measure, and it would not be realistic for all member states to have the same target. (1% reduction).
- Another member thought that an EU-wide target for energy efficiency would be sensible but that member states should determine the most efficient method of delivering the target. As it is drafted at the moment there is a risk that the Directive may be overly prescriptive. They also pointed out that provisions relating to information on bills and smart metering would be very costly to UK customers. They were also concerned that the Directive could result in the removal of volume drivers from distribution price controls, which, they suggested, would significantly increase DNO risk at no apparent benefit to the environment.
- Another member wondered how it would interact with the carbon trading market.
- Another member questioned whether a Directive was the best way to achieve energy savings in a competitive market.
- Another stressed that there should be a fiscal stimulus to get more demand for energy efficiency measures.
- It was questioned whether it would actually lead to significant savings bearing in mind that much of the saving to date have been taken as increased comfort.

- The measures would need to be coupled to price signals otherwise it would lead to greater resource use.

Energy services

- A number of members questioned whether energy services at the domestic and small commercial level are economically viable. With the current energy prices it is virtually impossible to get a return on the investment.
- One member stated that based on experience, energy service companies could get a return provided they were targeted at large companies which can measure their energy use. It was accepted though that it would be very difficult to replicate this at the domestic level.
- One member thought that there is a psychological problem in suppliers getting people to pay more money to use less energy.

Sir John said that as a draft is available we should work with the Government and the EU to make it more compatible with the UK's electricity market.

Eoin Lees summed up by saying that not all energy savings are taken in comfort. There has been a 4.5°C increase in average room temperatures in the last 30 years. However, by European standards, UK indoor temperatures are low. Potential trading between different programmes (e.g. EU ETS and CHP) could be overcome by trading white certificates, for instance. Eoin said that he was in favour of fiscal incentives as it would incentivise owner occupiers to improve their energy efficiency. The Directive does have strong support from other European countries and in the European Commission and we need to ensure that it is developed to make it more meaningful for the UK.

Virginia Graham stated that Ofgem has responded to Defra's consultation on the Directive. The response is available from Defra's library.

5. Any other business

Sir John asked for any ideas for the next meeting's agenda. One member thought that it would be interesting to discuss biomass and the concept of a 'heat obligation'. This subject has recently been examined by the Royal Commission on Environmental Pollution in their report, *Biomass as a renewable energy source*, is available from their website www.rcep.org.uk. Ofgem will follow this and other suggestions up with members before the next meeting.

Sir John also asked for members to think about some potential subjects for seminars that Ofgem could hold in the future.

6. Date of next meeting: Thursday 28 October 2004 10.30 – 12.30