

## Minutes of the seventh Ofgem Environmental Advisory Group meeting

**Date:** 17 February 2005

**Time:** 10.30 – 12.30hrs

**Place:** 9 Millbank, London

### **Present**

#### Chair

Sir John Mogg

#### Members

Mark Candlish, Slough Heat and Power  
Robin Bidwell, Gas and Electricity  
Markets Authority  
Juliet Davenport, Good Energy  
Neil Davies, Environment Agency  
Claire Durkin, DTI  
Paul Ekins, Policy Studies Institute  
Jackie Jones, Defra  
Eoin Lees, Eoin Lees Energy  
Ian Marchant, SSE  
John Roberts, United Utilities

Jeremy Nicholson, Energy Intensive  
Users Group

#### Ofgem Authority members

Boaz Moselle

#### Ofgem staff

John Costyn  
Virginia Graham  
Amanda McIntyre  
Alex Thorne

### **Apologies**

Henry Derwent, Defra  
Andy Duff, RWE npower  
Bryony Worthington, Friends of the Earth  
Graham White, DTI

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

Sir John welcomed everyone to the meeting, and presented apologies received.

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

One member commented that, for example, under the item on billing there were a lot of questions asked and wondered how these were being taken forward. Virginia said that there were a number of issues being acted on in this area and that the EAG may wish to look again at billing issues at the next meeting.

Another member asked whether the minutes were published and if so greater clarification of some issues may be warranted. Virginia stated that they were for distribution to members only and were not published on the Ofgem website along with the rest of the EAG papers. It was mentioned that they may be released if there was a Freedom of Information or Environmental Information Regulations (EIR) request regarding them.

### **3. Recent developments**

Sir John gave a brief outline of some recent developments that members may have been interested in. The first was the Authority's adopted approach to taking account of the environment in Ofgem's work. This was set out in the accompanying papers. The second was the environment update paper, also in the accompanying papers. Finally Sir John stated that the first of a series of Ofgem seminars under the banner of "powering the energy debate" would be held on the 3<sup>rd</sup> March. This would be entitled Europe and Energy: a Forward Look. Speakers are to include the Energy Minister and the EU Energy Commissioner. He thought that the following seminar could possibly be on the environment and hoped that members of the EAG would attend. In this way there would be a genuine contribution to the policy debate.

Jackie Jones, who attended on behalf of Henry Derwent from Defra, outlined recent developments regarding the EU Emissions Trading Scheme: discussions are ongoing between the Government and the European Commission regarding the UK's revised National Allocation Plan (NAP). She stated that the Government's view was that the Commission had been forewarned about the potential revisions to the NAP and that the amendment should be allowed.

One member responded by welcoming the reduction in uncertainty as a result of the announcement of individual allocations. However he thought that overall the electricity generation industry had been treated poorly and had been penalised a number of times. He enquired whether the industry could help in any way with lobbying Brussels regarding the NAP. He also thought that Ofgem should make its views known on how the industry had been treated even though it did not have any direct responsibilities for emissions trading. Jackie Jones said that she would feed back the points raised to Defra.

Other members raised the following points:

- Ofgem would be running a seminar on 22 February on the price impacts of the Emissions Trading Scheme.
- Jeremy Nicholson said that EEF had funded a study into forward prices after the introduction of emissions trading. Anyone wanting a copy should contact him.

### **4. Progress towards meeting carbon reduction targets**

Jeremy Nicholson presented some personal views on progress towards meeting carbon reduction targets. He began by stating that although the UK's Kyoto targets have largely already been achieved, the target for a 20% reduction in CO<sub>2</sub> by 2010 is unlikely to be met. Additional emission reduction measures are therefore needed. He went on to say that the energy sector is crucial to the achievement of UK targets but the White Paper over emphasises renewables, energy efficiency and fuel switching but postpones a decision on new nuclear build until after the next general election.

He went on to state that targets under the Renewables Obligation (RO), a supposedly market based approach, were arbitrary. There was no sign that the required amounts of renewables are being built and thought that there would possibly be 5% renewables by 2010. This was coupled with high cost to customers. The National Audit Office recently confirmed that the RO will lead to a 5.7% increase in the price of electricity by 2010. He also suggested that, like the fuel duty escalator, the RO may not be sustainable politically in the long term.

Evidence from Germany and Denmark has suggested much lower load factors for both offshore and onshore wind. This makes CO<sub>2</sub> savings problematic to quantify due to the nature of displaced plant and backup. It was suggested that the net result would mean that power generation would become more carbon intensive by 2010.

Jeremy questioned how the UK could be a world leader on climate change but not have a policy on new nuclear build.

Members congratulated Jeremy on his succinct paper which raised a number of important issues. They had the following comments:

#### Paper

- The analysis in the paper is static. There is no examination of future prices or policy or future investment.
- It is too early to tell if the RO has worked or not yet.
- Most of the negative points on Jeremy Nicholson's paper could be turned round into positive ones.

#### Energy mix

- The energy industry is in transition. Targets are needed for this.
- Can we leave energy mix to the market? The UK market could deliver a gas and wind mix in 15 years – do we need more diversity?
- Should nuclear be back on the agenda and how could this be done efficiently?
- Need to look at clean coal technologies and possibly CO<sub>2</sub> sequestration.
- Market forces have a role to play but CO<sub>2</sub> reductions and security of supply need government thought.

#### Other

- Market forces work if everything is priced properly – environmental impact is difficult to price.
- Government is involving the householder in energy efficiency (£2m advertising campaign), there is no equivalent attempt to generate demand from households for renewables.
- Environmental improvement doesn't come cheaply. The water industry has spent £50bn on environmental improvement since privatisation and customers pay eventually.
- What if Ofgem was given a duty to reduce carbon from the power sector, would that help?
- Ofgem could have a role as well. For instance in areas where it is not being lobbied on e.g. renewable heat.

Sir John stated that £33bn of investment had been made by the gas and electricity industries since privatisation. He also said that Ofgem is committed to stimulating and informing the debate in this area.

## **5. Renewables Obligation second annual report**

Amanda McIntyre presented an overview of the Renewables Obligation (RO) second annual report. She outlined Ofgem's role and the background of the RO and explained that the RO runs from April 2002 until March 2027 and applies to all licensed suppliers in Great Britain. A similar scheme will shortly extend to suppliers in Northern Ireland.

Two reviews of the RO have been undertaken to date and a more fundamental review is currently underway to be completed in 2006.

Amanda reported that there are now 616 generating stations accredited under the RO (22% increase over first year) with a total combined capacity of 2.4GW (41% increase over last year). Over 7.5 TWh of ROCs were issued in the second year which is a 2 TWh increase over the first year. Further statistics are available in the handout and in the annual review.

Members held a short discussion on the issues raised in Amanda's presentation. One member enquired about the enforcement and auditing powers available to Ofgem. Amanda replied that in regard to renewable generators, which are generally not licensed by Ofgem, the regulator could withhold accreditation (for instance when not enough information was presented), not issue ROCs (e.g. if there was a dispute about data submitted) or revoke ROCs (e.g. if fraud was suspected). In regard to suppliers the RO is a 'relevant requirement' under the Electricity Act and therefore subject to normal Ofgem enforcement procedures, which include financial penalties of up to 10% of turnover. One member commented that the power to withhold ROCs was a draconian one in relation to small generators dependent on ROCs for their income.

An issue was also raised about the structure of the market. It was stated that under the RO Ofgem performs a market operator role similar to Elexon's in the electricity market and it was questioned whether this was appropriate. Virginia replied that Ofgem does not have responsibility for the renewables market. Ofgem administers the RO, issues ROCs and registers transfers of ownership. It was stated that having a separate market operator may increase liquidity in the market.

## **6. Any other business**

A member stated that Andris Piebalgs, the new EU Energy Commissioner has made energy efficiency a high priority and has asked for a Green Paper on the issue by the summer. Sir John added that the Commissioner is also keen for the UK to run an energy efficiency event during the G8 presidency.

**7. Date of next meeting:** Wednesday 15 June 2005 10.30 – 12.30