

Minutes of the eighth Ofgem Environmental Advisory Group meeting

Date: 15 June 2005

Time: 10.30 – 12.30hrs

Place: 9 Millbank, London

Present

Chair

Sir John Mogg

Members

Robin Bidwell, Gas and Electricity
Markets Authority
Mark Candlish, Slough Heat and Power
Henry Derwent, Defra
Neil Davies, Environment Agency
Andy Duff, RWE npower
Paul Ekins, Policy Studies Institute
Paul Jefferiss, RSPB
Eoin Lees, Eoin Lees Energy
Ian Marchant, SSE
Jeremy Nicholson, EIUG

Graham White, DTI
Bryony Worthington, Friends of the
Earth

Ofgem Authority members

Alistair Buchanan, Chief Executive
Steve Smith, MD Markets

Ofgem staff

Virginia Graham
Amanda McIntyre
Alex Thorne

Apologies

Juliet Davenport, Good Energy
John Roberts, United Utilities
Philip Wright, Scottish Executive

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 sought clarification regarding the suggestion from a member at the last meeting that Ofgem be given a duty to reduce carbon from the power sector. Clarification on the suggestion was provided from the member in question that this was intended as a 'higher duty' or a second primary duty to provide more balance to Ofgem's objectives.

3. Structural changes at Ofgem

This item was introduced by Alistair Buchanan, the Chief Executive of Ofgem. He began by stating that a couple of months ago the Managing Director for Corporate Strategy left Ofgem and that, having decided not to replace him, he took this as an opportunity to reorganise the Directorates within the Corporate Strategy Division. One of these was the Environmental Affairs Directorate, responsible for Ofgem's environmental programmes that it runs on behalf of the Government as well as the broader environmental policy context within which they sit. Alistair said that he saw the programmes as very

important, given the huge amount of money involved, for example, in the Renewables Obligation. He was also convinced of the importance of co-ordinating environmental policy with the wider work on competitive markets, as well as on European issues, within Ofgem. He had therefore proposed changes to the structure which had split the environmental policy from the environmental programmes. It also recognised links with the increasing European outlook in Ofgem's work.

To this end Environmental Policy is now part of the Markets Division under Steve Smith, Managing Director for Markets, headed up by Amanda McIntyre. Environmental Programmes (Climate Change Levy exemptions for renewables and CHP, Renewables Obligation, Fossil Fuel Levy and Energy Efficiency Commitment) is now part of the Operations Division under Roy Field, the Chief Operating Officer, headed up by Virginia Graham. Amanda McIntyre has been replaced as Head of Renewables by Cath Martindale, and there have been several other changes at individual team level. However, day-to-day contacts for the Environmental Advisory Group remain the same.

Alistair reported that he has received some positive feedback to the changes from a variety of sources. He said he was particularly excited about the links that now exist within the organisation on environmental, markets and European issues.

One member thought that there could be some benefits of this but that there would also be considerable costs of moving environmental policy away from the operation side. Alistair responded that it was down to a question of how well the organisation works internally. He said that the interface between different sections was good in Ofgem. Another member cautioned that a purely market approach would not be sufficient for a sustainable energy policy which will require a combination of markets and regulation. There were further questions about energy efficiency policy which will remain with Environmental Programmes.

Graham White from the DTI then updated the group on the changes at the department since the election. Malcolm Wicks MP is the new Minister of State for Energy. He only has responsibility for energy now which is seen as a positive development. He has a particular interest in fuel poverty and also carbon. Henry Derwent from Defra also mentioned that Elliot Morley MP, the Minister of State for Climate Change and Environment, now has responsibility for environmental as well as energy issues which should work better than in the past.

One member enquired how SEPN (Sustainable Energy Policy Network) was being driven. He said that he got the sense that Defra and DTI were taking the lead but that there was not a lot of input from other departments such as ODPM. Henry Derwent thought that this was underestimating how much other departments were actually involved in SEPN, for instance the Foreign and Commonwealth Office and there is high level interest from many other departments. He also stated that there was a SEPN ministerial group that was alternately chaired by the Secretary of State for Trade and Industry and Secretary of State for Environment, Food and Rural Affairs.

The discussion then shifted onto the Climate Change Programme Review and a possible future energy review. A number of members commented that energy efficiency had the biggest input to make and called for energy efficiency to be brought higher up the agenda. Henry Derwent said that energy efficiency was one of the Government's highest priorities and that it worked closely with the Energy Saving Trust and the Carbon

Trust on this. It was also to be included in the package of discussions at the forthcoming G8 summit in Gleneagles.

Sir John stated that the anticipated EU Green Paper on energy efficiency should help to focus attention on energy efficiency, especially as the EU Commissioner, Andris Piebalgs, was such an advocate.

4. Update on proposed EU Directive on energy end use efficiency and energy services

Eoin Lees presented a table to the Group showing energy efficiency obligations in countries across Europe. He pointed out that there were large differences between the types of schemes, the nature of savings, discount rates and whether trading was permitted. Italy had just started a scheme using white certificates and other countries that were beginning to consider introducing a scheme included Denmark and The Netherlands.

Members held a short discussion on this and points raised included:

Monitoring

- Germany has a different system based on giving information to customers and relying on price signals. It is the only country that is not in favour of the draft Directive
- Every country undertakes its own evaluation on the effectiveness of its scheme
- The Directive will aid comparisons between EU countries
- Asked whether there was any work on judging the effectiveness of the policies, Eoin reported that some work is available at www.eceee.org¹ and at www.odyssee-indicators.org
- Has there been any work on how energy use can be decoupled from economic growth? It is not enough to consider the former other than in the context of overall carbon emissions

Consumers

- How should energy efficiency be brought to the top of consumers' agendas?
- Some energy efficient products are being marketed as top of the range goods, rather than standard ones
- Manufacturers need to be closely involved in the debate

Prices/demand

- If electricity prices remain relatively low, people will always find ways of using more energy
- With the price of electricity and gas much less significant in terms of overall expenditure, (except for low income customers) how can you change consumer behaviour?
- It is anticipated that, in the future, gas demand will flatten off but electricity demand will continue to rise

¹ http://www.eceee.org/library_links/esd.lasso (then click on Workshop minutes 3 March 2005); note this Table supersedes the Table 2 in that summary.

On the draft Directive itself it was stated that there are still big differences between the Council and Parliament but that there was a sense that a preliminary position would be reached under the Luxembourg Presidency on 28 June, with a final decision by the end of December under the UK Presidency.

Sir John suggested that he could ask David Halldearn to talk to Eoin Lees about whether CEER could do some work building on the table. Virginia commented that energy efficiency had been added to the CEER environmental task force's agenda.

5. Conclusions from the report of discussion day on price impact of emissions trading

Paul Ekins gave a short presentation on the Ofgem discussion day that was held in February 2005 on the price impacts of emissions trading. He outlined the objectives of the day and gave a short introduction to the EU Emissions Trading Scheme. He also covered the main conclusions from the day which are contained in the accompanying paper for the meeting (EAG/8/2). He highlighted that the range of allowance prices that were suggested at the event (€5 – 10/tCO₂ for Phase I) now seem low in light of the recent price rises. Current allowances are trading at around €20/tCO₂.

After the presentation members discussed various aspects of emissions trading. Comments included:

Report

- The report should be circulated more widely, including at the EU level
- The more facts available the better, though stressing that the world has moved on in terms of prices and the report should be caveated accordingly
- A globally-based trading system is needed to tackle climate change, and to engage the US, and therefore the EU ETS is very important and must have a high level of integrity

Prices

- Price volatility in the market may increase as other traders become more involved e.g. hedge funds
- Will the current level of prices be sustained in Phase II?
- Are all participants in the EU ETS used to trading? This could influence prices
- There is too much emphasis on the allowance prices. It is the gas price that is underpinning the market. Why is the price of oil linked to gas?
- One member commented that at a recent conference it was claimed that China had an excess of CDM projects – more than Europe could use and that by 2007 there would be a dearth of supply leading to price rises that would make the scheme politically untenable.

Planning

- Allocation vs. auctioning. Many problems with the EU ETS stem from the decision to allocate allowances, rather than auction them
- Can the EU ETS deliver in the long term?
- The 5-year cycle does not fit in with companies' long term plans

On the point of gas and oil prices, Steve Smith suggested that supply will be tight this winter. A number of infrastructure projects are in the process of being built and this should ease price pressures. The EU Commission will also be examining the gas/oil link as part of its sector enquiry in to electricity and gas prices.

In conclusion Paul Ekins thanked everyone for their comments and said that although things have moved on since February 2005 the basic analysis of the day was good. Sir John suggested that it would be good to circulate the report widely and include a covering letter or executive summary putting the report in context.

Sir John rounded up by stating that the discussion was very interesting and that the seminar and report had made a useful contribution to the Powering the Energy debate series.

6. Any other business

No members wished to raise any other business. Sir John said that contributions from members, in the form of papers or presentations, were invaluable to the way the group worked and asked whether anyone would like to volunteer a paper for the next meeting. (A volunteer has since been identified.)

7. Date of next meeting: Thursday 6 October 2005 10.30 – 12.30