

Minutes of Sustainable Development Advisory Group meeting

This is a record of Ofgem's SD Advisory Group meeting, held 29 June 2011.

From
Date and time
Location

Tom Handysides
29 June 2011, 10.00-12.00
Millbank

1. Present

Chair

Lord Mogg, Chairman, Gas and Electricity Markets Authority

Gas and Electricity Markets Authority Members

Sarah Harrison, Senior Partner, Sustainable Development
Stuart Cook, Senior Partner, Smarter Grids and Governance
Andrew Wright, Senior Partner, Markets

SD Advisory Group members

Audrey Gallacher (Consumer Focus)
Jenny Saunders (National Energy Action)
Derek Lickorish (Fuel Poverty Advisory Group)
Nick Folland (Kingfisher)
Jeremy Nicholson (Energy Intensive Users Group)
David Sigsworth (Scottish Environmental Protection Agency)
Colin Imrie (Scottish Government)
Phil Jones (CE Electric UK)
Juliet Davenport (Good Energy)
Neil Feinson (Department of Energy and Climate Change)
Doug Parr (Greenpeace)

Ofgem staff

Sarah Samuel
Tom Handysides
Kate Smith
Michela Beltracchi
Michael Grubb
Camilla Egginton

2. Apologies

Tony Grayling (Environment Agency)
Ian Marchant (Scottish and Southern Energy)

3. Purpose of group and discussion of terms of reference

3.1. Sarah Harrison outlined the purpose of the SD Advisory Group, which will provide strategic advice on Ofgem's work as it relates to environmental and social policy. The focus of the group will be to provide this advice at formative stages of projects, in an open and constructive debate.

3.2. Members welcomed the opportunity to input, and agreed that it would be productive for members to periodically bring papers for discussion at the meeting.

4. Latest energy network developments: RIIO and TransmiT

4.1. Stuart Cook presented Ofgem's latest thinking on two projects: the RIIO regulatory reviews for gas distribution (RIIO-GD1) and gas and electricity transmission (RIIO-T1), and the TransmiT project looking at electricity and gas transmission charging policy.

4.2. A number of points were raised in discussion:

- A member asked for further detail about policy proposals relating to renewable gas. Under RIIO-GD1, Ofgem will focus on facilitating biogas connections.
- The issue of how to recover costs of network investment equitably drew a number of comments. Concern was expressed about rising energy costs and the potential increase in fuel poverty. Also, access to renewable heat such as heat pumps, which will soon be subsidised by the Renewable Heat Incentive, could be thwarted by consumer contributions to electricity network reinforcement. This could affect the ability of low income consumers to benefit from renewable heat. Under RIIO, Ofgem is looking at the impacts on different consumer groups, and will use its Consumer Challenge group of experts to explore this further.
- Rising costs are also an issue for businesses, and in particular energy-intensive industry. A member commented that the costs of contributing to environmental and other goals contributes to the risk of these industries moving abroad to less expensive and less highly regulated parts of the world.
- Concern was expressed that the regulatory framework for energy is disjointed because it does not cover heat. This is an area that the Government is looking into.
- Active demand management and response was acknowledged as a crucial goal for the future development of the energy sector, to reduce requirements for infrastructure investment. Members commented that appropriate incentives are needed for network system operators to use demand response as an alternative to generation to manage flows on the network. Electricity distribution companies are starting to trial such arrangements using funding from Ofgem's Low Carbon Networks Fund projects. The learning from these projects will then be implemented more widely under the next regulatory settlement for electricity distribution networks, RIIO-ED1. Partnership working between all energy market participants is needed to effectively put in place demand response arrangements.

5. Ofgem's Retail Market Review: Liquidity

5.1. Andrew Wright presented the findings from Ofgem's recent Retail Market Review, and outlined some of the policy work arising from the review. He then described in greater detail the proposals to improve the liquidity of the wholesale energy market.

5.2. A number of points were raised in discussion:

- Ofgem's liquidity proposals include an obligation for energy companies to sell up to 20 percent of their electricity generation on the wholesale energy market. This was seen as a welcome step, though members asked about the transparency of costs for the remaining 80 percent of the market. Andrew responded that the proposed auctioning should provide a reasonable picture of wholesale generation prices.
- Small-scale renewable and low carbon generators have told Ofgem that insufficient liquidity is one of many barriers to entry. Members generally welcomed the liquidity proposals, which they hoped would increase competition and encourage new market entrants to help to deliver the investment needed (some £200 billion by 2020). The Government's Electricity Market Reform package, and the associated forthcoming white paper, were seen as pivotal in encouraging new green power market entrants.
- Energy intensive industry would also welcome greater liquidity in the wholesale market, having struggled to attract multiple tenders for electricity supply.
- Bills are rising due to a number of factors including the cost of environmental levies for programmes such as the Renewables Obligation and the Feed-in Tariff. Members called for transparency of suppliers' costs to ensure that bills do not rise more than necessary.
- Members agreed that energy efficiency is a vitally important part of decarbonising the power sector as cost-effectively as possible, and noted the importance of the Government's Green Deal proposals in enabling domestic energy efficiency refits. Some concerns were expressed about the marketing practices of some energy suppliers, and the risks of bundling energy services that could leave households with uncompetitive energy tariffs.
- A member commented that the increasing number of Government environmental programmes to support energy efficiency, and renewable electricity and heat creates a complicated system for the consumer to comprehend. The identification of a coherent customer proposition was seen as the challenge for the retail sector.
- Members were interested to see Ofgem's forthcoming impact assessment for the Retail Market Review proposals. It was seen as important that this includes details of how costs will be allocated to different consumer groups. Ofgem's duty to protect the interests of vulnerable customers means that action would be taken if adverse effects were found.

6. AOB

6.1. Michael Grubb and Michela Beltracchi briefly outlined the content of the EU's recently published Energy Efficiency Directive. It was agreed to discuss the implications for the GB market at the next meeting.

7. Date of next meeting

7.1. The next meeting is scheduled for 2 November 2011, 10.00 – 12.00.