Minutes

Minutes of Sustainable Development Advisory Group meeting

This is a record of Ofgem's SD Advisory Group meeting, held 1 March 2012.	From	Jenny Mills
	Date and time of Meeting	1 March 2012 11:00-1:00
	Location	Millbank

1. Present

Chair
Lord Mogg (Chairman, Gas and Electricity Markets Authority)

SD Advisory Group members
Sarah Harrison (Ofgem Sustainable Development)
David Harker (Gas and Electricity Markets Authority)
Doug Parr (Greenpeace)
Derek Lickorish (Fuel Poverty Advisory Group)
Jeremy Nicholson (EEF)
Paul Ekins (University College London)
Colin Imrie (Scottish Government)
Phil Jones (Northern Powergrid)
Jenny Saunders (National Energy Action)
Nick Eyre (Oxford University)
Tony Grayling (Environment Agency)
David Sigsworth (SEPA)
Ian Marchant (SSE)
Gaynor Hartnell (Renewable Energy Association)
Nick Folland (Kingfisher)

Additional external attendees
Ben Golding (DECC)

Ofgem staff
Sarah Samuel
Michael Grubb
Rachel Fletcher
Anna Rossington
James Veaney
Claire Tyler
Phil Sumner
Loretta Boman
Jenny Mills

2. Apologies

Audrey Gallacher (Consumer Focus)
Ravi Gurumurthy (DECC)
Juliet Davenport (Good Energy)
Matthew Quinn (Welsh Government)

3. Review of minutes from previous meeting

3.1. The minutes were confirmed as circulated.

3.2. Further to members' request at the last meeting for information on how the Group's input is taken forward, Sarah Harrison made the following points:

- We took forward members' comments on smart meters, particularly with regard to vulnerable customers and remote disconnections, in our smart metering strategy, published in December 2011.
- We took the Group's support for the Strategic and Sustainability Assessment tool our Board and it was a factor in the Board's decision regarding the tool's development.
- We are now considering how to factor the group into our planning at early stages of work, as demonstrated by the agenda for this meeting.

3.3. Members suggested that this update be a standing point in future meetings.

4. RIIO-ED1: sustainability in the next electricity distribution price control

4.1. Anna Rossington presented an introduction to RIIO-ED1, the next electricity distribution price control. She discussed the significance of the low carbon transition and the need to ensure that the companies would be able to connect low carbon technologies (such as heat pumps and electric vehicles) quickly and efficiently. Given the uncertainty of takeup of these technologies, this means that the companies will need to consider how they build flexibility into their networks. She also set out Ofgem's initial thoughts on environmental and social outputs.

4.2. Lord Mogg noted the interest from Europe in the RIIO model.

4.3. Key points raised by members in discussion included:

- There is a need for the Distribution Network Operators (DNOs) to consider different demand scenarios in the well justified business plans they will submit as part of the RIIO process. This could be based on the work being done through the Smart Grids Forum, co-chaired by DECC and Ofgem, which has produced high level demand scenarios. It was also pointed out that companies are better placed than DECC to create scenarios for their regions.
- Companies need a clear pathway for the decarbonisation of heat in order to create feasible business plans, and to counter the risks of mis-timing spend and stranding assets. It was queried whether DNOs have any role in the facilitation of heat networks. DECC's work on a heat strategy will consider uncertainties not captured in economic modelling, for example around district heating. This strategy will be published in the next few months. Rachel Fletcher clarified that the gas and electricity distribution price controls are carried out within the same team, so we are alive to both the problems and possibilities of the interaction between electricity distribution, gas distribution and the decarbonisation of heat.
- There needs to be an assessment of the impacts of connection costs and demand side response solutions on the fuel poor and vulnerable customers. The DNO's role in helping vulnerable customers is at a system rather than an individual level, particularly as they cannot share information with suppliers. The historical approach

of addressing fuel poverty by extending the gas grid may not be the most sustainable solution throughout RIIO-ED1, so alternatives will need to be considered.

- In terms of social outputs, members raised that there is a difference between what can be addressed by companies' business plans and what is driven by public policy.

- One member suggested adding resilience to future climate change to the proposed measures.

- Members questioned the extension of the price control period to eight years given the uncertainty in that period, particularly about the speed and extent of low carbon deployment. Rachel Fletcher stated that in addition to the standard uncertainty mechanisms the RIIO framework includes a mid-point review where we examine the outputs, enabling us to respond to changes to the industry context. The aim of this style of price control is to enable companies to deal with uncertainty. Members also pointed out the potential use of option values of different actions, which can place a value on delaying investment until there is more certainty around its cost benefit.

- There was also discussion of the Low Carbon Networks (LCN) Fund, in place under the current electricity distribution price control. It was felt to have been very successful, and was widely praised. It was queried whether the learning arising from the projects would be realised in time to influence the companies' RIIO-ED1 business plans. Anna agreed that only the initial learning was likely to be able to be reflected, but that the incentive framework for RIIO-ED1 should be designed to ensure that companies are incentivised to implement the LCN Fund learning throughout the ED1 period.

5. Environmental Discretionary Reward: facilitating growth in low carbon energy

5.1. Sarah Samuel introduced the Environmental Discretionary Reward (EDR) and spoke about why we are consulting on a discretionary reward, what the proposed process involves and how we are setting the levels to be achieved.

5.2. The following points were raised by members in discussion:

- Members who both compete for and judge similar awards confirmed that they are powerful incentives.

- There was general consensus that the reputational advantage was at least as significant as the financial, so there could be mileage in enhancing stakeholder awareness of the results.

- One member raised the possibility of a cash neutral incentive where the reward was funded by unsuccessful companies, creating a penalty as well as an incentive.

- Members requested clarification over whether participation in the EDR would be mandatory: Sarah Samuel stated that it would be introduced through companies' licence conditions and that we expect the planning statement at least would be compelled.

- There is a need for clear minimum standards so that the panel does not have to give a reward if companies are not up to par.

- Members questioned the relatively low weighting of the demand side management measure on the balanced environmental scorecard.

6. Any other business

6.1. No other business.

7. Date of next meeting

The next meeting is scheduled for 21 June 2012, 10:00-12:00.