

Minutes of Sustainable Development Advisory Group meeting

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| This is a record of Ofgem's SD Advisory Group meeting, held 21 June 2012. | From Date and time of Meeting Location | Jenny Mills 21 June 2012 10:00-12:00 Millbank |
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1. Present

Acting Chair

David Harker (Gas and Electricity Markets Authority)

SD Advisory Group members

Sarah Harrison (Ofgem, Sustainable Development)

Doug Parr (Greenpeace)

Derek Lickorish (Fuel Poverty Advisory Group)

Jeremy Nicholson (Energy Intensive Users Group)

Colin Imrie (Scottish Government)

Phil Jones (Northern Powergrid)

Jenny Saunders (National Energy Action)

David Sigsworth (SEPA)

Nick Folland (Kingfisher)

Ravi Gurumurthy (DECC)

Juliet Davenport (Good Energy)

Additional external attendees

Gareth Baynham-Hughes (DECC)

Ofgem staff

Stuart Cook

Sarah Samuel

Michael Grubb

Philip Cullum

Lisa Taylor

Giuseppina Squicciarini

Loretta Boman

Jenny Mills

2. Apologies

Audrey Gallacher (Consumer Focus)

Ian Marchant (SSE)

Gaynor Hartnell (Renewable Energy Association)

Paul Ekins (UCL Energy Institute)

Nick Eyre (Oxford University)

Tony Grayling (Environment Agency)

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 for information on how the Group's input is taken forward, Sarah Harrison made the following points:

- Members' comments at the last meeting on demand response, electricity and gas interaction, vulnerable customers and resilience to climate change are being considered as we write our strategy for RIIO-ED1, the next electricity distribution price control, which will be published around September 2012.
- Regarding the Environmental Discretionary Reward, points raised regarding increasing its visibility and questions of whether it will be compelled are again being considered as we finalise our proposals. A notable development is our decision to bring in the SO to cover the SO/TO interface; this will increase opportunities to recognise demand response measures, as suggested by members and other respondents.
- Regarding the smarter markets item discussed in November, our proposals will be published this summer.

4. Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy

4.1. Philip Cullum presented on our work to develop a Vulnerable Consumers' strategy. He noted our duty regarding vulnerable consumers and explained the engagement we have so far conducted regarding the Strategy, including a discussion paper and roundtables in England, Scotland and Wales. He explained the four themes under the current Social Action Strategy and the workstreams this has led to, before highlighting key issues emerging from discussions with stakeholders and views as to potential actions for Ofgem to take. We will be publishing a consultation in September.

4.2. Key points raised by members in discussion included:

- This ties in with the DECC work on a Fuel Poverty Strategy, and in both cases a central issue is the definition of key terms such as "vulnerable" and "fuel poor". These definitions should become more flexible to account for degrees and transitory states of vulnerability. However, there should also be awareness that those terms can be alienating.
- Empowering trusted organisations would be more productive than adding regulations to suppliers, as vulnerable customers need a trusted source of advice and information. Ofgem can be one of these sources.
- Ofgem's key role here is compliance, and we have a role to play both in pursuing companies which do not meet their obligations and in publishing information to clarify their comparative performance.
- There are distributional concerns to be considered. For example, heating costs are often higher in the north of Scotland than elsewhere in the UK, and some areas of the UK have low levels of internet access which prevent the use of services such as price comparison websites.
- One member suggested that allowing more data sharing between companies would assist the identification of vulnerable customers. In reply to a specific question regarding the Priority Services Register, another member stated that a single Register

across all utilities may not be practical as a consumer is not necessarily unilaterally vulnerable; however, a single Register for the energy sector could allow companies to be more effective in their provision for vulnerable consumers.

- Regarding smart meters, one member suggested that the meters have the potential to empower consumers and solve the problems many have with pre-payment meters, whilst another member raised concerns about the potential social implications of the move the meters may engender towards seasonal and time-of-use tariffs.
- Companies need a clear statement of Ofgem's aims in relation to vulnerable customers, to enable them to take a proactive approach and include appropriate measures in their plans for RIIO-ED1.

5. Implementing the European Electricity Target Model in Great Britain

5.1. Giuseppina Squicciarini presented an introduction to the EU Target Model and the benefits of the resulting integration for consumers and renewables, the impact of the Model for GB reforms, and issues for Ofgem to consider. The commitment to a single EU energy market will provide an opportunity to match demand with the cheapest power in Europe (given sufficient capacity), thus putting downward pressure on prices, and allow us to trade with Europe, helping to balance intermittent generation. Implementing the Target Model would have implications for GB market liquidity, reference prices and price zones.

5.2. Key points raised in discussions included:

- The Target Model has clear implications for the GB energy system, and it is important that we take this work forward.
- Members noted that the key advantage in terms of cost is that the EU Target Model would lead to a more efficient system in the long term. The removal of interconnector charges would remove obstacles to cross border trade, and market coupling would imply more efficient use of interconnectors capacity between Scotland and England. However, the effect of the Model on energy prices ultimately depends on the GB system adapting effectively to allow us to import and export energy when we need it and where we need it.
- Modelling the impact of the Target Model on GB will allow for further insights. This should include consideration of weather and natural resources (such as wind and solar) and their impact on the generation mix.
- The implementation of the Target Model leads to questions around the most appropriate countries to establish an interconnector with, either because they have a different generation mix or because they are affected by separate weather systems. These considerations would be assisted by the modelling suggested above.
- The Target Model addresses supply reforms, but does not address the demand-side opportunities to resolve constraints. However, once demand-response mechanisms are established, the Target Model will allow that capacity to be sold more widely.
- Electricity Market Reform support schemes, such as contracts for difference, may need to be calibrated to consider the impact of the Target Model (for example with respect to price zones).

6. Any other business

6.1. No other business.

7. Date of next meeting

The next meeting is scheduled for 4 October 2012, 10:00-12:00.