

## Minutes of Sustainable Development Advisory Group meeting

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This is a record of Ofgem's SD Advisory Group meeting, held 4 October 2012.	From Date and time of Meeting Location	Jenny Mills 4 October 2012 10:00-12:00 Millbank
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### 1. Present

#### Chair

Lord Mogg (Gas and Electricity Markets Authority)

#### SD Advisory Group members

Sarah Harrison (Ofgem, Sustainable Development)  
Derek Lickorish (Fuel Poverty Advisory Group)  
Jeremy Nicholson (Energy Intensive Users Group)  
Phil Jones (Northern Powergrid)  
Nick Eyre (Oxford University)  
Juliet Davenport (Good Energy)  
Jenny Saunders (National Energy Action)  
Colin Imrie (Scottish Government)  
Audrey Gallacher (Consumer Focus)  
David Sigsworth (Scottish Environment Protection Agency)  
Doug Parr (Greenpeace)  
Gaynor Hartnell (Renewable Energy Association)

#### Ofgem staff

Stuart Cook  
Philip Cullum  
Sarah Samuel  
Michael Grubb  
Loretta Boman  
Charlotte Ramsay  
Anna Rossington  
Jenny Mills

### 2. Apologies

David Harker (Gas and Electricity Markets Authority)  
Nick Folland (Kingfisher)  
Ravi Gurumurthy (DECC)  
Tony Grayling (Environment Agency)  
Ian Marchant (SSE)  
Paul Ekins (UCL Energy Institute)  
Matthew Quinn (Welsh Government)

### 3. Review of minutes from previous meeting

3.1. Further to members' request for information on how the Group's input is taken forward, Lord Mogg made the following points:

- The Smarter Markets work programme, discussed last November, was published in July. Key areas of work include demand side response and consumer empowerment and protection. On the latter, our first deliverable is to publish an initial assessment of the regulatory arrangements that may need to change in summer 2013.
- The Consumer Vulnerability Strategy as discussed at June's meeting has carried forward the Group's thoughts on topics such as the need for focus and objectives, the role of network operators, the need for trusted organisations and the opportunity for innovative solutions. A further consultation on this work was published at the end of September.
- There have been significant developments on the next electricity distribution price control, RIIO-ED1, as set out in the recent strategy consultation. More detail on this will come in item 4.

3.2. Stuart Cook explained the background to Ofgem's recent work regarding compliance with the Carbon Emissions Reductions Target and Community Energy Saving Programme, and pointed members towards the recent open letter, which was published to provide additional clarity regarding any mitigation action that companies may choose take.

- On the question of whether consumers could benefit from any penalty on the suppliers, Ofgem responded that the point of the penalty regime is to deter non-compliance, but that our settlement procedure, as opposed to our formal Enforcement process, is a means through which we could seek consumer redress if Ofgem and the supplier in question reach an agreement.

## **4. RIIO-ED1 strategy proposals**

4.1. Anna Rossington (Head of RIIO-ED1) presented key environment and consumer elements of the recently published strategy consultation for the next electricity distribution price control (RIIO-ED1). She set out work undertaken by the Ofgem / DECC Smart Grids Forum to explore the regulatory and policy issues arising from the take up of low carbon technologies and the potential for smart grids solutions. She then went on to explain our proposals in terms of both broad and narrow environmental measures, and regarding customer outputs. She also raised the specific question of whether members agreed with our proposed approach towards socialising costs for network reinforcement arising from demand increases at domestic level.

4.2. Lord Mogg noted that the approach taken by this strategy should reinforce work done in other areas, such as the Consumer Vulnerability Strategy; and that a benefit of the new RIIO process is that Ofgem can have open discussions with network companies at early stages.

4.3. Key points raised by members in discussion included:

- Although it is sensible to consider options regarding charging for network reinforcement, cost socialisation is a sensible approach both practically and for fuel poor consumers. However, the shift towards high- and low-use customers means that socialised costs could lead to high-use consumers paying disproportionately for network reinforcement.
- Air source heat pumps are likely to put more stress on the system in rural rather than urban areas, as they are becoming a popular alternative to oil heating.

- Recognising recent progression by DNOs, the RIIO-ED1 strategy consultation aims to encourage further adoption of a more creative and strategic approach to dealing with fuel poverty.
- The stakeholder engagement outputs should focus on the provision of basic facts and information, for example on the new low carbon technologies.
- In the long term, there is a potential conflict between increased time-reflective charging as discussed in the RIIO-ED1 strategy once smart meters have been rolled out, and the recent move towards simplified tariffs in the retail market. It is important that time of use tariffs are enabled by RIIO-ED1, and that the cost-reflectivity is passed to consumers. There was a lot of discussion between members around the long term strategy for charging and the role played by time of use tariffs in different customer segments.
  - This issue was identified as one for Ofgem to consider further and determine the policy forum in which these issues should be considered.
- The role of the distribution network operator (DNO) will change within the RIIO-ED1 period, possibly gaining a role in local system balancing, and there may be value in further enabling either collaboration between DNOs, or the provision of service across a wider geographical area.
- Some members questioned whether there is a need to assume a direction of travel regarding low carbon technologies beyond the end of the price control period (2023). Others stated that there is not enough certainty to create a basis for investment decisions, and that the ex ante allowance and uncertainty mechanism give the system enough flexibility until the RIIO-ED2 price control period.
- Certain proposals need to fully account for Scotland-specific conditions, such as peat bogs which are inappropriate sites for undergrounding, and the classification of National Scenic Areas rather than Areas of Natural Beauty.

## **5. Integrated Transmission Planning and Regulation**

5.1. Charlotte Ramsay (Head of European Electricity Transmission) presented an introduction to our Integrated Transmission Planning and Regulation (ITPR) project. She set out the main drivers for the project and discussed the desire to establish whether the current framework will be fit for purpose in the complex, integrated future of the transmission system. She explained that the materiality of the issues we are examining depends on how far we integrate with Europe and the penetration of renewables in the coming years. She emphasised that the project is at an early stage, and that we are keen to receive stakeholder views to inform our thinking.

5.2. Lord Mogg added that this is interesting and timely work, and outlined its links to the European Energy Infrastructure Package.

5.3. Key points raised by members in discussion included:

- Several of the project's drivers were emphasised, particularly the increase in multi-purpose transmission projects, and the potential need to clarify the distinctions between the separate delivery regimes to improve system efficiency.
- Members expected an increase in both renewable penetration and integration with Europe. The ITPR project should consider tipping points along this course, such as the potential increase of UK interconnection to 9GW by 2020.

- Our approach should be compatible with, but not necessarily the same as, that taken by Europe. The UK's approach has strengths to build on, such as that under the regulated competitive regime for offshore transmission.
- Any changes to the system should retain the current, valuable transparency of the electricity system.
- A regulated approach to interconnector investment is likely to be the best way to increase levels of interconnection at best value for the consumer, as well as the most strategic way to overcome bureaucratic difficulties.

## **6. Any other business**

6.1. No other business.

## **7. Dates of 2013 meetings**

The meetings for 2013 are scheduled as follows: 21 February, 10:00-12:00

27 June, 10:00-12:00

24 October, 10:00-12:00