

Minutes of Sustainable Development Advisory Group meeting

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| This is a record of Ofgem's SD Advisory Group meeting, held 21 February 2013. | From Date and time of Meeting Location | Jenny Mills 21 February 2013 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)
Paul Ekins (UCL Energy Institute)
David Sigsworth (Scottish Environment Protection Agency)
Derek Lickorish (Fuel Poverty Advisory Group)
Juliet Davenport (Good Energy)
Jenny Saunders (National Energy Action)
Phil Jones (Northern Powergrid)
Jeremy Nicholson (Energy Intensive Users Group)
David Harker (GEMA)
Doug Parr (Greenpeace)

Other external attendees

Rachel Crisp (DECC)
John Ireland (Scottish Government)

Ofgem staff

Philip Cullum (items 1-6)
Adam Cooper
Loretta Boman
Colin Sausman (items 1-6)
Dora Guzeleva (items 1-6)
Natasha Smith
Jenny Mills

2. Apologies

Nick Folland (Kingfisher)
Tony Grayling (Environment Agency)
Audrey Gallacher (Consumer Focus)
Ian Marchant (SSE)
Nick Eyre (Oxford University) – notes provided on item 6
Matthew Quinn (Welsh Government)
Gaynor Hartnell (Renewable Energy Association)

3. Review of minutes and update

3.1. The minutes of the previous meeting were approved.

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

- Ofgem will be publishing its strategy for RIIO-ED1, the next electricity distribution price control, around the start of March. When the Group discussed ED1 in November one member raised the issue of Distribution Use of System charges and time of use tariffs, and is now involved in a Smart Grids Forum working group to work towards a solution on the issue. We have also been developing our thinking on the social dimensions of the proposals, as will be demonstrated in the strategy.
- The Group also discussed the Integrated Planning Transmission and Regulation project at the last meeting, indicating broad support and providing useful comments on conflicts of interest and the role of the system operator. We have since published an open letter on the project, and will come back to the Group to look at the proposals in more detail at an appropriate point in the future.

4. Retail Market update

4.1. Lord Mogg drew attention to the Retail Market Review press release that had been released that morning, and stated that it is an indication that Ofgem is aware of a need to move with speed on this issue. The measures announced are very similar to those in our consultation, and have received strong support from both David Cameron and Ed Davey. The reforms will be subject to statutory consultation when we publish them next month.

- A member asked whether the tariff allocation would allow exceptions for trials, for example of demand-side management trials. Sarah Harrison responded that there was an allowance for this in our October consultation, and we will confirm whether that remains when we publish our reforms in March.

5. Demand-Side Response

5.1. Colin Sausman (Partner, Retail Markets and Research) presented on Ofgem's work in the area of Demand-Side Response (DSR). He explained the increasing value of DSR from 2020 onwards and introduced the challenges of maximising its potential. He then outlined the purpose and content of the Smarter Markets work on DSR and the elements of RIIO-ED1 that could influence DSR, before posing the question of how to navigate the challenges of joined-up policy making in this area.

5.2. Key points raised by members in discussion included:

- Group members welcomed Ofgem's focus on this work, and saw it as strategically important; they emphasised the need for it to be given a prominent place in government policy.
- DSR will have a role in balancing the system and can reflect the higher value of demand reduction at peak times. However, the scale of flexibility required to manage the anticipated volume of intermittent generation may imply a marginal, rather than central, role for DSR.
- A barrier to DSR is that the benefits are often not realised by those bearing the cost: aligning those incentives is a key challenge. In addition, consumers who can afford DSR-enabling technology may have limited demand elasticity, whilst domestic consumers with lower incomes may be relatively willing to engage with DSR but will pay social costs for doing so.
- There is enthusiasm for DSR in the industrial sector if it is voluntary and commercial. However, existing engagement means there may not be scope for much additional response. Members identified potential DSR customer bases in multi-site commercial situations and social housing, but also identified the current lack of metering data as a barrier in the non-industrial sector.

- More sophisticated distribution tariffs (and, to an extent, seasonal transmission charges) would allow improved signals to consumers. Distribution companies should (and have the capability to) be part of the foundation for DSR arrangements, and the current primacy of the suppliers' relationship with consumers should be open to challenge.
- It is important to consider how DSR links to offers or arrangements that customers can understand and engage with. This is a big challenge.
- Existing commercial arrangements may be a significant barrier, and Ofgem needs to be willing to consider potentially radical changes to roles and responsibilities, and routes to market.
- DSR trials are vital to increase our understanding of what works practically. Trials currently underway are often popular with consumers and are already producing lessons. Members identified a number of trials and research programmes to inform Ofgem's work.
- Policy and regulatory interactions with heat are seen to be under-developed, whereas many practical examples of effective DSR incorporate heat.

5.3. Lord Mogg highlighted that Ofgem's regulatory responsibilities allow certain actions in this area, but that we cannot alter policy; equally, our regulatory activities are independent and not governed by DECC. Collaboration between Ofgem and DECC is therefore vital. It is also important that we involve stakeholders who are already grappling with DSR in these discussions.

5.4. Colin Sausman informed the group that Ofgem would publish a consultation on DSR in the next couple of months.

6. Demand-Led Renewable Energy

6.1. Loretta Boman (Acting Head of Sustainable Energy Policy) presented on the potential role of demand in driving renewable energy. She set out the existing renewable energy supply chain, and that the current definition of additionality refers to measures such as carbon offsets rather than additional renewable generation. She then discussed the current green tariffs supply scheme and the strategic options Ofgem is considering in its review.

6.2. Loretta Boman and Sarah Harrison clarified that the RMR reforms meant it would be up to each supplier to decide whether they would feature a green tariff in their four-tariff allowance, and that we will consider whether green tariffs should be an exception to the four-tariffs rule in the light of our review of the green tariffs scheme.

6.3. Key points raised by members in discussion included:

- Many consumers assume that green tariffs are providing additional renewable generation when this is not the case, whilst others have lost confidence in green tariffs. The task needs to be to raise consumer confidence, and develop the green tariff market in doing so. There may be the need for research into whether consumers would be willing to pay more for green tariffs if they had faith that the scheme were robust.
- Additional renewable generation is important for the credibility of a green tariff scheme. The European cap on the Emissions Trading Scheme makes carbon-based additionality problematic because it can be perceived that there is no overall reduction (although some smaller schemes fall below the ETS cap and do therefore have benefits). The move towards technology-neutral Contracts for Difference over the

course of the Electricity Market Reform will remove a current barrier to generation-based additionality. There is some opportunity for genuine additionality in the current arrangements, for example with regards to the Levy Exemption Certificates (LEC) system.

- Ofgem undertook to explore the LEC point further.
- Green tariffs can be used to drive domestic and community engagement as well as additional renewable energy.
- Although current arrangements preclude large customers from signing up to a green tariff, members indicated that they would expect interest from commercial customers if there were the opportunity due to the reputational benefits and relatively low cost on top of market prices. Small and Medium Enterprises are investing in on-site renewables as a means of long-term hedging.
- Demand-led renewable generation has the opportunity to reduce subsidies for renewable generation by encouraging commercial relationships.

6.4. Sarah Harrison informed the group that there would be a consultation on this work later in the year.

7. Any other business

7.1. Lord Mogg and Sarah Harrison welcomed the Group's input into a review of Ofgem's Sustainable Development Reporting package, and stated that we will be contacting members for their views.

7.2. Lord Mogg informed the group that his office as Chair of GEMA ends later this year, and that the search for a successor is underway. Alistair Buchanan, Ofgem's Chief Executive, will step down towards the end of June, and his successor will be appointed by the new Chair. Stuart Cook, managing director of Ofgem E-Serve, has also stepped down and is now on gardening leave.

8. Dates of 2013 meetings

8.1. The next meeting will take place on 27 June, 10.00-12.00.