

Minutes of Sustainable Development Advisory Group meeting

This is a record of Ofgem's SD Advisory Group meeting, held 27 June 2013.	From Date and time of Meeting Location	Jenny Mills 27 June 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)

Nick Lakin (Kingfisher)

Jenny Saunders (National Energy Action)

John Fiennes (DECC)

Tony Grayling (Environment Agency)

Audrey Gallacher (Consumer Futures)

Jeremy Nicholson (Energy Intensive Users Group)

Phil Jones (Northern Powergrid)

Nick Eyre (Oxford University)

Paul Ekins (UCL Energy Institute)

Emma Edworthy (Welsh government)

Ofgem staff

Charlotte Ramsay

Jon Parker

Giuseppina Squicciarini

Rachel Fletcher

Adam Cooper

Michael Grubb

Jenny Mills

2. Apologies

David Harker (GEMA)

David Sigsworth (Scottish Environment Protection Agency) – written views provided

Chris Stark (Scottish government)

Ian Marchant (SSE)

Doug Parr (Greenpeace) – written views provided

Gaynor Hartnell (Renewable Energy Association)

Derek Lickorish (Fuel Poverty Advisory Group)

Juliet Davenport (Good Energy)

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:

- At this meeting we are bringing back two topics that have been put to the Group before, showing how the policies have developed on the basis of members' comments.

- Further to the last meeting, we have now published our final Retail Market Review proposals and can confirm that there is a carve-out for innovative tariffs. We have also published a consultation on demand-side response which recognises the Group's points on the need for benefits to be realised by those bearing the cost, the significance of network charges and time-of-use tariffs and the need for more detailed metering data.
- In terms of topics discussed at earlier meetings, the Environmental Discretionary Reward Scheme is now underway, and we will publish our Consumer Vulnerability Strategy next week.

4. Integrated Transmission Planning and Regulation

4.1. Charlotte Ramsay (Head of European Electricity Transmission) and Jon Parker (Head of Offshore Coordination) presented on the Integrated Transmission Planning and Regulation (ITPR) workstream. They explored the drivers of the ITPR project, the options we are considering with regard to system planning, delivery and interconnection, and feedback we have received from stakeholders thus far. They asked members what a proportionate reaction to the ITPR drivers would look like, and requested advice on how to engage stakeholders from a consumer or demand perspective.

4.2. Key points raised by members in discussion included:

- Members generally agreed that it was more important for these changes to go further than for them to happen quickly, as the primary aim must be to create a network fit for future energy challenges and a new approach that reflects the changes to the energy system. Some members, however, stated that it should be a priority to connect remote areas and renewable generation to the transmission network promptly.
- The current, separate, transmission regimes create false distinctions that limit developments and deter investment. It is therefore a positive step to be working towards a more co-ordinated approach.
- Members recognised the value of a system planning role, but added that, as a planning body must have a destination in mind, there are risks to a central planning approach in the context of policy flexibility and uncertainty. A key point is that if a system planning role were to be created it must still transparently use market signals to inform its decisions. The Group also noted that a decision on separation of ownership of the system coordinating function would be a political issue.
- Valuation of this work was identified as a significant challenge, as the benefits will extend significantly beyond the 4% of the energy bill that is directly related to transmission costs. Given the difficulties in quantifying the benefits in full, it will be important for the impact assessment to also include a qualitative, value-based approach. Charlotte added that we do expect the impact assessment to bring clarity to what cost savings the ITPR project might produce.
- In order to engage consumers it will be most productive to avoid explanations based on an energy future they cannot visualise, and instead focus on a narrative based on what they will see more / less of, what it will cost and what the visual changes will be. Members also questioned whether it is necessary to discuss this work in depth with consumers; Charlotte responded that we will have a better sense of the materiality for consumers after we have conducted some impact assessment analysis.
- Members noted a number of issues in the wider context that should feed in to this work:

- The whole energy system is becoming increasingly integrated, so other sectors, for example decentralised generation and the demand-side, should be considered in the same context.
- The Crown Estate should be part of these discussions given its role in the seabed leasing; Charlotte confirmed that we they are engaged on these issues.
- Final decisions should not be made until it has become clear that DECC's strike prices will create investment, so it is important that both government and industry players are informing the ITPR work. John Fiennes confirmed that Ofgem and DECC are working together on these issues.

5. Future Trading Arrangements

5.1. Giuseppina Squicciarini (Head of Electricity Policy) presented on the Future Trading Arrangements (FTA) project. She outlined the FTA drivers with specific reference to those relevant to consumers, renewables and demand-side response, and explained the purpose of the FTA Forum. She set out the proposed timescale of the project's next steps, and asked members what the key strategic issues in relation to FTA are and what the objectives of the stakeholder engagement programme should be.

5.2. Key points raised by members in discussion included:

- Members identified consumer involvement in the energy market as a strategic issue. Very few consumers are currently connected to the wholesale market, but the rise of demand-side response over the next decade has the potential to connect signals from the grid directly to consumers. Arrangements need to adapt to allow this relationship, and Ofgem must ensure that there is adequate consumer protection in place.
- Market arrangements should facilitate the penetration of low marginal cost generation, with costs and risks being distributed more fairly across the market. Price signals should be aligned in such a way that does not disadvantage intermittent generation.
- Members discussed lessons that can be learned from European experience in this area, noting in particular that changes to the generation mix require corresponding changes to market arrangements.
- FTA must work towards cross-system solutions which look beyond the current government interventions in the market; as with ITPR, the aim should be a market that meets the long-term needs of the energy system. Market arrangements must be developed to ensure that they inform system planning and investment more generally (including generation and demand-side response capabilities).
- With regards to the FTA Forum, a priority should be seeking views on the relative urgency of relevant issues so that workstreams can be prioritised accordingly and action taken at appropriate points. Rachel Fletcher (Acting Senior Partner, Markets) added that DECC's involvement in the Forum will ensure that the FTA work is compatible with the government's approach.

6. Any other business

6.1. One member drew the Group's attention to the effect of the Retail Market Review (RMR) on the Green Energy Supply Certification Scheme. The Scheme's Panel believe that at least some of the certified suppliers will withdraw their tariffs on the basis of their current understanding of the RMR tariff cap, which could lead to the Scheme coming to an end. The Panel is grateful for Ofgem's work to clarify the situation.

- Adam Cooper (Associate Partner, Sustainable Energy Policy) added that the review of the Scheme we announced in February is continuing. We are keen to ensure that the opportunity for green tariffs remains in the market, and are working with the Scheme's Panel and other stakeholders to ensure consumers are protected in the wider green offers market.

7. Date of next meeting

7.1. The next meeting will take place on 24 October 2013, 10.00-12.00.