

Minutes of Sustainable Development Advisory Group meeting

This is a record of Ofgem's Sustainable Development Advisory Group meeting, held 27 February 2014.	From Date and time of Meeting Location	Matthew Berry 27 February 2014 10.00-12.00 9 Millbank
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1. Present

Chair

David Gray (Gas and Electricity Markets Authority)

SD Advisory Group members

Jenny Saunders, (National Energy Action)

Phil Jones, (Northern Powergrid)

Juliet Davenport, (Good Energy)

Matthew Quinn, (Welsh government)

Doug Parr (Greenpeace)

Giles Bristow (Forum for the Future) - Observer

Ofgem Staff

Sarah Harrison

Rachel Fletcher

Stephen Bass

Grant McEachran (V/C from Glasgow)

Jon Parker

Hannah Kruimer

Natasha Smith

Alex Belsham-Harris

Matthew Berry

2. Apologies

David Harker (GEMA)

Nick Lakin (Kingfisher)

Tony Grayling (Environment Agency)

John Fiennes (DECC)

Chris Stark (Scottish Government)

Derek Lickorish (Fuel Poverty Advisory Group)

Audrey Gallacher, (Consumer Futures)

Jeremy Nicholson, (Energy Intensive Users Group)

Nick Eyre, (Oxford University)

Paul Ekins, (UCL Energy Institute)

Dr Nina, (Renewable Energy Association)

David Sigsworth (SEPA) – Written comments provided

3. Review of minutes and update

3.1. The minutes of the previous meeting were approved.

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

- Following discussion at the last meeting on Community Energy, the Group's comments have fed directly into a consultation about protecting consumers in collective switching schemes (an issue discussed by the Group). Members have been invited to provide views on several proposals in particular before the consultation closes on 7 April 2014.
- At the last meeting Group members expressed a desire to understand the links between the wide range of topics discussed and the various interactions these have with Ofgem's work. As a result, we produced a 'Community Energy Map' which was sent to Group members for comment.

4. Smarter Markets Vision

4.1. Grant McEachran (Head of Smarter Markets) presented on the Smarter Markets Programme. Grant outlined the Programme's vision, explaining its importance in outlining why and what we are doing along with ensuring the programme focuses on the right areas and remains on track. He followed this by describing the context of the vision, which detailed both the challenges and drivers for change alongside the 'vision on a slide', explaining several aspects in more detail (empowerment, control, efficiency). Throughout the presentation Grant was able to highlight where Group member's comments had previously fed into the vision and the changes that had been made as a result. He closed by explaining the key next step was to produce a 'Road Map' and invited comments and questions from the Group.

4.2. Key points raised by members in the discussion included:

- Members generally agreed with points raised, context and the vision but emphasised the importance of considering the 'journey of understanding' a consumer is expected to undertake. The Group highlighted that often the introduction of further technology alone is not enough to drive an increase in consumer engagement and cautioned against treating consumers as rational economical units. At this point members questioned the consumer research supporting the context and vision.
- Grant outlined the consumer research that had been undertaken on what consumers would like to see in a future Change of Supplier process. He explained that a key finding was the need for more trust and reliability and as a result, a specific part of the programme focuses on empowerment and protection. He also highlighted that we are currently consulting in this area in a bid to identify what the real key issues for consumers are (ie debt, pre-payment meters) rather than assuming it is a need for more technology. Rachel Fletcher reiterated that there are also a number of ongoing trials examining how consumers react when they have access to time of use data and patterns to ensure the programme captures this adequately.
- Group members also discussed, and sought clarification on, how the different aspects of the vision look practically for consumers (ie is there more detail available beneath the 'vision on a slide') and whether Ofgem, the Central Delivery Body and DECC share the same vision. Grant outlined that we do have more detailed information on the different aspects of the vision but need to think carefully how we communicate this as part of the Road Map. He also explained that we have worked alongside other bodies such as DECC when developing the vision and have also aimed to have the widest possible interaction with stakeholders through forums such as the Smarter Markets Coordination Group which includes suppliers, consumer groups and aggregators.
- Members expressed an interest in the issues surrounding innovation and how the market may react and change to offer new services. The Group questioned whether the vision would encourage enough creative disruption and whether it captures the wants and needs of new entrants rather than incumbents. Grant conceded this was one of the largest challenges and we have tried to consult as widely as possible

(including with stakeholders such as UK Demand Response Association) to ensure the views of potential new entrants have been captured.

- The degree of causality implied in the vision was also discussed with members stating that past consumer research would suggest that technology is not an appropriate vehicle for further engagement. Members also highlighted the potential cost to smaller players in the market who will need to bring in technical expertise, and that this needs to be considered in the Road Map, given the fact they often have the most trust amongst market participants. Members felt that often these programmes satisfied the needs of the big six but would benefit from recognising that for real innovation there is a need to move away from the status quo.
- The Group's comments were summarised by the Chair, identifying that another challenge exists in that the Road Map will need descriptive milestones due to the lack of anything identifiably measurable. Grant summarised the next steps and suggested bringing a finalised Road Map back to the Group for further comment.

5. Potential benefits of further interconnection

5.1. Jon Parker (Head of Future Networks in Electricity Transmission) presented on the topic of further interconnection and the potential benefits for GB. He began by outlining the context, explaining that we are currently considering a number of options for the future regulatory regime for interconnectors as part of the Integrated Transmission Planning and Regulation (ITPR) project. Jon outlined the potential benefits, both short and long term, that further interconnection could bring before detailing the key factors that would influence the overall level of net benefit (including costs and the level of gross benefit). He then outlined the four regulatory approaches currently being considered and the amount of exposure to risks and benefits associated with each.

5.2. Key points raised by members in the discussion included:

- Group members asked for clarification on whether any of this work was dependent on the fixed UK renewable targets as well as carbon prices and whether the decisions we take recognise the potential differences in future EU policy approaches and investment. Jon explained that further interconnection could result in a higher percentage of renewables with increased access to varying sources of generation but that future targets were not a critical consideration for investors. However, he acknowledged that the policy around carbon targets and the concurrent impact on price was a big challenge in the developer led approach to regulation as there is much policy uncertainty.
- Members also asked what level of modelling had been involved in the process to date and whether varying policy scenarios, EU directions etc. had been considered in our attempt to identify the most appropriate regulatory regime. Jon explained that we hadn't conducted significant modelling ourselves as the focus to date has been on refining the assessment process for regulatory support. Rachel Fletcher emphasised that our purpose is not to use models and decide an optimal level of interconnection but instead to create a regulatory environment where the optimal level of interconnection occurs regardless.
- The Group then questioned whether in fact the answer to the question of benefits of further interconnection is unknowable. Members highlighted the large number of questions that currently exist on future policy and investment and whether these concerns can be captured adequately.
- Some members also expressed a preference for a Developer led approach as a regime capable of satisfying intermittency concerns across the EU. Members stated that given previous experiences, when the opportunity for trade opens up, people

and policy react as a consequence, and thus central planning may not necessarily be the best approach.

- Jon summarised the next steps for the project, highlighting the consultation on initial proposals on the options for the regulatory regime for future interconnection in Spring 2014.

6. Green tariffs and Community Energy Update

6.1. Natasha Smith (Senior Manager, Sustainable Energy Policy) presented a brief update on our work on both community energy and green tariffs.

6.2. Natasha explained that at the end of last year we have consulted on improving consumer protection in the green and renewable offers market, partly in response to recent market developments and the decline in certified green tariffs on offer. She highlighted that we are now developing this policy and expect to release final proposals later this year. These proposals will outline the principles by which we believe this market should operate and the best way we think these can be implemented to ensure consistency across the market, whilst ensuring our proposals are proportionate. Group members had no significant comments but expressed a desire to continue to be updated as to how the policy progresses.

6.3. Natasha followed with an update on community energy, highlighting that following the October meeting we have produced a 'Community Energy Map' in a bid to identify and detail Ofgem's ongoing work in this area and the interaction with various issues raised during the last meeting. Group members highlighted the need to examine which parts of the map interacted with DECC's work on vulnerable consumers, particularly any work on distributional impacts.

6.4. Members also discussed the issue of off-grid networks in relation to consumer protection and the potential impacts of buying a tariff as part of a community and not as a passive consumer. Members explained that this issue was related to that of expectation of service levels and whether Ofgem are active in this space. It was also explained that Local Authorities have recently become interested in this market and are beginning to assess what can and can't be done cost effectively.

6.5. Finally, Group members suggest that Ofgem's work on community energy could benefit from a 'working download' from various contact groups. It was agreed to follow this up post meeting.

7. AOB

7.1. Members noted that future meetings may benefit from an agenda that focuses on one particular issue and/or area of work, rather than one covering very different topic areas. Sarah Harrison agreed to take this away and ensure this is considered ahead of the next meeting.

8. Date of next meeting

8.1. The next meeting will take place on 26 June 2014, 10:00-12:00. The third 2014 meeting will take place on 2 October, 10:00-12:00.