

## Draft minutes of Sustainable Development Advisory Group meeting

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This is a record of Ofgem's Sustainable Development Advisory Group meeting, held 26 June 2014.	From Date and time of Meeting Location	Alex Belsham-Harris 26 June 2014 10.00-12.00 9 Millbank
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### 1. Present

#### Chair

David Gray (Chairman, Gas and Electricity Markets Authority)

#### SD Advisory Group members

Giles Bristow (Forum for the Future)

Nick Eyre (Oxford University)

Tony Grayling (Environment Agency)

Jeremy Nicholson (EEF)

Doug Parr (Greenpeace)

Jenny Saunders (National Energy Action)

David Sigsworth (SEPA)

Dr Nina Skorupska (Renewable Energy Association)

#### Attending on behalf of absent members

John Barnett (Northern Powergrid)

Jonathan Oates, (Welsh government)

Kate Trinder (Good Energy)

#### Ofgem Staff

Sarah Harrison

Adam Cooper

Stephen Bass

Natasha Smith

Alex Belsham-Harris

### 2. Apologies

Juliet Davenport (Good Energy)

Paul Ekins (UCL Energy Institute)

John Fiennes (DECC)

David Harker (GEMA)

Audrey Gallacher (Citizens Advice)

Phil Jones (Northern Powergrid)

Nick Lakin (Kingfisher)

Derek Lickorish (Fuel Poverty Advisory Group)

Chris Stark (Scottish Government)

Matthew Quinn (Welsh Government)

### 3. Review of minutes and update

3.1. The minutes of the previous meeting were approved.

3.2. Adam Cooper gave updates on the areas which were discussed at the previous meeting:

- The Smarter Markets team have continued to develop their Road Map, taking into account the views expressed by members at the last meeting. It remains their plan to share a draft of the Road Map with the group at a future meeting.
- We published a consultation on our proposals for the regulatory approach for near-term interconnector investment in May. Subject to the consultation responses, we intend to make the developer-led cap and floor regime available for further near-term interconnector projects. This is in line with the views expressed at the SDAG meeting. We are considering the best approach for interconnector investment in the longer-term further as part of the wider ITPR project, and expect to consult on our draft conclusions in September.

3.3. The Chair introduced the new format for the meeting, which, in response to member feedback, will focus on single subject area to allow for a longer, more substantive discussion, followed by short updates.

#### **4. Non-traditional generation and supply arrangements**

4.1. Adam Cooper (Associate Partner, Sustainable Energy Policy) presented our emerging thinking on the implications of non-traditional, innovative and disruptive energy models (see attached slide pack). He introduced the topic by discussing how Ofgem is considering non-traditional models in the context of a number of agendas, including cost to consumers and security of supply. He explained that interest was also spurred by our recent state of the market report, which identified barriers to new entrants.

##### **Orientation and defining terms**

4.2. The first part of the presentation set out our current understanding of the terminology used when discussing community energy, innovation and disruption. Adam asked for feedback on whether these terms were recognisable and if their meaning was consistent with their use outside Ofgem.

4.3. Key points raised by members during the discussion included:

- The Group discussed the difference between innovation and disruptive innovation. Members felt that the latter simply describes innovations which grow to a large scale at a fast pace, as with distributed generation in Germany. As a result members suggested that 'disruptive' innovations may only be identifiable with hindsight. Some members felt that 'disruptive' could be considered a pejorative adjective when used to describe such changes.
- Members also discussed the need to locate the impacts of innovative disruption. If these fall on consumers then they may need protection, whereas disruption to businesses in the energy market could make it more competitive. The Group also agreed that a lack of disruption in the long-term would also carry risk to consumers.
- The Group advised Ofgem to consider that non-traditional models in the energy sector may be well established in other sectors. They highlighted the opportunities to identify lessons learned where such models have been used in another country or context.
- In the area of community energy members felt that Ofgem should use the same terminology as DECC's community energy strategy to ensure consistency across the sector. They cautioned that the term 'community energy' could be understood differently by different actors, and was open to abuse without clear definition.

- Finally members warned Ofgem to avoid setting rigid conceptual boundaries for emerging models, as this could limit the scope for innovation. They warned that in a time of rapid technological innovation Ofgem must be aware of wider changes in society which may impact the energy sector.
- The Chair summarised by saying it was clear that we should seek to avoid using terminology which could be misunderstood by external stakeholders. He said that Ofgem should encourage innovation, for example through our innovation competitions, or perhaps exploring 'safe spaces' to test new ideas or approaches. Balancing this with protecting consumers from negative consequences will always be a key challenge as the consequences of failure (to protect consumers) are so great.

### **Volume and type of enquiries**

4.4. Adam continued by discussing the impact of increasing interest in non-traditional models on Ofgem. He set out how enquiries regarding non-traditional supply arrangements have increased, and explained that groups are considering a number of different models, which are at different levels of market readiness. He welcomed the reaction of group members to these enquiries and asked if they were aware of any further models being considered.

4.5. Key points raised by members during the discussion included:

- Members asked us to consider formally monitoring the sophistication of enquiries and tracking of the outcome of these projects. This would give further insight into the emergence of innovative models and help identify what barriers they may face. Sarah Harrison confirmed that Ofgem would consider more qualitative analysis of enquiries.
- Members also requested more detail on the drivers for the growth in enquiries, such as reducing fuel poverty or taking advantage of changes under Electricity Market Reform.
- Members agreed that changes of policy or market conditions could lead to a step-change in levels of interest in non-traditional models. Members discussed the exponential growth of distributed generation in Germany as an example of rapid change. Members also argued that changes such as a decrease in financial support for renewable projects could see interest in these areas fall back.
- Members asked whether Ofgem is adequately resourced to deal with enquiries, and any potential increase. They also asked us to consider dealing with enquiries in a networked way so that interested parties can share learning. They warned that Ofgem faced reputational risks if it became seen as a barrier to innovative models.

### **Nature of the issues and our current activity**

4.6. Adam outlined the three most common issues in enquiries related to non-traditional models: network access, local balancing, and licensing/compliance burden. He described the current regulatory context for these issues, and the current actions Ofgem is taking in the space of non-traditional models. He welcomed views from group members on whether the issues have been correctly identified, what other issues there may be, and what more we could do within existing arrangements.

4.7. Key points raised by members during the discussion included:

- Group members agreed that Ofgem had correctly identified the issues. Members asked for clarification on our work related to 'white labels'. Adam explained that we had consulted on how these should be treated under our Retail Market Review reforms, and that proposals will be published this summer.

### **Future context: how might we act differently?**

4.8. Adam introduced possible long-term disruptive developments, including local markets or peer-to-peer supply arrangements, as well as more radical changes. He welcomed views on how the group saw the benefits and risks to consumers of such changes and how Ofgem could or should behave towards new entrants.

4.9. Key points raised by members during the discussion included:

- Members felt that some risk of failure must be accepted in order to test non-traditional models, but that this must be mitigated in the case of vulnerable consumers. There was discussion of how consumer choice, including the option to remain within the current system, can be maintained. Members also agreed that companies must ensure consumers understand innovative options to avoid negative impacts.
- Members warned that when analysing the impact of innovation some changes may have hidden costs, such as cross-subsidy, which may mean the overall aggregated cost to the consumers is increased.

### **Chairs summary**

4.10. The Chair summarised the discussion. He agreed that we would seek to use established terminology in our work. While he felt that we are not currently missing any obvious developments, he acknowledged the risk of surging demand and that we may need to react more quickly to change. He stressed that innovation is important but that we must act to protect consumers from failure. The Chair also welcomed feedback on the new format of the meeting.

## **5. Green tariffs and Community Energy Update**

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

### **Green tariffs**

5.2. Natasha set out our final proposals on improving consumer protection in the green and renewable offers market. These consist of three key principles: additionality, to ensure that environmental benefits occur as a direct result of a consumer choosing the tariff; transparency, to ensure that suppliers are clear with consumers about the environmental claims they make; and evidence of supply, so that renewable supply in a tariff must now be backed by Renewable Energy Guarantees of Origin and Levy Exemption Certificates. These are now being consulted on, and a further statutory consultation will follow in September.

### **Community energy**

5.3. Natasha explained that we have now concluded the three meetings of the grid connections working group, which was set up by DECC as part of their Community Energy Strategy, and chaired by Sarah Harrison. We are now preparing the final report to submit to the Secretary of State in July, which covers a range of actions to be taken forward within the current regulatory framework to improve the experience of community energy projects in connecting to the grid. It also sets out a number of more transformational changes desired by the sector.

5.4. At the previous meeting the Group was concerned that Ofgem had insufficient working level engagement with community energy groups. Natasha explained that since then we have held a meeting with local community energy groups in Devon, spoken on a panel at a community energy event in Leeds and attended the launch of Community Energy England. She also set out our engagement with the DG SANCO working group run by the European Commission on a project looking to collate best practise across member states in work areas such as community energy and collective switching.

## **6. AOB**

6.1. No other business was raised.

## **7. Date of next meeting**

7.1. The next meeting will take place on 2 October 2014, 10:00-12:00. The dates for 2015 will be confirmed following this meeting.