

Minutes of Sustainable Development Advisory Group meeting October 2014

This is a record of Ofgem's Sustainable Development Advisory Group meeting, held 2 October 2014.	From Date and time of Meeting Location	Alex Belsham-Harris 2 October 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

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)
 John Fiennes (DECC)
 Audrey Gallacher, (Citizens Advice)
 Phil Jones (Northern Powergrid)
 Derek Lickorish (Fuel Poverty Advisory Group)
 Matthew Quinn (Welsh Government)

Ofgem Staff

Sarah Harrison
 Adam Cooper
 Philip Cullum
 Stephen Bass
 Phil Sumner
 Alex Belsham-Harris
 Joshua Smale

2. Apologies

David Harker (GEMA)
 Juliet Davenport (Good Energy)
 Chris Stark (Scottish Government)
 Nick Lakin (Kingfisher)
 Paul Ekins (UCL Energy Institute)

3. Review of minutes and update

- 3.1. No comments were raised about the minutes of the previous meeting.
- 3.2. Adam Cooper gave the following updates which were discussed at previous meetings:
 - He reminded members that we had made our draft determinations for RIIO-ED1 slow track companies, and that after consultation we will publish our final determinations in November 2014.

- He thanked members for the useful discussion at the previous meeting on non-traditional business models. This fed into a paper for the executive committee.
- He let the group know that we have now published a statutory consultation on our proposals for green and renewable tariffs, and thanked the group for their input on this policy.

4. UK Regulators Network Affordability project

Introduction to the UKRN

4.1. The Chair introduced the recently formed UK Regulators Network (UKRN) as a way to share approaches and improve coherence between regulators.

4.2. Sarah Harrison (Senior Partner, Sustainable Development) introduced the UKRN work programme for 2014/15, which consists of eight projects, each led by a member regulator. She explained that a key driver of the UKRN work was the need to assess the benefits and issues of economic regulators, 20-30 years after they were first created.

4.3. Members raised concerns that the UKRN work programme did not explicitly mention sustainability, and in particular the need for infrastructure developments to support sustainability. Sarah explained sustainability issues are bound up with a number of the areas, and that work on sustainability specifically may form part of the programme in future years.

UKRN affordability project

4.4. Phil Sumner (Senior Manager, Consumer Policy and Insight) presented the work on the affordability project (see attached slide pack). The drivers of the project are increasing consumer concerns about the cost of living, and the associated political debate about the issue. In particular, both the National Audit Office (NAO) and Public Accounts Committee (PAC) have called for better assessment of long term affordability impacts of decisions.

4.5. He explained that the project aims to:

- Identify similarities and differences exist in the regulators approaches, and why.
- Understand the drivers of affordability issues and the role of regulators.
- Understand the nature of affordability issues over the long term and the extent to which these are concentrated on particular consumer groups.
- Develop options for Phase 2 of the project, which will seek to align different approaches.

4.6. Phil discussed bills in the different sectors over time, with some sectors flat (communications) and others rising (water and energy). How these bills are determined is different, with some based on usage while others are unmetered. In energy there are additional complexities because of government financial support such as warm home discount and winter fuel allowance, as well as energy efficiency support through schemes such as ECO.

4.7. The project has so far found the following key issues:

- There are differences in the definition of affordability across sectors, related to different duties of regulators.
- Not all affordability issues are within regulatory sphere of influence.
- There are some common approaches to affordability but there is potential for greater alignment.
- The comparability of data across sectors, which may be improved to enable more read across and more joined up policymaking.

- Sectors look differently at future levels of consumer bills, especially when regulators not responsible for all costs of future infrastructure investment.

4.8. Phil finished by looking forward to the proposed work areas of the second phase of the project to consider developing a cross-sector approach to regulation. These are:

- Development of an approach to coordinate strategies for addressing financial vulnerability across regulators, including a consideration of what areas are for government and which are for regulators.
- Alignment of data collection, sharing and presentation across regulators
- Assessment of future bill impacts, with particular attention to the impact of infrastructure investment

Key points raised by members

4.9. Members raised points throughout the presentation which focused on some key areas.

Defining affordability

4.10. Members asked how affordability has been defined. They pointed out that consumers will have varied experiences, since differing use of goods will mean that inflation affects consumers differently. Phil explained that there is currently no common approach or definition across sectors, but that low income groups are at most risk.

4.11. The group discussed the subjectivity of affordability, contrasting consumers who can cope with price rises by reducing energy usage or other expenditures with those who are at highest risk and are likely to already be rationing their energy use below comfortable levels. They asked that the distortion this rationing has on bills be taken into account in the project, and to consider that rationing behaviour and comfort levels would be different across sectors.

Scope of the affordability project

4.12. Some members felt that there should be more consideration of standards, since these can be set by regulators and can impact both short and long term affordability. Zero Carbon Homes was raised as a case of a policy where there is a trade-off between a potential decrease in initial housing affordability and a long term saving on energy bills from increased energy efficiency and deployment of renewable energy during the build.

4.13. There was a discussion among members about the extent to which the report should focus on the portion of bills which is directly controlled by the regulators. Some members argued that regulatory policy has impacts on price beyond those costs which are under direct price control. The funding of innovation funding was also raised by a member, comparing the energy sector, where consumers contribute to innovation through competitions organised by the regulator, with the water sector, where they do not.

4.14. Members asked whether the project will look at heat, since this is an unregulated sector. Phil explained that in the case of heat this may go beyond our scope, but that data for off-gas grid consumers will be considered.

4.15. Members also asked how far the impact of government policy on affordability will be addressed. He explained that the work is at an analytical phase and that causes and solutions will be considered in the second phase of this work. The Chair added that we would not be inhibited from assigning responsibility for the findings to either government or regulatory policy as appropriate.

High level data

4.16. Members discussed the distribution of impacts, what the data might be able to show. They were interested in the extent to which different groups are being separately affected in different sectors (i.e. water poverty, fuel poverty etc), or if a single group is being affected cumulatively by affordability issues in each sector.

4.17. Members raised future developments such as smart metering and demand-side response. They were interested in the possible impact of these developments, and the effect of non-participation, on affordability. They warned that the project should not assume future targets in areas such as energy efficiency will be met, recommended that these impacts should be included in the range predictions of future bills.

4.18. The risks when comparing sectors were raised by some members. They mentioned previous reports which had not included all the relevant business practices within sectors in their analysis.

4.19. A member raised the relationship between increased infrastructure investment and increased economic growth, which should also increase incomes. While the member conceded that these impacts are hard to account for, they should be considered in the analysis.

UKRN outputs

4.20. A group member urged the UKRN to seek common approaches by sharing best practice rather than arriving at a lowest common denominator.

4.21. Members felt that the UKRN should avoid offering solutions for issues which would more suitably be resolved through direct government support for particular consumers. However it was felt that regulators had historically been effective in protecting vulnerable consumers from damaging business practices, and that these actions should continue. Member also argued that regulators should offer an objective explanation of why prices are at a particular level.

4.22. The Chair asked group members whether they felt that a lack of alignment between regulators had been a problem in the past. Members felt that there had in some areas, but that more cooperation was beneficial, with a caveat that this should not threaten regulatory independence. Some members felt that regulatory decision making was often too slow, and asked whether collaboration between regulators would speed up or slow down this process.

Future UKRN work

4.23. Members made some recommendations for future UKRN work. This included looking at the legal differences between sectors, as it was felt some infrastructure changes were easier in some sectors than others.

4.24. Members mentioned increased inter-sector dependences, with electricity characterised as key to the other sectors. The high security of supply has a significant positive impact on this associated infrastructure, which should be reflected. Sarah explained that the UKRN cross-sector resilience project will consider these issues.

4.25. A group member also asked how the UKRN work will be legitimised, and floated the idea of an expert panel similar to the SD Advisory Group to review the projects.

Chairs summary

4.26. The Chair summarised the discussion and made a few final points. In response to earlier comments on speed of regulatory decision-making, he said that Ofgem recognised this issue and were working to improve this.

4.27. On consistency across regulators he said that the Chairs of the regulators had looked at this issue and agreed that there may be areas where consistency can add value. The UKRN will be able to formalise the ad hoc collaboration that may have happened previously.

4.28. On standards set by regulators he agreed that there should always be clarity on why the standard is needed and has been set at the level it has.

4.29. He restated the importance of looking at how future developments, such as smart meters, will impact on affordability; although he also pointed out that unexpected outcomes from future changes are still likely to arise.

4.30. The Chair ended by recommending that the group be kept up to date on the progress of the work and the scope for Phase Two of the project.

5. AOB

5.1. No other business was raised.

6. Date of next meeting

6.1. Next year's meeting dates have now been scheduled for 5 March, 25 June and 8 October 2015. All meetings will take place from 10am to 12pm.