

## Minutes of Sustainable Development Advisory Group Meeting

This is a record of Ofgem's Sustainable Development Advisory Group meeting, held on 22 March	From	James Proudfoot and Amy Cheung
	Date and time of Meeting	22 March 2017 10.00 - 12.30
	Location	Boardroom, Ofgem, 9 Millbank, SW1P 3GE

### 1. Attendance and Apologies

1.1. See annexe for attendance and apologies for the meeting

### 2. Update and agreement of minutes

2.1. No comments were raised about the minutes of the previous meeting.

2.2. The Chair provided a brief overview of Ofgem's work since the last meeting on Supplier Cost Index, Future Insights series, Supplier of Last Resort and the Academic Panel.

2.3. The Chair added that smart meters were raised at the October 2016 meeting as a possible future agenda item at the October meeting, and it is hoped that it will be on the agenda for the next meeting, scheduling permitting, in coordination with BEIS.

### 3. Flexibility - Call for Evidence

3.1. The lead on the Flexibility project presented an overview on the joint Call for Evidence with BEIS and its strategic importance. He explained that the team are currently reviewing nearly 250 responses to our call for evidence and identifying what action we and government should take. He hoped that the Spring Plan setting out our next steps will be published in May. The presentation covered the type of structural change we could see in the energy system, the type of charging and price signals that might be needed to drive efficiencies, changes in the roles of different parties in network and system operation, access to markets, who should be allowed to own new sources of flexibility, protecting against consumers being left behind in the transition and the need for enhanced cyber protection reflecting the increased flows in data between parties.

3.2. Members welcomed the Call for Evidence, noting it was interesting and timely.

3.3. One member said three areas stood out to them (1) the future system needs to consider Europe and the role of interconnectors (2) internalising system balancing costs of intermittent generation (3) implications for transmission charging as more consumers choose to be off-grid. The member highlighted the future strategy and charging work and emphasised how the different projects should be working closely together looking at future energy market models.

3.4. Ofgem highlighted that they are working closely with colleagues across Europe and those working on associated projects. Developing a charging regime that fully accounts for the network and system balancing costs of intermittent generation will be picked up the charging and future strategy work. The Chair added in terms of Brexit, there is inevitably risk of investment being deferred.

3.5. A member highlighted things are rapidly changing and there are concerns about ensuring there are standards and sufficient quality of installers of energy storage to protect consumers.

3.6. The group discussed heat networks being a feature of a flexible energy system, and solutions which vulnerable customers may be increasingly reliant upon. There are issues of how flexibility is built into systems for wider energy use. This is a big issue in Scotland. Policy arrangements will need to consider the interaction of heat with storage, transport and thermal generation. There is a danger that our limited remit may lead us developing policy within too narrow a range of parameters. One member considered our work on embedded benefits as an example of this.

3.7. It was said that we need to look at the energy system more widely, and not focus solely on electricity. The group said there is a wider energy landscape with other technological advancements like hydrogen. Developments such as this could lead to changes in the wholesale market which would have cost implications. A flexible system needs to take this into account along with flexible hydrogen and CHP generation.

3.8. Members highlighted that the Call for Evidence perhaps focused too heavily on regulatory and technical discussions. There is a risk of holding the assumption in these discussions that consumers will be 'in control' and benefit, without considering the behavioural barriers. There is more to be done in capturing consumers experiences of these. We need to look at other markets and integrate it in policy thinking to ensure we protect consumers. A member raised concerns about impact of mandating half-hourly settlement on households will be dependent on the extent to which households can 'opt in' in an informed way, and suggested Ofgem should put suitable 'cooling off' periods into place for those on the Priority Services Register.

3.9. One member was keen to understand how smaller retailers could access aggregated services.

3.10. The lead on the Flexibility project noted that there were a number of different markets for these type of services. We are looking at ways in which providers of flexibility, such as aggregators, can access different markets and 'stack' their revenue streams.

3.11. The Chair concluded that after next publication, this project will materialise into a series of work streams, and maybe this item could return to the group later in the year. The Chair agreed that we need to be aware of the risk that there may be vulnerable consumers disadvantaged.

#### **4. Regulatory Sandbox (Innovation Link)**

4.1. The Innovation Link team gave an overview of Innovation Link and its aims, with the Regulatory Sandbox being one part of the project that launched in February. They emphasised that this is a trial to understand, through expressions of interest (EOI), whether there is demand in the market. The Regulatory Sandbox is exploring whether we could potentially offer any derogations/de-prioritisation of a specific licence condition or offer more bespoke guidance that is legally binding, whilst ensuring there is no detriment to consumers with a clear set out eligibility criteria. The team explained it has a process in place for assessing EOIs against the eligibility criteria in the open letter and against a number of positive and negative indicators.

4.2. The largest themes they have seen in the expressions of interest are from local energy trading schemes, local balancing and micro grids, distributed generation, time of use tariffs and new software.

4.3. The Chair enquired about the members' level of awareness of Innovation Link. A number of members had heard about Innovation Link, although some were not aware of the project. The Chair noted that we could potentially raise more awareness.

4.4. Some members asked how far Ofgem was prepared to go with derogations. The Innovation Link team explained that it is too early to be able to answer the question with specifics given that there could be a scenario that after reviewing the EOIs none are suited to be offered a derogation. However, the team highlighted to the group that any derogations that are offered would be time limited with caveats and safeguards, and those interested in the trials need to be at a certain stage of development.

4.5. The Chair stated that at a high-level innovation is a positive thing but Ofgem has a role in balancing innovation against the risks associated with it. One member noted that innovation can be a benefit to consumers because the energy industry is slow in comparison to other industries, but as long as trials are carried out in a controlled way.

4.6. The group welcomed the role of innovation and showcasing that Ofgem is open to creativity. Some felt that regulations need to catch up with innovation, but emphasised the care needed in outlining the quality and definition of the trial. Members discussed that certain forms of regulation need to be reduced to let innovation thrive and not all innovation is for profit. Another member suggested Ofgem could set out problems or areas to explicitly invite innovation.

4.7. One member highlighted the need to ensure the trial's time period is not so short that Ofgem will not be able to learn anything from the trial.

4.8. Members discussed the importance of safeguarding consumers, and that we need to consider which consumers are being trialled, in particular if it is the most vulnerable consumers. Also ensuring consumer awareness of the trials. It was also highlighted we need to be clear about our definition of the consumer.

4.9. A member noted that this process could help the thinking in Ofgem and ask why these regulations are there in the first place, and help us consider whether existing regulations reward big, existing players.

4.10. One member suggested pairing an innovator with a balance sheet that they may not have, and Ofgem can point innovators in the direction of someone who can cover the risks if the innovator cannot do so themselves.

4.11. The group was asked whether we could collectively try to get industry to inform future work programmes.

4.12. The Innovation Link team noted that there are a lot of academic innovation hubs in universities, and there is a huge untapped relationship there. We aim to make more of these players or those from the digi-tech sector. The Innovation Link team emphasised a big theme has come from the project is local energy, because our current industry framework struggles to keep up with this as it assumes consumers only have one supplier.

4.13. A member mentioned transparency and enquiring what public information will be out there about licence requirements suspended for a particular period. The team explained we will strike a balance between transparency and commercial confidentiality. This is a trial, so the team will be presenting to the Authority in May, and will do some more internal thinking on transparency.

4.14. The Chair concluded that this was a fruitful discussion and we will work to ensure we are getting a fair balance of benefits between types of user. It should also be noted that

today's agenda items are taking place alongside the usual work that Ofgem carries out and is a part of a wider strategy.

## **5. What we did with your advice**

5.1. Since October's meeting, four papers have been published in the Future Insights series, and the papers mark the start of our thinking not the end. Members' comments from the last meeting were fed into our papers.

5.2. An update was provided on the Voluntary Redress Payments, which is currently in a middle of a procurement process. Ofgem have taken account of members' comments, including on the adoption of more transparent guidance and criteria.

## **6. Any other business**

6.1. The subject of heat was raised as something which could be discussed at the next meeting. This was felt as appropriate as there is some work on heat being explored.

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

7.1. The next meeting will be on the 29 June 2017

## **8. Annexe – Attendance and apologies**

### **8.1. Those in attendance were:**

#### Chair:

David Gray

#### SD Advisory Group members/ deputies:

David Sigsworth (Scottish Fuel Poverty Forum)

Peter Haigh (Bristol Energy)

Prys Davies (Welsh Government – videoconferencing from Cardiff)

Katherine White (Scottish Government – telephone conferencing from Edinburgh, substituting Sue Kearns)

Derek Lickorish (Fuel Poverty Advisory Group)

Victoria MacGregor (Citizens Advice)

Jeremy Nicholson (EEF)

Phil Jones (Northern Powergrid)

Doug Parr (Greenpeace)

Dr Nina Skorupska (Renewable Energy Association)

Nick Eyre (Oxford University)

Peter Smith (National Energy Action - substituting Jenny Saunders)

Ofgem staff:

Martin Crouch

Pamela Taylor

James Veaney

Laura Edwards

Martin Campbell (videoconferencing from Glasgow)

James Proudfoot

Amy Cheung

Apologies:

Paul Ekins (UCL)

Tony Grayling (Environment Agency)

Giles Bristow (Forum for the Future)

Steve Crabb (Centrica)