

Minutes of Sustainable Development Advisory Group meeting

This is a record of Ofgem's Sustainable Development Advisory Group meeting, held 19 Oct 2017.	From	Christopher Mc Dermott
	Date and time of Meeting	19 Oct 2017 10.00-12.00
	Location	9 Millbank

1. Attendance and apologies

- 1.1. See annex for those attending the Oct 2017 SDAG meeting.

2. Updates and agreement of minutes

- 2.1. The Chair welcomed SDAG members and welcomed its newest member - Graham Edwards from Wales and West Utilities.

- 2.2. No new comments were raised about the minutes of the previous meeting.

3. Heat Strategy Update (Presented jointly by BEIS and Ofgem representatives)

- 3.1. Dan Osgood (BEIS) provided views on the importance of a clear strategy for decarbonising the heat sector, the scale of challenge involved and how government are tackling this issue. This included the measures BEIS set out in the clean growth strategy, which highlights the timeframe for Government decision on decarbonising the heat sector in the early part of the next decade to ensure 2050 targets are achieved.

- 3.2. Pamela Taylor (Ofgem) also provided views on Ofgem's role in understanding how decarbonising the heat sector can impact GB energy consumers, the uncertainty surrounding future heat scenarios and the potential for consumer protection issues in the current industry led framework.

- 3.3. Views were raised that the 'heat problem' is one of technology, consumer interactions and behaviours, as well governance arrangements – and that the complexity of this issue should be considered appropriately when designing any enduring regulatory framework.

- 3.4. Generally speaking, SDAG members acknowledged that although Ofgem does not have current powers in this area, there are considerable overlaps with our current powers and Ofgem may expect to have increased involvement going forward. Most SDAG members supported the premise that Ofgem may have an increased remit in heat regulation framework than is currently the case, subject to Government's direction on this matter.

- 3.5. SDAG members generally welcomed the direction from BEIS that decisive action should be taken as soon as possible in the first half of the 2020's. One member however noted that a large number of homes built between now and then still faced uncertainty, for example, whether or not they should connect to the gas network – and urged more decisive action from Government.

- 3.6. One member raised an issue around the focus that heat networks were receiving in the electrification debate and stressed that other options exist. A point was raised that the case for electrifying the heat sector may change if widespread reinforcement is needed to electrify the transport sector (ie the cost of electrifying the heat sector will be marginal).

3.7. One member raised a concern that heat policy costs might be absorbed into consumer bills in the same way that current environmental policy costs have been rather than general taxation, and that there may be scope for potentially regressive and unintended distributional impacts between different groups of consumers.

3.8. One point was raised that that current institutional models (central regulation and supplier hub) may not be suitable to manage such issues, and advocated for more trialling, experimentation and 'regulatory sandbox' based approaches for heat to facilitate piloting and improved learning at an early stage.

3.9. Members agreed that the experience and protection of heat consumers should be paramount in the development of any enduring solution (and corresponding regulatory arrangements), and to understand how Government decisions will impact on consumer choice, tolerance and comfort.

3.10. The chair thanked members for a productive discussion, and given the considerable interest, suggest a follow-up discussion on heat strategy be scheduled during one of the 2018 meetings.

4. Innovation Link

4.1. Miriam Haywood (Innovation Link team, Ofgem) provided an update on the Regulatory Sandbox, the types of innovators Ofgem are engaging with and what innovators' propositions mean for our current regulatory arrangements.

4.2. Members expressed interest in understanding more about the number of innovators Ofgem are engaging with, and if there were common themes or trends regarding the regulatory barriers they faced. Ofgem noted that the Innovation Link team have engaged with approximately 100 innovators, a scale of engagement that exceeded initial expectations. Innovators broadly fell into one of two categories; 1) innovators who have a concept or value proposition but are largely unfamiliar with the energy sector and wish to become more informed on the basics of the energy system architecture, and 2) innovators who are familiar and understand the energy sector, but seek guidance on targeted and specific questions, for example, if Ofgem considers X code or X regulation could be interpreted in a particular way.

4.3. Members encouraged Ofgem to explore how a sandbox approach could be broadened out from just Ofgem to include other key industry participants. This could include organisations which own and are responsible for industry codes (such as Elexon), or other organisations which have a strong focus on facilitating beneficial innovation (such as Innovate UK).

4.4. One member noted that innovators seemed to be heavily focussed on electricity, and enquired about interest in other areas, particularly on the potential for 'full-service providers' in offering a package of energy related services (including heat), rather than the current unit-cost supply offerings we have currently. Ofgem noted that we are not seeing a considerable trend towards innovators trying to bundle together multiple services into a single 'service' based package, at least at this stage. Part of this may be due to regulatory barriers, but it is also likely that innovators we engage with are still in the early stages of developing a business strategy. We may well see a shift towards bundled offerings and energy service packages as innovators move towards commercialisation.

4.5. One member emphasised the vital role barriers have in the energy sector to protect consumers from undue risk and harm. This is particularly true given that energy is an essential service there must be sufficient protections in place to ensure that consumers. Another member noted that if we determine that fundamental change is required to regulatory arrangements to facilitate beneficial innovation, how can we ensure that consumers remain sufficiently protected.

5. Vulnerable consumers

5.1. This discussion was put back on the agenda for this SDAG meeting after very productive discussion at the last meeting, which was cut short due to time constraints. Anthony Pygram (Ofgem) outlined some recent developments Ofgem have made in supporting vulnerable consumers, including the recent publication of Ofgem's vulnerability report, and extending protections currently in place for Pre-Payment Meter (PPM) customers to certain groups of consumers who may be in vulnerable circumstances. Ofgem noted that although lots of positive steps have already taken, we recognise there is still work to be done.

5.2. Members welcomed Ofgem's vulnerability report and expressed positivity about its findings and messages. Members discussed the difficult issue of how to identify consumers in vulnerable circumstances, particularly in instances where this vulnerability is transient and suggested this as an area for Ofgem (and other regulators) to devote more thinking on, and embed going forward. One members suggested that Ofgem engage more closely with the Department of Work and Pensions (DWP) on the issue of identifying vulnerable consumers.

5.3. Members were broadly supportive of recent steps taken by Ofgem in extending the PPM price cap, but some members expressed the expectation that more could have been done in the short-term to protect the interests of a greater range vulnerable consumers. For example, a question was raised about the targeting of Warm Home Discount (WHD) recipients, and whether more should be done to target families in vulnerable situations who may be in more need of support than WHD recipients. Another SDAG member questioned whether the focus on WHD recipients might put off smaller suppliers who engage with the scheme on a voluntary basis.

5.4. One member highlighted that the growth in new suppliers represents both opportunities for some consumers, but also potential challenges in identifying and supporting the needs of vulnerable consumers. Some smaller suppliers may not have the information systems and processes in place to capture the needs of their vulnerable consumers, and there is a strong need for Ofgem (and others) to avoid perverse incentives – eg for vulnerable consumers to be considered economically 'unattractive' to suppliers, big or small.

5.5. One member enquired about how success of the price protection would be measured, and what the intended 'target' outcome was. Ofgem responded that this was always intended to be a short term measure. Ofgem have placed a backstop date in 2019 for the design of this price protection design, but will still be able to bring in new measures sooner if there is cause to do so. Ofgem will continue to monitor the impact the price protection will have on vulnerable consumers, and how it will interact with broader government price protection plans.

5.6. A member suggested there would be value in having a joint vulnerability report covering both retail markets and networks, given interactions and the work being done by network companies in protecting the interests of vulnerable customers they serve. Members agreed that a more joint up reporting process would have value, and suggestions were also raised about how interventions from other regulators and central government could be reported in a more aligned and coherent way.

6. AOB

6.1. No AOB was raised for this meeting.

7. Date of next meeting

7.1. The next meeting will be on 1 Mar 2018, from 10am to 12pm.

8. Annex – Attendance and apologies

8.1. Those in attendance were:

Chair

David Gray (Gas and Electricity Markets Authority)

SD Advisory Group members / deputies

Doug Parr (Greenpeace)

Jenny Saunders (National Energy Action)

Dr Nina Skorupska (Renewable Energy Association)

Jennifer Pride (Welsh Government)

Josh Barnett (Northern PowerGrid)

Jeremy Nicholson (EEF)

Peter Haigh (Bristol Energy)

Steve Crabb (British Gas)

Tony Grayling (Environment Agency)

Graham Edwards (Wales and West Utilities)

Phil Jones (Northern Powergrid)

Lorraine King (Scottish Government)

Dhara Vyas (Citizens Advice)

Dan Osgood (BEIS)

Ofgem representatives

Martin Crouch

Chris Mc Dermott

Aidan Stringfellow

Pamela Taylor

Chris Brown

Natasha Z Smith

Joseph Baddeley

Miriam Haywood

Scott Laczay

Anthony Pygram

Meghna Tewari

Anna Rossington