

## Minutes of Sustainable Development Advisory Group meeting

From: Ian Stone

Date: 01 March 2018

Time: 10:00- 12:00

Location: 9 Millbank,

### 1. Present

1.1. See annex for those attending the March 2018 SDAG meeting.

### 2. A Updates and agreement of minutes

2.1. The Chair welcomed SDAG members and welcomed its newest member Adam Scorer from NEA.

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

### 3. Future proofing energy regulation

3.1. The Chair opened the item by briefly summarising Ofgem's current key work streams noting that Ofgem have a range of reasonably far reaching reforms ahead and the challenge is how to create a coherent narrative showing how it all fits together.

3.2. Martin Crouch (Ofgem) presented the item and mentioned that it is impossible to future proof in terms of market rules. The first solution is to be more agile and have rules that can be more reactive to change. The second solution is to get rules and projects that are more appropriate to the changing environment and have a framework that is as appropriate as possible. The intention is to look at current trends and what challenges they present to the regulatory framework. The chair summarised the challenge as how do you balance the need for a plan with the question of needing to take the initiative?

3.3. Members were comfortable with both approaches noting that each have different objectives. For example, the CCC have to set carbon objectives which require policy objectives to be fully planned out whereas Ofgem have to plan for a world with more variables. The question is what level of uncertainty is realistic to plan for?

3.4. It was noted that some of the predicted changes are optimistic. One member stated that they would be very surprised if smart meters are everywhere and invisible to consumers.

3.5. Some members were slightly concerned about the regulation of heat networks and felt that some areas which probably ought to be regulated are already evident now.

3.6. One member mentioned that the main issue is identifying where the regulator is going to be caught out by change. For example, in spaces where innovation is rapid and where timescales are long (like RII), Ofgem are more at risk of being caught out. In those cases, adopting a "show us what you have done" approach would leave Ofgem less exposed. There would still be a legal risk but it would be the other way around.

- 3.7. There was some discussion about how social policy engages with some of the changes Ofgem are making. It was stated that there are real issues around consumer detriment and data protection. Areas where regulation crosses boundaries will require joined up coherent thinking.
- 3.8. One member mentioned that the point about planning versus being reactive is an issue the government is increasingly getting used to. It was also pointed out that interesting challenges are presented where different vectors and regulator areas overlap eg heat.
- 3.9. The speed of change in energy and the risk of the old model becoming outdated was raised. It was also mentioned that the changing needs of vulnerable consumers and divergent approaches by devolved areas of Government cannot be underestimated. Ofgem have been thinking more about the vulnerable end of the market in light of a differentiated market where on one end you have highly engaged consumers and on the other end highly disengaged consumers. It was pointed out that most energy competition was focused on internet only direct debit and attempts to be inclusive in that environment are difficult. Some consumers may be loathe to engage with the market due to age, confidence etc. and hopefully these consumers would be picked up in phase one of the price cap.

## **4. Targeted charging review and access charging**

- 4.1. Francis Warburton and Andrew Self (Network Charging) introduced the item. There are two discrete work streams considering network charges. The first is the targeted charging review which is looking at the recovery of 'residual' network charges. The second is the network access project which is looking at the nature of network access rights and whether different ways of constructing and allocating them could have value, as well as the appropriate forward-looking charges for use of networks. Emphasis was placed on the three key principles of the work namely 'reducing harmful distortions', 'fairness' and 'proportionality and practical considerations'
- 4.2. The team also mentioned that they had held a number of stakeholder events and had further future events planned and welcomed the opportunity to encourage ongoing dialogue. Members expressed their appreciation of the quality of the presentation noting it was well put together and easy to follow.
- 4.3. It was raised that there was a potential question regarding legal challenge as these decisions are effectively deciding where a pot of charges go which leave the door open for legal challenge. At its heart the work is about the optimal rate of charges and the changing use of networks. It was stressed that it is important to minimise costs to consumers and get the distribution right.
- 4.4. One member mentioned that the charges will affect everyone and their significance will depend on what choices are made. It is important for stakeholders to engage so they know how they are affected.
- 4.5. Members raised that there may be concerns for the industrial sector that may be worse off, CHP in particular. There may be other areas to recover revenue which might offset changes but it's about the allocation of charges as much as the size of the pot.

- 4.6. It was also mentioned that there may be areas affected that are not just of Ofgem interest. For example, there may be regional or environmental impacts. It was confirmed that carbon implications had been taken into consideration eg as part of the review of embedded benefits. Ofgem are in line with government when thinking about harmful distortions caused by decisions on carbon. However, carbon is not a prime consideration on the charging side as technological changes make having a predictable set of network charges difficult.
- 4.7. Members noted that the focus seems to be on the national picture but local infrastructure is not all the same. The example of a city with a high number of electric vehicles (EVs) was given. The individual city would need to understand what the current and future rules are eg on a planning level. The team confirmed that EVs specifically are a key consideration in both reviews.
- 4.8. One member noted that for some options the costs could be quite high and so proportionality is important. They also mentioned that if radical solutions are favoured then the more time suppliers are given to consider them, the better.
- 4.9. One member mentioned the importance of understanding and being careful of the behavioural tendencies of different customers and making those implications of incentives explicit.
- 4.10. A member highlighted that there is a level of complexity that you can't step away from. Other than the first principles, it's the materiality and impact that counts. Eg It might be useful to ask Citizen's Advice to say "if we were to challenge you, what would you need to do (such as providing information) to enable us to do that?"
- 4.11. One member raised that the ability to participate with the level of technical complexity is a barrier to participation and was pleased to hear that there are focus groups. There was a slight concern that the structure was effectively helping out incumbents because they are already engaged as opposed to those who are well behind the curve. The team mentioned that they were careful about representation and have a broad base in task forces. The team mentioned that they have been thinking about the language so as to not promote incumbency and are working hard to get more stakeholders involved in the discussions.
- 4.12. One member also mentioned that networks serve the public good and questioned why we charge for network access. The team replied that to an extent public sector use of energy is publically funded and there is a broader energy service there. They mentioned that the points raised are valid but the regulator is limited in what it can do.

## **5. AOB**

- 5.1. Members were reminded that the next Sustainable Development Advisory Group will be held in Ofgem's new office in Canary Wharf.

## **6. Date of next meeting**

6.1. The next meeting will be held on Wednesday 27 June 2018 from 10am to 12pm.

6.2. The date of the meeting after that may need to be reconsidered – Ofgem will confirm as soon as possible.

## **7. Annex – Attendance and apologies**

7.1. Those in attendance were:

### Chair

David Gray (Gas and Electricity Markets Authority)

### SD Advisory Group members / deputies

Doug Parr (Greenpeace)

Adam Scorer (National Energy Action)

Derek Lickorish (National Energy Action)

Jennifer Pride (Welsh Government)

Jeremy Nicholson (EEF)

Nick Eyre (Oxford University)

Prys Davies (Welsh Government)

Peter Haigh (Bristol Energy)

Steve Crabb (British Gas)

Stuart Matheson (Scottish Government)

Dhara Vyas (Citizens Advice)

### Ofgem representatives

Dermot Nolan

Martin Crouch

Ian Stone

Neil Barnes

Frances Warburton

Andrew Self