

## Minutes of Sustainable Development Advisory Group meeting

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This is a record of Ofgem's Sustainable Development Advisory Group meeting, held 1 October 2015.	From Date and time of Meeting Location	Arina Cosac 1 October 2015 10.00-12.00 9 Millbank
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### 1. Attendance and apologies

1.1. See annex for attendance and apologies for the meeting.

### 2. Updates and agreement of minutes

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

### 3. Future retail regulation – the role of principles and outcomes

3.1. Adhir Ramdarshan (Domestic Retail Market Policy) presented the first main agenda item, on Ofgem's Future Retail Regulation programme and the role of principles and outcomes in regulation.

3.2. Adhir noted that the existing rulebook has expanded significantly in recent years, which can deter new entrants and make compliance harder. It may also unintentionally restrict innovation and new types of business models.

3.3. The aim of Ofgem's Future Retail Regulation project is to develop the regulatory framework such that it incentivises companies to take responsibility for ensuring good consumer outcomes and to put consumers at the heart of their businesses. This will mean that compliance is embedded within all parts of the supplier rather than being limited to the regulatory team. At the same time future retail regulation will enable innovation in the market and new market entry and expansion.

3.4. So far Ofgem has conducted extensive stakeholder engagement. A consultation on our thinking and the future direction of travel is expected to be published in December 2015.

3.5. Specific questions for discussion were addressed to SDAG members, focusing on the role of principles and outcomes in protecting and benefitting consumers in vulnerable situations. SDAG members expressed support for the objectives of the project and raised a number of points, including:

- Prescriptive rules can be 'gamed'; principles backed by a threat of strong enforcement (e.g. as seen in the health and safety sector) can be more effective.
- There is a need to use a flexible approach for vulnerable consumers. In some areas they need minimum standards, which are prescriptive. It is important to avoid a 'postcode lottery' regarding customer outcomes. It is sometimes necessary to be prescriptive to be consistent and fair.
- In other areas more principles-based regulation will be appropriate. It is important that consumers and front line advisors can understand their rights – principles may have a role to play here.

- How do principles get applied to different categories of consumers? In the future market (with distributed generation, demand response, etc.) some retail consumers will be very sophisticated and will not need the same level of protection as others. This is about culture change and that is difficult to achieve. What can we learn from positive examples in other sectors? For example the principles-based approach in health and safety is backed up by random enforcement visits. It has taken decades for the necessary cultural shift to take place. We shouldn't underestimate how hard it is to instigate culture change in companies.
  - Do we need new reporting tools to 'bridge the gap' in the transition from prescriptive to principles?
  - Timescales for taking action are important. The regulator needs to be able to respond rapidly in the case of emerging issues with severe detriment. Some regulators have the power to shut down firms on the spot.
- 3.7 The Chair noted that there the Future Retail Regulation programme is not meant to be a de-regulatory agenda. He concluded that there is a need for clearer definition of vulnerable consumers. **He asked for further views from the Group.**

## 4. Electrically heated households

4.1. Steffen Felix and Zoe McLeod (Consumers & Sustainability) provided a presentation on the second main agenda item, on the experience of consumers who use electricity for space and water heating.

4.2. Ofgem identified non-gas households as a priority area for our Consumers Vulnerability Strategy in part due to the relatively high levels of fuel poverty. To better understand this market segment, we are working on an insights paper on electrically heated households. The paper will include the detailed findings of our review of the demographics of electric heating customers and their market experience (e.g. by analysing complaints data). It is intended to enhance the evidence base in this area and help inform our regulatory agenda. Ofgem intends to publish the insights paper at the end of the year.

4.3. SDAG members welcomed this work and raised a number of points during the discussion, including:

- Some trials and innovation schemes seek to improve the economics of storage heating, for example through bulk-buying and moving to new technology
- The point was made that DTS has originally been set up to help the DNO manage local network constraints. When DTS meters get replaced with Smart Meters, DNOs might not have this control anymore which could impact on the management of constraints
- Automation in a smart world should help customers provide flexibility as it does not necessarily require customers to adjust demand themselves in response to changing dynamic price signals
- Direct-acting radiators may be more economic for households with solar panels if the heating requirement is significant during daylight hours.

## 5. Update on NTBMs, flexibility, and connections

5.1. Ofgem published on the 30<sup>th</sup> of September the summary of responses to the non-traditional business models (NTBMs) discussion paper, a position paper on flexibility and a summary of responses on quicker, more efficient connections.

5.2. Jeffrey Hardy (Consumers & Sustainability) provided an update on the **NTBMs work stream**. Ofgem are delighted with the level of stakeholder engagement, having engaged with over 1000 stakeholders and received 59 formal responses. In terms of next steps, we are considering where our efforts are best focused next, and will publish a proposed course of action by the end of the year.

From the consultation responses we have identified the following two transformative themes:

- (1) New models of flexibility in a changing energy system: Stakeholders noted a number of challenges relating to the installation and use of generation, storage, and demand-side response. Ofgem is taking forward work on flexibility in a number of priority areas relating to these issues.
- (2) Local energy: many NTBMs told us that the regulatory system should be reviewed so it can better accommodate local energy undertakings.

And two cross-cutting themes:

- (1) Enabling diversity and innovation: many stakeholders told us that the current regulatory framework doesn't offer the flexibility to develop their models and to demonstrate the impacts of their initiatives.
- (2) Consumer protection and service: many stakeholders told us that enabling the growth of NTBMs will have implications for consumers both positive and negative, and that we should consider these risks and opportunities when developing options for regulatory change.

5.3. Andrew Burgess and Nathan Macwhinnie (Smarter Grids & Governance) provided an update on the **flexibility work stream**. The position paper published on the 30<sup>th</sup> of September sets out our findings and the priority areas we intend to work on over the next year in order to ensure regulation supports an efficient, flexible energy system. Ofgem will progress these areas as part of a broader programme of work with DECC, intended to manage the transition to a smarter energy system.

The priority areas identified in the position paper to:

- Encourage the transition from Distribution Network Operators to Distribution System Operators roles.
- Explore how to support large industrial and commercial customers to participate in providing flexibility.
- Clarify the role of aggregators, including clarifying their role in markets and their relationship with other industry participants, and exploring the need for policy intervention and regulatory oversight
- Clarify the legal and commercial status of storage and exploring whether changes to the regulatory and commercial framework are needed
- Examine and feed into European discussions in the longer-term on how future distribution charges may need to evolve.

5.4. SDAG members raised a number of points, including:

- Asking how low-carbon issues would be prioritised; Ofgem acknowledged that the flexibility project would have to balance a lot of issues. Concern was expressed that much so called demand response is actually just aggregated diesel generation.

- In response to this however it was noted that diesel generators running a couple of hours a year may still be better in cost and environmental terms than maintaining baseload thermal generation.
- Noting the potential for free-riding by new entrants.
- DECC referenced that flexibility was a major priority for them, and noted their significant programme of work on this issue. There will be a call for evidence in Spring 2016, and potential decisions from Autumn 2016

5.5. Andrew Burgess and Olivia Powis (Smarter Grids & Governance) provided an update on the **quicker, more efficient connections work stream**. We consulted in February – May 2015 and we published our next steps and summary of responses on the 30<sup>th</sup> of September. This paper includes:

- Summary of responses to the consultation
- Inviting stakeholders to come forward with schemes that we can trial under the current rules
- Signal our willingness to work with DNOs to facilitate these trials including:
  - Providing DNOs with more comfort to undertake strategic investment where appropriate
  - Enabling DNOs to apply for relevant derogations from charging methodologies if appropriate
  - Encourage third parties to coordinate infrastructure requirements and work with DNOs at an early stage
- In discussion it was noted that there is a tough-line against free-riding (i.e. getting free connections at expense of others) in GB and this has led to efficient investing. This high-bar should be maintained moving forwards.

## 6. Conclusion

6.1. The Chair summarised the discussions noting two challenges for Ofgem:

- how to consider consumers who may wish to choose their level of risk
- there is a question on how we facilitate more trials in the energy system, e.g. opening or exempting from sections of the rule book, while maintaining consumer protection.

## 7. Date of next meeting

7.1. The next meeting will be on **Thursday 3 March 2016**, from 10am to 12pm at Ofgem premises.

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

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

#### Chair

David Gray (Gas and Electricity Markets Authority)

#### SD Advisory Group members / deputies

Jenny Saunders (National Energy Action)

Dr Nina Skorupska (Renewable Energy Association)

Phil Jones (Northern PowerGrid)

Derek Lickorish (Fuel Poverty Advisory Group)

Nick Eyre (Oxford University)

Jeremy Nicholson (Energy Intensive Users Group)

Giles Bristow (Forum for the Future)

Rachel Crisp (DECC)

Christine McKay (Scottish Government)

Jennifer Pride (Welsh Government)

#### Ofgem Staff

Anthony Pygram

Rachel Fletcher

Andrew Burgess

Philip Cullum

Michael Grubb

Stephen Bass

Jeffery Hardy

Adhir Ramdarshan

Nathan Macwhinnie

Steffen Felix

Zoe McLeod

Olivia Powis

Arina Cosac

**8.2.Apologies:**

David Sigsworth (SEPA)

Chris Stark (Scottish Government)

John Feinnes (DECC)

Paul Ekins (UCL)

Audrey Gallacher (Citizens Advice)

Tony Grayling (Environment Agency)

Juliet Davenport (Good Energy)

Doug Parr (Greenpeace)