

## Minutes of Sustainable Development Advisory Group Meeting

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<p>This is a record of Ofgem's Sustainable Development Advisory Group meeting, held 6 October 2016.</p>	<p>From Date and time of Meeting Location</p>	<p>Amy Cheung 6 October 2016 10.00-12.30 Boardroom, Ofgem, 9 Millbank, SW1P 3GE</p>
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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. The Chair introduced three new members to the group.

### 3. Insights for Future Regulation Project

3.1. The Head of Sustainable Energy Futures presented an overview on the progression of the Insights for Future Regulation Project, including the next steps to follow, and outlining the challenges of predicting the future.

3.2. The Chair added that the intention with this project is to not turn Ofgem into a think-tank, but to place it in a position where it can be sufficiently informed and more carefully focused on what Ofgem needs to do regarding future priorities. The group felt that Ofgem should take the opportunity to internalise future thinking, picking up on potential blind spots.

3.3. Members praised the overview paper, stating that it covered a number of important issues on areas that Ofgem needs to be thinking about. One member stated that two points need further consideration (i) what does this mean for Ofgem's working culture, especially the need to become more flexible, and is it equipped to be fast enough to react (ii) Ofgem cannot operate in a policy vacuum and it is important for Ofgem to identify and flag areas that should be a focus for government policy.

3.4. The group noted that Ofgem's "unique selling point" was identifying what the "unknown knowns" mean for regulation e.g. if decentralised energy generators were to disconnect from the grid, how much would that cost and how would the future system be paid for? More consideration of storage and demand reduction was proposed.

3.5. Members suggested that future papers should clearly define what we view as Ofgem's role compared to others. Here Ofgem was described as having a comparative advantage which we should make the most of, as it has sight and knowledge of all areas across the energy system and is best placed to understand what has worked versus what hasn't.

3.6 The role of the consumer and, risk of uncertainty to consumers, should be the project's central focus. It was said that we need to identify which areas need more attention in regards to consumer protection and how this fits in with principle based regulation. Key consumer changes to be considered included: aging population, private renting, changing behaviour habits, acceptance of change and lack of adaptation to

technologies. Some felt that this paper was overly optimistic on consumers adapting to changing technologies and there is a danger of increased mis-selling.

3.7. Members supported the proposal for a future paper on heat. It was pointed out that in a similar sense it could be said Ofgem does not regulate lighting, but it regulates what powers lighting and similarly with heating.

3.8. The Chair agreed that there is the need for Ofgem to be more flexible; noting the need to balance flexibility whilst not halting innovation or distracting our focus on consumer protection. He recognised that we need to improve on communicating our vision and giving the energy industry/consumers a better idea of what our future goals are, without dictating how they should be reached.

#### **4. Voluntary Redress Payments**

4.1. The Enforcement and Compliance Team gave an overview of the consultation on Voluntary Redress Payments and the responses received. The consultation ended in August.

4.2. Three members around the table declared their involvement regarding this issue, having been engaged with the consultation, or having received redress money in the past. One member explained that their organisation has recently taken on a similar role in using enforcement instead of criminal prosecution.

4.3. The group discussed the relative merits of a third party taking decisions rather than Ofgem. The risk of a third party having interests that may be compromised or commercial interests were noted. Members felt that if the third party option is taken, Ofgem must define the objectives clearly in order to be able to monitor whether these have been met and maximise transparency, with a clear framework and criteria to help focus and monitor the spending. Members felt that if the third party route is followed, it should be a non-commercial third party.

4.4. On the issue of whether local authorities should be eligible to receive funding, the group felt that it was most important to define and commit clear objectives and criteria in order to best place the money from the large pool of people who will be bidding for it. From there, the third party would be able to decide whether local authorities should receive funds.

4.5. Members supported Ofgem's willingness to see funds go to support vulnerable customers. The group advised that a third party will have to understand the complexities with vulnerable consumers. Making sure the money is well spent is also hard to monitor.

4.6. It was highlighted that the scheme has to give confidence to those who have been fined, and ensure it benefits customers. In their experience, bidding for money from investigated parties is difficult. It then takes time to design a robust programme, and programmes may involve multiple schemes, causing the monitoring process to be very complex. Monitoring is also difficult as sometimes schemes just fail. It was advised that this third party must know that money can't disappear on 'business as usual' but rather funding should be leveraged so that more money is spent on consumers than received from redress. This was supported with the statistic that an extra 62p to every £1 of fine was achieved in one case.

4.7. The point was also raised that each option has a political risk, where by Government may have the desire to hold Ofgem to account if errors occur. Ofgem already faces this risk under the current arrangements. One suggestion was to seek ministerial sign off to minimise political risk.

4.19. Some members felt that if Ofgem uses the third party route, it should retain ultimate power to make final decisions, especially as they are privy to information that the third party may not be aware of.

4.20. It was recognised that there needs to be purpose-built governance or a franchise model that will allow Ofgem to review and change the third party after a certain period if they do not perform well. Clarity and transparency of objectives, criteria and monitoring were seen as critical.

## **5. What We Did With Your Advice**

5.1. Ofgem summarised the teams' reactions to previous SDAG discussions, all being extremely positive. Examples were given of how previous discussions at SDAG have been very beneficial to their work, supportive, constructive and detailed.

## **6. Any other business**

6.1. The subject of smart meters was raised as something which could be discussed at the next meeting. There are concerns about the amount of money being spent on a roll out that might go wrong, and has the potential to cause harm. Concerns regarding the cost of delays and little consideration to the cost-benefit balance changing due to the delays, were also highlighted.

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

7.1. The next meeting will be on the 22 March 2017

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

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

#### Chair:

David Gray

#### SD Advisory Group members / deputies:

Jenny Saunders (National Energy Action)

Dr Nina Skorupska (Renewable Energy Association)

Phil Jones (Northern PowerGrid)

Prys Davies (Welsh Government – Videoconferencing from Cardiff)

Victoria MacGregor (Citizens Advice)

Doug Parr (Greenpeace)

Derek Lickorish (Fuel Poverty Advisory Group)

Paul Ekins (UCL)

Tony Grayling (Environment Agency)

Nick Eyre (Oxford University)

Bryan Halliday (Centrica)

Peter Haigh (Bristol Energy)

Michael Grubb (UCL)

Ofgem Staff:

Martin Crouch

Joe Perkins

Louise Burrows

Dr Karen Mayor

Pamela Taylor

Kiera Schoenemann

Kieran Coleman

Amy Cheung

Apologies:

Giles Bristow (Forum for the Future)

John Fiennes (BEIS)

Sue Kearns (Scottish Government)

David Rutland