

Minutes of Sustainable Development Advisory Group Meeting

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| This is a record of Ofgem's Sustainable Development Advisory Group meeting, held on 29 June | From Date and time of Meeting Location | James Proudfoot 29 June 2017 Boardroom, Ofgem, 9 Millbank, SW1P 3GE |
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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 including its decision on embedded benefits and the preliminary approval for three new interconnectors under the cap and floor regime. The Chair also noted the impact of purdah delaying a number of Ofgem publications.

3. NAO study on vulnerable consumers in regulated industries

3.1. The lead on the vulnerability strategy presented an overview of the work Ofgem is undertaking in relation to vulnerable consumers, touching on the 2013 Consumer Vulnerability Strategy, Annual Vulnerability Report and Future Retail Regulation. He then introduced the National Audit Office's (NAO's) study on vulnerable consumers in regulated industries, highlighting the key findings, main recommendations and Ofgem's next steps. He concluded the presentation by asking the members how Ofgem should reshape its aims and objectives in this sphere, particularly in light of increasing recognition of vulnerability crossing sectoral boundaries.

3.2. Members discussed the issue of how vulnerability is identified noting that this is one of the biggest challenges faced by both industry and government. Ofgem highlighted that they are moving away from a tick box approach to defining vulnerability and towards using principles, which is in line with what other regulators are doing. On this point, members acknowledged that a lot of work has gone into strengthening vulnerability definitions over the last years (and regulators have harmonised their understanding of vulnerability).

3.3. Members identified decarbonisation and the smart meter rollout as particular challenges for vulnerable consumers. They noted a risk that non-vulnerable would be better placed to take advantage of technological advances by e.g. getting solar panels with substantial savings on their bills whereas vulnerable consumers are less likely to get these technologies and could end up with much higher than average bills.

3.4. Members discussed and advocated for a greater focus on local initiatives and noted that they could be particularly valuable at identifying vulnerability as they are often the first point of contact. In response to this, the head of vulnerability strategy at Ofgem noted that as part of the UKRN Ofgem was conducting a joint project with Ofwat to investigate whether there can be better usage of data and will be publishing a report in September.

3.5. Members asked the question of who leads on vulnerability, with most members being of the opinion that BEIS should be lead across all industries in this area, working with colleagues in local government to tackle issues at community level. They expressed that local strategies should be brought to companies and that the burden should not fall on individual regulators without a clear direction of intended plans. In addition, one member noted that other departments outside of BEIS such as DWP would have key information that could help identify vulnerable consumers.

3.6. The Chairman noted that Ofgem could use the committees on which it sits with other regulators to tackle this problem. With regard to how Ofgem should shape its response to vulnerability, he noted that thinking about how outcomes are defined is essential. He noted that Ofgem would conduct more specific thinking on the risks presented by smart metering and decarbonisation to vulnerable consumers. The Chairman concluded that the issue of vulnerability will be revisited by this group.

4. Research Hub

4.1. The lead for developing the research hub within Ofgem briefed the members on the plans for its development. They highlighted that the aims of the hub were to a) develop an Ofgem led programme of research, b) serve as a centralised point within Ofgem to co-ordinate engagement with academics and other research communities and c) to clearly communicate the areas of research of most relevant to Ofgem's interests over the coming years. The Ofgem representative also noted that over the summer they would be publishing an open letter, which would be a call for engagement on priority areas the research hub should focus on.

4.2. Members questioned whether Ofgem should be distributing large grants to undertake research, however Ofgem clarified that the hub will seek to understand where research is being developed, and will provide links between existing research; however, it will not finance external research projects. They also noted that some research would be undertaken internally using existing data, though our resource devoted specifically to the Research Hub is relatively small. Ofgem also noted that developing internally led research would help to lessen the requirement for externally procured resource.

4.3. Members thought that the research hub could link up with institutions such as the White Rose University Consortium in order to share knowledge and best practice. This would be important to find out what other research was going on and could be an opportunity for Ofgem to be a forum for interaction between academics on thinking about energy issues. In addition, Members agreed with the premise of the research hub and that it is important Ofgem remains aware and informed of the key issues the industry is facing, particularly challenges presented to networks and infrastructure.

4.4. Members discussed that historically in the UK research insights have struggled to get traction and actually influence policy decision making. They suggested that the research hub should not just be about producing papers but be a living programme of insight that is shared amongst relevant decision makers. They suggested the research should be focused around specific questions that Ofgem will likely be required to answer in the near future.

4.5. The Chairman closed by inquiring how this can be aligned with the academic panel. Ofgem noted that internal processes are still being developed, but it is likely the Academic Panel would provide a steer on which research areas would be more useful to explore, and could serve a peer-review function for internally developed research.

5. Smart Metering

5.1. The representative from BEIS gave an overview of the smart meter programme, describing the benefits of the rollout to consumers and the measures that have been put in

place to ensure that these are delivered – such as the Smart Metering Installation Code of Practice and the Data Access and Privacy Framework. A representative from Ofgem outlined Ofgem’s role in overseeing the smart metering regulatory framework and how it aims to secure the right outcomes for consumers. They closed their presentation by asking members where they felt Ofgem should focus its efforts to secure the best outcomes.

5.2. Members questioned whether the assumptions on reductions in energy consumption were realistic, and whether consumers would change their behaviour in response to time of use tariffs. The representative from BEIS noted that the assumptions on energy savings are conservative (2.8% for electricity and 2% for gas) and that, for example, one UK energy supplier has found that their smart customers are making savings of around 4%. In addition, he noted that demand side response is an emerging area that will become better understood over time and that additional innovation, such as use of aggregators and automation to make the process more straightforward for the consumer, may prove to be necessary to drive change.

5.3. Members discussed how the ability to save energy depends on the knowledge and advice consumers are given through the installation process – it is not just about having a smart meter. Consequently, they argued that it is more important that the rollout is done well than quickly, and were concerned that the drive to hit the 2020 rollout timeline could harm the consumer experience and benefits realisation. In response, the BEIS representative noted that the 2020 rollout timeline is set out in the Government’s manifesto and the recent Queen’s speech.

5.4. Members acknowledged the significant benefits of smart metering for consumers, in both the short and longer term, but noted that this is often not reflected in the public narrative and public opinion. They urged a continued focus on communicating the benefits of smart metering to consumers, so that consumers engage positively with the offer of a smart meter installation.

5.5. The Chairman concluded by noting a key risk associated with the rollout is the negative public narrative. Smart metering is a core enabler for transformation of the energy system, bringing real benefits for consumers, and it is important that people hear that positive message.

6. What we did with your advice

6.1. In relation to flexibility, Ofgem noted that they had published a consultation for the Targeted Charging Review and would continue to look at how access to the networks may need to evolve.

6.2. Ofgem noted that Innovation link had taken away advice from the group and were working on more bespoke engagement with innovators and gave a brief overview of what kinds of businesses had been in contact with their ideas. They also highlighted that a short update would be published over the next few days.

7. Any other business

7.1. A number of members were also very interested on hearing about the future heat strategy and a further follow-up of the innovation link. One member expressed interest in hearing about electric vehicles and what Ofgem’s initial thoughts were on this.

8. Date of next meeting

8.1. The next meeting will be on 19 October 2017.

9. Annexe – Attendance and apologies

9.1. Those in attendance were:

Chair:

David Gray

SD Advisory Group members/deputies

David Sigworth (SEPA)

Derek Lickorish (Fuel Poverty Advisory Group)

Doug Parr (Greenpeace)

James Court (Renewable Energy Association)

Jennifer Pride (Welsh Government)

Jenny Saunders (National Energy Action)

Jeremy Nicholson (EEF)

Nick Eyre (Oxford University)

Paul Ekins (UCL Energy Institute)

Peter Haigh (Bristol Energy)

Phil Jones (Northern Powergird)

Steve Crabb (British Gas)

Tony Grayling (Environment Agency)

Victoria MacGregor (Citizens Advice)

Ofgem staff

Anthony Pyram

Christopher McDermott

Jacqui Russell

James Proudfoot

Joe Perkins

Jonathan Blagrove

Martin Crouch

Moritz Weber

BEIS Representative

Daron Walker

Apologies

John Fiennes

Sue Kearns