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## Terms of Reference – Net Zero Advisory Group

These are the Terms of Reference for the Net Zero Advisory Group. These Terms of Reference may be reviewed and updated from time to time.

### Background

1. Ofgem’s principal objective in carrying out its functions is to protect the interests of existing and future gas and electricity consumers<sup>1</sup>. These interests includes their interests in the reduction of emissions of targeted greenhouse gases.
2. The UK Parliament legislated to set a target of net zero greenhouse gas emissions for 2050, and the Scottish Government for 2045 (with interim targets). The Welsh Government also intends to introduce legislation to amend its existing target to achieve net zero no later than 2050.
3. In July 2019, Ofgem published its Strategic Narrative, setting out its medium term priorities up to 2023. This identified decarbonisation at lowest cost as one of its three core priorities and recognised the potential need for a more active role in building Great Britain’s low carbon energy system, in the interests of future consumers.
4. In February 2020, Ofgem published its Decarbonisation Action Plan, setting out the actions it will take in the next 18 months towards net zero. This included confirmation of its intention to convene a Net Zero Advisory Group, recognising that Ofgem, in order to perform its functions effectively, will need to work closely with government and key strategic stakeholders to enable an effective transition to a net zero economy by 2050 at the lowest cost to energy consumers.

### Role of the Net Zero Advisory Group (NZAG)

#### Scope

5. The views and any suggestions for action emanating from the Group will be communicated to and considered by Ofgem. Ultimately, in all cases Ofgem will retain its decision-making function as the independent economic regulator.
6. The scope of the Group’s discussions will be limited to areas which would inform Ofgem’s role and exercise of its powers around decarbonisation.
7. The Group is expected to discuss and, if appropriate, may make suggestions on:

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<sup>1</sup> Ofgem is the Office of Gas and Electricity Markets, regulating the gas and electricity industries in Great Britain. Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority (GEMA) which determines strategy and policy priorities. Ofgem and GEMA are used interchangeably in this document. Ofgem’s powers and duties are provided for under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000 and other statutes.

- (a) Ofgem’s key upcoming policy decisions and wider direction, in particular through building awareness of the development and delivery of government decarbonisation policies, and the potential impacts on the energy sector;
  - (b) any areas where Ofgem actions and policies may be counter to the achievement of net zero targets;
  - (c) the key drivers (at a national and/or regional and local level) that will help determine pathways to support net zero targets, with a particular focus on the RIIO-2 price controls;
  - (d) areas where Ofgem can enable a cost effective approach to delivering net zero, with a particular focus on the net zero arrangements in the RIIO-2 price controls (reopeners and strategic innovation fund);
  - (e) key network innovation/R&D problems for the power, heat and transport sectors, with the aim of alignment between Ofgem innovation programmes and the development of government/ wider public sector innovation programmes and funding;
  - (f) any other key issues that it would be appropriate to consider in relation to Ofgem’s regulatory power and its impact on the net zero target.
8. The Group is independent from Ofgem, and no action or suggestions on the part of the Group will under any circumstances be construed as any commitment on the part of Ofgem to take similar action or adopt such suggestions.

### **Objective**

9. The objective of the Net Zero Advisory Group (the “Group”) is to strengthen strategic coordination amongst key government departments and public sector organisations involved in the energy system transition, including around the heat, power, and transport sectors.
10. To achieve this objective, the Group will, as its primary purpose consider the broad range of Ofgem’s regulatory responsibilities with a principal focus on the energy networks and the RIIO-2 price controls. This could include potential proposals for anticipatory investment, the strategy and delivery of strategic innovation funding arrangements, and considerations on the future of heat.
11. In furtherance of this objective, regular members are also expected to share relevant knowledge, data and information from their respective organisations and their wider stakeholder network, to the extent permissible by each regular member’s legal framework. There may also be scope for the Group to commission research and/or analysis, the arrangements for which would be determined on a case by case basis.

### **Membership and Attendance**

12. The Group will normally be made up of representatives from (“regular members”) the following:
- Ofgem – Chair (CEO)
  - Department for Business, Energy & Industrial Strategy, UK Government
  - HM Treasury, UK Government

- Department for Transport, UK Government
- Scottish Government
- Welsh Government
- National Infrastructure Commission
- Committee on Climate Change
- Citizens Advice

13. Where appropriate, the Group may invite internal or external experts to specific meetings and seek views from these parties outside of the meetings. Ofgem will provide secretariat support to the Group, as well as administrative support as necessary.

14. The work of the Group may require the sharing of research and analysis in relation to the responsibilities listed at paragraphs 6 and 7. In such circumstances the completion of appropriate Non-Disclosure Agreements may be required.

### **Meetings**

15. The Group is expected to meet on a six-monthly basis. Under normal circumstances any meetings will be hosted at Ofgem's Canary Wharf office (with dial-in facilities available), although video-conferencing is likely to be used in the short-term in the context of the global crisis surrounding Covid-19.

16. Agendas and briefing notes will be provided in advance to assist in enabling an informed discussion. If a member cannot attend a meeting, the member can send comments on the agenda items and briefing notes, which will be shared by the Chair during the meeting.

17. In order to facilitate open and constructive debate, meetings will be held under the Chatham House Rule. Whilst the outcomes of the meetings of the Group will be recorded as necessary in summary and published, views would not be attributed to specific individuals or organisations. Members will be given advanced sight to comment before publication.

**End**