

**MINUTES OF THE SIXTH MEETING OF THE
ELECTRICITY NETWORKS STRATEGY GROUP (ENSG)
Held at Ofgem, 9 Millbank, London, SW1P 3GE
10:00 AM, Monday 23rd November 2009**

Present:**Co-Chairs**

Ofgem	Stuart Cook (Chair on the day)
DECC	Giles Scott

Industry Members

Scottish Power	Colin Bayfield (attending for Colin Taylor)
Central Networks	Jeff Douglas (attending for John Crackett)
EDF Energy Networks	Barry Hatton
Vattenfall	David Hodgkinson
CE Electric UK	Phil Jones
National Grid	Alison Kay (attending for Nick Winser)
Trade Associations	Robert Longden
British Energy	David Love
RWE NPower	David Mannering
SHTL	Mark Mathieson
Centrica Energy	Sue Wheeler (attending for Sarwjit Sambhi)

Government Members

Scottish Government	Colin Imrie
Energy Wales	Ron Loveland

Also in attendance

DECC	John Christie
Ofgem	Gareth Evans
Accenture	Rick Hanks
Accenture	Robert Hopkin
AEAT (Secretariat)	Chris Naish

Apologies

DECC	Jonathan Brearley
Central Networks	John Crackett
Centrica plc	Sarwjit Sambhi
Scottish Power	Colin Taylor
National Grid	Nick Winser
RES Ltd	Douglas Wright

1. Welcome and Introduction

- 1.1 The Chairman welcomed the participants. Apologies for absence and alternates attending were noted. Giles Scott gave apologies for Lorraine Hamid (Head of Future Networks Policy at DECC) who was noted on the agenda as the joint chair for DECC, as she was ill. Giles represented DECC at the meeting.

2. Minutes and Actions

- 2.1 The Chairman reviewed the status of the actions from the last meeting. There were 4 actions that had been noted.
- 2.2 The ENSG Transmission Study team had provided a note in response to Action 1 (to provide a comparison of carbon savings under a number of relevant scenarios). The action was accepted as complete.
- 2.3 Action 2 (The Smart grid working group team to determine the parts of the CBA analysis that are robust under a wide range of future scenarios and which are more sensitive to external factors being delivered) was to be addressed by the presentation and discussion under agenda item 5.
- 2.4 Action 3 (Secretariat to arrange the next ENSG meeting for mid January 2010) was carried forward – the Secretariat will notify group members of the date of the next meeting (planned for mid-January 2010) as soon as possible.
- 2.5 Action 4 (DECC to confirm the dissemination route for information from the UK participation in the IEA ENARD Annex) will be covered by agenda item 7.
- 2.6 The Chairman asked the members whether they had any comments or corrections to the draft minutes from the meeting of 30th September 2009.
- 2.7 It was requested by the Scottish Government that the seventh bullet point under item 3.3 was amended from ‘...it will be interesting to see if this leads to less delays...’ to ‘...this should mean less delays...’ to correctly reflect their point at the meeting. This was agreed.
- 2.8 No other points were raised. The minutes, with the above amendment, were agreed and will now be published on the ENSG website.

3. Update on the Funding of Transmission Investments

- 3.1 Ofgem reminded members that this item was covering the approval of the transmission investments that had been described in the ENSG Transmission Working Group report on the investments required by 2020 to facilitate the achievement of Government targets. This work had been endorsed by the ENSG and published as ‘Our Electricity Transmission Network - A Vision for 2020’ in March this year.
- 3.2 Ofgem stated that significant investments were being approved ahead of DPCR5. Ofgem’s consultants were assessing and advising Ofgem on the individual transmission investment proposals under two headings: i)

practicality – were the transmission operators (TOs) ready to move on the development and ii) need – is the timing (proposed by the TOs) reasonable – does the project need to be brought forward now. If the answer is ‘yes’ to these questions, funds are being released.

3.3 The following comments and questions were raised:

- Ofgem’s pragmatic approach was welcomed but there remained some concern over the island connections in Scotland – in particular in the Western Isles.
- The question was asked as to when the consultants would complete their work – Ofgem responded that they were planning to publish their final proposals in January.
- Concern was raised as to whether the Ofgem review work could result in practical delays – assurance was provided that Ofgem were only looking at timing – they were not questioning the fundamental need for the investments – this view was backed by other parties including the NG and Scottish TOs.
- A question was asked as to whether any supply chain issues could potentially delay investments – there is a concern over delivery of cables – this was under review.

4 Update on DECC Smart Grid Related Policy Announcements

- 4.1 The Chairman invited DECC to update the group on the wider context of the smart grid work.
- 4.2 DECC reported that Ministers are keen to publish i) the ENSG’s smart grid vision alongside ii) the Government’s vision for smart grids through to 2050, iii) the announcement of the £6 million Smart Grid capital grants programme and, possibly, iv) the Government’s response to the summer consultation on Smart Meters, ahead of the Copenhagen Climate Negotiations Meeting. The date is not yet set but the current plan is to go for a launch event during the first week of December (w/c 30th November).
- 4.3 The view was expressed that the ENSG Vision should be more consumer centric – DECC confirmed that their Vision would place consumers at the centre of the smart grid developments and highlight the potential benefits to consumers and the wider UK.
- 4.4 The DECC Vision will be consistent with the ENSG Vision – the emphasis in the Government Vision will be on a simpler approach and description to widen the potential readership and engagement - but they see the two documents as complementary.

5 The ENSG Smart Grid Vision

- 5.1 The Chairman invited a representative from the Smart Grid Working Group to present the work on the Vision since the last ENSG meeting in September and in particular the response to the points raised by ENSG at the meeting. The overheads used had been circulated to the group ahead of the meeting.

5.2 In response to the presentation the following points were made:

- the cost benefit analysis (CBA) does not attribute who benefits flow to – it is based on societal benefits.
- The point was made that care was needed to ensure the smart grid policy was 'joined up' with other government wider policy work – in particular there could be contradictory signals resulting from taking forward capacity payments to generators and on the other hand demand side participation.
- The best solutions should be brought forward by the market – however capacity payments relied to some extent on a judgement by Government/the regulator on their ultimate level and operation – this would affect the market.
- DECC and Ofgem responded that the Vision was high level and, while it needed to be recognised that there was a key link to the market structures, it was not the objective of the Vision to include the design of a market.
- The effect of the cost of carbon was raised. The Vision team confirmed that, following guidance from DECC economists, the Vision did not include the value of carbon. This was deemed to be captured elsewhere in policy and should not be double counted. This is the same approach as for the smart meter CBA.
- It was pointed out that there is a contradiction in that the current electricity price factors in carbon at 15 Euro per tonne.
- It was agreed that there needs to be better clarity and transparency on the way carbon is accounted for.
- Related to the last point, Ofgem was asked whether they used the Government's shadow price of carbon in their assessments. Ofgem agreed they would confirm this with the group.

Action 1: Ofgem to confirm whether they generally used the Government's shadow price of carbon in their assessments and if not how carbon value was factored in to assessments.

- The study team confirmed that they had drafted a supporting note that explained the background to the Vision CBA and its broad assumptions. It was agreed this would be circulated to the group.

Action 2: Vision Study team to circulate Vision background assumptions document to the ENSG via Secretariat.

- The study team also confirmed that the costs of revising the settlement system to enable demand side response from network operators and consumers were not included in the CBA.

5.3 The point was raised as to what was involved in 'endorsing' the Vision from the point of view of the ENSG. It was agreed that the Smart grid Vision was different from the previous ENSG Working Group on transmission, which came up with a series of investment projects that were endorsed as being required under a wide range of likely future scenarios.

5.4 It was suggested that the group agree the following wording:

“The ENSG recommends the Vision described is a key contribution to delivering a smart grid policy but that this needs to be joined with other complementary and essential initiatives e.g. issues around financing, carbon price and customer engagement. The ENSG recognises there are scenarios where the NPV is positive so recommend this work continues as a way of delivery.”

Action 3: DECC and Ofgem to finalise this form of words and circulate it to the group asap for their agreement to allow publication of the ENSG Vision.

Action 4: The agreed text to be added to the slide pack in the first few slides (on slide 5?) before publication.

Action 5: The group believes significant elements of costs are missing from the DECC analysis (e.g. carbon cost, settlement system redesign/adaptation costs) – DECC to consider and comment back to group.

Action 6: Modify Slide 23 to promote position of customer.

6 The ENSG Smart Grid Route Map – Progress Update

- 6.1 The study team presented the draft route map and the overview of barriers. The presentation had been circulated to the group ahead of the meeting. In the subsequent discussion the following comments were made:
- 6.2 In slide 11 the following suggestions put forward:
- Objectives that should be added are ‘Quality of Supply’ and ‘Security of Supply’
 - ‘Security of data’ is an issue
 - Electric Vehicles
 - ‘Anticipatory Investment’ should be added to the ‘Key Enablers’ Box
 - ‘People Skills’ are also a ‘key enabler’
 - There needs to be active facilitation of the demand side response
- 6.3 Coherence of policy in general is a key issue given the wide-ranging changes that will be required across the entire system.
- 6.4 The ‘Key Barriers’ list in slide 12 was discussed. The issue the group focussed on was consumer engagement and the elicitation of consumer response. There was a discussion of whether consumers would 1) want (e.g.) suppliers to take control of their household devices etc and whether there was a) an appreciation of what was involved, b) the potential benefits and c) the yielding of control/intrusion into the home.
- 6.5 NG referred to a Microsoft presentation on ‘smart meter’ and the response from staff within NG – i.e. (even) in this technically aware audience there were concerns over intrusion etc.
- 6.6 It was suggested that as Ofgem had consumer focus groups already set up and available whether they could be used to test some of these concepts, views on participation etc.

Action 7: Ofgem to investigate and report back to group on potential use of their focus groups to test out Smart Grid consumer engagement and views on (e.g.) levels of intrusion/control of household appliances.

- 6.7 Is the potential for different DNOs to take different approaches a barrier – Ofgem are working to deliver a co-ordinated approach across networks.
- 6.8 The network companies are actively participating in the smart grid development debate and have come forward, through the ENA ENFG Smart grid group, with a set of 'Lighthouse Projects', moving on towards broader roll-out and a final progression to 'Smart UK'. Although to implement this requires further discussion with Ofgem on the nature and possible restrictions in the Low Carbon Network Fund that is seen as the key to the delivery of these projects.
- 6.9 The role of storage needs to be defined along with how it fits in the possible future scenarios.
- 6.10 Finally there was a short discussion of how the Vision and Route Map is taken forward once the group delivers it and signs it off – who owns the Vision going forward?

7 IEA ENARD Update and Dissemination Proposals

- 7.1. The Chairman invited DECC to update the group on the IEA ENARD (Electricity Networks Analysis, Research and Development) work, which the UK along with a wide range of other IEA members, supported.
- 7.2. ENARD has a broad membership but has a European focus however both USA and South Africa are members.
- 7.3. DECC proposed that an ENARD dissemination network was set up for the UK and that the ENSG should nominate members from their organisations to join this network. ENARD papers etc would be circulated to the dissemination group by the ENSG secretariat. Dissemination workshop(s) were could also be considered.
- 7.4. The group agreed this was a sensible way forward but made the point that many smart grid developments were taking place outside of Europe and it was likely that ENARD could not be comprehensive in this case.

Action 8: Members to nominate individuals as points of contact for ENARD dissemination.

8 Any Other Business and Date of Next Meeting

- 8.1 The Chairman asked members if there was any other business. There was not. He therefore confirmed the group would meet again in mid-January with the objective of signing of the Smart Grid Route Map. He thanked the members for their attendance and input and closed the meeting.

Action 9: Secretariat (in co-ordination with DECC and Ofgem) to set a date for the next meeting (in mid January 2010) and inform group members asap.

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