

KENT UTILITIES ENGAGEMENT SUB-COMMITTEE

MINUTES of a meeting of the Kent Utilities Engagement Sub-Committee held in the Medway Room - Sessions House on Friday, 15 February 2019.

PRESENT: Mr M A C Balfour (Chairman), Mr A M Ridgers (Vice-Chairman), Mr T Bond, Mr D Farrell, Mr H Rayner and Mr J Wright

IN ATTENDANCE: Mrs K Goldsmith (Research Officer - Overview and Scrutiny) and Ms C McKenzie (Sustainability and Climate Change Manager)

UNRESTRICTED ITEMS

27. Substitutes

(Item 2)

(1) Apologies had been received from Mr Brazier and Mr Chittenden.

28. Declaration of Interests by Members in items on the Agenda for this meeting

(Item 3)

(1) There were no interests declared.

29. Minutes of the meeting held on 1 November 2018

(Item 4)

RESOLVED that the minutes of the meeting held on 1 November 2018 were a correct record and that they be signed by the Chairman.

30. Presentation by Southern Gas Network

(Item 5)

Mr Andrew Gibson (Head of Network Distribution, SGN) was in attendance for this item.

(1) The Chairman welcomed Mr Gibson, who delivered a presentation about the roles and responsibilities of SGN. The presentation covered:

- The role of SGN and how it operated;
- Developing the network and the changing demands of customers;
- Stakeholder engagement;
- Looking to the future.

(2) Mr Gibson explained that due to their monopoly status, SGN were heavily regulated by Ofgem. Ofgem set price controls, and the next period (RIIO-2) would commence in 2021 for a period of five years.

- (3) Mr Gibson informed the Committee that there were 3 bio-methane plants (producing renewable “green” gas) in Kent, with 4 more scheduled to be built in the next few years.
- (4) When developers required a gas connection that would exceed the current capacity, an economic test (set by Ofgem) was used which would determine how much they had to pay for the connection.
- (5) Mr Gibson spoke of the “energy trilemma” – achieving low carbon, sustainable energy at value for money prices.
- (6) Monitoring of the network demonstrated that the demand for energy was growing across the UK, and electricity alone would not be enough to meet this demand. The gas network needed to evolve in order to provide greater energy options.
- (7) Mr Gibson spoke about the importance of data sharing with different sectors in order to model future opportunities and deliver a better service to customers. SGN had 109 data sharing agreements in place with local authorities, including 6 of the 12 boroughs in Kent. The type of information shared included programme of works, local plans and growth agendas, as well as the delays affecting these. The information, which used to be shared just annually, was electronic and updated regularly. A Strategic Planning Report specific to each district was then created.
- (8) Members questioned why the remaining 6 boroughs in Kent had not signed up to the data sharing agreement. Mr Gibson advised that contact had not yet been made, perhaps due to initial communication problems. **Carolyn McKenzie offered to help SGN get in contact with the right people.**
- (9) Members discussed the disruption caused to local communities when utility providers dug up the road, and the apparent lack of coordination between them. Mr Gibson explained that utility companies did engage with each other, but it was not always possible to carry out works at the same time due to timings.
- (10) A Member questioned the success of the Kent Lane Rental Scheme in relation to the above point, whereby companies needing to close specific roads were charged to do so during busy periods. **It was recognised that this issue deserved further consideration by KCC.**
- (11) SGN was developing forums in local areas where utility providers and local authorities came together to discuss upcoming works. Mr Gibson advised that there was no forum in Kent at that time, but he was keen to develop one.
- (12) Mr Gibson explained that an area for improvement within SGN was their engagement with energy efficiency teams in local authorities.
- (13) A pilot would be starting in Medway over the summer for 18 months, in which 1,200 homes would have smart meters installed in order to establish the gas demand by recording how much gas was needed and when. This

would allow SGN to investigate how to make the gas supply more secure, affordable and flexible.

- (14) Referring to his presentation, Mr Gibson put four questions to Members of the Committee.
- Are you supportive of our Data Sharing initiative?
 - Are you supportive of ensuring we work to remove any barriers to support your Growth Plans?
 - That SGN work with both your Planning Teams and Energy Strategy Teams?
 - What is the best vehicle to achieve this?
- (15) Members discussed the questions and supported a positive response to the three yes / no questions. **In relation to suggesting the best vehicle to achieve them, Members suggested that KCC should engage with the district and borough councils to ascertain whether it should have a coordination role.**
- (16) Carolyn McKenzie explained the GIF (Growth Infrastructure Framework) for the benefit of the Committee and guests. As a strategic document considering county growth, she felt the data in the document could be shared with SGN in order to provide greater opportunity for innovation and development. **Carolyn McKenzie committed to work with SGN outside of the meeting to look into the options available, including whether the data sharing agreement KCC held with district councils could be extended to SGN.**
- (17) As the gas network evolved to become more sustainable, Members questioned whether consumer appliances would need to be replaced, as had happened in the past. Mr Gibson advised this was being investigated by several parties, including the Department for Business, Energy & Industrial Strategy. The intention was for any change to be a seamless transition for customers.
- (18) The Chairman thanked Mr Gibson for attending and **invited him to participate in the future work of the Committee.**

RESOLVED that the presentation be noted.

31. Presentation by OFGEM

(Item 6)

Mr Zak Rich (Senior Manager – Cross Sector, Ofgem) was in attendance for this item.

- (1) The Chairman welcomed Mr Rich, who delivered a presentation about the regulator Ofgem. The presentation covered:
- The role of the regulator;
 - The evolving nature of the energy sector;
 - The future and challenges faced;

- The Incentive on Connections Engagement (ICE)

(2) Ofgem were in the process of consulting on their next pricing structure, RIIO-2. **Mr Rich encouraged Members to respond to the consultation, even if just certain parts or questions.**

(3) Mr Rich discussed how the energy sector was evolving into a more complex system than in the past. Projections of energy use were not always predictable – for example, the use of solar PV was greatly underestimated which resulted in numerous complications for the sector.

(4) The energy sector was experiencing an increase in “local energy” and “prosumers”, relatively new terms that referred to individuals and communities providing energy to each other. Not yet covered by legislation, there was a need to ensure such changes were regulated appropriately to ensure enduring consumer value.

(5) Mr Rich discussed tools for engagement.

a. *The Incentive on Connections Engagement (ICE):*

- Distribution Network Operators (DNOs) were annually incentivised to provide good service to larger or more complex connection customers
- DNOs had to submit evidence each year (May) that they engaged with stakeholders and responded to their needs – submissions comprise:
 1. Looking back - report on last year’s activities
 2. Looking forward - plans for activities in the next year
- Ofgem consulted stakeholders (July) to inform their assessment and published responses
- Ofgem were able to apply penalties where DNOs had not met the minimum criteria in respect of previous year’s performance.
- <https://www.linkedin.com/pulse/you-large-electricity-connections-customer-like-housing-khalif/>

Ofgem encouraged stakeholders to:

- engage with their local DNO to ensure that their requirements were taken into consideration
- Respond to the Ofgem consultation in summer 2019

b. *Solvable through contractual approaches, eg Ebbsfleet model*

- Consortium SPV model
- Working through planning processes and engagement with the local network

c. *The RIIO-2 consultation would be live until 14 March 2019*

- <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-consultation>

d. Access/TCR Review

- Review charging mechanisms
- Future proposals included 'shared access': effectively sharing capacity behind a constraint.

(6) Carolyn McKenzie noted that this related to a key issue for the Committee – finding a way for sites to be development ready without developers being required to invest upfront. It was common for the party connecting to the grid first to pay a majority of the costs for connection, with the second connector paying much less. As referenced under the tools for engagement, the Ebbsfleet development used a model where one party paid upfront, with connectors reimbursing the shared cost as and when they connected.

(7) Carolyn McKenzie confirmed that officer engagement with Ofgem would continue on this issue and information would be made available to the Committee.

(8) The Committee discussed Combined Heat and Power Systems (CHPs). Carolyn McKenzie advised that KCC had looked into this area and whether it could become an energy provider, but the cost of connecting to the grid was a major barrier. Mr Rich accepted the point but affirmed that the cost had to be met somehow, without charging existing customers unnecessarily as it was Ofgem's view that existing customers should be protected against covering costs that bring them no benefit. It was an area that was being investigated and consulted on.

(9) Members raised questions about the process when an energy provider ceases trading. Constituents had found they had been automatically assigned to another, much more expensive, provider. There was a lack of information available about this online, and Members felt engagement in this area needed to be improved. Mr Rich appreciated the concern but pointed out that it was Ofgem's responsibility to ensure customers were assigned to a new provider, who in some cases may be offering higher tariffs as it may have been the case that the company that went out of business was not charging enough to cover their costs. Ofgem have introduced a price cap for suppliers.

(10) Leading on from the above point, Members questioned the process of contracts ending, leading to the consumer being put onto a higher tariff unless they took action. It was highlighted that this may be difficult or more challenging for vulnerable customers. Mr Rich explained that the Government and Ofgem had worked on introducing a price cap but that it was undesirable to completely dictate pricing structures to commercial retailers. There needed to be market flexibility so customers, all with differing needs, had a choice. Ofgem were supporting regimes to encourage faster switching between retailers.

(11) Members discussed KCC's future role in the energy sector. Carolyn McKenzie advised that the local authority had investigated becoming an

energy provider, but there was no guarantee it would be able to provide cheaper rates than others in the industry. KCC were looking at where renewables were being used and how this could feed into the wider estate.

- (12) Mr Rich spoke about Ofgem's commitment to supporting new business models. The Innovation Hub allowed businesses to come up with fresh ideas which they could trial, even if it was not covered by regulation. Updates to the regulatory framework would be considered if the pilot was successful.
- (13) The Chairman thanked Mr Rich for attending, and **invited Ofgem to attend future sessions of the Committee.**

RESOLVED that the presentation be noted.

32. Date of next meeting
(Item 7)

NOTED that the next meeting of the Kent Utilities Engagement Sub-Committee would be held on 1st April 2019, 2pm in the Medway Room, Sessions House.