# How inadequate policy action and governance is a barrier to a sustainable and cost effective energy system

Citizens Advice Series
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@exeterepg @profcmitchell

Catherine.Mitchell@exeter.ac.uk







### **Definitions**

- Energy Governance
  - policies, institutions (at all levels), economic regulation, network rules, market design, retail policy etc AND
  - the decision-making processes behind those rules and incentives
- Governance impacts on costs and revenues (therefore energy economics); sets eligibility (eg Licenses, or for DSR (or not) in capacity mechanism); sets rules (eg Codes for system operation, market design); reveals value (or not) through markets; enables choice and competition (or not); reveals value of resources and capabilities (or not); enables capture of value (or not); integrates customers / citizens (or not); enables a Just transformation (or not);

chas legitimate decision-making (or not).

# **Energy governance is outdated**

- Fundamentals of GB energy governance were established at the time of privatisation
- Since then, lots of reforms, but little fundamental change
- It is not fit-for-purpose is the face of rapid innovation and the need to reach net zero by 2050, or before
  - We have to accelerate our GHG reductions
- Currently no process for direction-setting or managing the process of decarbonisation, across government departments and agencies, and across different industrial sectors
- Result is confused signals for market participants, ongoing support to established players, a lack of coordination within and between vectors; as well as limited support and protection for low-income households

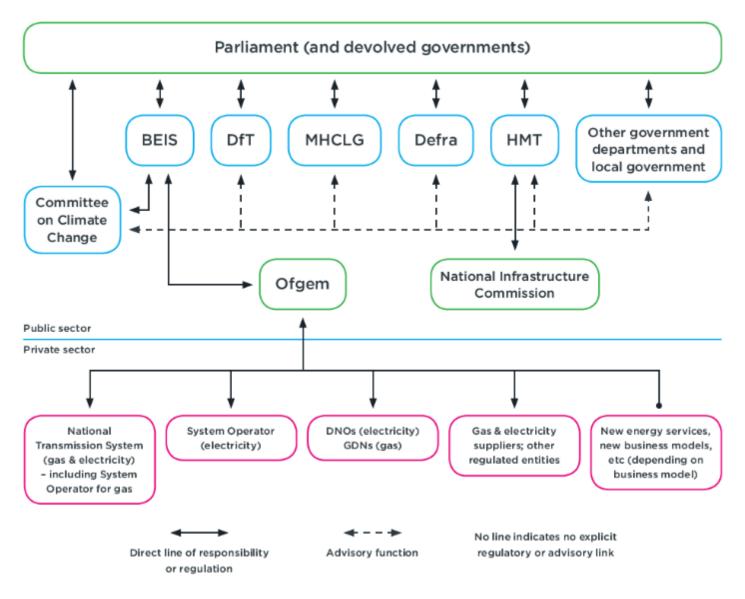
# We need to reset our energy governance

- For better coordination
- To reveal the value, and enable its capture, of new energy and system resources created or enabled by digitalisation, new technologies, new stakeholder preferences
- To speed up GHG reduction
- To better integrate citizens and customers into decisions
- To enable a Just transformation
- Achieving these goals and principles will require a few new institutions, reformed roles for some existing institutions and better integration between them

# Gov argues for <a href="http://projects.exeter.ac.uk/igov/shortcut-to-key-igov-findings/">http://projects.exeter.ac.uk/igov/shortcut-to-key-igov-findings/</a>

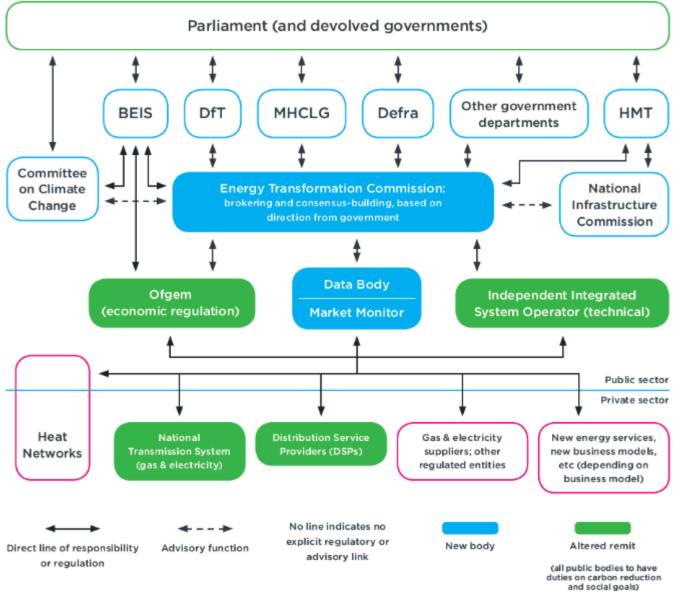
- One **new** institution (the Energy Transformation Commission) to implement the transformation process set by government, through brokering, coordination, consensus-building and engagement
- An Independent, Integrated System Operator, overseeing gas and electricity systems, and moving into the public sector (reformed)
- Regulatory reform (reformed)
  - New Duties and Role for Ofgem, and other Ministries
  - New ways to incentivise desired outcomes, including more energy efficient system op
  - Improved data governance, independent Market Monitor (new)
  - A regulatory framework for heat network (new)
- Integrated local governance, including the evolution from Distribution Network Operators (DNOs) to active Distribution Service Providers (DSPs) (reformed)
- Extending markets to local level (reformed)
  - **More** customer / citizen / prosumer involvement

#### GB energy governance: current institutions and responsibilities



http://projects.exeter.ac.uk/igov/getting-energy-governance-right-lessons-from-igov/

#### GB energy governance: proposed new institutions and responsibilities



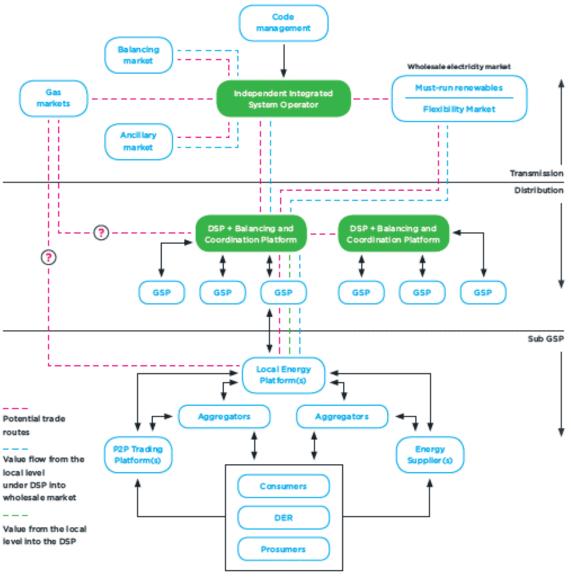
http://projects.exeter.ac.uk/igov/wp-content/uploads/2019/04/Enabling-the-transformation-of-the-energy-system-01-08-2019.pdf

#### Local Government Dimension has to be coordinated

#### **Local Authorities** (Unitary and upper tier) Local Authority Better enforcement declaration of a of Building Regs. Climate Emergency BEIS MHCLG Local Area Duty to prepare a Local **Energy Planning** Transformation Plan on Climate Change Local Citizens Assembly Freedoms, flexibilities on climate change and funding **Devolved Carbon** Spatial and economic planning Budgets Provide Heat New energy services. Inform suppliers; other Networks mechanism for regulated entities etc (depending on business medel) Local Transformation Plan (LTP) Agreed methodology Target(s) Delivery Plan Monitoring and governance structures No line indicates no explicit regulatory or New body Altered remit Direct line of responsibility Advisory function advisory link or regulation (all public bodies to have duties on carbon reduction and social goals)

http://projects.exeter.ac.uk/igov/wp-content/uploads/2019/08/IGov-Getting-energy-governance-right-01-08-19.pdf

#### **Market Dimensions as well**



http://projects.exeter.ac.uk/igov/wp-content/uploads/2019/08/IGov-Getting-energy-governance-right-01-08-19.pdf

#### **Local Authorities** (Unitary and upper tier) Local Authority Better enforcement declaration of a of Building Regs. Climate Emergency MHCLG Local Area Duty to prepare a Local Committee on Climate Change **Energy Planning** Transformation Plan Local Citizens Assembly Freedoms, flexibilities on climate change and funding Code Spatial and **Devolved Carbon** economic planning Budgets Wholesale electricity market Provide Inform mechanism for Independent Integrated Flexibility Market **Local Transformation** Plan (LTP) Agreed methodology Target(s) Delivery Plan Transmission Monitoring and Distribution governance structures No line indicates no explicit regulatory or New body Altered remit Direct line of responsibility Advisory function advisory link or regulation (all public bodies to have duties on carbon reduction and social goals) GSP Sub GSP Potential trade routes Value flow from the local level under DSP into Consumers wholesal e mark et DER Value from the local level into the DSP

http://projects.exeter.ac.uk/igov/new-thinking-the-igov-institutional-framework-for-energy-governance/

## We have to 'confront' the Politics

- The move from a 'dirty' to a 'clean and efficient' energy system is hugely political
  - There are major differences in distributional outcomes depending on what pathway is taken (ie nuclear, CCS and hydrogen v RE, flexibility and EE) on different actors
  - This cannot be ignored
- Achieving Net Zero could be a huge positive opportunity for GB but could be squandered, more expensive, more unjust and without the necessary outcome we need

### References

- http://projects.exeter.ac.uk/igov/
- http://projects.exeter.ac.uk/igov/shortcut-to-key-igovfindings/