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

Citizens Advice Series
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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); has 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Energy governance is outdated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**
IGov argues for [http://projects.exeter.ac.uk/igov/shortcut-to-key-igov-findings/](http://projects.exeter.ac.uk/igov/shortcut-to-key-igov-findings/)

- 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

Local Government Dimension has to be coordinated

Direct line of responsibility or regulation
Advisory function

No line indicates no explicit regulatory or advisory link

New body
Altered remit
(all public bodies to have duties on carbon reduction and social goals)

Inform
Provide mechanism for

Local Authority declaration of a Climate Emergency
Local Area Energy Planning
Local Citizens Assembly on climate change
Spatial and economic planning

Better enforcement of Building Regs.
Duty to prepare a Local Transformation Plan
 Freedoms, flexibilities and funding
Devolved Carbon Budgets

Market Dimensions as well
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-igov-findings/