The denouement of 40 years of privatization and liberalization in gas and electricity in GB – death spiral or rebirth?

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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

Broadly agree with much of the analysis:

- Intervention-response cycle tends to be middle-way fudges which may help but often makes problems worse
 - Yes, a more fundamental solution is needed
- the death spiral analysis, from the perspective of the bigger supplier
- where we are (2019 New Birth) [although the dysfunctionality could continue for quite a while]
- That the transformation has to be Just;
- That the data architecture is inadequate
- That what to do with the gas network and how to pay for networks and transformation are the big infrastructure questions
- That the global energy system momentum is towards decentralisation and that there is a governance 'gap'
- With Chris's electricity design issues

Not quite so much agreement:

 We don't agree quite so much on how carbon and electricity come together

- I do agree we, as a country, need to keep far better track of what we have to do annually to meet net zero by 2050 (Chris's Indicative National Plan)
 - But not so sure about the 'tatonnement' as a way to deliver required outcomes

Our Perspectives are Different

- I am indifferent to a 'big' or 'small' company future
- I want governance which enables rapid GHG reduction
- I want customers to be able to get what they want, and for them to pay as little as possible for the transformation
- A central decision is how to pay for networks and energy system transformation <u>in a just way</u>, and this could have major implications for suppliers
 - a new way is needed to confront distributional impact.

From my perspective, there is a wider set of problems with GB energy governance:

- Lack of strategy, direction-setting and transformation management for a decarbonising energy system
 - Lack of coordination
- Governance still reflects conventional system characteristics rather than including characteristics of new technology, DER, digitalised system operation possibilities, and stakeholder / customer wishes
- No clear responsibility for carbon reduction
- No clear responsibility for demand reduction
- No clear responsibility for system integration
- Ambiguities around social outcomes, including Just Transformation

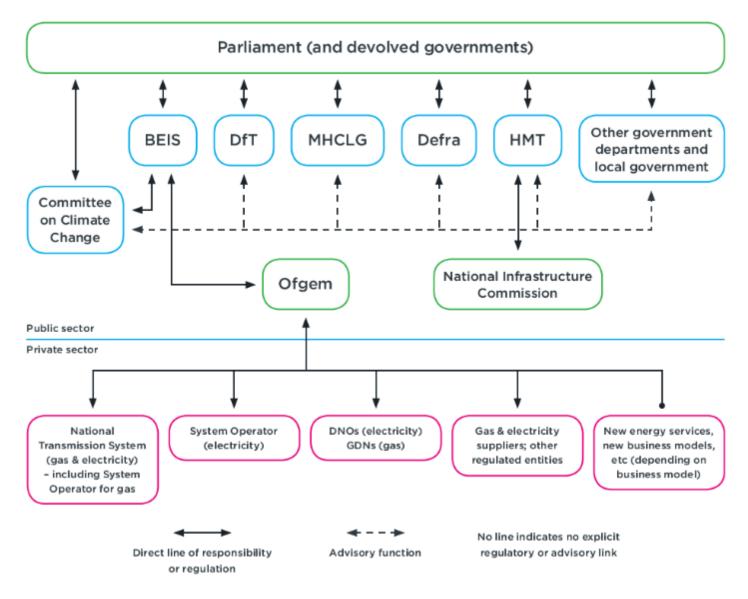
To get to a reborn or reset fit-forpurpose governance framework, we need various changes, including an institutional re-organisation and changed regulatory mechanisms and incentives

 As an aside, the recent NIC Regulatory Review also came to the same conclusion:

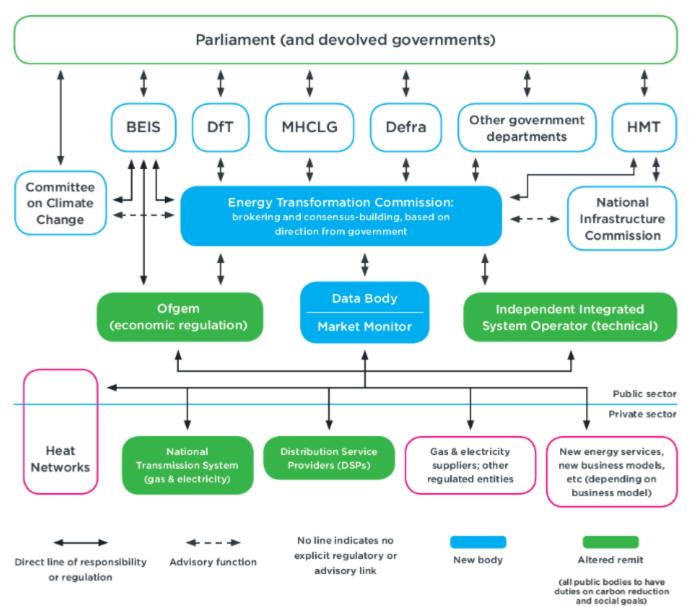
'system does not need to be changed in its entirety but...does suggest major shifts in perspective'

http://projects.exeter.ac.uk/igov/new-thinking-looking-at-the-nic-regulatory-review/

GB energy governance: current institutions and responsibilities



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



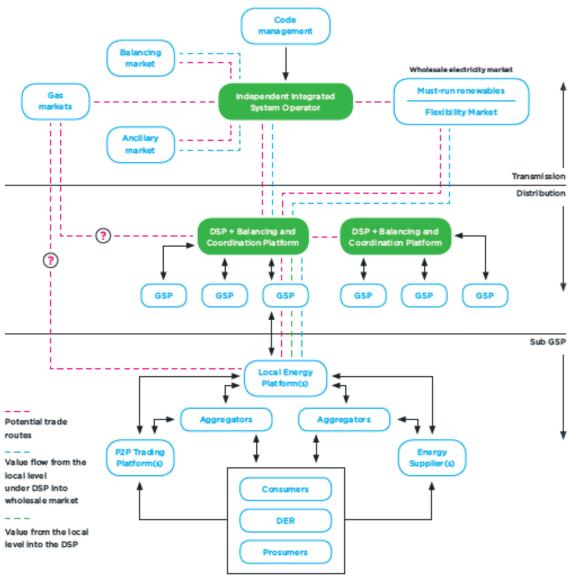
http://projects.exeter.ac.uk/igov/wp-content/uploads/2019/04/Enabling-the-transformation-of-the-energy-system-01-08-2019.pdf

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 Spatial and **Devolved Carbon** 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/

What does this mean for suppliers / incumbents?

- Decarbonisation, Decentralisation and Digitalisation is enabling new system operation and revealing new value
- We argue that governance and institutional change is the first step to be as cost effective / efficient as possible.
- The decision on what to do with the gas grid / how to pay for networks / transformation in a just way will have major implications for the 'bigger' suppliers
- But conventional 'suppliers' developed with a set of energy system characteristics which are no longer in place. They have to alter their business model, even if paying for the transformation is sorted out

Conclusion

- We think the current GB energy governance framework is unfit for purpose
- A lot of sympathy for Chris's arguments but a different perspective
- Governance needs to be reset / reborn
 - it does not need big institutional change
 - it mainly requires
 - roles and Duties to change
 - Local markets
 - a move to more performance based regulation
 - More direction to meet net zero
 - New ways to deal with paying for networks and justice
- Even in that world, suppliers have to fit the new energy system characteristics

REFERENCES

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- http://projects.exeter.ac.uk/igov/shortcut-to-key-igovfindings/
- http://projects.exeter.ac.uk/igov/new-thinking-thelost-strategy-and-policy-statement/
- http://projects.exeter.ac.uk/igov/new-thinkinglooking-at-the-nic-regulatory-review/

THANKYOU

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