

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

BEESELEY LECTURE 4 2019

Catherine Mitchell - Respondent

Catherine.Mitchell@Exeter.ac.uk

Energy Policy Group, University of Exeter



New Thinking For Energy



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 **in a just way**, 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

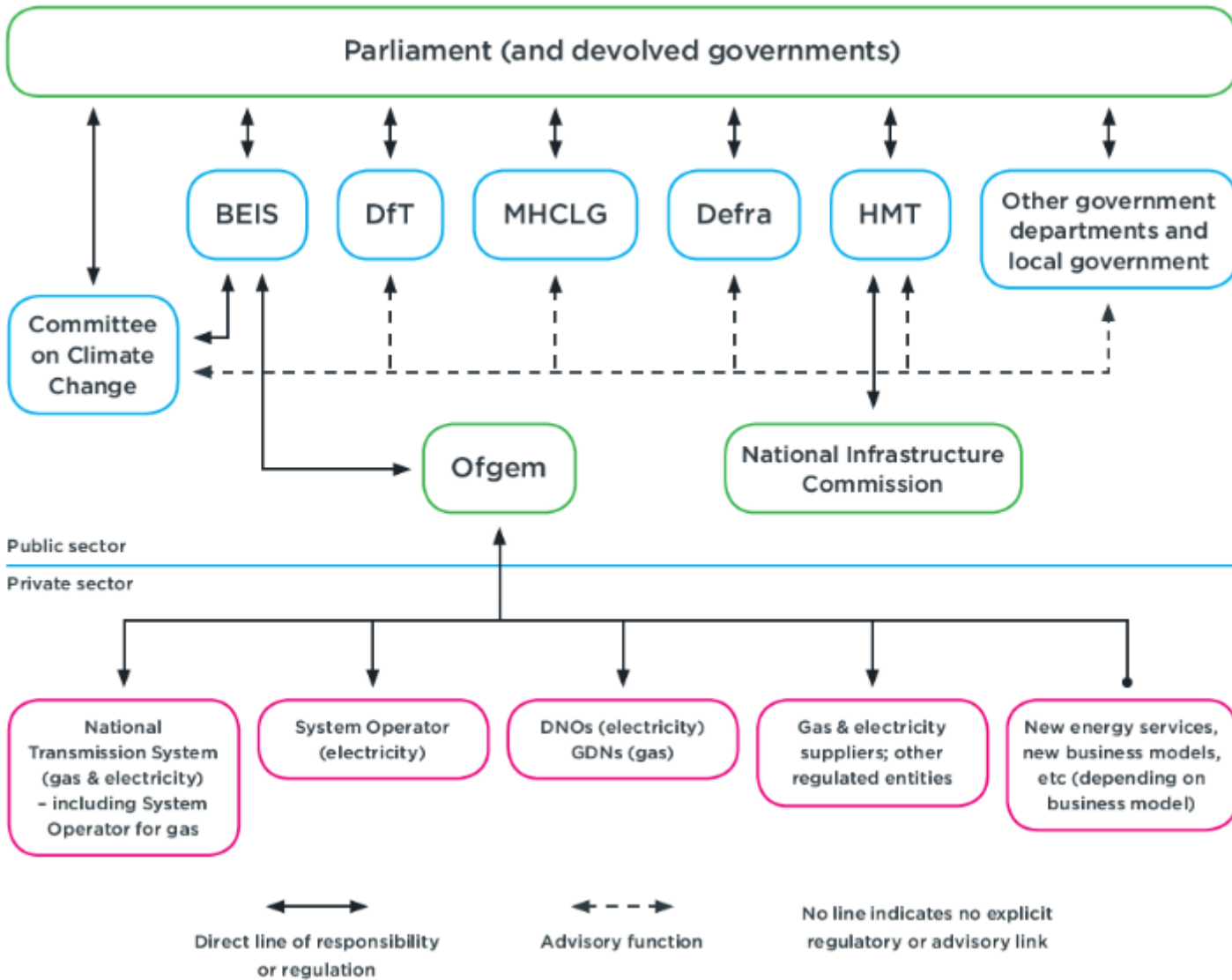
To get to a reborn or reset fit-for-purpose governance framework, we need various changes, including an institutional re-organisation and changed regulatory mechanisms and incentives

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

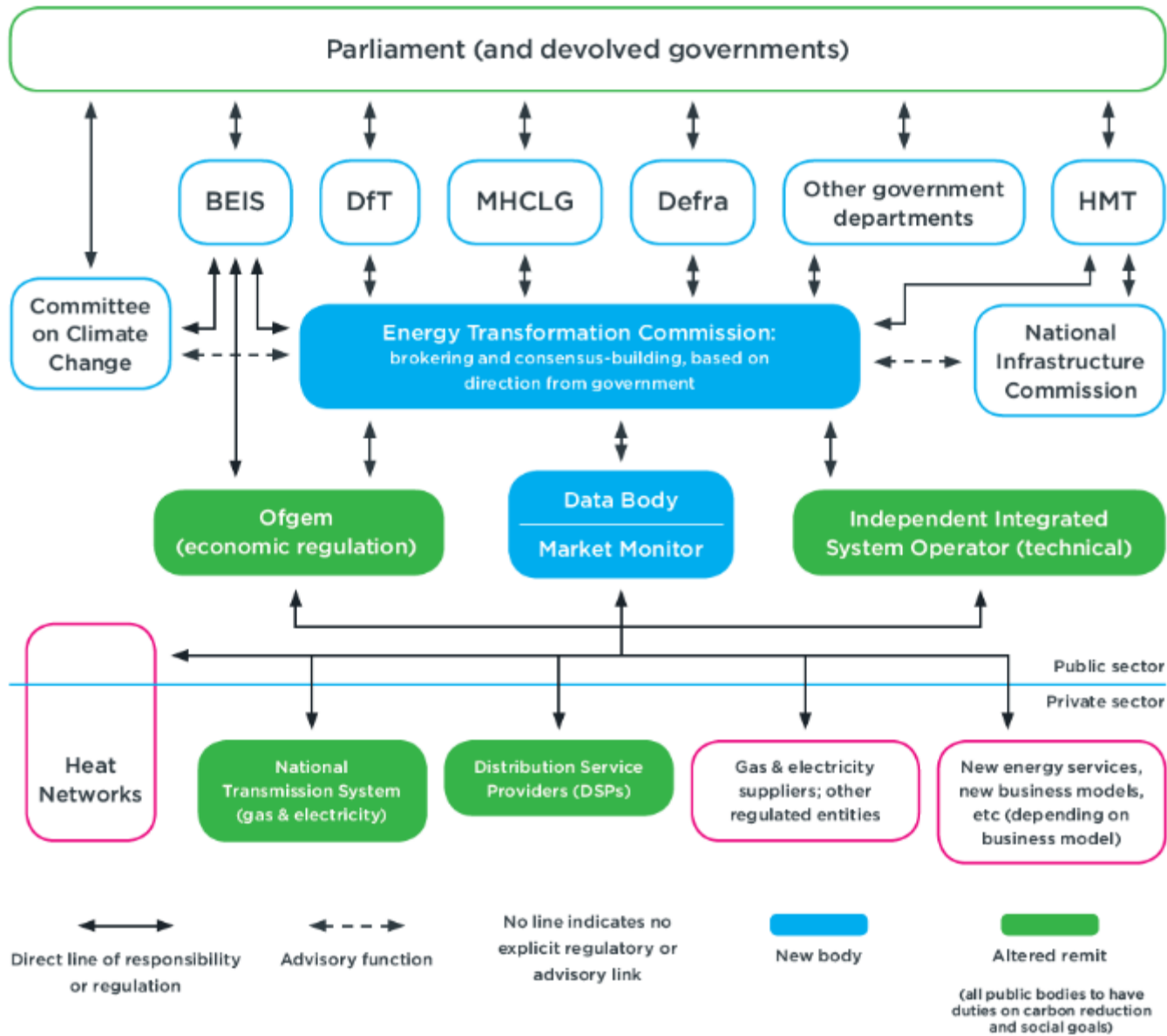
‘system does not need to be changed in its entirety but...does suggest major shifts in perspective’

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

GB energy governance: current institutions and responsibilities

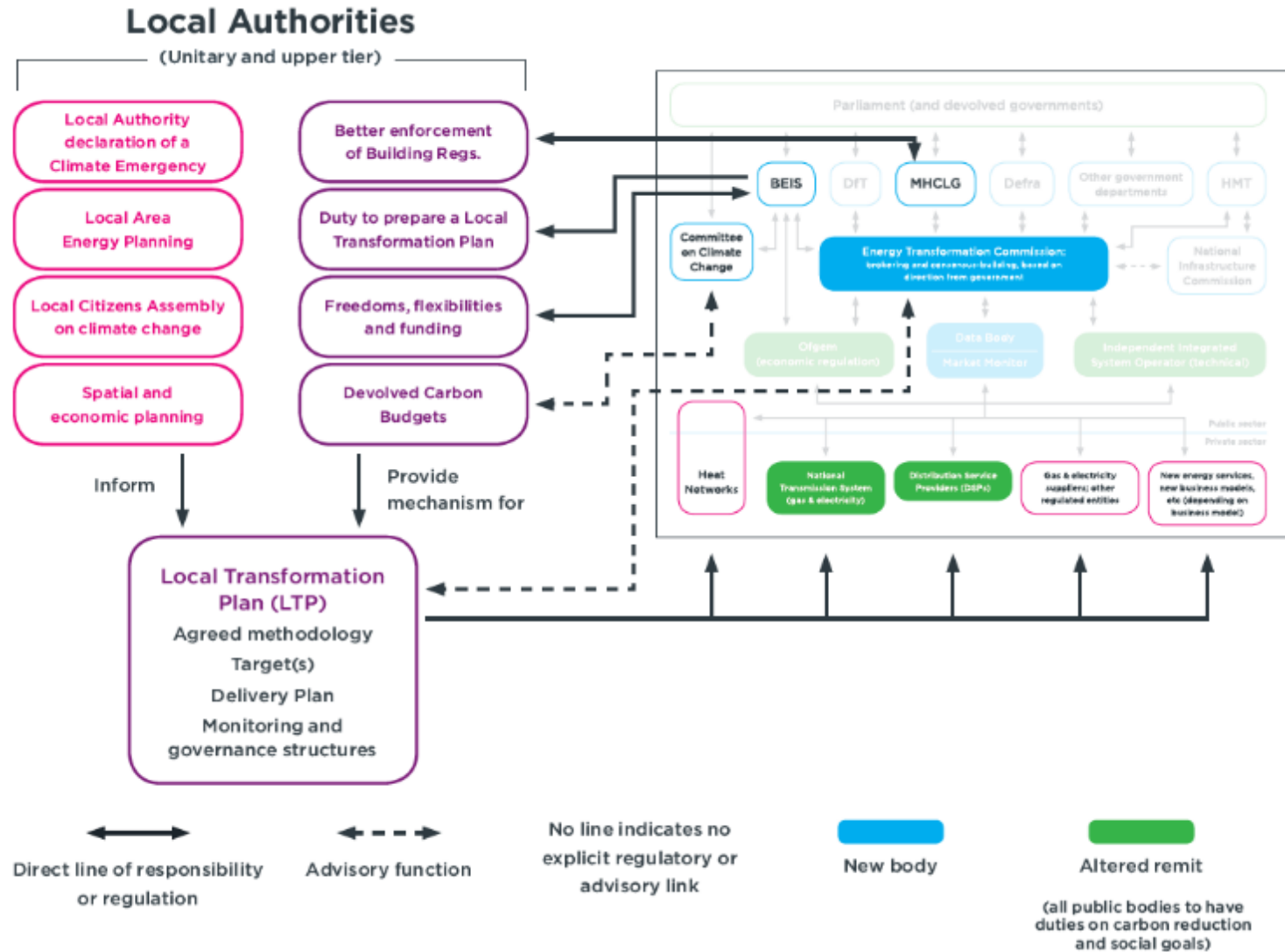


<http://projects.exeter.ac.uk/igov/getting-energy-governance-right-lessons-from-igov/>



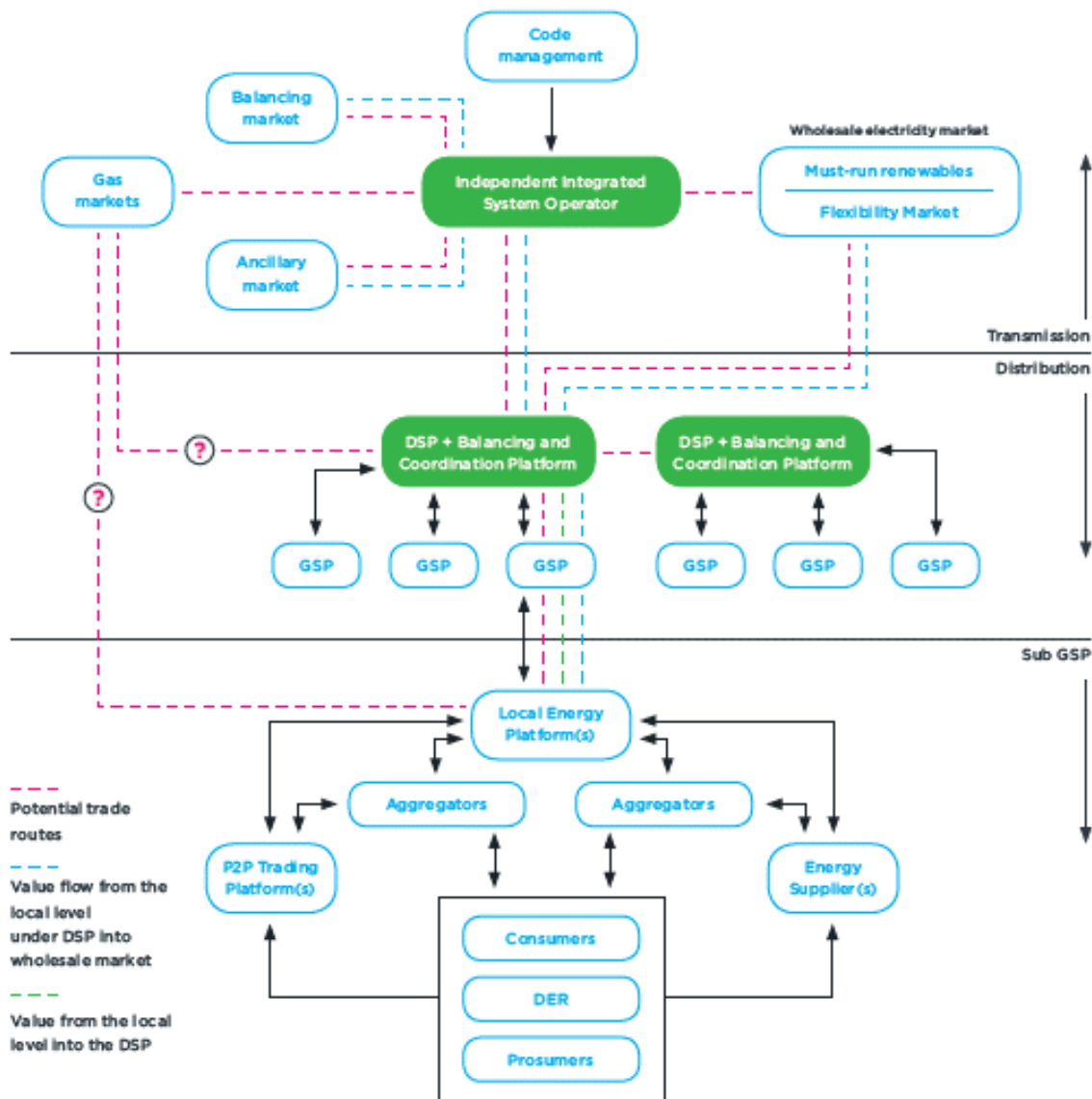
<http://projects.exeter.ac.uk/igov/wp-content/uploads/2019/04/Enabling-the-transformation-of-the-energy-system-01-08-2019.pdf>

Local Government Dimension has to be coordinated

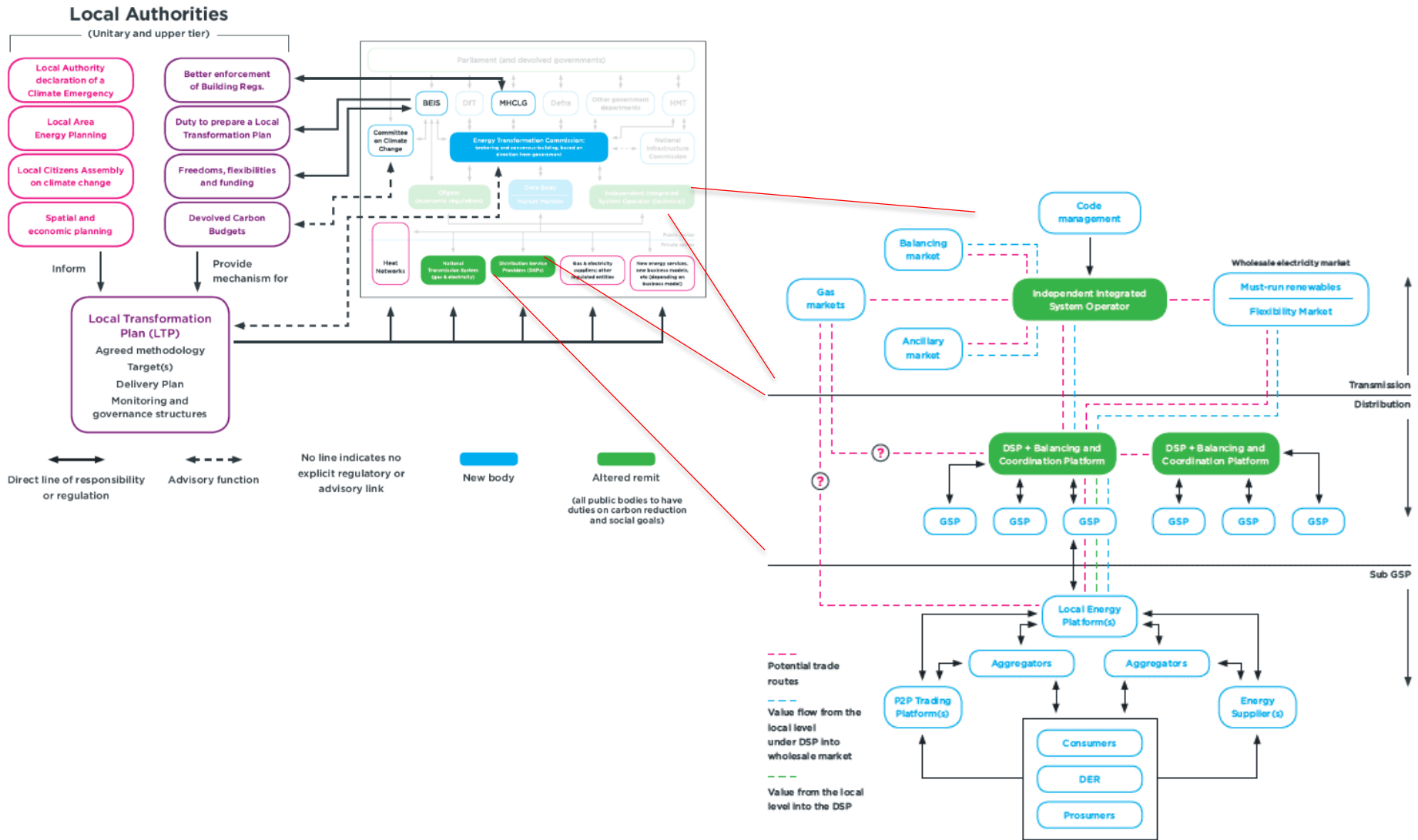


<http://projects.exeter.ac.uk/igov/wp-content/uploads/2019/08/IGov-Getting-energy-governance-right-01-08-19.pdf>

Market Dimensions as well



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



<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

- <http://projects.exeter.ac.uk/igov/>
- <http://projects.exeter.ac.uk/igov/shortcut-to-key-igov-findings/>
- <http://projects.exeter.ac.uk/igov/new-thinking-the-lost-strategy-and-policy-statement/>
- <http://projects.exeter.ac.uk/igov/new-thinking-looking-at-the-nic-regulatory-review/>

THANKYOU

<http://projects.exeter.ac.uk/igov/>