

# Governance and transition to a sustainable energy system: how institutions, rules and incentives in Great Britain support the current system and undermine change

[Catherine.mitchell@exeter.ac.uk](mailto:Catherine.mitchell@exeter.ac.uk)

Berlin, 18 September 2015



New Thinking For Energy



# Conservative / Lib Dem Policies since 2010

- Electricity Market Reform 2010
  - Main aim to enable support for new nuclear programme  
<http://www.theguardian.com/environment/2011/mar/11/nuclear-power-reason-energy-regulations>
  - Includes a capacity payment which has supported existing gas, coal and nuclear – to some extent must make up for the non-EDF Big 6 irritation with Hinkley
  - The Legal requirements of implementing a new Energy Act have been more or less met – for example consultations etc – but Government has done what it wants to do in the face of almost complete opposition across energy system spectrum

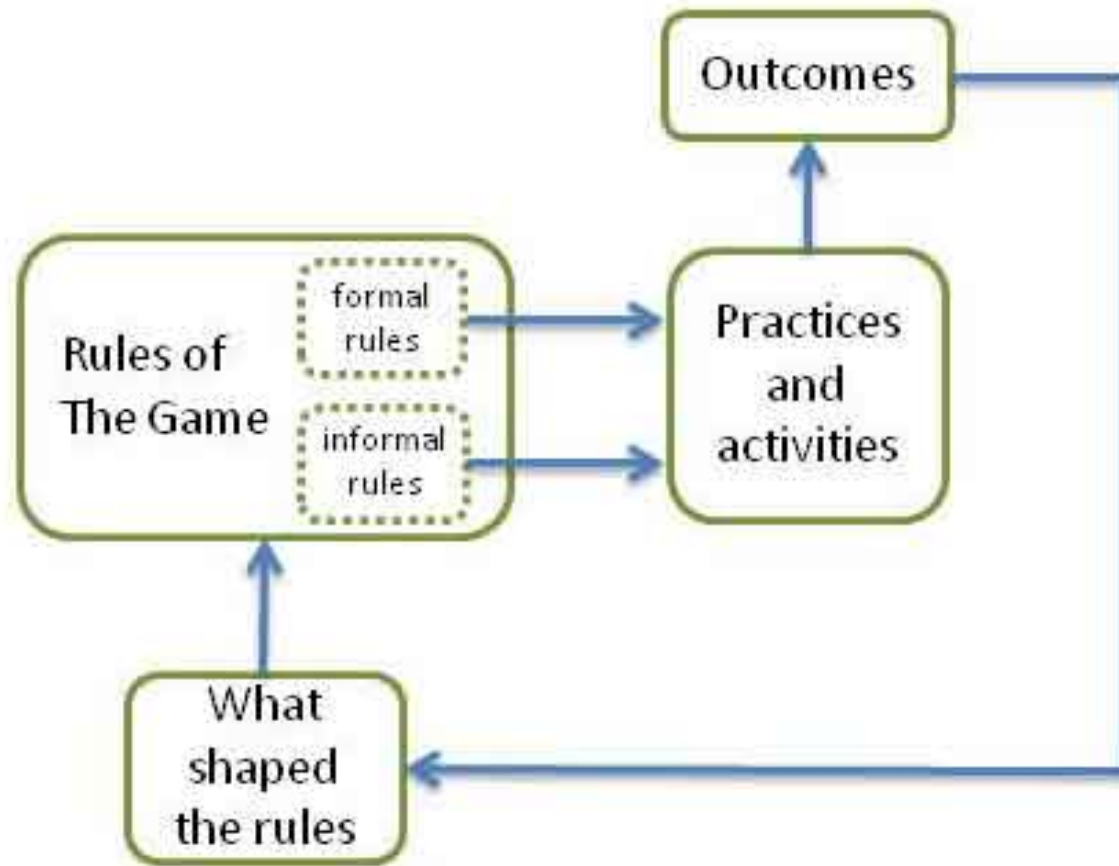
# GB energy policies since May 2015 and election of the Conservative Government

- Zero carbon homes by 2016 cancelled
- Zero carbon buildings by 2019 cancelled
- Green Deal cancelled
- Climate Change Levy exemption for zero carbon energy cancelled
- Solar support via RO cancelled
- Onshore wind via RO and CfD cancelled
- Public ownership of the Green Investment Bank (to be privatised)
- Differential Vehicle Excise Duty weakened
- Preventing Shale Gas Exploration in Protected Areas cancelled

# How can this have happened?

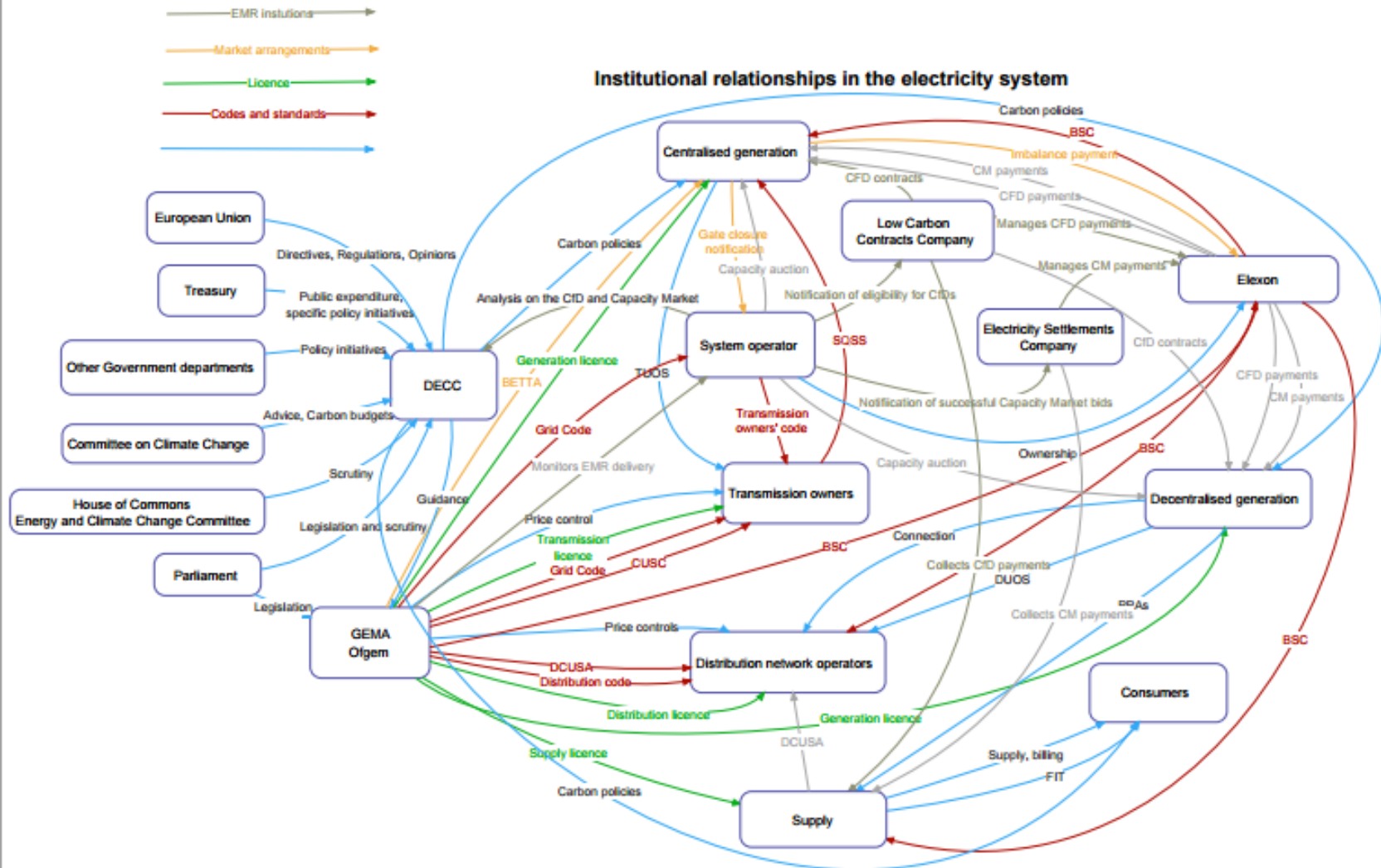
- The Manifesto said that it would ban onshore wind but none of the other policies.
- What is it about GB energy governance which enables this?
- The outcome is probably a gas future

# What is Governance ?



# Current GB Energy Institutions and Ideas

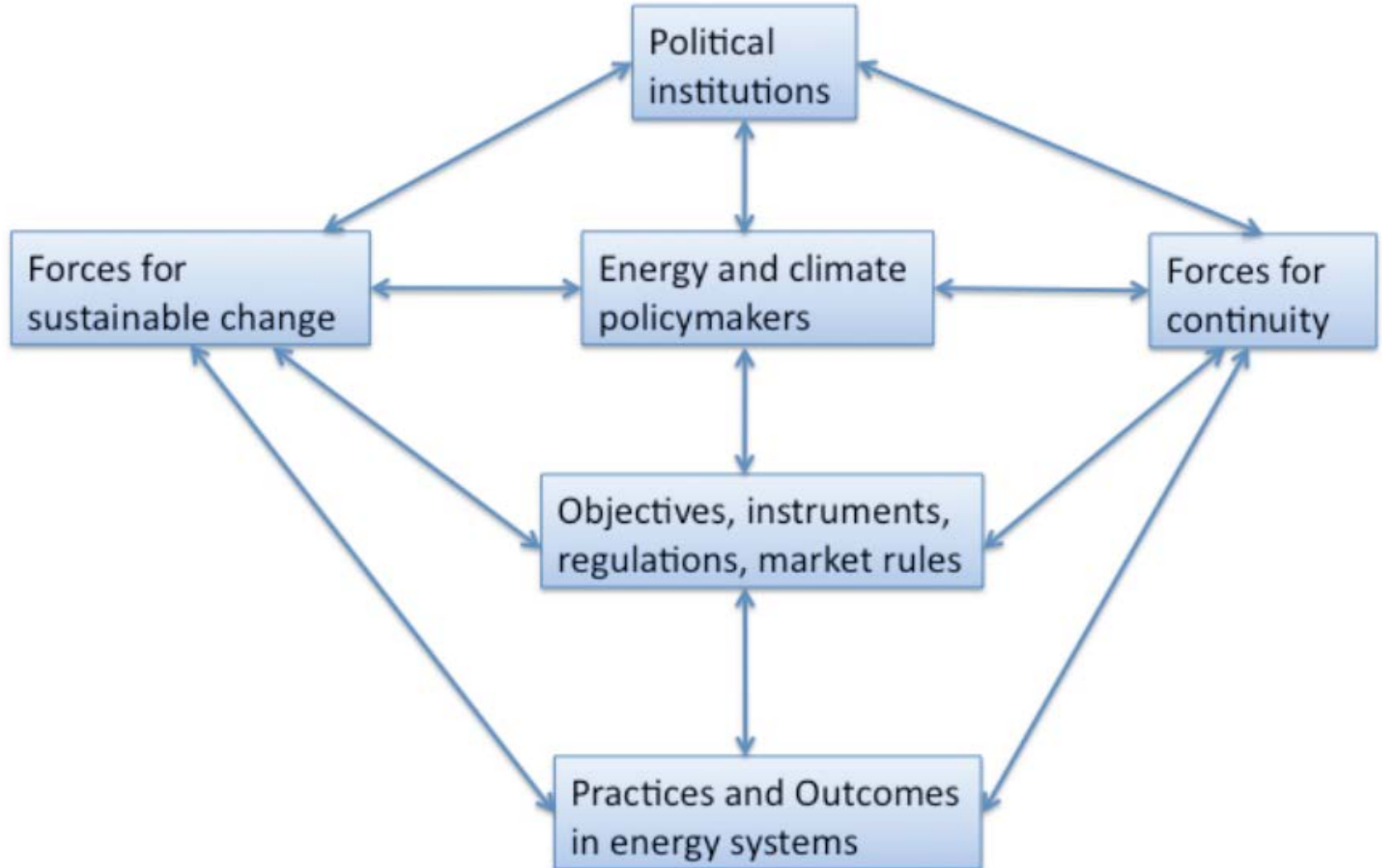
<http://blogs.exeter.ac.uk/energy/2014/11/12/mapping-the-power-in-the-electricity-system/>



# The formal rules - how easy is it for new entrants to access / make money / survive in GB energy system?

- <http://projects.exeter.ac.uk/igov/working-paper-change-and-inertia-in-the-uk-energy-system/>
- In general,
  - The energy system rules benefit the few (de facto the incumbents) rather than giving access to everyone (ie difference between RO and FIT)
  - ‘So called’ technology and fuel neutral / blind rules which benefit the cheapest
- Market rules support the current system
  - A bilateral market with penal balancing rules
  - A market wide capacity mechanism, minimal DSR
  - Poor liquidity of trading, more difficult for variable energy
- Retail market liquidity issues – most customers don’t switch (CMA says 17% profit for electricity suppliers and standard variable tariff)
- Vertical Integration of Big 6 – powerful structure in favour of supply; maintains affordability problems; and means that ‘price’ / transparency is poor
- Code and License Governance – not fit for purpose - difficult to make change
- Supplier hub model - does not recognise embedded benefits so DG is not paid their value
- Powerful triangle of Government, Independent Regulator and Privatised Grid

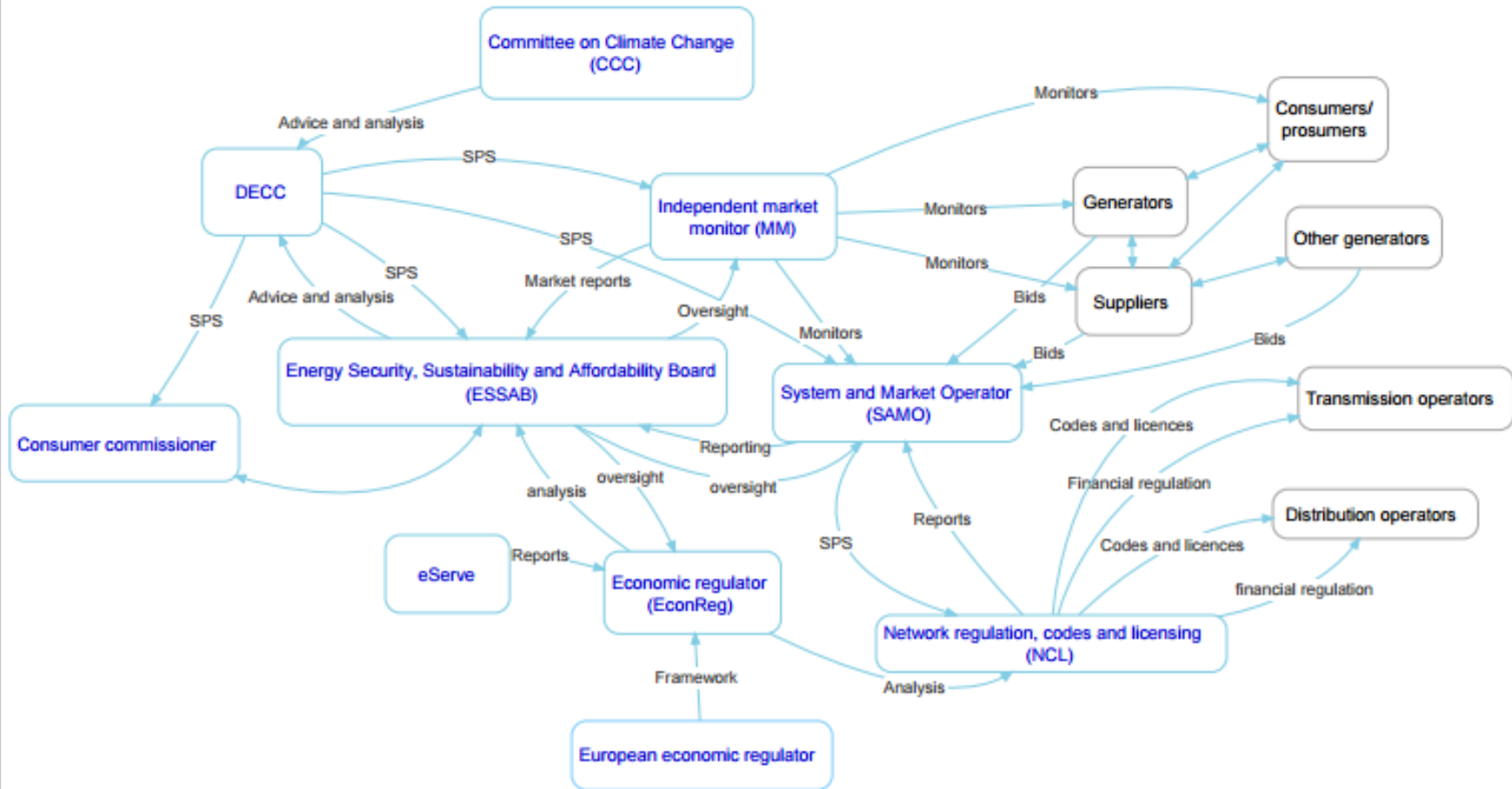
# So what shaped the rules of the game in GB, and what does it mean for transformation?





# GB Straw Governance System – our proposed solution

<http://projects.exeter.ac.uk/igov/working-paper-public-value-energy-governance/>



# Annex

# The best thing about GB Energy Policy

- The best thing in GB energy [so far – has to be question market now given recent policy changes] is that 10% of our electricity supply comes from new entrant suppliers
  - see Ofgem non-traditional business model paper (<https://www.ofgem.gov.uk/publications-and-updates/non-traditional-business-models-supporting-transformative-change-energy-market>)
  - For new entrant suppliers see <https://www.ofgem.gov.uk/monitoring-market/overview>