

## **Welsh Government response to “A Smart, Flexible Energy System” Call for Evidence**

Welsh Government welcomes the call for evidence on a smarter and more flexible energy system. We agree that a smarter, more flexible system offers significant benefits for consumers and the economy. It should also be seen in the context of the need to decarbonise the energy system to meet the target of an 80% reduction in emissions by 2050 set in both the Climate Change Act and Environment (Wales) Act.

However, Welsh Government has some reservations as to whether the current market approach will deliver the transition which is needed.

In 2016 the National Assembly for Wales Environment and Sustainability Committee published a report [A Smarter Energy Future for Wales](#). In this report the committee set out its belief that people are tired of ever increasing utility bills and a lack of choice of energy providers. The Committee recommended that Wales should set up an ‘umbrella’ not-for-profit energy service company. Under this umbrella the Committee sees that local authorities, city regions or communities could offer energy supply locally.

We also see the move of local authorities such as Nottingham and Bristol to enter the supply market as a similar response to the belief the market approach does not protect people’s interests sufficiently.

There is a risk that the proposal for a not-for-profit energy service company is seen by stakeholders in Wales as a silver bullet, providing a solution which would improve energy efficiency, solve a lack of choice and trust in the energy market, tackle rising prices and enable more local energy generation.

Whilst we do not believe that a single entity can create this impact, it reflects a difference in approach within the country. Wales has a long standing history with mutualism and co-operative working, whether not-for-profit or as socially responsible businesses. In Wales we have experience of a highly successful not-for-profit utility company, Dwr Cymru Welsh Water. The resistance to the competitive approach within water leads people in Wales to question whether energy too is a commodity that should be marketed, or a vital utility that should be managed to increase wellbeing in Wales.

Whilst it might be difficult to develop an electricity supply company in what is currently a very competitive market in terms of access to generation, it may well be possible to adopt a different approach that better encourages trust and defends citizens’ interests in emerging areas such as aggregation and the supply of heat.

There is a danger that the lack of trust in the energy market could undermine the future of smart energy. People do not trust their providers, and many other actors in the market. The changes that are happening within the energy system will need informed consent from intelligent end users, and there is little evidence that the majority of people are in this position at present. We believe

there is merit in a joint approach with other regulators, particularly in the digital field. This need to work across regulatory silos is reinforced when considering heat recovery, as when looking at waste water and sewage, we see a potential need to work with Ofwat too.

We are encouraged by the openness to innovation seen from senior representatives of DNOs. However, we are concerned that this is not yet translating into a culture of innovation and positivity to support the agenda throughout DNOs, and this could be a barrier to transition. We see the Innovation Link service as potentially being very helpful in making the changes needed. We would also like UK Government and Ofgem to work with DNOs to embed a positive and problem-solving approach to assist all potential network users.

Welsh Government welcomes the support of BEIS and Ofgem in engaging with stakeholders in Wales on the transition to a smart, flexible energy system. The workshop enabled us to directly engage with stakeholders, raising awareness of the consultation. The workshop helped stakeholders to interpret policy in a complex and fast moving area. We received feedback that the length and complexity of the document may otherwise have put off stakeholders in engaging in the consultation, and this may be worth considering as this work moves forward. We attach a summary of the key messages from the workshop, which we hope will be useful.