

Friends of the Earth Response to the Ofgem Consultation on future local energy institutions and governance, 24th June 2022

Context

Friends of the Earth led the campaign for the Climate Change Act which is now driving the need to change how we produce, use and manage energy. Parliament has agreed a Climate Change Act carbon emissions reduction pathway through agreeing 5-year carbon budgets. These are legally-binding. The government has set out its plan to ensure delivery with the Climate Change Act's carbon budget. It includes a number of commitments that are pertinent to this consultation, for example, grid decarbonisation by 2035, 600,000 heat pumps a year by 2028, the ban of sales of ICE cars by 2030. It is Friends of the Earth's view that the government's plans are not sufficient to deliver on the legally-binding carbon budgets. Ofgem will need to be aware that the speed of change may need to be accelerated and the ambition increased if Friends of the Earth's assessment is correct (and the Climate Change Committee will present its thoughts on this next week). In addition, Russia's attack on Ukraine gives added impetus to reduce gas and oil use in electricity generation, heating and transport and should also lead to a faster transition than current government plans.

In addition, system resilience is also a aspect of the energy system that needs to feed into Ofgem's thinking as it develops its plans in this area. Resilience is increasingly being tested by extreme weather and exposure to global markets (fuels, technology, etc).

Answers to questions posed

We have provided brief answers to some of these questions. We are happy to engage further.

1. Are the three energy system functions we outline (energy system planning, market facilitation of flexible resources and real time operation of local energy networks) the ones we should be focusing on to address the energy system changes we outline?

Yes, as long as it fully captures demand-side responses at different periods. For example, digitisation provides opportunities for immediate and short-term demand responses (e.g. fridges switching off for a period, battery-storage utilised) but energy system planning should allow for longer-term demand management. For example, while all homes need to be EPC C by 2035 according to the government (although we argue this should be 2030 or earlier) in some locations deeper investment to EPC A or B may be a more cost effective approach than grid investment.

2. Do you agree with the criteria we have set out for assessing the effectiveness of institutional and governance arrangements?

3. Do you agree with our assessment of how far the current institutional arrangements are, or are not, well suited to deliver the three key energy system functions?

4. Overall, what do you consider the biggest blocker to the realisation of effective energy system planning and operation at sub-national level?

Increasingly energy management requires the active engagement of citizens. To date decarbonisation of the UK economy has primarily been through a switch from coal to gas electricity generation, and more recently an increase in the proportion of electricity generated through renewable power. As the transition proceeds householders will need to change how their home is heated, how they power their car (if they have one), and how much to insulate their home (if they are a home-owner). Many are choosing to

change now. This transition can have a significant impact on the electricity-grid (and the gas grid). Citizens need to be brought into the discussion about how our energy systems should change, and able to influence decisions on grid enhancements and management. Local authorities are best placed to involve citizens in the debate, but as the consultation makes clear many councils are presently under-funded or don't have the skills in place to carry out this function. When involving citizens it is critical that proper efforts are made to genuinely engage those who are often under-represented in decision-making.

5. Do you agree with the opportunities of change we outline and the potential benefits they may create?

6. Are there additional opportunities for change and benefits that we have not set out?

The consultation highlights the potential for digitisation to enable greater flexibility in demand than at current. There is also a greater potential for flexibility in supply than current curtailment of renewables when supply is high and demand low through the use of energy storage (short-term batteries through to green hydrogen production).

Friends of the Earth is also strongly in favour of Local Area Energy Plans, led by local authorities but produced in partnership with the energy industry, business and citizens. The production of these could provide significant benefits through engagement and buy-in to energy management (from production to use). While decisions may sensibly be done at a regional level (options 3 or 4 in your scenarios) in some circumstances it may be sensible to have sub-regional decision-making.

Local Area Energy Planning also offers the opportunity for a proper focus on demand management. The current energy system has, as stated in the consultation, in-built bias towards maximise energy throughput rather than reduce it through demand-side measures such as household or business energy efficiency. This failure is one reason why householders have been so exposed to the rise in gas prices. Resilience needs to be more than resilience of the grid to extreme weather, it also needs to include business and household resilience to price shocks.

7. We set out a number of risks associated with change. Do you agree with these risks and the potential costs they create? Are there additional risks of change and costs that have not been set out?

8. For each model, we have set out the key assumptions which need to be true for the model to offer the right solution. Which of these assumptions do you agree with?

9. Out of the framework models we have developed which, if any, offer the most advantages compared to the status quo? If you believe there is another, better model please propose it.

As above, Friends of the Earth is of the view that citizen engagement in energy management is needed because choices made will impact on citizens' choices and their energy bills. Options 3 and 4, with a greater role of council engagement, offer the most promising route to achieve this but do not yet guarantee good involvement. Choices as important as those that need to be made should not be made by 'experts' alone even if some of these work in councils – proper citizen engagement is essential and it must include those who are generally under-represented in decision-making.

10. What do you consider to be the biggest implementation challenges we should focus on mitigating?

There are incumbent businesses that will be reluctant to cede power and will work to reduce the scale of change, but as stated above, there is a pressing need to involve citizens and produce Local Area Energy Plans, and for this reason local authorities need to move centre-stage.

11. Taking into account the varying degrees of separation of DSO roles from DNOs under framework model 1, do you consider there are additional measures we should consider implementing, in particular in the short term (e.g. changes in accountability etc)?

12. Are there other key changes taking place in the energy sector which we have not identified and should take account of?

It is always difficult to predict technology change but the continued reduction in costs of solar and wind may result in a much faster growth than envisaged. The development of domestic or community-scale heat batteries and electricity storage also offers opportunities to manage energy with less grid reinforcement, as well as more localised 'independent grids'.

13. What do you consider to be the most important interactions which should drive our project timelines?

There is a very pressing need to rapidly increase onshore renewable energy generation. The Climate Change Committee pathway implies at least 30GW by 2030 although this is likely to be well below what is needed to meet carbon budgets (because the government is not delivering in other areas suggested by the CCC) and does not take into account the ramifications of the Russian invasion of Ukraine. The amount of onshore renewables needed is probably two to three times this amount. The current system has proven to be a hinderance to development of renewable energy and this needs to change quickly, as does the shocking failure to properly focus on demand management which have left householders so exposed to high energy costs.

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