

Reforming access and forward-looking charging arrangements

Basis of response

The Energy Capital Partnership is the body responsible to the West Midlands Combined Authority and Mayor of the West Midlands for delivery of the regional energy strategy. It brings together the energy interests of 18 local authorities (including 7 metropolitan authorities) and three local enterprise partnerships; more than four million people living in two million homes and the highest concentration of manufacturing industry of any UK region. Several parts of the region have significant issues with fuel poverty, including large areas of Birmingham and the Black Country, particularly in private rented housing.

Following through on the recommendations of the King Commission into Regional Energy Policy¹, the Mayor is seeking to work with government, industry and Ofgem to develop better models for optimising energy networks to support the citizens and economy of our region. We have an interest in ensuring:

- Lower energy costs for manufacturing firms, the cornerstone of our economy
- Minimising the number of households at risk of fuel poverty
- Optimising potential economic benefits for our region from the global transition to a more distributed, cleaner energy system

We see appropriately targeted, timely and cost-effective energy infrastructure investment, properly aligned to strategic investments in housing, transport and economic infrastructure, as increasingly important to delivering these goals.

The region is currently enjoying a boom in investment and development, particularly around new HS2 terminals in Birmingham and the NEC, and in Coventry, which has ambitious plans around electric and autonomous vehicles. At the same time, both Birmingham and Coventry have long-standing challenges with their electricity distribution networks: Birmingham has significant fault level constraints and Coventry is wired at 6.6kV rather than the more usual 11kV.

Our primary concerns are: firstly, that the 'business as usual' model of energy infrastructure investment will not deliver timely support to our industrial strategy and thus hold back the economic development of the region, penalising consumers in multiple ways; and secondly, that in a time of rapid technical change continuing to pass the sunk costs of stranded (and/or outdated) infrastructure assets on a uniform basis through to our industries and households undermines the competitiveness of our most innovative and high potential businesses and sends inaccurate market signals to consumers.

We believe that a more strategic and flexible approach to incentivising network investments and allocating costs would deliver better and more cost-effective outcomes for customers.

¹ <https://www.energycapital.org.uk/energyinnovationcommission/>

We also think that the new devolved and regional authorities across the UK create a helpful context and appropriate platform to support this.

Key points in response to the consultation

We broadly welcome the direction of travel set out by Ofgem in this consultation but suggest that regional governments create a new and more efficient channel for delivering many of the objectives identified, working as part of a coherent national framework.

Specifically:

Giving consumers a stronger voice

This is a critical objective, but the proposed approach is far too weak and needs to be strengthened by establishing strong and well-informed, democratically-accountable regional institutions able to act as intelligent and challenging customers for gas and electricity network operators.

The information asymmetries and differences in perspectives, interests and market power between individual consumers (including businesses) and energy infrastructure providers and regulators are massive, so engagement alone does not generally support delivery of efficient market outcomes.

Regional authorities have a vested interest in long-term strategic infrastructure optimisation (and consumer votes) and the best picture of local needs. They should be the primary mechanism for giving consumers a stronger voice.

Responding to changes in how networks are used

Even within our region, the distributed energy infrastructure required (and economically-optimal) for the areas around Coventry and their industrial and social ambitions is radically different from the optimal infrastructure needed to support the housing and established manufacturing of the Black Country, or to support the new transport hub at UK Central in Solihull. Major technical and political judgements are being made and risks taken on investment in electric vehicle infrastructure, hydrogen, building standards and spatial plans. These are all vitally important to ongoing economic success of economies based on manufacturing, construction and transport.

It is critical that flexible mechanisms are incorporated in the price control framework enabling local responsiveness and risk taking (and risk bearing) by local economies. In particular, energy infrastructure must be planned in conjunction with transport, housing and economic infrastructure in an integrated way. Regional institutions, developed in partnership with Ofgem and network operators, provide the most efficient mechanism for delivering this.

Simplifying the price controls

We welcome simplification. In our view considerable complexity inevitably arises from a structure where the accuracy and fairness of outcomes depends on predicting complex variables up to eight years in the future and often second-guessing rapidly changing and diverse local plans using only a single national framework.

A more flexible approach, recognising the potential contribution to simplification created by intermediary publicly-controlled regional bodies would be better. This should be coupled with shorter regulated periods (improving the potential accuracy of forecasts). A mixed model in which a portion of investment is managed nationally over longer timeframes and a portion flexibly and locally over shorter timeframes may be a more robust, simpler and cost-effective approach.

We accept that these arguments apply much less to local economies primarily based around services, for example.

Ensuring fair returns

The key to ensuring fair returns is to create stronger, more demanding customers and ideally as much competition as possible in infrastructure investment locally. This is increasingly possible with growing technology and infrastructure choice and diversity possible at local and regional level (without adding risk to the national networks).

Regulation should make a clear distinction between legacy and national infrastructure costs and local and future infrastructure investment (specifically in energy distribution networks). The latter should be procured competitively regionally, working within a national regulatory framework which allocates the risks and rewards of such investments to local consumers (who are also local voters) – i.e., these costs are shown separately on local energy bills and allocated by local politicians according to local industrial strategy priorities.

Driving innovation and efficiency to benefit consumers

We agree with encouraging competition and have already set out ways regional procurement bodies could facilitate, simplify and strengthen this approach. In the West Midlands, we have pioneered the concept of Energy Innovation Zones, which are a more open and competitive version of Ofgem's Sandboxes. Four large-scale pilots are being developed across the region. We believe appropriate governance is key to maximising the benefits to consumers of such zones and would work with Ofgem and industrial partners to develop sensible models which work for everyone. EIZs provide a simple model for the kind of targeting and transparency proposed by Ofgem.

Answers to your specific questions below.

For clarifications or further information, please contact:

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Consultation response

Question 1	<p>We broadly agree with the case for change and priorities as set out. In the West Midlands Combined Authority region, high upfront connection charges are posing a barrier to expanding existing businesses and connecting new large demand-led developments (such as automotive manufacturers and transport systems). This results in developments being delayed, abandoned, or relocating outside the region.</p> <p>In our role working with local authorities and Local Enterprise Partnerships we believe there is an opportunity for us to bring together users who would value more network capacity. As a regional infrastructure commissioning body we could act as intermediary with the DNO, and others, to trigger reinforcement of the network to deliver economic growth locally.</p>
Question 2	<p>We agree access rights should be reviewed to remove market distortions. In particular, we would support simplification of multiple and variable rights within and across boundaries. The complexity of these act as a deterrent to economic activity, as does opacity in the budgetary process apropos connection of new developments within TO/DNO budget cycles.</p>
Question 3	<p>We envisage opportunities for local authorities to use their powers to reduce essential demand, particularly in the domestic sector, for example by varying energy efficiency standards in their local plans or administering ECO funds more imaginatively, thus freeing capacity at sub-stations to service new loads.</p> <p>The ability to flex access rights using options proposed in b) and c) would be beneficial in developing an agile, resilient system (i.e. firm/non-firm, time-profiled, by duration and by depth), particularly when applied to distribution networks.</p> <p>However, the management of small users' impacts on the distribution network arising from adoption of LCTs (such as heat pumps and EVs) through the setting of a core threshold and/or imposition of charges based on UoS is likely to be challenging despite the roll out of smart meters. The potential for behaviour change based solely on price signals is limited as is evidenced by the lack of success in persuading consumers, particularly in the domestic sector, to switch to energy suppliers offering cheaper tariffs.</p>

	If a threshold is adopted, account must be taken of vulnerable consumers and those in fuel poverty who may be exposed to further hardship, given their energy use may be driven by poorly insulated housing stock, ill-health, disability, or criteria outwith their control.
Question 4	No views
Question 5	No views
Question 6	No views
Question 7	No views
Question 8	No views
Question 9	No views
Question 10	No views
Question 11	No views
Question 12	As a regional authority accountable to large and small users of the networks in an increasingly decentralised energy system we favour Option B in advancing progress, particularly given the proposed timeline for action.
Question 13	No views
Question 14	No views
Question 15	No views
Question 16	No views