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# STRATEGY AND POLICY STATEMENT FOR ENERGY POLICY IN GREAT BRITAIN

## RESPONSE TO DEPARTMENT FOR ENERGY SECURITY AND NET ZERO CONSULTATION

The Energy Strategy and Policy Statement (ES&PS) is an important part of the policy and regulatory framework. It can improve the speed and consistency of the policy process and reduce the risks associated with increased central planning. A high-quality ES&PS is an opportunity for the UK to show international leadership in the governance of the energy transition.

E3G welcomes the move to publish an ES&PS. However, the current draft fails to deliver all the potential benefits. This consultation response explains how an ES&PS should be structured and identifies four changes that would significantly improve the current draft:

- More clarity in the strategic objectives,
- Setting out the approach to ensuring energy system resilience,
- Quantified outcomes,
- Identifying the key assumptions that underpin the outcomes.

### Requirements of an ES&PS

Decarbonisation of the energy system is becoming increasingly urgent. The policy and regulatory framework must ensure that this outcome is successfully achieved alongside other objectives related to resilience and affordability. A focus on achieving specified outcomes presents a new challenge for a regulatory system designed primarily to allow market forces to achieve an efficient, but unknown, outcome. The change from 'input regulation' to 'output regulation' involves an increasing role for planning and centrally determined technology choices. However, central planning involves big risks, especially in a highly uncertain and fast-moving context. The emerging core imperative for regulation and policy is to ensure a robust governance framework that effectively manages the risks of central planning and rapidly learns from evolving knowledge and understanding.



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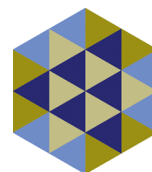
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The Energy Strategy and Policy Statement (ES&PS) has a vital role to play in this evolving governance system. Various actors are making important decisions about the future energy system, and these decisions must remain consistent and up to date with latest best practise. They must also reinforce a common approach to resilience and risk management – ensuring key risks are being addressed appropriately through creating surplus assets or close oversight of delivery. Rapid action is required to achieve net zero targets and there is not enough time for government to individually assess and approve each decision. The ES&PS provides a statutory basis for those involved in energy system planning to move fast whilst remaining aligned to a common set of assumptions about the future and to manage risks in line with government wishes.

The ES&PS can fulfil this requirement by:

- Defining clear high level strategic objectives relating to decarbonisation, security, and affordability,
- Explaining the key risks and uncertainties to which the energy system must be resilient,
- Identifying a series of outcomes which government believes are necessary to achieve the objectives and support a resilient system,
- Set out the key assumptions that underpin the outcomes and which must be monitored closely to judge where changes in priorities might be needed.

Ensuring a resilient energy system is a critical role for government. One of the key tasks for an energy department must be to continually monitor the evolving risk landscape, assessing how this impacts delivery of strategic objectives. This requires a clear understanding of the drivers for successful policy delivery and the associated assumptions (technical, behavioural, geopolitical, etc). These assumptions must be kept up to date with latest knowledge. This important task must be clearly allocated to appropriately skilled bodies whose job is to alert government on the need to adapt policy given new information. This function is an important element of the new regulatory and policy paradigm to avoid the pitfalls of an inflexible and misaligned system of central planning. In the absence of dedicated bodies with this responsibility, the energy planner itself could hold responsibility for some elements of this task (e.g. technical assumptions). However, the implications of managing other risks for the planning function should be explicitly set out in the ES&PS.



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## Proposed changes to draft ES&PS

It is important that the government has decided to publish an ES&PS. The nature of the regulatory and policy challenges has evolved since such a document was first envisaged in 2013 and it is even more necessary now. However, the draft fails to meet the requirements set out above in several respects.

### Strategic objectives

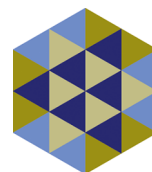
Whilst the strategic objectives related to decarbonisation are clear, thanks largely to the effectiveness of the Climate Change Act, those relating to affordability and security are less well-defined. Governments have previously aimed to ensure that all potential demands for energy will be met other than in exceptional circumstances. However, the rapid electrification of heat and transport, that is essential to cost-effectively decarbonise the economy, will change this situation. This is because potential demand at any moment in time could be extremely high if all devices are used simultaneously. Therefore, consumers will need to be incentivised to adjust their consumption patterns to match asset (network and generation) availability. The ES&PS should contain strategic objectives that address this emerging reality and ensure consumers can conveniently access cheap electricity when needed. For example, government could commit to ensuring all consumers have access to technologies and retail tariffs that will enable them to conveniently consume electricity when it is cheap and avoid consuming when prices are high. It also needs to set out how consumers will be supported through this transition, especially those who are vulnerable.

### Resilience

The draft ES&PS does not set out the government strategy for ensuring system resilience. Instead, it calls for Ofgem and the FSO to deliver 'security and resilience against the full range of threats and hazards'. It is inappropriate for Ofgem and the FSO to make such important public interest decisions. Resilience comes at a financial cost and Ofgem and the FSO do not have jurisdiction over all the relevant institutions and processes. The ES&PS should set out the important risks (technology, climate, technology, cyber, etc), the strategy for managing these risks, and the role that Ofgem and the FSO must play. For example, it should set out where it expects risks to be managed through robust processes to manage delivery and where it expects investment in additional assets to create alternative options (e.g. procuring several technologies to provide long duration storage).

### Outcomes

The outcomes are generally not quantified and even the various government strategy papers are referred to as ambitions to work towards. This contrasts with clearly defined and quantified



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strategic objectives to achieve net zero. All outcomes could be improved by applying conditionality relating to the net zero objective to reflect its legal status. It should be clarified that those outcomes involved with ‘Enabling Clean Energy and Net Zero Infrastructure’ and ‘Ensuring the Energy System is fit for the Future’ must be achieved quickly enough to support delivery of net zero objectives, whilst those involved with ‘Ensuring Energy Security and Protecting Consumers’ must not compromise delivery of net zero objectives.

The draft ES&PS is silent on the future of the gas network infrastructure, and this represents a key omission. The document sets out requirements for new infrastructure but does not address the need for asset decommissioning. Establishing the FSO with responsibility for whole system planning creates the opportunity for cost-effective retirement of much of the gas network (in line with system resilience requirements as set out above). The need to avoid stranded gas network assets should be identified as a key outcome.

### **Assumptions**

Setting out the key assumptions that underpin the outcomes and monitoring how these evolve is an important aspect of the learning governance that is needed to avoid the risks of increased central planning. This aspect is entirely absent from the draft ES&PS. A new section is needed which identifies the critical technical parameters, the values government has assumed in defining the outcomes, and how changes in these assumptions might require a revision to the outcomes. The FSO should be required to monitor these parameters. Ofgem and the FSO are required to report to government if they believe any outcome is unachievable and this should be accompanied by an explanation of which underpinning assumptions have changed. For example, the objective to connect 24GW of nuclear power depends on assumptions about nuclear costs which in turn depend on the load factors which can be achieved. However, increasing levels of embedded renewable generation may mean high nuclear load factors are unachievable. The FSO can report on the new assumption allowing government to consider the need to revise outcomes relating to nuclear power.