APRIL'S ENERGY POLICY IN REVIEW

It has been an interesting year to work in energy policy, to say the least. It is hard to think of a year that rivals for highlighting to us all, so plainly, the huge challenges in our industry that are urgently knocking at the doors of policy makers, governments, leaders, and nations across the world.

From inspirations to "build back greener" from the pandemic, pledges and promises at COP26, stark 'now or never' warnings from the IPCC report, global wholesale gas volatility and the ensuing cost of living crisis, to an inhumane and unjust war in Ukraine that has drawn energy security to top of policy makers' agendas across Europe. All in the context of a planet that is demanding decarbonisation of rapid scale. These are challenges, that will, in one way or another, impact us all.

Within this context, it is no surprise that the energy sphere has been alive with policy announcements, changes, and developments recently. Just look at the month behind us. April has gone in a flash, and if you are suffering whiplash, here is my reminder of what hit the headlines, and what may have flown under your radar.

Out with the old…

Evolution must be constant across our sector as we look to decarbonise. And with over 80% of our homes relying on gas for heating, the evolution of clean heat stands tall as one of the most challenging areas of policy needing acute attention in the next decade.[1]

In this context, April saw the end of the Domestic Renewable Heat Incentive (DRHI), and the launch of the Boiler Upgrade Scheme (BUS), as an element of the Government's October's Heat and Buildings Strategy was realised.

The DRHI, launched in 2014, was labelled the first domestic scheme championing clean heat in households. After reaching the installation of 110,281 renewable heating systems across Great Britain, it gave way this month to BUS.[2] The centerpiece of the Heat and Building Strategy, and outcome to the much-anticipated consultation on clean heat, BUS provides similar financial incentives to support the installation of heat pumps and biomass boilers in homes.

While the comparison of the two policies' impact will come to fruition as the scheme gets underway, another chapter in clean heat policy is a reminder of the pressing and important problem of keeping our homes and businesses warm, even as strides are made elsewhere.

[1] https://www.statista.com/statistics/426988/united-kingdom-uk-heating-methods/
[2] https://www.ofgem.gov.uk/news-and-views/blog/domestic-renewable-heat-incentive-closes-whats-next-clean-heat

Pressure rising

Even those without the slightest interest in energy policy would likely, and unfortunately, be aware of the rising energy bills that are starting to land on doorsteps. People across the UK, particularly those most vulnerable, are already feeling the effects of the unprecedented 54% increase in the energy price cap that came in on 1st April. This fallout from the international wholesale energy crisis has been coupled with extraordinary market disruption that has seen over 4.3 million customers moving from failed suppliers via the Ofgem Supplier of Last Resort scheme.[3]

To compound this, mid-month, Ofgem noted its concern over signs that some suppliers may be increasing direct debit payments by more than is necessary, struggling to communicate with vulnerable customers in difficulty, or directing customers to tariffs that may not be in their best interest. Actions that are causing the financial pressure on consumers to rise substantially. [4]

Ofgem is aiming to tackle these worrying reports in two ways: commissioning a series of Market Compliance Reviews from suppliers to ensure they are fulfilling their license conditions and setting out proposals to tackle the misuse of customer credit balances and renewables payments.[5] These proposals aim to take a long, hard look at suppliers that are mismanaging consumers' money, one of the root causes of the swathe of supplier failures last Autumn.

These measures cannot fix the volatility in the global market, nor can they fully protect consumers from the impact of rising energy bills in the coming months. But they set out the roadmap for higher industry standards.

With another price cap rise scheduled for October, policymakers can at least hope that moving forwards, at speed, to build a low carbon, flexible, resilient energy system, will go a long way to protect tomorrow's consumers from the market shocks of today.

System change

Our whole energy system is at a pivotal moment. We must bring more renewables onto the system, all while managing geopolitical tension and market uncertainty, and minimising balancing impact on consumer bills. This is the challenge faced by the gas and electricity system operators today. But with fundamental changes to the energy entering our system, so too must the system itself adapt.

Enter the Future System Operator. This month BEIS and Ofgem jointly set out the vision for an independent Future System Operator (FSO) to take up the challenge: facilitating net zero, ensuring security of supply, coordinating efficient and evermore integrated gas and electricity systems, both onshore and offshore, and anticipating the entry of hydrogen and Carbon Capture and Storage to the market.[6]

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[3] https://www.ofgem.gov.uk/news-and-views/blog/time-suppliers-improve-standards-energy-consumers
[4] https://www.ofgem.gov.uk/publications/open-letter-domestic-energy-suppliers-financial-resilience
[5] Ibid.
[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1066720/future-system-operator-consultation-govt-response.pdf

But as we look to national challenges of the net zero transition, the necessity for local solutions becomes clearer. As the FSO consultation concluded, and the project moves to its next stage, the question about how local energy system should be governed was asked through an Ofgem Call for Input.[7]

Bookending April, these two announcements focus on the critical issue of energy system governance. How we build the right framework for energy transformation in the data-led, decarbonised and decentralised energy systems of tomorrow.

The winds of change

The government's launch of the Energy Security Strategy (ESS) was one thing that was unlikely to breeze past you this month. Aiming to increase the nation's home-grown energy capacity and therefore double down on energy security, it saw refreshed pledges on offshore wind, big bets on nuclear and honourable mentions to solar, heat pumps and low-carbon hydrogen.[8]

The ESS built on pledges made in the 2020 Energy White Paper, and pushing the target of offshore wind capacity to 50GW by 2030 was a key point to the strategy, aiming to set us en route to be the "Saudi Arabia of Wind".[9] With eight years of policy-making time still on the clock before we hit this target, it may well increase again, should our (rightful) focus on offshore wind expansion continue to grow at this rate.

While targets are critical, infrastructure is too, and this April also saw the government publish the first half of its response to the Offshore Transmission Network Review (OTNR), which showed the government's intention to bring together offshore wind sites with electricity interconnectors to create offshore wind hubs.[10]

Established to address and reduce barriers in increasing offshore capacity and integration into the grid, overall, the review aims to bring balance between environmental, social, and economic factors in offshore development. These are important trade-offs that add to the increasing list of considerations that (rightfully) must be made navigating energy policy in the UK, as the traditional energy trilemma of delivering clean, secure affordable power comes back onto the political agenda.

Feeling energetic?

Trilemmas and trade-offs are fundamental, but so too is public opinion. The net zero agenda is now 'overwhelmingly popular' according to political think tank Onward, which analysed the impact of losing net zero policies on the Conservative's hold on power this month.[11] And BEIS' own public attitudes tracker has seen public support only increase for green policies. Even

[7] https://www.ofgem.gov.uk/publications/call-input-future-local-energy-institutions-and-governance
[8] https://www.gov.uk/government/news/major-acceleration-of-homegrown-power-in-britains-plan-for-greater-energy-independence
[9] https://www.bbc.co.uk/news/science-environment-54285497
[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1071159/otnr-multi-purpose-interconnectors-government-response.pdf
[11] https://www.ukonward.com/reports/taking-the-temperature/

those that were considered unpopular just years ago, like onshore wind, have sprung back onto the agenda, as the need for quicker, available solutions becomes greater.[12]

However, with the cost-of-living crisis only developing in ferocity, and questions over international energy supply ranging, there is no time for complacency. The action of this last month shows just this - that the energy trilemma is alive and well, and that managing these trade-offs and challenges will keep policymakers busy for months, years and decades to come.

Toni Heijbroek
Future System Operation, Senior Policy Lead, Ofgem

12 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1064032/BEIS_PAT_Winter_2021_Energy_Infrastructure_and_Energy_Sources.pdf