

Preparing for the winter

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During the winter of 2022-23, the UK faced significant challenges in its energy sector, marked by unprecedented domestic prices. This Evidence delves into the multi-faceted causes of these disruptions, from grid adaptability issues to regulatory responses. Key areas for improvement are identified through comparative analyses with global case studies, including Germany's energy transition and Australia's consumer-focused approach. The findings underscore the urgent need for the UK to diversify its energy sources, invest in advanced storage mechanisms, and adopt a proactive, consumer-centric policy framework to ensure a resilient and stable energy future.

Executive Summary:

The winter of 2022-23 witnessed unprecedented domestic energy prices in the UK, highlighting the limitations and challenges of the nation's energy grid and policies. Rooted in the historic transition from coal and gas towards cleaner energy sources, the UK grid's structure struggled to adapt to the increasing adoption of variable renewables. The reliance on external energy sources and Brexit and pandemic-induced supply chain disruptions contributed to significant price spikes.

While promoting renewables is commendable, the oversight of diversifying energy sources and the lack of advanced storage solutions made the UK susceptible to price shocks, as was evident from comparisons to Germany's more resilient Energiewende policy. However, the consumer-centric approach (Affordable Energy Prices, Reliability and Transparency) lacked consistency, particularly during economic stress. Examples like Australia's compassionate approach during the pandemic highlight the potential for more humane responses.

Regulatory bodies like Ofgem seemed to adopt a more reactive approach, underscored by temporary fixes like price caps without delving into the systemic challenges of the energy market. A look at the mixed outcomes from Spain's electricity pricing reforms offers insights into the regulator's face. Meanwhile, the Government's policy, swinging between nationalisation and privatisation, lacked a unified vision, a challenge that Nordic countries overcame with their integrated energy strategies.

In conclusion, while the UK has made commendable strides in its energy transition, winter 2022-23 events serve as a wake-up call. Adopting a comprehensive, proactive, and consumer-centric approach while ensuring market competitiveness can pave the way for a more resilient energy future.

1. What role did the UK grid play in the high domestic prices of winter 2022-23?

1.1 The UK's energy transition journey began with coal and gas. The shift towards cleaner energy was rooted in policies dating back to the early 2000s, but the rapid pace of renewable adoption highlighted infrastructure lags.

1.2 The UK grid, originally designed for centralised, fossil fuel-based power generation, faced difficulties integrating variable renewables. While integrating renewables is an

achievement, the grid's inability to handle supply fluctuations during peak demand times and the lack of adequate energy storage solutions created supply-demand imbalances. External factors, such as Brexit, brought about complexities in energy trading agreements, and pandemic-related disruptions aggravated the supply chain.

1.3 In 2018, the 'Beast from the East' cold wave exposed vulnerabilities in the UK's energy supply chain. Comparatively, the 2022-23 winter crisis showed deeper systemic issues due to an over-reliance on external sources and a failure to predict demand surges.

1.4 A modernised grid infrastructure, enhanced grid-scale energy storage, and flexible interconnections should be prioritised.

2. What more could have been done to prevent price shocks being passed to consumer bills?

2.1 The UK, once an energy-independent nation, has seen a shift in its energy-sourcing policies, increasing external dependencies and renewables.

2.2 The UK's focus on renewables, especially offshore wind, compromised energy diversity. With little to balance the intermittency of renewables, like advanced battery storage or diversified renewable sources, the nation became susceptible to price shocks.

2.3 Germany's Energiewende policy, post-Fukushima, transitioned the country from nuclear to renewables. Their multi-faceted approach, involving citizens, battery storage, and an improved grid, made the energy market resilient to shocks.

2.4 Beyond diversifying the energy mix, introducing smart grids, enhancing storage solutions, and raising public awareness about demand-response initiatives are crucial.

3. How should energy companies respond if customers cannot pay their bills, and what actions should they not have recourse to?

3.1 The pre-digital era saw non-payment, resulting in disconnections. However, the global push towards consumer rights has mandated a more compassionate approach.

3.2 Economic downturns, job losses from the pandemic, and the sudden energy price hikes placed many households in precarious financial positions. Essential services like electricity should not be abruptly severed.

3.3 Australia's progressive policies during the pandemic showcased an evolved stance. Energy providers deferred payments, waived late fees, and did not disconnect power for non-payment.

3.4 Energy companies should proactively engage with struggling customers, offer flexible payment plans, and collaborate with NGOs and governments for assistance programs.

4. Has Ofgem got its priorities right in addressing customer protection?

4.1 Since its inception, Ofgem's mandate combined consumer protection with facilitating a competitive energy market.

4.2 While Ofgem implemented several protective measures during crises, the agency's overarching strategy appeared reactive. Price caps and emergency measures are short-term fixes but fail to address systemic issues.

4.3 Spain's electricity pricing reform, though aimed at consumer protection, brought mixed outcomes, underlining regulators' challenges in balancing protection with market dynamics.

4.4 Ofgem should focus on a proactive, data-driven approach, anticipate market challenges, and ensure continuous stakeholder engagement.

5. How effective is the Government's approach towards supporting the sector and delivering a functioning energy market?

5.1 The UK's energy policy seesawed between nationalisation and privatisation over the decades, impacting the sector's stability.

5.2 Governmental efforts have emphasised renewable adoption, but a cohesive strategy addressing storage, grid adaptability, and market competitiveness is lacking.

5.3 Nordic countries, through integrated energy markets and cooperative regional policies, achieved energy stability, competitive prices, and sustainability.

5.4 It would be more effective to embrace a comprehensive energy strategy. Facilitate public-private partnerships, streamline bureaucratic processes, and encourage R&D in emerging energy technologies.

6. Is the legislative framework on pricing controls suitable for protecting consumers?

6.1 Price controls emerged as protective shields, but their impact on market dynamics has always been contentious.

6.2 Though pricing caps guard consumers against price hikes, they can hinder market entry and competition. An adaptive framework responsive to market dynamics is essential.

6.3 Japan's 2016 electricity retail market deregulation ensured consumer protection through vigilant oversight while promoting market competition.

6.4 An adaptive pricing mechanism bolstered by stringent oversight, regular reviews, and transparent communication should be championed for a balanced market.

Conclusions:

Winter 2022-23 highlighted vulnerabilities in the UK's energy infrastructure and policies. The grid's adaptability to renewable integration, over-reliance on external energy sources, and reactive regulatory measures were central to these challenges. To safeguard against future crises and ensure a resilient energy future, there is a pressing need for diversified energy sourcing, advanced storage solutions, and a proactive, consumer-centric approach. Adopting lessons from global case studies, such as Germany's comprehensive energy policy and Australia's consumer-first response, can guide the UK towards a balanced and robust energy market.