

Business, Energy and Industrial Strategy Committee

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Dear Business, Energy and Industrial Strategy Committee,

Response to Business, Energy and Industrial Strategy Committee inquiry on Net Zero governance

We welcome the opportunity to respond to the call for evidence into Ofgem and Net Zero. Electricity North West is the DNO covering the north west of England serving 5 million customers in 2.4 million premises, across a diverse range of locations covering both rural and urban areas from Greater Manchester to Cumbria, including Lancashire and Cheshire. We operate in a sector which is regulated by Ofgem. Given our role in managing the distribution network in the north west, and our close relationship with key regional stakeholders including local authorities in our region, we are well placed to provide valuable insight to this call for evidence. We work closely across the whole energy system with various stakeholders at both a local and national level and have set out our commitment to lead the North West to Net Zero in our draft Business Plan for 2023-28, building on our work since 2019¹ in supporting, enabling and delivering our part of the transition to Net Zero.

Achieving Net Zero will require whole system thinking and action by stakeholders. We are an innovative leader as is demonstrated by the development of CLASS² which is now providing balancing services to the Electricity System Operator (ESO), delivering cost savings to all Great Britain's customers and reducing carbon emissions, contributing to the delivery of Net Zero ambition. With the likely increased dependence on the electricity network of the future, the joint challenges of decarbonisation and assisting customers in vulnerable situations are central to our strategy over the coming decades. Given this, having reviewed the call for evidence questions we offer the following summary observations;

- Clear Government policy and timeframes are essential to companies like ourselves when forecasting to understand network requirements and how demand is changing.
- We support Government Net Zero commitments, and this is embedded in our business, included as one of three headline commitments in our Business Plan for 2023-28.
- Collaboration across government departments and with local and devolved authorities is crucial as is ensuring all stakeholders have adequate resources to enact the transition to Net Zero.
- Local area energy planning (LAEP) is an important tool to develop clear and deliverable plans for local action to decarbonise buildings, energy and transport.
- The Committee on Climate Change (CCC) could be used to independently monitor progress towards Net Zero on behalf of Government, including the extent to which it is embedded within Government governance and decision-making.

Below we have answered the questions from the committee directly, with detailed responses on each point that is outlined in the call for evidence as posted on the Committees' website. This response is on behalf of Electricity North West and we trust this will be helpful. We look forward to continuing collaboration with all stakeholders including BEIS and other government departments to

¹ <https://www.enwl.co.uk/go-net-zero/our-plans-to-go-net-zero/leading-the-north-west-to-net-zero/>

² <https://www.enwl.co.uk/go-net-zero/innovation/key-projects/class/what-is-class/>

achieve the Net Zero transition. Should you have any questions, please do not hesitate to contact me or my colleague David Darley (david.darley@enwl.co.uk, 07825 899363) in case of any queries.

Yours sincerely,

Paul Auckland
Head of Economic Regulation

Business, Energy and Industrial Strategy Committee: Inquiry on net zero governance – Call for evidence

1. What are the key requirements for a governance structure that can deliver cross-Government climate action at the pace, scale and over the duration required to meet the carbon budgets and the 2050 net zero target?

a. Are the Government's existing net zero governance structures effective in this role, both in terms of coordination across Whitehall, and coordination with the devolved administrations and local and regional authorities?

1. We observe that there is a concerted effort across Whitehall to achieve effective action on Net Zero and its delivery. All government departments will benefit from the clear and joined up leadership which includes expert input from bodies such as the Climate Change Committee complimenting the expertise that is already working across government. An increasing involvement from HM Treasury is required to ensure that the UK's economic strategy is consistent with, and actively contributing to, Net Zero. 'Green recovery' policies and projects to date provide helpful insight into how alignment can develop, demonstrating that joined-up policy-making can deliver enhanced economic, social and Net Zero outcomes.
2. We do believe that the current governance structures could be improved through quicker and more agile decision making given the need to act now and the short timescales involved in delivering Net Zero. The decisions made in 2021 will have a critical bearing on the country's ability to reduce CO₂ emissions by 68% by 2030 and 78% by 2035, from 1990 levels, and the ability to stay within the Committee on Climate Change-recommended carbon budgets. The wrong decisions today will lock-in CO₂ for decades to come, though we don't suggest uncertainty should contribute to inertia. We would therefore like to see even more collaboration between government departments reflecting that the activities and actions cut across departmental responsibilities. A good example of this which we are encouraged by is DFT and BEIS collaboration in Office for Zero Emission Vehicles (OZEV). To further support the objective of greater government departmental collaboration it would be worth considering an overall lead Net Zero department.
3. Clear Government policy and timeframes are essential to companies like ourselves when forecasting/understanding network requirements and demand. We welcome the work that has been done to date on EV and heat pump policy, and it would be of great benefit if this best practice was rolled out to other areas of Government policy to provide additional clarity for key Net Zero stakeholders, including decarbonising of buildings, food and farming.
4. Additionally, Net Zero delivery would benefit from central Government working closely with devolved administrations and regional/local authorities. Devolved, local, and regional government have a critical role to play as part of the Government's Net Zero commitments and plans.
5. These bodies should not face barriers to their key role through, for example, funding barriers. To fulfil this potential, stronger governance, policy and resourcing is required to better define their role and enable its implementation. We are therefore supportive of the four key recommendations of the Committee on Climate Change in their 2020 report³ on Local Authorities and the Sixth Carbon Budget, namely: *Framework, An agreed framework for delivery*

³ <https://www.theccc.org.uk/publication/local-authorities-and-the-sixth-carbon-budget/>

for Net Zero incorporating local and national climate action; Financing, Appropriate long-term financing to support local authorities in delivering Net Zero; Flexibility, Local operational flexibility around how local areas address climate change; and Facilitation, coherent policy and powers for the facilitation of delivery.

6. We are also aware of the work by ‘UK100’⁴ in seeking to take forward these recommendations, as set out in their 2021 Net Zero missive. We believe this provides a helpful outline of what a Net Zero Delivery Framework may need to contain and would encourage Government to engage with UK100 and its members to support its further development⁵.
7. Further, the ongoing development of local area energy planning (LAEP) is an important tool to develop clear and deliverable plans for local action to decarbonise buildings, energy and transport. We are supportive of LAEPs and we note and support the recommendation from the Environment Audit Committee in response to its call for evidence on community energy that “The Government should support local authorities to develop local area energy plans which harness the potential of community energy”⁶.
8. We therefore make the following recommendations to enable their potential to be realised:
 - LAEPs should be formally supported by Government and Ofgem policy. This would appear to be in line with BEIS and Ofgem latest thinking, as outlined, for example, in the current consultation on the Future Systems Operator (section 3.2.7)⁷.
 - Local/regional government, electricity distribution network operators (DNOs) and gas distribution networks (GDNs) should be among a group of key partners working to develop and drive the delivery of the LAEPs, with wider input from other local partners and stakeholders. We also support that community energy groups should be given a role in this process.
 - LAEPs should be developed according to a consistent high-level methodology, one which is underpinned by future electricity scenarios (FES), DNO distribution future electricity scenarios (DFES)⁸ and GDN plans.
 - Government provide the necessary resources to enable the development and delivery of LAEPs.
9. We also believe that businesses and citizens also have a critical role to play in the delivery of LAEPs and in helping to meet the UK’s Net Zero commitments. We engage with these stakeholders extensively and on a regular basis. Businesses and citizens say more support and advice is needed from a central trusted place. Without this, and currently, the levels of action are falling short of the requirements to deliver Net Zero commitments, therefore the need to support and facilitate increased action from these key stakeholders is needed. To fulfil this need, existing national, regional and local support arrangements require enhancement. Central to this is the need to establish local and regional mechanisms, with the necessary capacity, funding and expertise to provide the bespoke advice and support that businesses and citizens say they need.
10. By example, Government’s UK Business Climate Hub⁹, which has been set up to provide online support to small/medium enterprises (SMEs), is a helpful starting point for a wider and deeper national programme of support. In this instance, we are working with DNOs and other partners to build on this resource by providing more detailed online advice through the Zero Carbon Business Partnership and Portal¹⁰. Discussions are currently underway to explore how the partnership and portal may be further developed to include local/regional arrangements which are crucial. This could include, for example, connecting to the work currently underway in

⁴ <https://www.uk100.org/about>

⁵ <https://www.uk100.org/events/international-net-zero-local-leadership-summit-conference>

⁶ <https://committees.parliament.uk/publications/5718/documents/56323/default/>

⁷ <https://www.gov.uk/government/consultations/proposals-for-a-future-system-operator-role>

⁸ <https://www.enwl.co.uk/get-connected/network-information/dfes/>

⁹ <https://www.businessclimatehub.org/uk/>

¹⁰ <https://www.zerocarbonbusiness.uk/>

Greater Manchester and Lancashire to further develop existing business support programmes and align them with the Government's Net Zero commitments.

11. We encourage Government to engage with our draft RIIO-ED2 business plan¹¹ which shows a blueprint of the role for regional businesses like ourselves, and in our case our regulator Ofgem. This builds on our plan 'Leading the North West to Net Zero'¹² published in 2019. Ofgem is the key decision maker for RIIO-ED2 and we note are anticipating the forthcoming BEIS consultation on its Strategic Policy/direction Statement (SPS) to Ofgem. We view that including a strategic steer for Ofgem towards placing more weight on regional stakeholder views than has historically been the case is needed where these views come from the elected bodies representing the region or the people themselves. Further, we would support that the SPS is considered for periodic update given changing dynamics and the speed at which Net Zero is required to occur. We are happy to provide specific feedback from Cumbria County Council, Lancashire County Council and Greater Manchester Combined Authority with their permission if it would be helpful to see the strength of local support in our region for Net Zero.

b. What alternative governance structures could be established to coordinate and deliver cross-Government action on climate change more effectively?

12. Ultimately there is a need to have Net Zero embedded in all government departments. Additionally, collaborative and joined up cross departmental working is required given that Net Zero aims and actions cut across traditional departmental boundaries.
13. It could be considered that a single government department be nominated or created as the lead department to help with support this aim. This could be a dedicated Net Zero department or a remit for an existing department to lead the co-ordination and delivery of Net Zero. An example could be a department with a more specific remit for energy and climate change that would help bring more focus to the move to Net Zero.
14. Though any structural or Net Zero governance reform within Government should be undertaken carefully with an aim that any re-organisation does not delay to action or delivery. It is crucial that this is avoided given short timescales involved in delivering Net Zero.

c. What metrics should the Government use to measure their progress towards net zero?'

15. The CCC could be asked to advise on this question specifically, as well as independently monitor on behalf of Government should this be the best method of assessment. The key measure is whether/not we are meeting the CCC-set carbon budgets; therefore, carbon budgets could also be set at regional, sub-regional and local authority-level to help apportion responsibility and drive additional action at the local-level.
16. Metrics such as carbon intensity of electricity and electric vehicle (EV) numbers could be considered as well as time taken to set policy and enact it in key areas related to Net Zero.
17. We are particularly impressed by the work with the Citizens Assembly on Climate Change and ran a similar smaller scale version to assist us with developing our business plan. The continued involvement of the public through direct input such as this will help appropriate assessment and measurement of success.

2. What governance structures would enable HM Treasury to give greater priority to the net zero target and the carbon budgets in its financial and economic decisions?

a. How could HMT better ensure that spending decisions contribute to achieving net zero in the long term?

18. We support and encourage greater Treasury involvement. Net zero action and delivery will have a positive impact and benefit to the economy as a whole as well as being central in terms of prosperity and international opportunity for the UK economy now and in the future. Therefore, a re-orientation of our economy towards Net Zero will see benefit to all. We are supportive of the

¹¹ <https://www.enwl.co.uk/about-us/regulatory-information/future-business-plan-2023-2028/>

¹² <https://www.enwl.co.uk/go-net-zero/our-plans-to-go-net-zero/leading-the-north-west-to-net-zero/>

aim of Green Recovery and are working with Government and other stakeholders in this endeavour. As in Green Recovery, we encourage that Net Zero remains a top government priority for the long term and that increasing weight is placed on its delivery in decision making. To ensure this is transparent, we would encourage that all Treasury decisions should include an assessment of how proposals contribute to Net Zero transition and delivery and on what scale. Our own green recovery projects can be found at www.enwl.co.uk/greenrecovery.

3. What signals and support does business need from the Government in order to deliver cross-economy decarbonisation in line with the carbon budgets and the net zero target? What delivery function should Government provide itself and are relevant regulatory bodies mandated and resourced effectively to deliver on Government priorities?

a. How do policy and regulatory signals and support vary between Government Departments (and how have they varied over time)? How is this affecting business activity on climate change?

19. The Prime Minister's 10-point plan and supporting decisions from BEIS are providing some of the macro strategic steer that business needs. To support the north west region, as well as all devolved, local, and regional authorities more capacity is needed at the local level to actively engage businesses and support practical action. This could build on the existing local structures, partnerships and business-facing organisations, but needs to establish local and regional mechanisms, with the necessary capacity, funding and expertise to provide the bespoke advice and support that businesses and citizens say they need. The support currently available is limited to information provision and signposting and lacks the necessary specifics and bespoke support that stakeholders say they need to understand the actions that they need to undertake to play their role in Net Zero delivery.
20. We are also cognisant of the need for a socially just transition. We have not waited ourselves as we continue to see the need to act as early as possible, as evidenced by our published 'Leading the North West to Net Zero' (2019). We have been delivering this action and will continue to, as well as building on this core foundation stone as seen in our draft RIIO-ED2 business plan. Leading the North West to Net Zero is one of three headline commitments in our draft business plan, reflecting our central role in helping to facilitate and deliver Net Zero. We are proud of our record in this area and continue to make real strides forward, always with the aim to make sure we are never a blocker or barrier to Net Zero.
21. We as the DNO operating in the North West of England have a high proportion of customers in vulnerable circumstances in our region compared to many other regions of Great Britain. Additionally, we have some of the most deprived areas in the country in our distribution area. We are therefore acutely aware and proactive in our work that we undertake to support these customers. Our stakeholders have told us that they want us to do even more to help alleviate fuel poverty and to make sure that customers who are already economically and socially disadvantaged are not left even further behind as we respond to Net Zero transition. We have acted on this evidence and insight and have included several consumer and stakeholder engagement led commitments in our draft business plan to enhance this support in RIIO-ED2 (2023-2028). Examples of this are;
 - Make £2m per year available to work with trusted partner organisations, to support the 250,000 customers in our region who are in fuel poverty, by 2028.
 - Launch a new £250,000 annual fund to remove barriers that prevent the take-up of low carbon technologies (LCT) with the money targeted at struggling households.
 - Proposing to roll out our pioneering 'Smart Street' technology to 250,000 customers in disadvantaged neighbourhoods to lower their energy bills.
 - Increase our Priority Services Register (PSR) even further from the 1 million people we already help. The aim to ensure everyone eligible has the opportunity to join and increasing membership so that a minimum of 60% of eligible customers are registered.
 - Train all our colleagues to better recognise, understand and support those in vulnerable circumstances.

- Double the amount we spend on partner referral networks to £0.5m a year to establish partnerships with organisations with specialist skills to help our customers who need it most.

This therefore puts customers at the heart of plans and look forward to this being central to review our plans by Ofgem, the sector challenge group and others in due course.

b. Should Ofgem play a greater role in delivering on net zero and, if so, what changes are required to deliver this?

22. It is ideal timing to undertake a review of the statutory duties and powers of Ofgem in the context of Net Zero transition and rapid industry change. We would welcome the opportunity to input to the process. Further it is important that, should a review be undertaken, it also considers where improved definition is beneficial to clarity and transparency, as well as any removal or addition to the current powers or duties of Ofgem as deemed to be required.

23. We also note and are anticipating the forthcoming BEIS consultation on its strategic policy/direction statement (SPS) to Ofgem which should help to clarify the Ofgem role in Net Zero. We urge that this SPS considers how the guidance is updated between government and Ofgem given the pace of change in relation to Net Zero. It also needs to consider the full range of potential Net Zero delivery bodies not just Ofgem and co-ordination between all parties is secured.

24. With regards to clarity of existing duties, one area which is likely to require additional guidance or input from Government policy is the issue of intergenerational fairness and this balance in terms of who contributes for the delivery of Net Zero transition. This is clearly a complex issue, given issues of affordability, the speed of which transition is required and the context of long lived assets and infrastructure, but currently this needs to be further addressed. An example of where this is manifesting itself is the access and significant codes review (SCR) by Ofgem which is currently ongoing and is a key input to companies planning, delivery and charging in the RIIO-ED2 period. A strong policy direction from Government on this issue, considering the balance of intergenerational fairness and Net Zero transition would be beneficial and remove this issue as a potential blocker or anchor to the speed of transition.

25. Additionally, as we see that LAEPs are an important tool in the assessment, co-ordination and delivery of Net Zero we would support Ofgem having a role in facilitating their propagation through encouraging DNOs and GDNs to actively participate in developing and implementing LAEPs. Our overall suggestion is that local/regional government, DNOs and GDNs should be all facilitated as strategic partners to work together to develop and drive the delivery of the LAEPs, working in partnership with other local partners stakeholders and Ofgem. As a joint initiative LAEPs need to be working to an agreed national methodology, aligned with Net Zero 2050, or locally derived commitment where applicable and Ofgem could have a role in monitoring or guiding how these are made consistent with regards to methodology.

4. The BEIS Committee will be working with the Environmental Audit Committee on this inquiry and inviting guests from other select committees. We are also interested in comments on the effectiveness of current parliamentary scrutiny arrangements for climate change and proposals to improve this.

26. We support this format and believe that parliamentary scrutiny does work well. It is important that MPs are able to challenge and hold Government and others to account on key issues and topics of which Net Zero and its delivery is clearly one of these. It is important that the questions, answers and the information disclosed is transparently disclosed and published wherever this can be done. Given that the CCC have a critical role in Net Zero and helping to set the conditions/framework to deliver this we would suggest that a representative from this body is invited to sit on all relevant committees.