

Response ID ANON-8W5K-8T56-6

Submitted to Strategy and Policy Statement for Energy Policy in Great Britain
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About you

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3 What is your organisation?

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The Investment Association

4 We usually publish a summary of all responses, but sometimes we are asked to publish the individual responses too. Would you be happy for your response to be published in full?

Yes, but without identifying information

5 How did you hear about this consultation?

How did you hear about this consultation?:
GOV.UK alert

Other (please specify):

The consultation questions

1 Does the strategy and policy statement identify the most important strategic priorities and policy outcomes for government in formulating policy for the energy sector in Great Britain? If not, please provide details of the priorities that you think should be included.

Yes

Please enter additional information here:

The strategy and policy statement broadly identifies the most important strategic priorities and policy outcomes for formulating policy for the energy sector in Great Britain. We note, however, that while the consultation states that the Government is responsible primarily for setting the policy and regulatory framework, the document is not sufficiently clear on which arms of Government (departments, the regulator, or the FSO) will be responsible for delivery of each priority. With the draft stating that each arm will variously have "a role" to play or be expected to "work together" it is not always clear where lead responsibility will lie. Stakeholders wishing to engage on particular elements of energy policy delivery might benefit from a clearer statement of roles and responsibilities to inform whether they should be talking primarily to the lead department, Ofgem or the FSO.

While we recognise that they reflect the current responsibilities and priorities of the Department for Energy Security and Net Zero (DESNZ), the three overarching strategic priorities in this document have significant overlaps and it is important that needless divisions are not created between those responsible for their delivery. For example, we consider enabling clean energy and net zero infrastructure to be a fundamental part of ensuring energy security. Similarly, it will be important to provide adequate consumer protection as new clean energy technologies become more common, particularly for domestic use. At present, where net zero, energy security and consumers are mentioned within the same strategic priorities, it is implied that the clean energy transition is most likely to be a hindrance to energy security and consumer interests.

The introduction states that the Government expects significant private sector investment in the energy sector in coming years and the desirability of private sector investment is noted particularly for carbon capture, usage, and storage (CCUS) and digitising the energy system. However, where private investment is mentioned in a policy outcome it is only to note the risk of market distortion. Investors would welcome a more prominent focus on investment opportunities and how the Government intends to attract private investment.

The Investment Association has previously advocated for the Government to create a UK Net Zero Investment Plan to provide an ongoing analysis of private and public net zero financial flows and help determine how the investment required for the UK to reach its emissions reduction targets can be met. The plan would also outline policies and actions that will be taken to catalyse private investment in the most effective and economically efficient way. We reiterate the need for a clear Net Zero Investment Plan. We also support the creation of a unit within government to produce and monitor the Net Zero Investment Plan and to ensure a whole-of-government commitment to delivery, in line with the model for an Office for Net Zero Delivery outlined in the Skidmore review.

In the absence of either such a plan or delivery body, it becomes even more important for departments and government bodies which are acting independently to take steps to analyse financial flows and actively leverage in private investment. The Government's strategic priorities and desired policy outcomes could more clearly state how private sector investment in the energy sector can be achieved. Such a priority is essential to ensure that all relevant bodies are equipped with the skills and resources necessary to engage with investors and the finance sector more broadly.

The UK is fortunate to experience a significant degree of political consensus – across parties and within devolved administrations – on the net zero transition and importance of energy security. This consensus should act as an incentive to invest in UK energy infrastructure. Nonetheless, political uncertainty remains a risk factor when parliamentary terms (and the potential for a change of government) typically operate on much shorter time frames than most major infrastructure projects. While accepting that a degree of political uncertainty is a healthy and desirable feature of investing and operating in a parliamentary democracy, the policy strategy might seek to capitalise on the widespread political consensus that exists in the UK to provide longer term certainty to investors.

One means of achieving this would be to equip the FSO with a number of clear long-term mandates to drive policy delivery. These mandates should be agreed on a cross-party basis and with parliamentary approval. These mandates must be sufficiently flexible to allow the FSO to be agile in delivery and properly consider the role of new and emerging technologies.

Additional democratic accountability can be introduced by articulating a role for local authorities, and metro mayoralties especially. The Institute for Government's report, 'Net zero and devolution', sets out the role that metro mayors could play in delivering the energy transition, with a particular focus on delivering retrofits and developing skilled local workforces. [https://www.instituteforgovernment.org.uk/sites/default/files/2023-02/net-zero-and-devolution_0.pdf] Such an approach can support job creation across the UK and proper consideration of the impact of projects on local communities.

2 Does the strategy and policy statement effectively set out the role of Ofgem in supporting government to deliver its priorities? If not, please identify where these expectations could be made clearer.

Yes

Please enter additional information here:

The strategy and policy statement is broadly effective in setting out the role of Ofgem in supporting government to deliver its priorities. We particularly support the role of Ofgem in considering opportunities to shift and reduce demand through energy efficiency.

We recognise that the cost of living is rising for many people and households. Rising gas and electricity prices have made it more difficult for many to heat their homes and placed pressure on the ability of some businesses to operate. This risks impacting the UK's economic growth and the wellbeing of millions of people. It is right that policymakers should seek to minimise the disruption and cost of the transition to net zero for UK households.

Ofgem has an important role to play in ensuring that individual policies carry public support. The UK's independent Climate Change Committee (CCC) has consistently encouraged the Government to produce guidance for policymakers to improve targeting of policies which rely on changing behaviours to deliver net zero. We understand this work is underway within DESNZ. It should be a priority for Ofgem to learn from, and implement, the findings of this guidance.

It is important that we have long-term, predictable, and dependable policy goals which encourage the public and private sector to scale-up and make affordable and "everyday" the innovative and impactful new technologies which will make the transition to net zero possible. A comprehensive and stronger focus on energy efficiency and retrofitting buildings and a shift to more low-carbon electricity generation will help to reduce costs, improve resilience to future energy price shocks and help the UK to reduce its exposure to global energy markets.

3 Given the FSO does not exist yet but will need to have regard to the strategy and policy statement once it does, do you consider that we have effectively reflected the FSO's role in this document? If not, please identify where these expectations could be made clearer.

Yes

Please enter additional information here:

The strategy and policy statement broadly reflects an appropriate role, once established, for the Future System Operator. As noted above, it is important that the energy strategy and policy statement sets out clear and distinct delivery roles and responsibilities for the Government, Ofgem and the FSO. There is an opportunity to establish the FSO with the appropriate capabilities to engage with private investors and to work to long-term mandates which create investor confidence.

In addition, the FSO's role should allow it to coordinate all aspects of the delivery of a low-carbon energy network. This coordination role should be broad enough to include consideration of policy relating to the commonly recognised barriers to new investment of planning restraints, grid connectivity, supply chains and skills.

An appropriate degree of operational independence from the Government is likely to aid the long-term delivery of the government's strategic objectives by the FSO. The FSO should be equipped to work with local authorities and metro mayors where it is beneficial to the delivery of its objectives, with a particular focus on job creation and the impact of projects on local communities.

The FSO's role should allow it to consider the supply of private finance towards achieving the Government's objectives. Indeed, the objectives and policy outcomes should include catalysing private sector investment in the energy sector. The FSO should be equipped with the skills and resources necessary to engage with investors and the finance sector more broadly in order to attract necessary investment.