As the nation goes once more to the polls, the energy market continues to undergo a period of rapid change as we transition to a digital, decarbonised future that better meets customers’ needs.

The energy market is changing, indeed April saw the first 24 hour period without coal generation since the industrial revolution.

In the retail market there are now more than 50 suppliers, and we have ever-increasing customer engagement and levels of switching, with 1.3 million households changing electricity supplier already this year. Industry is putting in place measures to put consumers in greater control of their energy use, including rolling out 53 million smart meters to every home and business in the country.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. Ill-considered or poorly constructed regulation risks removing the competitive impetus that has driven the huge benefits seen in the market we have today, including an increasing number of suppliers offering a range of innovative products. A well-functioning retail market must be one where competition drives innovation and improvements in customer service; where consumers engage to get the best deal, and where effective support is in place for the most vulnerable.

Delivering this market begins with respecting the CMA investigation and allowing the remedies it proposed to be delivered. Beyond this, future governments need to ensure that the existing social policy programmes it controls are better targeted at supporting those most in need. The regressive nature of how the government has used the electricity bill to fund these programmes also needs to be reviewed, ending the system whereby the fuel poor pay to fund programmes to help the fuel poor.

The energy industry’s continued investment in infrastructure is helping to drive technological development, innovation and productivity. However, in order to deliver the £180bn of required investment in generation and networks by 2030, we must have long-term policy stability from whoever forms the next government in order to continue to attract internationally mobile investment funds.

The energy industry is an important contributor to the UK economy through employment, innovation, supply chains, skills and UK competitiveness. In 2015, the industry invested £18bn in power generation, distribution, metering and customer service, with this investment providing 137,000 jobs and supporting a further 500,000 across the country.¹

We are committed to working to enhance consumer trust and engagement, and deliver a secure, sustainable energy market as the UK negotiates its exit from the European Union.

Lawrence Slade, chief executive of Energy UK

¹ Energy UK, Energy in the UK, 2016
In order to continue to deliver secure power and gas at lowest cost to customers, the energy industry believes that any party in the forthcoming 2017 General Election should adopt the following key principles.

- **Commitment to competitive markets:**

  Competition is the most appropriate way to drive down prices and increase innovation for all customers. The remedies from a thorough two year investigation into the energy market by the independent Competition and Markets Authority must be given time to be implemented and work.

- **Make energy efficiency a national priority:**

  The most effective way to help customers manage their energy costs is through energy efficiency. This is essential to enable consumers to reduce their energy consumption, improve the comfort of their homes and is central to achieving the UK’s 2030 fuel poverty and 2050 carbon reduction targets. Energy UK proposes that making UK homes more energy efficient should become a national priority for policy makers with delivery funded through general taxation to avoid a disproportionate cost falling on the fuel poor.

- **A continued commitment to decarbonisation:**

  Power generation output from low carbon sources accounted for nearly half (49%) of total power output in 2016. However, the removal of a route to market for the least cost renewable and low carbon energy sources has had a detrimental impact on customer bills. There should be a continued commitment to provide visibility of long term support for all low carbon technologies through setting Contract for Difference (CfD) allocation rounds on a rolling one year basis, with any government setting out its position on the future of carbon pricing following the UK’s decision to exit the European Union.

- **An industrial strategy built on a low carbon economy:**

  The UK energy industry is estimated to have invested £42 billion in low carbon electricity generation capacity since 2010 as well as developing and upgrading networks to meet future energy demands. Government should reconfirm its commitment to the Climate Change Act 2008, with an Industrial Strategy that continues to deliver a low carbon future across the power, heat and transport sectors.

- **Ensure efficient trading of power and gas with Europe:**

  The EU Internal Energy Market is widely regarded as having led to greater efficiency in trading power and gas, with the result that it has enabled access to diverse sources of energy at reduced costs to customers and led to improvements in security of supply. A priority outcome from any Brexit negotiation should be to ensure the continued efficient trading of power and gas with the EU.
Commitment to competitive markets

- Increasing competition in the energy sector is key to ensuring the retail market produces good outcomes for all households. Competition will drive innovation and encourage the emergence of new companies, technologies and business models.

- Further price regulation at this moment would create huge uncertainty around future government intentions, potentially putting at risk the billions in investment and jobs needed to renew our energy system. Any future regulation should be properly designed so as to minimise the impact on competition and have as clear an exit path as possible.

- Free markets deliver innovation in a way that highly regulated markets simply cannot. Energy UK continues to believe that we must allow competition to drive innovation and benefits for consumers while ensuring that there is targeted support for those most in need.

- The CMA’s remedy package was the result of a detailed two-year investigation of the energy market. Its remedies should not be dismissed before they have in the majority of cases been implemented by Ofgem and government.

- Allied to this, the energy sector is undergoing a digital transformation that will further support customers. Around 53 million smart meters need to be installed in more than 30 million homes and businesses across the country. It is critical that the rollout is delivered efficiently and at the lowest possible cost to customers.

Our asks:

- Continue to promote competition and customer engagement in competitive markets
- Allow the full implementation of the CMA’s remedy package and give the remedies a chance to work
- Any future regulation should be properly designed so as to minimise the impact on competition and have as clear an exit path as possible
- Support industry efforts to complete the smart meter roll-out programme in an efficient and cost-effective manner
Making energy efficiency a national priority

- Energy efficiency is essential to enable all consumers to reduce their energy consumption, improve the comfort of their homes, or enhance their business productivity and is central to achieving the UK’s 2030 fuel poverty and 2050 carbon reduction targets.

- A new Parliamentary term offers an opportunity for positive change by refocusing on a long-term strategy around transitioning towards a competitive energy services market that is self-sufficient, demand-led and not dependent on subsidy raised though energy bills.

- There is a concern that the current policy framework is overly reliant on funding through supplier obligation subsidies like the Energy Companies Obligation (ECO). Energy UK strongly believes that the fairest and most progressive method of funding energy efficiency programmes is through general taxation. A top-down approach through obligations on suppliers has, in our view, led to an expectation that energy efficiency should be provided free of charge, undermining the value of energy efficiency to the public.

- Whilst subsidies are necessary to support vulnerable consumers and tackle fuel poverty, the current arrangements are not targeted at those that need it most. By making better use of available government data, the efficiency and effectiveness of programmes like those that deliver energy efficiency or assist with fuel poverty could significantly improve our ability to tackle fuel poverty across the UK.

- Regulations setting ambitious standards for all new buildings will be essential if a government is to meet its longer term decarbonisation goals and eliminate the need for future (and avoidable expensive) retrofit. This should focus in particular on supporting new low carbon heating solutions in new build properties, delivering sufficient market size for manufacturers to invest in R&D and innovation to drive down the cost.

Our asks:
- Designate energy efficiency as a national priority
- Ensure future energy efficiency retrofit programmes are funded via general taxation and targeted at those most in need i.e. those in or at risk of fuel poverty
- Improve the targeting of Government programmes, including the Warm Home Discount and the Winter Fuel Payment
- Tighten and enforce the minimum Energy Performance Certificates (EPC) standards in the private rented sector
We have long stated that the energy industry requires a stable and clear policy framework to provide confidence to investors. This is beneficial to domestic projects and also provides companies with the opportunity to export services and products to international markets, demonstrating our global leadership in energy, an essential asset post-Brexit.

We believe that the steps taken below can set the UK on the path to deliver continued investment in low carbon generation whilst ensuring security of supply at lowest cost to customers:

- **Develop a delivery plan for investment post 2020** in low carbon electricity generation framed around a UK strategy for delivering the fifth carbon budget, which recognises the diverse attitudes that exist to a wide range of different and proven technologies across the UK. This should ensure that all technologies have a potential route to market.

- **Set out the Government's position on the future of carbon pricing** following the UK’s decision to exit the European Union. Investors require a clear path for the future of carbon pricing. Energy UK’s preference is for the UK to remain within the EU Emission Trading Scheme whilst retaining influence over its future development so as to deliver a robust carbon price signal. Long-term visibility will help to enhance investor confidence.

- **Ensure security of supply and decarbonisation to secure investment in the UK economy.** The Capacity Market (CM) and Contract for Difference (CfD) mechanisms are the right tools to provide security of supply and decarbonisation at least cost by providing a pipeline of projects and facilitating competition.

- **Deliver cost-effective decarbonisation.** Government should at the earliest opportunity, set out and implement rolling one yearly CfD allocation rounds, along with the level of support available in each allocation round (at least four years in advance) in order to provide visibility and certainty to investors. To provide clarity for investors, Government should set out an annual policy statement providing a clear forward look of forthcoming policy, including CfD allocation rounds. An annual prices statement should be published alongside this policy statement, outlining the costs expected to be levied on consumer bills.

- **Review the future of Carbon Capture and Storage** for the industrial and commercial sectors in the UK taking into account lessons learned from activities in this area to date. A commitment from government to support this important area would encourage investment to commercialise this integral technology which the Committee on Climate Change say is required if we are to meet our emission reduction targets. In addition, any future government should set out intended plans in relation to the use of smart grids, including green gas and other nascent technologies.

**Our asks:**

- Make clear the future position on carbon pricing
- Continue to support the Capacity Market and Contract for Difference
- Ensure there is a route to market for all low carbon technologies
- Set out an annual policy statement which provides a clear forward look of forthcoming policy and outline the costs expected to be levied on consumer bills
- Review the future of Carbon Capture and Storage
An industrial strategy built on a low carbon economy

- The energy sector supports over 637,000 jobs across the UK with every employee contributing the equivalent of £181,000 to the economy. The industry’s commitment to low-carbon technology innovation helped support the power sector reducing its carbon emissions by 13%: the largest single contributor to the decrease in UK emissions⁴. Alongside policy stability and clarity, the Electricity Market Reform (EMR) and other policies mentioned within this response will support the energy industry in delivering an energy system that is fit for purpose, and one that delivers low carbon technologies at the lowest costs to UK consumers. It is essential that an industrial strategy capitalises on the opportunities offered through following a low carbon economy.

- Energy UK would like to highlight that it is becoming increasingly important not to consider the power, heat and transport sectors in isolation. Considering these sectors in a whole system approach framework will help the UK to successfully deliver its decarbonisation targets at the lowest cost, whilst further benefiting from wider economic activity. A low carbon society is a long term project requiring a vision to take us through the transition and transformation necessary, with buy-in from government, all political parties, the public, business and industry. A future government must set out at the earliest opportunity how it intends to deliver the transition to a low carbon economy, including the future role of gas, and meet the fifth carbon budget as set out by the Committee on Climate Change.

- We are not going to meet our carbon targets through the power sector alone, action must be taken on how we heat our spaces, and power our transport. There is a market led approach taking shape through electric vehicles and government support is helping to deliver the step change required. The UK has the potential to become a leader in the rollout of electric vehicles due to its strong automotive manufacturing sector and innovative energy ecosystem. Any future government should proceed with accelerating the transition to electric vehicles. However, we must continue to research the impacts and expectations on the power sector to ensure we do not overburden our electricity supply through the electrification of transport. There are important infrastructure choices ahead for any government to support electric vehicles and storage needs.

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⁴ Energy UK, Energy in the UK, 2016
An industrial strategy built on a low carbon economy

- Heat is a bigger challenge, and one where no single answer is likely to deliver the change required. We will need a combination of technologies to suit the many different situations. These may include converting the gas grid to hydrogen, installing more district heating, use of biomass heat sources, and installing heat pumps where cost-effective. Government must pilot the various technology options and deliver a plan for how we can move to a lower carbon heating source.

- There is value to be recognised as we transition to a more flexible and dynamic energy system, as reported in ‘Smart Power’ from the National Infrastructure Commission, that furthering flexibility could help save consumers up to £8bn p.a. by 2030. Customer engagement will play a crucial part in the transition to a low carbon economy considering the potential structural changes this can bring to people’s homes. Customers will want to see the benefits but also need to appreciate the reasons behind moves such as decarbonising heat which has a direct impact on their living environment.

Our asks:
- Government should reconfirm its commitment to the Climate Change Act 2008 and our commitments under the Paris Agreement, with an industrial strategy that continues to invest in our low carbon future
- The Government’s plan for delivering the Fifth Carbon Budget should form a fundamental pillar of the Government’s Industrial Strategy
- To support the transition to a smarter, more flexible energy system that facilitates the most efficient use of the network and low carbon generation at least cost to consumers
- Ensure policies in power, heat and transport are better coordinated across government with a route map setting out the timeframe for delivery that provides investor confidence
- Maintain an open and honest debate about the costs of decarbonisation, tackling fuel poverty and delivering security of supply and how this is paid for
In order to deliver the best outcome for UK energy customers from any Brexit negotiation, the energy sector identified in autumn 2016 the following key priorities:

- Minimising domestic policy uncertainty in order to encourage continued investment;
- Efficient trading of power and gas over the interconnectors to enhance security of supply, promote competition and reduce costs by sharing available resources and capacities;
- Access to supply chain products free of tariffs and non-tariff barriers;
- Maintaining liquidity in both electricity and gas markets;
- Maintaining State Aid rules broadly in line with the current policy given that they are already built into investment decisions and timelines; and
- Ensure access to a skilled and mobile labour force.

It is not clear whether membership of the Internal Energy Market (IEM) is necessary to meet these objectives going forward, however, it will be vital that there is an EU/UK framework that delivers the ability to import and export power and gas efficiently. The UK should continue to play an integral role in key European bodies such as ENTSO-E, ENTSO-G and ACER to ensure developments meet UK requirements.

The UK’s energy industry needs to make very substantial investments in new infrastructure to deliver security of supply and support the transition to a low carbon energy system. Although much of this investment will be sourced from within the UK, industry will also be dependent on the import of equipment and materials and will make use of skilled labour from countries within and outside the EU. There is a high risk that restrictions on trade and movement of labour could delay and increase the costs of essential new infrastructure developments.

- Upon exiting the EU (and dependent on the terms of that exit), the UK would in principle no longer be bound by its existing EU climate change and energy targets. Based on current government announcements, however, the UK would continue to reduce carbon emissions in line with the Carbon Budgets set under the Climate Change Act 2008, and this position is strongly supported by Energy UK members. Significant changes to existing obligations or regulations would lower investor confidence. Upon exiting the EU, the UK should continue the important role it has played globally as a leader on climate change action.

- Going forward, the UK must address issues related to withdrawal from the Euratom treaty. We recommend that Britain either mirrors the key principles in the Euratom treaty or develops its own, new arrangements.

Our asks:
- Ensure efficient access to gas and power traded over the interconnectors
- Continue to attract global investment and appoint skilled labour
- Continue to adhere to ambitious domestic climate change targets and the commitments made in the Paris agreement
About us

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK’s energy industry from established FTSE 100 companies’ right through to new, growing suppliers and generators, which now make up over half of our membership.