Towards a secure and sustainable low-cost energy future

Manifesto 2019
Energy is essential to our lives and our economy, whether it is heating our homes, or powering our factories and offices.

The UK energy sector continues to undergo a rapid transition towards a more digitised, decarbonised and decentralised energy system. As an industry we are ready to lead further progress which will deliver benefits for the environment, the economy and customers.

Private markets in the energy sector have delivered the innovation and investment that has driven the decarbonisation of the economy with the power sector making the largest contribution to the UK’s reduction in carbon emissions, halving its emissions over the past decade at the same time as reducing costs for customers.

As our recent Future of Energy report highlighted, if we’re to meet net-zero we will need to go further and faster on decarbonisation, and make the right decisions now that allow a sustainable retail market whilst also ensuring the right investment is made in our low-carbon future.

Achieving net-zero will require a combination of private sector innovation and finance, coupled with strong leadership from Government to set the right frameworks and make difficult choices. A sustainable retail energy market is also key to facilitating continued innovation that will bring the benefits of a future smart energy system to customers.

Industry stands ready and keen to work in partnership with Government to deliver our shared ambition – we just need the clear policy framework to do so – and we must start urgently. Coupled with the UK’s exit from the EU, there has never been such an important time for the Government and businesses to work together.

We need a consistent and concerted effort across the whole of Government which is why we have called for a ‘net-zero test’ for all new policies to ensure they support the net-zero target, not undermine it. Clear policy frameworks will facilitate further decarbonisation and deliver huge benefits for the UK economy, with new green jobs and a continuing role for the UK as a global leader in technology and innovation.

But as we seize this opportunity to decarbonise our economy, we must make sure we take customers with us. For there to be a truly fair transition we must not only ensure that no one is left behind, but look at how those in the most need can benefit first.

And, while increased products and services and higher levels of engagement will deliver benefits for many, we must also ensure adequate protections for those who are less able to engage in the market. Which is why the industry is taking forward the recommendation from the Commission for Customers in Vulnerable Circumstances for a new industry-wide Code of Conduct and looking at the additional support required for those most in need.

This manifesto aims to provide clear policy proposals for how the next Government could work in partnership with the sector to set a course to meet the net-zero 2050 target whilst ensuring it is affordable for all customers. This industry manifesto looks to ensure the UK continues to decarbonise in a way that promotes economic growth; ensuring a new green industrial revolution that leaves the UK a cleaner, greener society, while creating more jobs in critical technology and infrastructure.
To decarbonise and deliver benefits for customers, the economy and the environment, we must:

Increase low carbon generation

• In order to deliver low carbon power at the lowest cost for consumers it will be important to re-instate the capacity markets as quickly as possible, following its re-approval by the European Commission.

• Allow the lowest cost low-carbon technologies, such as onshore wind, to compete in Contract for Difference (CfD) auctions.

• In addition, it will be crucial to agree on funding models such as the Regulated Asset Base model for large scale investments like new nuclear plants plus a clear commitment to the funding and delivery of Carbon Capture Usage and Storage (CCUS) at scale.

Decarbonise our homes, businesses and transport

• Building regulations should be tightened to ensure all new properties are zero carbon, have a smart meter, are ready for future decarbonised heating options and have access to electric vehicle (EV) charging infrastructure.

• Smart meters are a critical infrastructure upgrade and essential for a digitised future of energy. We need a credible and achievable policy framework for post-2020 to complete the roll-out.

• Government to invest in large-scale low carbon heating trials to find the best regional and local options for decarbonising heat which means looking at low carbon gas (such as hydrogen), and electrification solutions.

• To meet net-zero the Government must also bring forward the 2040 phase out date for internal combustion vehicles to 2035 at the latest and invest in the network connection cost for ultra-fast chargers for EVs at strategic locations to boost consumer confidence and uptake of EVs.

Ensure a fair transition

• We must ensure adequate protections for those who are less able to engage in the market including better targeting of social support - such as Winter Fuel Payments, to those who require the most support.

• In addition, schemes such as ECO should include new technologies to make sure those in fuel poverty can also benefit from the lower costs and warmer homes that the smart, future of energy will bring.

Boost energy efficiency

• A Government funded National Energy Efficiency Programme, alongside policies to facilitate the creation of an ‘able to pay’ market to deliver benefits for the environment and warmer homes & lower costs for customers.

• Plus, the Government should restrict the sale and new tenancy of properties below EPC band C from 2030.
2018 saw a continuation of the long-term trend of growth in energy investment with £13.1bn invested. Since privatisation the energy industry has invested £200bn in gas and electricity— with around the same amount expected to be needed to 2030.

The UK has been world-leading by legislating to achieve net-zero carbon emissions by 2050. If we are to meet that goal then we’ll need to go further and faster, and continue to attract private investment which will keep costs down for energy customers.

To retain this world-leading role the Government should set a clear policy framework, priorities and desired outcomes in meeting net-zero by 2050 and provide the right signals to investors to invest in all low-carbon energy technologies.

Other steps to drive further low-carbon generation include:

Developing wind capacity to meet net-zero

- We must accelerate deployment of offshore wind in the UK with future Contracts for Difference (CfD) linked to the volume of renewables generation needed to meet the targets set out in the Offshore Wind Sector Deal.

- There should be support for onshore wind deployment through revenue stabilisation contracts and appropriate local planning regulations.

- Government should support the emerging growth of Power Purchase Agreements and other merchant market models for wind by communicating the opportunity the UK presents to domestic and global investors.

Establishing a strong carbon price

- Robust carbon pricing remains an important tool to deliver cost-effective decarbonisation across the power sector, as well as potentially the wider economy. It is vital that a stable and predictable carbon price signal is maintained before and after the exit of the UK from the EU.

- In the absence of the possibility of fully remaining in the EU Emission Trading Scheme (ETS), we strongly support the proposed establishing of a linked-UK ETS.
Backing low-carbon and large-scale infrastructure investment

- Support lower cost financing arrangements such as the Regulated Asset Base Model for new large-scale infrastructure funding that contributes to the UK meeting its net-zero target and helps reduce bills for customers and develop low carbon energy.

Becoming a world leader in Carbon Capture Usage and Storage (CCUS)

- An ambitious new framework is needed to support the deployment of CCUS in the UK with accelerated plans for developing CCUS, building on the positive work of the industry-led CCUS Advisory Group.

Investing in networks across the country to deliver flexibility

- Design open competitive markets on the distribution network to drive down the cost of operating the power system. National and local markets for energy and system services need to be accessible by all market participants to ensure these operate efficiently.
Decarbonising our homes, businesses and transport

24,000 electric vehicle charging points installed by mid-2019

In the eleven years since the Climate Change Act the power sector reduced its CO₂ emissions by over 60%

Further decarbonisation

A clear policy framework is essential if we are to see decarbonisation across the economy and if the UK is to meet its legally-binding climate change objectives.

The progress in the power sector has been built on long-term policy commitment to decarbonise and we should learn from this if we are to successfully deliver emissions reductions elsewhere, particularly given the challenging nature of decarbonising heat, transport and industry.

Decarbonisation of transport

Meeting the UK’s decarbonisation targets will require a drastic cut in emissions from transport over the coming decades. We believe the Government should:

- Bring forward the 2040 phase-out date for internal combustion vehicles to 2035 at the latest.
- Implement smart charging as the default option for EV users to reduce the costs of investing in new networks.
- Invest in the network connection cost for ultra-fast chargers at strategic locations to build consumer confidence in the coverage of EV charging infrastructure.
- Review alternative options for replacing fuel and excise duty that both encourages EV take-up and distributes costs appropriately.
- Take forward the Committee on Climate Change’s recommendation to electrify the rail network and introduce innovation funding for freight and larger vehicles, such as HGVs and shipping.

Decarbonisation of Heat

By 2050 every heating source will need to be decarbonised. No one option is simple to implement and some have significant impacts for domestic and non-domestic customers. However, we believe innovation, driven by signals from Government, can deliver local solutions.

In order to meet this challenge, we would therefore like to see the Government:

- Fund and invest in large-scale trials across the country that will help drive costs down and explore the best options for regions and local communities.
- Design and implement a future framework for decarbonising heat, giving early signals to customers and the market to help stimulate a market and incentivise solutions.
- Give powers and funding to Local Enterprise Partnerships to deliver low-carbon heating solutions that are right for local communities and businesses whilst taking advantage of local infrastructure.
The central importance of energy efficiency

18% of UK carbon emissions come from our homes

Energy efficiency delivers clear consumer benefits. It brings an immediate improvement to comfort levels, reduces energy costs, and keeps bills down for households and businesses over the longer-term.

There are also demonstrable health benefits to living in warmer, drier houses, which in turn deliver additional positive policy outcomes in the form of reducing demand on health services, and higher productivity and attendance at work and in schools.

To date, the adoption and installation of energy efficiency measures has fallen woefully short of where we need to be as a country. Setting out credible long-term regulation is needed to stimulate a market response to deliver energy efficiency measures.

To boost energy efficiency, we would like to see the Government:

• Fully-fund a National Energy Efficiency Programme and make energy efficiency a National Infrastructure Priority.

• Make buildings fit for the future by tightening building regulations to ensure all new properties are zero carbon, have a smart meter, are ready for future decarbonised heating options and have access to EV charging infrastructure.

• Ensure that no property should be sold or rented after 2030 with an EPC rating lower than C to create a market for energy efficiency measures. At the same time review business rates and stamp duty to be geared towards incentivising energy efficiency.

• Reform the Warm Home Discount and Winter Fuel Payment to prioritise either financial or energy efficiency support to customers, at risk of, or in fuel poverty.

• Help create a sustainable market for energy efficiency through developing new green financial products, such as Green Mortgages.

• Implement Green Building Passports, proposed by the Green Finance Taskforce, to provide better information on a business properties’ energy efficiency, especially for SME businesses.

Future of Smart Metering After 2020

• We fully support the roll-out of smart metering and are committed to doing everything possible to ensure its completion in a cost-effective and timely manner. Smart meters are a critical infrastructure upgrade and essential for a digitised future of energy and the deployment of a smart grid.

• The energy sector is working with Government and other partners so that as many customers as possible can experience the full benefits of smart meters, saving them both energy and money.

• We need a credible and achievable policy framework for post-2020 to complete the roll-out. We support steps to fully complete the roll-out, which should include measures such as requiring all new-build properties to be fitted with a smart meter.
A consumer-focused retail market

Competitive markets provide customers with improved services and more choice. With around 60 suppliers to choose from customers are now offered a range of prices and innovative services.

Customer engagement is going to be vital if we’re to meet net-zero and make the essential changes needed to our power, heating and transport sectors. It is therefore critical that we have a fit and proper retail market that responds to customers priorities, and is supported by proportionate regulations.

Providing better services for customers in vulnerable circumstances

There must be appropriate protections for customers in vulnerable circumstances who may need extra help and support, this could take the form of targeted price protection or other measures if these customers are not adequately served by the market alone.

We would like to see:

- Government, Ofgem and the industry fully implement the recommendations from the independently chaired Commission for Customers in Vulnerable Circumstances, including supporting the industry in implementing a new industry-wide Code of Conduct.

- Government and Ofgem should work together to ensure consumer protection regulation of switching services is robust and appropriate, including on future innovative switching services.

- Government and Ofgem should work together to ensure there is a robust and appropriate regulatory regime in place for all companies supplying domestic customers with energy, including district heating, decentralised energy, heating oil, liquid petroleum gas (LPG) and solid fuels.

- Ensure the Breathing Space scheme takes account of operational requirements of the energy industry to ensure vulnerable customers are properly protected.

Future of regulation

To drive innovation, Ofgem should step up efforts towards implementing a principles-based approach to licensing. Government should take forward the recommendations from the Energy Data Taskforce and ensure market participants have access to relevant data, whilst ensuring sufficient controls are in place to protect customers.
Global leadership to net-zero in a post-Brexit world

The implementation of the EU ETS in 2005 has helped all but remove coal from our power system

It is essential the UK energy industry maintains a close relationship with the EU in order to keep bills down for customers and continue to work with the EU to tackle climate change.

The UK has the opportunity and skills to take a leading role in delivering global climate change action.

We believe the future relationship between the UK and the EU must be based on an ‘energy and climate chapter’ to ensure the UK retains influence on energy policy, and maintains access to EU funding programmes.

The energy sector would like to see:

• The continuation of the Single Electricity Market on the Island of Ireland.

• Continued cooperation to maintain the efficient operation of interconnectors for short term trading and balancing services.

• The Government design and implement a UK ETS that mirrors and can be linked to the EU ETS as quickly as possible.

• Any future trade deals should cover tackling climate change action and build on the UK’s tradeable expertise in meeting net-zero.
About us

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK’s energy industry with our members delivering almost all (90%) of both the UK’s power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.