

Professor Dieter Helm  
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Dear Professor Helm,

In support of your independent Cost of Energy Review, I am writing to set out Energy UK's position on what we believe should be considered.

The energy industry is working hard to lower costs for customers within a highly competitive energy market, whilst ensuring that we meet our obligations under the 2008 Climate Change Act. This is set out against a backdrop of the need to invest billions of pounds by 2030 to ensure the generations of both today and tomorrow continue to gain access to a safe and secure decarbonised energy supply.

I wanted to set out the key priorities for the energy industry, which we believe will go some way towards achieving these shared ambitions. I hope that you and the review team will give these priorities due consideration as part of your assessment. We believe the steps outlined in Annex 1 can set the UK on the path to delivering the levels of investment needed by building on the success of the Electricity Market Reform package. We believe the review provides an opportunity to consider each aspect of the energy bill and how these are apportioned across gas and electricity, whilst promoting a strong focus on energy efficiency as a key approach to delivering cost savings. This is all possible whilst providing consumers with clarity regarding the key contributors or make up of their bills.

A recent report from the Committee on Climate Change (CCC) highlighted that the costs of energy were cheaper in 2008 than in 2016 due to the impact of energy efficiency measures, but that a key upward driver of bills was from increased policy costs (see Annex 2). Ensuring transparency and honesty about the benefits of various government policies, and what these are contributing to energy bills will be essential in helping consumers understand what they are paying for and why, and where the key drivers of increased bill amounts originate from.

I would be keen to meet with you to discuss how the energy sector can support your work. There have been many reviews on the energy industry over the last four years including a comprehensive appraisal carried out by the Competition and Markets Authority (CMA). To ensure the latest review (led by you) is to be a success, the whole industry will need to feel included and represented as part of it. There is a risk of continued uncertainty and potentially detrimental intervention into the energy market, which could result in a negative impact on consumers and investment alike.

A copy of this letter has been sent to each member of the Advisory Panel.

Yours sincerely,

Lawrence Slade  
Chief Executive

## Annex – Ten priorities for the UK energy industry

1. **Review the cost associated with decarbonisation.** Energy UK is fully supportive of the Government's ambitions contained within the Climate Change Act 2008 and believe that any review should not hinder the progress that has been made to date. We should recognise that decarbonising our economy is a vital activity and reflect that the UK has made significant strides in decarbonising our generation mix, as evidenced by the recent announcement of the Contract for Difference allocation which saw significant cost decreases. In order to continue to invest in decarbonisation, there needs to be structures in place that support investment in new and existing technology, that under current government policy will be levied onto customer bills. We need to better communicate who will pay these costs, how, when and why they should. There is a strong case to develop a roadmap around our energy efficiency requirements and transition for business, commercial and large users to improve the Emissions Performance for their business premises. For projects which have strategic interest to the British economy and which boost jobs and growth, we believe that Government should be willing to secure investment through the use of public funds.
2. **Provide a clear policy in relation to our Energy Efficiency requirements and those of the SMART low carbon home.** With demand for energy inevitably rising in the future through greater electrification, we must ensure we promote its efficient use in order to manage and reduce costs. The current energy efficiency policy framework is overly reliant on funding through supplier obligations like the Energy Company Obligation. This has led to an expectation that energy efficiency should be provided free of charge, undermining the value of energy efficiency to the public. Government should help kick-start a sustainable energy efficiency market via targeted incentives to encourage demand, supported by regulation that sets a clear trajectory of Government's expectations. Linked to this Government must revisit provisions around the zero carbon homes initiative.
3. **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 the lowest cost large scale renewables has a route to market. The delivery plan would comprise a roadmap (policy) and associated route map (planning) comprising requirements for both national and regional investment. We would seriously question the findings of the Cost of Energy Review if it did not acknowledge that exempting the cheapest technologies from participating will increase costs to consumers.
4. **Set out the Government's position on the future of carbon pricing including the carbon price floor and EU Emission Trading Scheme (EU ETS).** Following the UK's decision to exit the European Union whilst recognising that post Brexit there is a strong requirement for a different mind-set for 'Team GB'. Investors require a clear path for the future of carbon pricing. Our preference is for the UK to retain membership of the EU ETS to deliver decarbonisation at lowest cost for the whole economy. Long-term visibility is needed to help enhance investor confidence and lower cost of investment.
5. **Ensure security of supply to protect investment in the UK economy.** The Capacity Market and Contract for Difference mechanisms are the right tools to provide security of supply and decarbonisation at least cost by providing a pipeline of projects and

facilitating competition. Both can be complemented by the open, transparent procurement of ancillary services that provide network management support and flexibility to the GB electricity sector.

6. **Establish fit for purpose controls to support the cost of decarbonisation.** In order to improve visibility in relation to the Government's decarbonisation commitments and give long term certainty to low carbon investments we consider that future controls that will replace the Levy Control Framework<sup>1</sup> to support investment in low carbon electricity generation projects needs to be tied to the CCC's carbon budgets through the Government's publication of the Clean Growth Plan. Indicative procurement volumes should be set out 4 years in advance of auctions with final volumes confirmed a year ahead of the auction. BEIS should also report all policy costs on a net and gross basis in order to provide transparency of the costs and benefits these policies have on consumer bills.
7. **Recognise the benefits that the energy sector can provide to the wider economy** particularly when allied to the development of a supply chain plan through the Government's Industrial Strategy. Create a new environment supporting research and development funding for low carbon technologies linked to education that would deliver innovations in a wide range of technologies, particularly to encourage businesses to reduce energy costs. This would enhance the promotion of the UK as an attractive place to invest and boost exports of energy related services and equipment. Benefits would include a wide range of skilled jobs and apprenticeships in sectors as diverse as services to construction.<sup>2</sup>
8. **Review the future of Carbon Capture and Storage** for the industrial and commercial sectors in the UK taking into account lessons learned from our activities in this area to date<sup>3</sup>. This should include our intended plans in relation to the use of smart grids, including green gas<sup>4</sup> and other nascent technologies. A commitment from Government to support this important area would encourage investment to commercialise this integral technology which is required if we are to meet our emissions reductions as set out by the Committee on Climate Change.
9. **Work with industry to address the urgent need for a strategy to decarbonise both the heat and transport sectors** drawing on the experience of businesses on both the supply and demand side. As part of our flexibility challenge we must ensure a joint approach across relevant industries in order to ensure we capture the most effective and efficient options moving forward. Given the urgency of carbon reduction requirements, we believe Government should concentrate on formulating a co-ordinated plan to encourage the uptake of low carbon technologies in the 2020's and enhance efforts to decarbonise heat and transport. This should begin with investing in large-scale trials to gather information on the challenges and benefits of low-carbon solutions through innovation funding and support, endorse a major ramp up in energy efficiency investment in homes and businesses, and provide clarity on the long term tax arrangements for electric vehicles.

<sup>1</sup> For further information, see <http://www.energy-uk.org.uk/publication.html?task=file.download&id=6263>

<sup>2</sup> Siemens initiative in Hull prime example of what good looks like

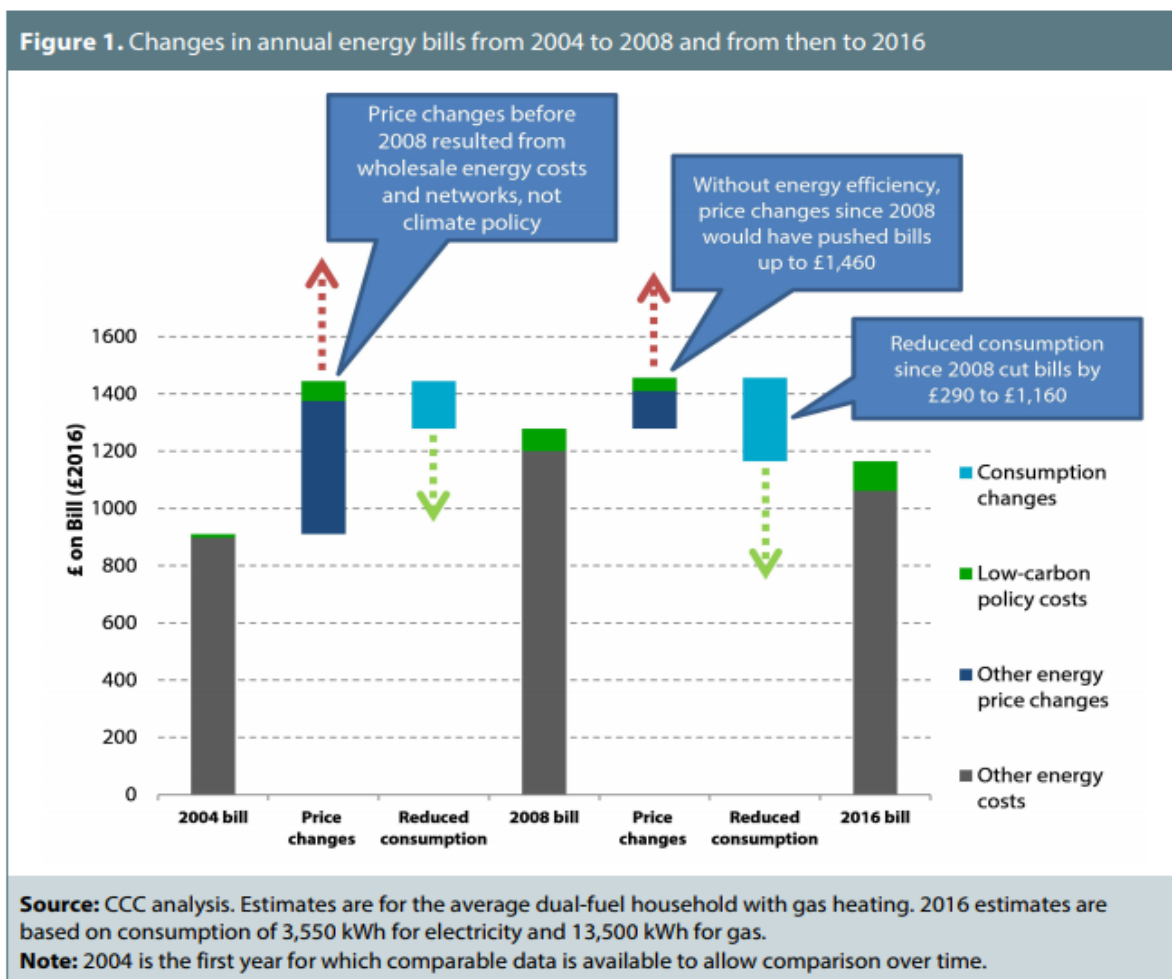
<sup>3</sup> [http://www.ccsassociation.org/index.php/download\\_file/view/1043/508/](http://www.ccsassociation.org/index.php/download_file/view/1043/508/)

<sup>4</sup> [https://alansenergyblog.files.wordpress.com/2016/07/13973-the-green-gas-book\\_96pp\\_v5.pdf](https://alansenergyblog.files.wordpress.com/2016/07/13973-the-green-gas-book_96pp_v5.pdf)

10. **Upgrading to a smart energy system:** Upgrading our electricity networks in GB could provide £17-40bn in savings to 2050<sup>5</sup>. These benefits come from avoided or deferred network reinforcements, avoided generation build, avoided curtailment of low carbon generation, and better operation of the system. The review of the RII framework and incentive schemes for the DNOs, TOs and the SO need to be robust to ensure the upgrades to the networks are delivered while minimising the costs to the consumer. This includes for example our network-charging<sup>6</sup> regime to include system balancing and connection and use of system costs arrangements that are fair as well as ensuring that the governance framework does not act as a barrier to entry and reflects the future design of the energy system.

**Annex 2 – Committee on Climate Change report into energy prices and bills**

The cost of energy today is cheaper than in 2008 as greater energy efficiency has reduced bills by £290, according to the Committee for Climate Change’s report ‘Energy Prices and Bills – impacts of meeting carbon budgets’ published in 2017.



<sup>5</sup> An analysis of electricity system flexibility for Great Britain

<sup>6</sup> Network relates to our Onshore Transmission/Distribution networks and Offshore/ Interconnection lines