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& Industrial Strategy

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Dear Darren,

Thank you for your letter of 16 March, covering various questions around energy policy in advance of the Spring Statement and publication of the Energy Security Strategy. I will respond to your questions grouped by the topics you raise.

Protecting consumers

The Government is very aware of the difficulties that consumers have experienced as a result of the rise in energy prices. We are committed to protecting customers from price spikes, especially and most particularly vulnerable customers. The best overall safety net available to protect consumers from excessive price hikes, and to ensure they pay a fair price for their energy, is the energy price cap. As I have recently confirmed, the cap will remain in place until at least the end of 2022.

Decisions on the level of the price cap are for Ofgem as independent regulator. But as you state, they are driven by energy price rises in the preceding quarter. This autumn, every household will receive £200-800, depending on eligibility, in energy bill funding. (£200 universal rebate, £150 Council Tax rebate, £150 Warm Home Discount, £200-300 Winter Fuel Payment.) We are making significant progress in tackling fuel poverty, with the Energy Company Obligation installing over 3.4 million measures in 2.3 million homes to date. We have committed to a four-year £4 billion extension and expansion of the scheme to accelerate our efforts to improve homes to meet fuel poverty targets.

Long-term funding of the energy system

The Government wants a retail energy market that continues to protect consumers as we transition to net zero, while engaging them with positive choices about their energy supply. This means a market that is both resilient and competitive, with companies able to invest in innovation and offer products and services that support decarbonisation. The Government is considering what reforms are needed to retail market regulation to support progress to net zero through the 2020s. In considering these reforms, the Government will take account of the lessons of the current market.

BEIS has published a call for evidence on the future of the retail energy market. We will take account of lessons from recent months to ensure the retail market is resilient, sustainable, and continues to protect consumers. Our strategy will be published as soon as possible after the market has stabilised.

Boiler Upgrade Scheme

The Boiler Upgrade Scheme is part of a wider package of policies the Department is introducing to scale up heat pump deployment and support industry to reduce the costs of heat pumps. We will keep the grant levels offered by the scheme under review. As costs come down, we expect other policies to kick in. By 2026, we expect around 200,000 heat pumps a year to be going into new buildings following the introduction of the Future Homes Standard. Along with our consultations on wider heating policies such as the proposed new regulations for buildings off the gas grid and the market-based mechanism, we are confident we can increase deployment to 600,000 per year.

SAR/Bulb

The SAR is working effectively in fulfilling its objectives of protecting consumers and ensuring the continuation of supply of energy. We continue to keep this under review to ensure that this remains to be the case.

The power purchasing strategy was developed using cross-Government expertise and was jointly agreed between BEIS and HMT. It is consistent with Managing Public Money guidance. The Special Administrator of Bulb is obligated to minimise costs of the administration process, and we continue to engage closely with them throughout to ensure taxpayer value is maximised.

The Energy Administrator estimated at the outset of the SAR that £1.7 billion of government finance would be required over a 6-month period, and this remains the overall facility limit.

Costs were around £500 million lower than expected in 2021/22 due to lower than expected energy costs in January and February.

At the Spring Statement, the Government scored some additional budgetary cover for 2022/23. This provides budgetary cover for the SAR while Government works closely with the Energy Administrator to assess exit options and achieve the best possible outcome for customers and taxpayers in the context of unprecedented volatility in energy markets and events in Ukraine.

Energy efficiency

The Green Homes Grant Voucher scheme was designed to provide a short-term economic stimulus while tackling the country's contribution to climate change. However, it was not delivering at the rate and scale the government had originally intended, facing a number of delivery challenges. The scheme closed to new applications on 31 March 2021 and will not reopen.

To ensure we continue to deliver on our net zero ambitions and support a thriving building retrofit industry, the Government will be expanding its funding commitment for both the Homes Upgrade Grant scheme and the Social Housing Decarbonisation Fund with up to £950 million and £800 million in additional funding respectively over 2022/23 to 2024/25. This takes total funding to over £6.4 billion across the lifetime of this Parliament. The Government is also introducing a new Boiler Upgrade Scheme worth £450 million, which will provide capital grants towards the cost of a heat pump.

North Sea Energy Cooperation Forum

Realising the energy potential of the North Seas is central to both the UK's and the EU's decarbonisation plans and enabling cooperation on renewables and grid

developments in the North Seas was a priority for the UK in negotiations of the UK-EU Trade and Cooperation Agreement (TCA). In the long term, strong cooperation on the development of renewables in the North Seas could also help ensure a more secure future for European energy through decreasing dependency on Russian oil and gas. In the TCA, we secured a commitment to create a specific forum for technical discussions, covering key UK interests such as hybrid projects, sharing best practice on onshore and offshore grid planning, and the sharing of information on new technologies. We are now discussing with the EU an MoU to operationalise the TCA commitment and we will be seeking the closest cooperation possible with the NSEC.

Foreign direct investment

Regarding my Department's approach to foreign direct investment in energy infrastructure, the Government takes the security and safety of critical infrastructure very seriously and has a number of regulatory and legislative powers to protect against risks. This includes the new National Security and Investment Act 2021, which gives the Government powers to identify and intervene in investments and other acquisitions of control in the UK economy that could give rise to national security concerns.

Energy National Policy Statements

We are carefully considering the feedback from the public consultation along with the recommendations of the committee. We will respond in due course.

Yours sincerely,



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Secretary of State for Business, Energy and Industrial Strategy