

Government Response to Lords Industry and Regulators Committee Report on the net zero transformation: delivery, regulation and the consumer

The challenge of the net zero transformation

1. The Net Zero Strategy¹ sets out clear policies and proposals for keeping us on track for our coming carbon budgets, our ambitious Nationally Determined Contribution (NDC), and then sets out our vision for a decarbonised economy in 2050. However, the exact technology and energy mix in 2050 cannot be known now, and our path to net zero will respond to the innovation and adoption of new technologies over time. On 7 April, the Government published the British Energy Security Strategy² in response to expensive and rising fossil fuel prices, exacerbated by Russia's invasion of Ukraine. The strategy accelerates our transition to secure, clean and affordable British energy for the long term in a series of bold commitments which will put Great Britain at the leading edge of the global energy revolution. Alongside the Net Zero Strategy, it is driving £100 billion of private sector investment into new British industries by 2030. The Government continues to develop policy detail and provide greater clarity on funding and business models to facilitate investment in the range of low carbon technologies that will be required to deliver net zero. The Government recognises that, to achieve net zero, we not only have to enable low carbon technologies to deploy but also address critical system enablers – system governance, market arrangements, system flexibility and the approach to designing and delivering network infrastructure. This ensures that the transition to clean energy retains system operability and resilience and is affordable to consumers. Further detail on the Government's action on these issues is set out in our responses to the recommendations below.

Recommendation: We call for clarity from the Government in the following areas:

- ***a business model to support the development of long-duration storage technologies;***
- ***the overall funding envelope and business model for carbon capture, usage and storage (CCUS);***
- ***the funding mechanism for the deployment of small modular reactors (SMR);***
- ***business models and financial support for hydrogen conversion;***
- ***an accelerated decision on the role of hydrogen in heating;***
- ***the future role of the gas distribution network;***
- ***funding incentives to deliver heat pumps;***
- ***funding to support the energy efficiency of homes; and***
- ***a review of the non-financial barriers to the deployment of 40GW of offshore wind by 2030.***
(Paragraph 41)

¹ [The Net Zero Strategy published 19 October 2021](#)

² [British Energy Security Strategy published 7 April 2022](#)

- 2. a business model to support the development of long-duration storage technologies** – Large scale, long duration storage (LLES) technologies are key enablers to a secure, cost-effective and low carbon energy system. LLES can help to decarbonise the system by storing excess renewable generation over longer periods of time (days, weeks, and months), replacing flexibility from fossil fuelled generation and helping to alleviate constraints on the grid. As announced in the British Energy Security Strategy, we will ensure the deployment of sufficient LLES to balance the overall system by developing appropriate policy to de-risk investment. The detail for achieving this will be set out in the Government response to our 2021 call for evidence on facilitating the deployment of large-scale, long-duration electricity storage, due for publication in Summer 2022.
- 3. the overall funding envelope and business model for carbon capture, usage and storage (CCUS)** - CCUS infrastructure is needed to ensure the transition to a net zero economy. The Climate Change Committee recognises that CCUS is a necessity not an option. Further details on the CCUS business models for power and industrial carbon capture, and the transport and storage of CO₂, were provided in the publication of ‘Carbon Capture, Usage and Storage: an update on business models’ published in December 2020, with further updates published on the transport and storage model in January 2022 and consultations on the power and industrial CCUS business models in April 2022, which close on 10 June 2022³. Our ongoing approach to deployment of CCUS technology is designed to drive value for money for taxpayers and consumers.
- 4. the funding mechanism for the deployment of small modular reactors (SMRs)** –The Government intends to take one project to a Final Investment Decision (FID) this Parliament and two projects to FID in the next Parliament, including SMRs, subject to value for money and relevant approvals. We are actively engaging technology vendors, developers, and prospective investors to develop a delivery model and funding strategy for SMRs that addresses market needs and will publish more details in due course.
- 5. business models and financial support for hydrogen conversion** - In April 2022 the Government published a Hydrogen Investor Roadmap⁴ as part of the Hydrogen Investment Package, following the Prime Minister’s commitment to produce investor roadmaps to demonstrate how we will deliver our green ambitions. The Government’s planned funding for hydrogen includes the £240 million Net Zero Hydrogen Fund, which will provide the required financial boost to production projects for construction to begin.
- 6.** The Government has also confirmed an intention to proceed with a contractual, producer-focused hydrogen business model, applicable to a range of hydrogen production pathways and able to facilitate hydrogen use in a broad range of sectors. The hydrogen business model will be critical to unlocking private investment in new low carbon hydrogen production, by providing revenue support to overcome the operating cost gap between low carbon hydrogen and high carbon counterfactual fuels. We aim to finalise the hydrogen business model this year.
- 7.** The Government will incentivise increased demand for hydrogen by providing support for users to switch. The Government is supporting fuel switching to hydrogen in industry through the £315 million Industrial Energy Transformation Fund and £55 million Industrial Fuel Switching 2

³ [CCUS Business Models](#)

⁴ [Hydrogen investor roadmap: leading the way to net zero published 8 April 2022](#)

Competition. The Industrial Hydrogen Accelerator is a £26 million innovation funding programme to support the demonstration of end-to-end industrial fuel switching to hydrogen in the UK.

- 8. an accelerated decision on the role of hydrogen in heating** - Unlike other low carbon heating technologies, the use of hydrogen for heat in buildings is not yet an established option. The Government is working with industry, regulators and others to deliver a range of research, development and testing projects, including a neighbourhood-scale trial by 2023 and a village-scale trial by 2025. These projects will generate evidence on the costs, benefits, feasibility, and other impacts of hydrogen to inform strategic decisions in 2026 on its role in heat decarbonisation. The Government has also committed to developing a plan for a potential hydrogen-heated town by 2025.
- 9. the future role of the gas distribution network** - Natural gas will have an on-going role as the UK decarbonises, but the way in which natural gas will be used will have to change to eliminate the associated CO₂ emissions. There are several ways to decarbonise gas, including via the deployment of carbon capture and storage, hydrogen production and by increasing the use of biomethane and other gases in the existing grid.
- 10. funding incentives to deliver heat pumps** - The Boiler Upgrade Scheme (BUS) will open to voucher applications on 23 May 2022 and will provide upfront capital grants for the installation of low carbon heating systems in homes and small non-domestic buildings in England and Wales. The scheme has a budget of £450 million from 2022 to 2025. As set out in the British Energy Security Strategy, we want as many people as possible who want a heat pump this year to be able to have one installed, so will continue to keep uptake of the scheme under review. The scheme is targeted at supporting existing buildings currently utilising fossil fuel heating to transition to low carbon alternatives. Heat pumps will be the primary supported technology, but biomass boilers will also be eligible, provided the property is in a rural location and is not connected to the gas grid. The BUS will provide grants of £5,000 towards the installation and capital costs of air source heat pumps (ASHPs) and biomass boilers, and grants of £6,000 for ground source heat pumps (GSHPs).
- 11. funding to support the energy efficiency of homes** - The Government has committed to spend £6.6 billion in this parliament on decarbonising buildings. This includes improving the energy efficiency of homes across all housing tenures.

This funding includes:

- £1.1 billion for the Home Upgrade Grant, which is providing energy-efficiency measures to lower-income, energy-inefficient homes without a mains gas supply.
 - £786 million for the Local Authority Delivery scheme, which is providing measures such as insulation to rented and owner-occupied homes lived in by people on lower incomes.
 - £1 billion for the Social Housing Decarbonisation Fund, which is upgrading socially rented homes with energy efficiency measures.
- 12.** In addition to this, the Government has extended the Energy Company Obligation and Warm Home Discount schemes until 2026, providing over £6 billion in support. The Energy Company Obligation is an obligation the Government has placed on the larger energy suppliers to provide measures such as insulation and heating controls to lower-income or otherwise vulnerable

homes. Meanwhile, the Warm Home Discount provides eligible households with a one-off discount on their bill, in 2021/22 this was £140 but will rise to £150 in October 2022 and extend its coverage to assist 3 million people.

13. a review of the non-financial barriers to the deployment of 40GW of offshore wind by 2030 -

The British Energy Security Strategy announced by the Prime Minister on 7 April 2022 contained key measures to accelerate the deployment of offshore wind, with a new ambition to deliver up to 50GW of offshore wind by 2030, including an ambition of up to 5GW of innovative floating offshore wind. This included proposals to address barriers to offshore wind deployment, including by reducing the formal consenting time from up to four years down to one year.

14. The Government will use the Offshore Wind Acceleration Task Force, chaired by the Rt Hon Greg Hands, Minister of State for Energy, Clean Growth and Climate, to drive forward the delivery of the offshore wind elements of the Strategy. The Task Force is a group of industry experts brought together to work with the Government, Ofgem and National Grid on further cutting the timeline for offshore wind deployment. The Task Force reports to the Prime Minister and Chancellor of the Exchequer via the Business Council.

15. In addition, to drive forward greater and faster deployment, we have appointed Tim Pick as our Offshore Wind Industry Champion. The Champion will co-chair the Offshore Wind Acceleration Task Force. They will work with the industry members of the Task Force to deliver the measures in British Energy Security Strategy and assess what further steps could be taken by developers, either individually through their projects or collectively as a sector.

Recommendation: The Government should set out by the end of 2024 the roadmap by which it will deliver the energy mix it envisages for achieving net zero in a secure way, including setting out the funding structures for any new technologies that the Government aims to rely on. This roadmap needs to be dynamic, recognising that technology developments over time may result in differing incentives and priorities becoming appropriate. The Government should also set out the role it intends gas to play in the future system and where it will source this from, given security of supply and price volatility in international markets. Given the ongoing requirement for gas, the Government must take all steps to facilitate the exploration and exploitation of our own resources. (Paragraph 42)

16. The Net Zero Strategy set out a range of ways in which net zero could be achieved in the UK. Our exact route will depend on the availability and deployment of key technologies, supported by long-term market growth, as well as the extent to which individuals and businesses adopt green choices. The exact technology and energy mix in 2050 cannot be known now, and our path to net zero will respond to the innovation and adoption of new technologies over time. It would be imprudent to target a specific energy mix at this point as it could lock in high-cost pathways and remove opportunities for innovation.

17. We have committed to provide a public update every year, from 2022, on progress against the delivery pathway to net zero set out in the Net Zero Strategy. This will include:

- An update on progress against the targets and ambitions set out in the Strategy.
- Commentary on contextual changes that might affect the exact pathway to meeting our decarbonisation commitments.
- A summary of key areas of progress made against the policies and proposals in this Strategy.

18. As set out in the response to recommendation 2, the Government is already developing funding structures for new technologies, such as LLES and hydrogen production, and has committed to accelerate the commercialisation of innovative low-carbon technologies, systems and processes in the power, buildings, and industrial sectors through the Net Zero Innovation Portfolio.
19. We will continue to need gas for heat and to keep the Great Britain electricity system stable and secure for years to come. In meeting net zero by 2050, we may still use a quarter of the gas that we use now. Energy security is an absolute priority for this Government. We have highly diverse and flexible sources of gas supply and a diverse electricity mix, which ensures that households, businesses, and heavy industry get the energy they need. The current geopolitical situation requires careful monitoring of market behaviour and gas supplies as we move into next winter, however, unlike other countries in Europe, the UK is in no way dependent on Russian gas (less than 4% of total gas supply from Russia in 2021).
20. Currently around half of our demand for gas is met through domestic supplies. To reduce our reliance on imported fossil fuels, we must fully utilise our North Sea reserve. In the British Energy Security Strategy, we announced that the North Sea Transition Authority plans to launch another licensing round in the autumn, taking into account the forthcoming climate compatibility and the need for energy security. We also announced we would establish the Gas and Oil New Project Regulatory Accelerators to facilitate the rapid deployment of projects.

Recommendation: We strongly urge the Government to set out how the transition will be funded. In doing so, it should explicitly set out the distributional consequences for any funding proposals. Funding the transition primarily through charges to billpayers is regressive and involves invidious trade-offs, making some consumers pay for investments that will not directly benefit them. (Paragraph 53)

There are a number of ways in which the Government can support energy investment. We urge the Government to consider the full range of funding options including the UK Infrastructure Bank, the British Business Bank, carbon pricing, co-investment, investment subsidies, investment tax relief and Contracts for Difference. (Paragraph 54)

21. To maintain the UK's energy supply and deliver our net zero ambitions, we estimate that additional capital investment averaging £50-60 billion per year is needed through the late-2020s and 2030s across the economy. A combination of public and private investment will be crucial for any path to net zero but a substantial portion of this investment will come from the private sector, providing new opportunities for businesses and investors.
22. The Government will set the long-term signals to enable industries to invest in lower carbon processes and cost-effective solutions at the pace required through mechanisms such as the UK Emissions Trading System (UK ETS), and we will continue to levy funding through consumer bills to enable private investment.
23. We are focused on fairness and affordability. As confirmed in the British Energy Security Strategy, the Government remains committed to 'rebalancing' the costs placed on energy bills away from electricity to incentivise electrification across the economy and accelerate consumers and industry's shift away from volatile global commodity markets. We will publish our proposals

on how to do so in 2022, considering overall system impacts and limiting the impact on bills, particularly for low-income consumers.

24. In addition, public funds are also targeted across the full funding life cycle. Our portfolio of net zero innovation will provide at least £1.5 billion of Government funding to help commercialise clean technologies. Later-stage technologies can reach commercialisation and benefit from investment through support from the British Business Bank (BBB) and the UK Infrastructure Bank (UKIB) to crowd-in private finance. The Government has worked with the BBB on their new mission and objective to support the UK's transition to a net zero economy and the Chancellor has written to the UKIB to emphasise the need to make rapid progress on its net zero goals, particularly where they overlap with the Government's renewed focus on energy security. We have also announced Government funding of £100 million to support the continued development of the Sizewell C project in Suffolk and since the Prime Minister's Ten Point Plan, we have mobilised £26 billion of government capital investment for the green industrial revolution.

Recommendation: We also call on the Government to reconsider its opposition to the use of government borrowing, due to its suitability for this type of investment financing, and because future generations will be the main beneficiaries of net zero investment. (Paragraph 55)

25. The Net Zero Review⁵ recognised that government intervention will be required to reach net zero. The Review supported green gilts as a fiscally responsible way to “finance projects that will address climate change, finance much needed infrastructure investment and create green jobs across the economy”. This is consistent with the Government's fiscal rules, which ensure the public finances remain on a sustainable path whilst also investing in the economy.
26. The Government's Green Financing Framework⁶, published in June 2021, sets out six categories of green expenditure that are eligible to be financed under the programme. A total of £16.3 billion has been raised by the sale of green gilts and retail green savings bonds for the financial year 2020-21. The Green Financing Programme will continue into the next financial year, with further issuances totalling £10 billion. These proceeds are held in HM Treasury's general account, and the equivalent amount will be allocated to fund environmental and climate-related expenditures as classified in the Framework.
27. The Government will publish an annual allocation report – the first by September 2022 – to provide transparency to investors on how the proceeds have been allocated across the six green categories. An impact report will be published at least every two years, detailing the environmental as well as the social co-benefits of the expenditures funded. The first of these can be expected by September 2023.

Recommendation: We support the Government's plans to publish this year a call for evidence on fairness and affordability. We call on the Government to publish this as soon as possible and commit to consulting on more detailed proposals by the end of 2022. (Paragraph 56)

⁵ [Net Zero Review Final Report published 19 October 2021](#)

⁶ [The Government's Green Financing Framework published 30 June 2021](#)

28. As set out above, the Government remains committed to ‘rebalancing’ the costs placed on energy bills away from electricity and will publish our proposals on how to do so in 2022, considering overall system impacts and limiting the impact on bills, particularly for low-income consumers.

Institutional architecture and co-ordination

Recommendation: We propose the creation of an expert taskforce, following the example of the Vaccine Taskforce—but on a longer term footing—responsible for economy-wide strategic planning, cross-departmental co-ordination, implementation of some agreed policies and operational delivery monitoring in relation to the net zero transition by all departments and agencies. Given the inherent uncertainty of the transition, the taskforce model provides the agility necessary to adapt to a rapidly changing landscape.

The transformation taskforce will need to address politically sensitive policy issues, including public spending commitments, so—following the model of the Vaccine Taskforce—cannot be independent of Government. The taskforce should report directly to a Cabinet Committee chaired by the Prime Minister which would agree the strategy and key policy components and authorise any Government financing. The taskforce, housed within the Cabinet Office, will then have the authority to translate the policy into detailed policy implementation covering all Government departments. The taskforce should be set up immediately given the urgent need for action on net zero within the next few years. (Paragraph 75)

29. Net zero is at the heart of Government decision-making, and this is driven, first and foremost, by the Prime Minister. The Prime Minister chairs the Climate Action Strategy Committee which considers matters relating to the delivery of the UK’s domestic and international climate strategy. The COP26 President chairs the Climate Action Implementation Committee which considers matters relating to net zero and building the UK’s resilience to climate impacts.
30. The Government Priorities Delivery Committee (GPDC), chaired by the PM, coordinates and drives progress and accountability on the delivery of his priority missions – net zero is one of six PM priority missions, demonstrating the importance that this government places on achieving its climate goals.
31. These ministerial forums are supported by well-established and robust governance at official level – including a cross-government Director General group to ensure a whole-of-government approach to climate policy, with oversight at most senior levels.
32. The BEIS Secretary of State is responsible to Parliament for net zero, so ultimately accountable for all sectors achieving their targets. In partnership with Cabinet Office and HM Treasury, BEIS works to drive action in these individual departments.
33. Our current governance arrangements are effective and we continue to evolve and strengthen our overall approach, taking into account the recommendations of the NAO, Public Accounts Committee and other key bodies.

Recommendation: There is clearly a role for the Future System Operator in considering both the electricity and gas networks and providing greater planning of their future needs to ensure

security of supply. We urge the Government to move promptly in establishing the Future System Operator and call for it to have clear objectives and responsibilities to avoid increasing complexity in the governance of the energy sector. Nonetheless, we believe that the Future System Operator should not have a wider role in coordinating the net zero transition; political trade-offs in this area should be decided by the Government. (Paragraph 88)

34. BEIS and Ofgem have now published our joint response to our consultation on system operation⁷, including a commitment to proceed with the creation of an expert, impartial Future System Operator (FSO). The new FSO will have clear objectives set out in primary legislation to facilitate net zero while maintaining security of supply, and an efficient, coordinated and economical system. It will also:

- take on all the main existing Electricity System Operator (ESO) roles and the longer-term elements of the Gas System Operator (GSO), enabling more coordinated, strategic and whole systems planning
- be a public corporation, inside the public sector, but with operational independence from the Government
- be funded by consumers through price control arrangements regulated by Ofgem, but with the operational freedom to manage and organise itself to effectively deliver its roles and objectives
- have a duty to provide advice on request to the Government and Ofgem to inform key policy decisions
- take an increasingly significant role in shaping the energy system, including driving competition across the energy sector
- the response also sets out our implementation approach to ensure a smooth transition to the new arrangements, and next steps.

Recommendation: Ofgem has an important role to play in enabling the transition. However, we believe that Ofgem's primary focus should remain on its supplier regulation, economic regulation and consumer protection responsibilities. While we recognise that these may need to be expanded to cover new technologies and services, we do not believe that Ofgem needs to be given a more strategic role in planning the energy system; this role should instead be the responsibility of the Future System Operator. (Paragraph 96)

35. We intend the Future System Operator (FSO) to take an increasingly significant role in strategic whole systems network planning and competition, building on the existing functions and capabilities of National Grid Electricity System Operator Ltd (NGESO) and National Grid Gas Ltd (NGG). Ofgem has set out their vision for network planning in their Electricity Transmission Network Planning Review consultation, which includes proposals for the introduction of a new Centralised Strategic Network Planning model led by the FSO.

36. In addition to this, over the next year there are a number of planned publications in relation to the Offshore Transmission Network review as well as associated stakeholder engagement which will likely include further consultations. These will consider, amongst others, the roles and responsibilities of key parties (including an independent FSO) in enabling a more strategic approach to development and delivery of offshore wind and associated transmission infrastructure. BEIS and Ofgem are also due to publish an Electricity Networks Strategic Framework that will set out our wider vision for how we will facilitate an agile, flexible onshore

⁷ [Future System Operator: Government and Ofgem's response to consultation published on 6 April 2022](#)

network that will allow the rapid, transformational change required while responding to consumer and energy system needs. The FSO is considered a key part of this vision. See response in relation to an energy sector Strategy and Policy Statement (SPS) for Ofgem in paragraph 38.

Recommendation: We recognise that Ofgem’s current leadership sees net zero as fundamental to its existing duties. To ensure that, on an enduring basis, the appropriate focus is given to net zero within its competing priorities, we recommend that Ofgem’s duties should be amended to include explicit reference to having due regard to the net zero target. While Ofgem maintains that net zero considerations already factor into its decision making, adding net zero explicitly to its statutory duties will serve to make this clear. (Paragraph 108)

37. A new duty is not necessary. Ofgem’s primary statutory duty is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and the security of the supply of gas and electricity to them. The Government and Ofgem are clear that the duty to protect consumers’ interests includes the reduction of emissions of targeted greenhouse gases in line with net zero.

Recommendation: Adding net zero to Ofgem’s remit would not offer sufficient guidance for making judgements regarding trade-offs. For this reason, we emphasise the urgency of publishing the promised Strategy and Policy Statement. The Strategy and Policy Statement must provide further clarity on how Ofgem should make trade-offs between affordability, net zero, security of supply and the interests of current versus future generations in its regulatory decisions; these trade-offs are political in nature and the Government needs to clearly set out how Ofgem should approach these issues. (Paragraph 118)

38. The Government has committed to consulting on an energy sector Strategy and Policy Statement (SPS) for Ofgem later this year. The SPS will set out the strategic priorities and policy outcomes of the Government’s energy policy, including delivering a net zero energy system, while ensuring secure supplies at lowest cost for consumers. The SPS will impose a legal obligation on Ofgem to have regard to those strategic priorities and policy outcomes when exercising its regulatory functions and Ofgem will be required to report at the outset and annually on its progress and plans for implementation.

Regulation, innovation and the consumer experience

Recommendation: We recommend that Ofgem commit to carrying out a review of its use of uncertainty mechanisms, their effectiveness, the regulatory burden they have placed on energy networks and their impact on investment. This should be done in time to allow any conclusions to be reflected in the decisions it makes for its next price control periods. (Paragraph 136)

39. The setting of price controls is a matter for Ofgem as the independent, expert regulator. As set out in the British Energy Security Strategy, it is important that Ofgem expedites its approvals process to build networks in anticipation of major new sources of generation and demand. The

Government will set out the importance of strategic network investment in our forthcoming Strategy and Policy Statement for Ofgem.

Recommendation: We recommend that codes and licences be simplified and reformed in such a way that they are able to adapt to a fast-changing sector and enable the energy transition and are pleased that this is under active consideration by the Government and Ofgem. If this requires legislation, the Government should ensure that this is brought forward swiftly (Paragraph 151)

40. This is one of the core objectives of the BEIS and Ofgem joint Energy Code Reform project. We have now published our decision to give Ofgem additional new strategic functions and establishing a new governance framework. Ofgem will now develop the detailed plans and approach to code consolidation/simplification, code manager appointment, licensing and transition to code reform. We are preparing for the introduction of associated primary and secondary legislation changes as and when Parliamentary time allows.

Recommendation: It is clear that the service that retail energy companies provide will have to change to help consumers through the transition, including by providing new products and services that enable them to spread up-front capital costs and to realise the value of providing flexibility to the grid. However, it is far from clear that the industry or the regulator are ready to adapt their approaches in this way. Ofgem must ensure that its regulation allows new models to benefit consumers through its regulation of activities carried out by suppliers, its expectations of industry and through enabling more granular pricing. Ofgem should also make it easier for successful firms to make use of existing mechanisms to support innovation, such as the regulatory sandbox. (Paragraph 172)

While these new models have the potential to benefit consumers, we have heard that not all consumers will have the desire or capability to engage with them and that they may bring new risks. Ofgem must strike a balance between allowing new entrants and models into the retail energy market, while enabling an appropriate level of consumer protection for all consumers, no matter what service they are receiving. (Paragraph 173)

Without acceptance by consumers the transition will not be possible. They are set to be key participants, but need greater clarity, information and guidance in order to play their part and realise the benefits. The Government needs to take the lead in clearly setting out the need for consumers to take action and what it expects them to do—for example, with respect to heat pumps—as well as providing incentives to decarbonise energy use. This will allow Ofgem to set out its expectations for energy companies, and for those suppliers to adapt their offering to customers. Ofgem must ensure that energy suppliers do not disproportionately penalise those consumers unable to engage with the changing energy market. (Paragraph 191)

41. We agree with this view. In July 2021 the Government set out our vision for a market which enables net zero and where:

- consumers should receive appropriate levels of protection, pay a fair price for their energy, and be able to easily engage with the market to exercise choice
- energy companies should invest in innovative products and services to unlock the benefits of low-carbon technologies

- consumer choice and active market competition contribute towards a lowest-cost flexible energy system, which gives the right price signals and drives the uptake of low-carbon products and services
42. The Government believes that this vision remains the right one. However, we also need to take account of the lessons from recent months to ensure that the energy retail market is resilient, sustainable, and continues to protect consumers as we move to a net zero energy system.
43. We will therefore review these lessons as part of a wider refresh of the current energy retail market strategy, with the aim of publishing an updated strategy as soon as possible, once the market has stabilised.
44. The Government continues to encourage Ofgem to implement reforms to the retail market, including strengthening its assessment of the financial resilience of market participants and protecting sums at risk of mutualisation in the event of supplier failure. The focus of the Government and Ofgem is on a retail market that is stable and reliable, to provide certainty for consumers. But it is also to create an environment which enables new business models and attracts and retains private investment.

Recommendation: Ofgem should publish a detailed approach to supervision once these changes are in place, to make its new requirements clear and enable greater scrutiny of its performance. (Paragraph 210)

While competition will remain an important feature of the retail energy market, the Government and Ofgem should set out their expectation that companies should compete on their overall service and value to customers and not just on price. The use of switching as a singular metric of competition should be abandoned. It is the ease of switching rather than actual switching which supports competition; high switching may be an adverse measure of customer service rather than something to be encouraged. Indeed, if firms are to help customers manage the energy transformation this may require longer term contractual relationships. (Paragraph 211)

45. We agree that the retail energy market must be resilient, fair and competitive in order to maintain consumer support. As set out in our retail energy strategy, a well-functioning market, with high standards of customer service, can engage consumers and offer products that support decarbonisation. It can drive consumers to make use of new infrastructure or technology and, ultimately, could support longer-term policies such as deploying heat pumps or energy efficiency measures.