



The Lords Economic Affairs Committee's Inquiry into UK energy supply and investment: Government Response

INTRODUCTION

The Government welcomes the Economic Affairs Committee's report published on 21 July 2022, following its inquiry into UK energy supply and investment. We are grateful to the Committee for all their hard work in delivering such an important and comprehensive report at an opportune time. We also thank all those who provided evidence to it.

We would like to draw the Committee's attention to recent announcements by the Government on our approach to UK energy supply and investment. Decades of short-term thinking on energy has failed to focus enough on securing supply, with Russia's war in Ukraine now exposing the flaws in our energy security and driving bills higher. Government is taking decisive action to support people and business with their energy bills and tackle the root causes of the issues in the UK energy market through increased supply, ensuring the country is not left in the same position again.

The structure of this paper corresponds to the recommendations in the Committee's report. The text taken from the Select Committee report is highlighted in bold.

1. Decarbonising the UK's energy system while ensuring that the UK's energy supply is affordable and reliable is a highly complex challenge. Russia's invasion of Ukraine has made the task more complex. No government can be expected to predict the future with accuracy, nor should a government seek to plan for every eventuality. Instead, the Government should address issues that undermine investor confidence and increase resilience in the energy system. The Government will need to:

- **Explain how the transition will be funded, including the balance of public and private investment;**
- **Establish appropriate market mechanisms and incentives to encourage investment in low carbon technologies;**
- **Review the planning system in England to ensure that the system, which already reflects climate change objectives, is updated to reflect energy security objectives;**
- **Plan for the emerging international competition over renewable energy supply chains. (Paragraph 19)**

2. One challenge for the Government is to ensure that short-term measures to maintain security of supply are consistent with the Government's net zero plans, and that this objective is well communicated to industry. While the



Government should continue to address the impact of the immediate supply crisis, it should also act to encourage long-term investment to facilitate the transition to net zero, which should help to ensure more sustainable energy security and greater long-term price stability. In this report, we set out what needs to be done now to increase investment that will assist in carbon reduction and improve energy resilience. (Paragraph 20)

Response (1 and 2):

Government is acting immediately to reduce the worrying burden of high energy prices in the short term and will invigorate the long-term reforms we need to complete, to resolve the underlying problems in the energy market and ensure the British people enjoy affordable and plentiful energy in future. Our exposure to volatile global gas prices highlights the importance of our plan to generate more clean renewable energy and nuclear power in the UK and reduce reliance on fossil fuels.

To tackle the immediate crisis we have introduced a new Energy Price Guarantee, which means from the beginning of October a typical household will pay no more than £2,500 per year for each of the next two years. This comes in addition to the £400 Energy Bills Support Scheme and includes a temporary suspension of green levies. This Guarantee supersedes the Ofgem price cap and has been agreed with energy retailers. It will apply to households in Great Britain, with the same level of support made available to households in Northern Ireland.

A new six-month scheme for businesses and other non-domestic energy users (including charities and public sector organisations like schools) will offer equivalent support as is being provided for consumers.

Learning from the mistakes of the past, the Government is taking action to accelerate domestic energy supply, increase our energy resilience and achieve our ambition to make the UK an energy exporter by 2040:

- Launch a new oil and gas licensing round, which is expected to lead to over 100 new licences.
- Lift the moratorium on UK shale gas production. This will enable developers to seek planning permission where there is local support, which could get gas flowing in as soon as six months.
- Drive forward the acceleration of new sources of energy supply from North Sea oil and gas to clean energy like nuclear, wind and solar.
- Continue progressing up to 24GW of nuclear by 2050, with Great British Nuclear helping to set direction of getting new nuclear projects online in the UK.
- A new Energy Supply Taskforce has begun negotiations with domestic and international suppliers to agree long-term contracts that reduce the price they charge for energy and increase the security of its supply. The Taskforce and



BEIS will negotiate with renewable producers to reduce the prices they charge as well.

- In addition HMT are announcing a joint scheme, working with the Bank of England, to address the extraordinary liquidity requirements faced by energy firms operating in UK wholesale gas and electricity markets. The Energy Markets Financing Scheme will enable stability to both energy and financial markets, and the economy, and reduce the eventual cost for businesses and consumers. The scheme will provide short term financial support and will be designed to be used as a last resort.

The net zero target remains a government priority and done right, the net zero transition will provide huge opportunities for jobs, investment, innovation and exports. To achieve the carbon neutrality by 2050 in the most economic efficient and sensible way, given the altered economic landscape, we have launched a review on how we meet net zero. In particular, the review will set out how to deliver target without placing undue burdens on businesses or consumers.

Government has an important role to incentivise markets and send signals to enable industries to invest in lower-carbon processes and cost-effective solutions at the pace required. As we mentioned in our evidence to the Committee, the Ten Point plan, Energy White Paper, Net Zero Strategy and the British Energy Security Strategy will drive an unprecedented £100 billion of private sector investment by 2030 into new British industries, including offshore wind, and support around 480,000 clean jobs by the end of the decade. We estimate that additional capital investment averaging £50-60 billion per year is needed through the late 2020s and 2030s across the economy to maintain the UK's energy supply and deliver our net zero ambitions. This is compared to current low carbon investment of over £20 billion per year in the UK.

To increase the amount invested on a per annum basis, a long-term view is necessary to support the full funding cycle, from emerging technologies through to infrastructure and project finance. Early-stage R&D is supported by various government grants. For example, 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 the support from the British Business Bank (BBB) and the UK Infrastructure Bank (UKIB) to crowd-in private finance and pull through low carbon technologies and sectors to maturity and scale. The Contract for Difference (CfD) renewable support scheme is the government's primary method for driving forward investment in renewables and successfully driving down the cost of deployment. The Regulated Asset Base (RAB) funding model will help deploy new nuclear projects by attracting institutional investors, lower the cost of capital and ultimately provide consumers with savings on their bills. In addition to these specific support mechanisms, the UK



Emissions Trading System (UK ETS) incentivises and controls the reduction of emissions in a cost-effective way. A cap is set on the total amount of certain greenhouse gases that can be emitted by the sectors covered by the scheme over a given period. This enables the market to drive abatement and incentivise industries to develop lower carbon processes.

We are taking action to reform the planning system to enable rapid deployment of low carbon generation to meet our energy security objectives. As we accelerate deployment, we will also improve the natural environment, and ensure communities retain their voice in decision making and that planning decisions are robust. National Policy Statements provide the fundamental need case for energy infrastructure and emphasise energy security as well as net zero. These are being strengthened as a result of April's British Energy Security Strategy and the Government will be consulting soon on the revised versions.

We are reviewing and reforming environmental considerations including assessments required by habitat regulations. We are also working with industry, including through the Offshore Wind Environmental Improvement Package and the Offshore Wind Acceleration Taskforce, to resolve obstacles and accelerate deployment while protecting the marine environment.

Many countries are accelerating their energy transition and decarbonisation plans to shift away from natural gas from Russia. The North Sea Transition Deal outlines how the Government and the sector will work in partnership as it transforms along the road to net zero, including working to reduce emissions associated with oil and gas production, and harnessing the industry's existing capabilities and infrastructure to aid the development of low-carbon technologies such as CCUS and hydrogen production. In parallel in 2023 the frequency of CfD auctions will change to every year and will incentivise investment in UK supply chain strengths.

3. High energy prices mean households are concerned about energy prices and

may therefore focus more on energy usage. The Government can harness this public concern to speed up the pace of home insulation and other measures to improve home energy efficiency. Increasing the supply of installations should be driven by clear, long-term signals from the Government, and a commitment to working with the private sector. These measures require significant investment in both the near and longer-term. The Government's British Energy Security Strategy does not sufficiently explain how such investment will be released. (Paragraph 30)



Response: The British Energy Security Strategy should be viewed not in isolation but as part of the overall movement towards being a net energy exporter by 2040, building on the commitments set out in the Prime Minister's 10 Point Plan, the Energy White Paper, the Heat and Buildings Strategy and the Net Zero Strategy.

The Government is investing over £6.6 billion over this Parliament to improve energy efficiency and decarbonise heating. We will deliver upgrades to over half a million homes in the coming years through our 'help to heat' schemes such as Social Housing Decarbonisation, Home Upgrade Grant Schemes and Energy Company Obligation Scheme, delivering average bill savings of £400 based on the recent price cap announcements. We have also introduced zero-rating VAT for the next five years on the installation of insulation and low-carbon heating, saving between up to £1,000-£2,000 on the cost of an air source heat pump, for example.

In addition, the Energy Company Obligation (ECO) will also be extended until March 2026. To make homes cheaper to heat, the government will bring forward legislation to implement new obligations on energy suppliers to help hundreds of thousands of their customers take action to reduce their energy bills, delivering an average saving of around £200 a year. This help will be worth £1 billion over the next three years, starting from April 2023 and will be paid for via the Energy Price Guarantee up to 2024. Support will be targeted at those most vulnerable, but will also be available for the least efficient homes in lower council tax bands. As with previous schemes, the government will work with the Scottish Government on arrangements in Scotland. Since ECO began in 2013, 3.5m measures have been installed in 2.4m homes under the scheme, around 9% of British households. We estimate that households receiving measures will save an average of around £600 on their energy bills next winter.

To fix the underlying problems, the Government will undertake fundamental reforms to the structure and regulation of the energy market through recommendations from a new review of UK Energy Regulation.

4. We recommend that the Government publishes an energy demand reduction strategy. To strengthen public confidence, the Government should work with the financial sector to provide financing options and increase incentives for investment in energy efficiency measures. In addition, the Government needs to set clear signals so supply capacity can be increased along with steps to support the development of resilient supply chains and workforce skills. It should have a clear, practical delivery plan which learns from the failings of previous initiatives. The strategy should be published as soon as possible. (Paragraph 31)



Response: The Government published the Heat and Buildings Strategy in Autumn 2021, setting out the actions we would be taking to reduce carbon emissions from buildings in the near term and providing a clear long-term framework to enable industry to invest and deliver the transition to low-carbon heating.

As set out in the Strategy, catalysing the market for Green Finance is a priority for Government to help support homeowners not eligible for grants with the upfront costs of improving the energy performance of their homes. Our £1.8m Green Home Finance Innovation Fund, which completed in March 2022, was a key early step in supporting the lending community to design, develop and pilot green finance products for homeowners. This will be followed by the [Green Home Finance Accelerator programme](#), which will make up to £20m available to support the development of innovative green finance products and services, enabling homeowners to decarbonise their homes and improve thermal comfort. The Accelerator will formally launch in autumn 2022. In addition, we have consulted on proposals for mortgage lenders to support homeowners to improve the energy performance of their properties and will publish the response in due course.

The Government recognises the need for a skilled, competent and robust supply chain to deliver the improvements to buildings necessary to meet our net zero targets. We understand that scale-up requires consistent, long-term deployment streams, via government funding and regulation, so that the companies working in these markets can make the investments needed and individuals can choose to upskill. To grow the installer supply chain we are investing in skills and training. In 2021, the Government invested £6m in the BEIS Skills Training Competition, resulting in almost 7,000 training opportunities provided, across heat pumps, insulation and wider retrofit skills. We are developing plans for a further competition in 2022/23.

The Government has previously provided £4.7 million of funding over a period of two and a half years to six local supply chain demonstration pilots, which tested innovative approaches for supporting and growing the energy efficiency installer supply chain. Going forward we intend to monitor the market and its response to our interventions and are considering options to work with the industry to support training in key skills shortage areas and new routes of entry to increase capacity.

5. The British Energy Security Strategy sets out several ambitions for increasing the deployment of renewable energy, which we support. While we acknowledge some local opposition, onshore wind is one of the cheapest and fastest ways to increase renewable energy generation. We recommend the Government re-examines its ambitions for onshore wind when it publishes its consultation on creating local partnerships with communities living near energy infrastructure, later in 2022. (Paragraph 39)



Response: The Government acknowledges that onshore wind is a mature, efficient, and low-cost technology. It is an important part of the energy mix, accounting for around a quarter of installed renewable capacity in the UK. The UK is one of the windiest countries in Europe and has a large resource of wind at its disposal which, coupled with advances in onshore wind turbine technology in the last five years, means that modern sites are able to maximise generation at times of low and high wind speeds, and for longer. This is why the costs of onshore wind have fallen so dramatically; it is around 50% cheaper than in 2015. The government's estimates suggest that it is now the second cheapest form of electricity generation in the UK today on a levelised cost basis, behind utility-scale solar.

The Government also acknowledges that we will need more onshore wind if we are to reach net zero and a position of energy security. We set out in the Energy White Paper and Net Zero Strategy that a low-cost net zero system of the future will be predominantly comprised of wind and solar and that this will include a sustained increase in locally supported onshore wind to 2030 and beyond.

We intend to continue to support onshore through the Contracts for Difference Scheme. We will improve national network infrastructure and look at arrangements to support repowering. And, in England, we will support a number of new projects with strong local backing, and consult on how we do this later this year.

6. We support the Government in seeking to maintain existing energy generation in the short term, including coal-fired power stations where necessary, to reduce dependency on expensive gas imports. We welcome the Government's continuing commitment to renewable energy in the longer term. Extending the life of nuclear power stations over coal power stations where possible, and cost effective, would result in lower carbon emissions. (Paragraph 44)

Response: While there has been parliamentary and public interest in the potential for life extensions for nuclear plants, the Government has no formal role in these decisions. The continued operation, or closure, of any UK nuclear power station is a decision for EDF (the stations' owner and operator) and the independent nuclear regulator, the Office for Nuclear Regulation (the ONR), based on safety and commercial considerations.

Nuclear operators are obliged by law to make a comprehensive safety case for every nuclear operation, which justifies why the reactor is safe to operate and takes into account the ageing effects of the reactor.



Most of the UK's operating stations have already previously had operational extensions. The UK has four generating Advanced Gas-cooled Reactor (AGR) power stations expected to close between 2024 and 2028 (three AGR stations are already closed/defueling), that have provided reliable electricity generation for many years. However, all the AGRs are known to be subject to the phenomenon of cracking of structural graphite in the cores as they age, which may limit their life.

7. While we welcome statements from ministers on UK–EU cooperation on energy security, we note reports of Government contingency planning for scenarios in which either the UK or EU cuts gas exports to the other party if there is a severe shortage. As one of the few countries in Europe with significant ability to import LNG and transport natural gas, the UK is playing an important role in supporting security of supply in Europe. In return, some EU countries have gas storage capacity from which the UK could benefit this winter. The Government should urgently seek an agreement with the EU and, if necessary, Norway on energy cooperation to manage possible shortages. (Paragraph 54)

Response: Great Britain benefits from highly diverse and flexible sources of gas supply. These include pipelines from the UK and Norwegian continental shelves, interconnection with the European continent, and three Liquefied Natural Gas (LNG) terminals, providing GB with one of the largest LNG import infrastructures in Europe. We remain confident that Great Britain's energy security will be maintained. The diversity of Great Britain's sources of gas supply greatly reduces a reliance on natural gas storage. This distinguishes Great Britain from some European countries who have a relative larger storage capacity than Great Britain due to their lack of indigenous gas supply.

Lack of infrastructure to land LNG on the continent has led to sustained use of the UK market as a delivery hub to support EU states' desire to refill storage prior to winter. Exports of gas from Great Britain to continental Europe will support the EU's ambition to fill their gas storage facilities before winter. This will increase European energy security ahead of winter and in turn, increase UK energy security as our energy markets are linked by shared infrastructure.

However, gas interconnectors are owned and operated commercially by private entities; they are transporters offering a service to gas shippers, who acquire the gas and decide in which direction to flow it. Gas interconnector flows respond to price differentials between Great Britain and continental Europe, with gas flowing to whichever market has a price premium over the other.



The UK-EU Trade and Cooperation Agreement supports future cooperation between both parties on security of gas supply, allowing countries to work together as needed on emergency planning and risk preparations. In addition, the UK maintains good relations with our neighbouring European countries, including dialogue on security of supply.

As a responsible Government we undertake emergency planning. This is something that happens every winter to ensure that we are prepared in the unlikely event that a gas emergency is declared. We work closely with industry partners to ensure we have the emergency response tools ready.

Increasing investment in the transition

8. While we welcome the Government's clear and ambitious targets for many renewable technologies, it should set out now the policy detail on how these targets will be met. The Government should provide more detail on the capacity, timeframes and expected costs of long-duration energy storage. It should also quickly develop a market model for long-duration energy storage. The view among witnesses was that a cap and floor model would be most effective. (Paragraph 74)

Response:

In the 2022 British Energy Security Strategy, the Government committed to ensuring the deployment of sufficient large-scale, long-duration electricity storage (LLES) to balance the overall system by developing appropriate policy to enable investment by 2024.

To meet this commitment, the Government will:

- carry out further analysis on the costs and benefits of intervention in the market for LLES, including its contribution to energy security and possible market distortions;
- consider options including a Cap and Floor, and an optimised Capacity Market in addition to wider flexibility operational signal sharpening being considered under the Review of Electricity Market Arrangements (REMA); and
- work with Ofgem to develop an appropriate policy to enable investment in LLES.

This work will complement the evidence gathered during the recent [call for evidence](#) and [external analysis](#) on these technologies.



The Government also expects that hydrogen storage infrastructure will be a key component of the future hydrogen network infrastructure, but recognises that market barriers could delay its deployment. Consequently, in the British Energy Security Strategy, the Government committed to designing hydrogen transport and storage business models by 2025 to de-risk investment. Government intends to consult on initial business model proposals later in 2022.

9. We welcome the Government’s ambition to increase hydrogen production. We support developing both green and blue hydrogen; the evidence suggests this builds on the UK’s industrial and geological strengths in offshore wind and gas reservoirs. We recommend that the Government outlines market structures and mechanisms for hydrogen as soon as feasible. (Paragraph 87)

Response: The British Energy Security Strategy set out the Government’s increased ambition to have up to 10GW of low carbon hydrogen production capacity in the UK by 2030, with at least half from electrolytic hydrogen. This hydrogen will be used across the economy to decarbonise vital industrial sectors and provide flexible energy across power, transport and potentially heat.

We consider support for multiple production routes, including both electrolytic ‘green’ and CCUS-enabled ‘blue’ hydrogen, is the most appropriate approach to drive cost effective scale up of low carbon hydrogen in the 2020s in line with our 2030 ambition and emission reduction targets. The July 2022 Hydrogen Strategy update to the market sets out our latest thinking on the role of different hydrogen production technologies in helping to meet our stretching ambitions to 2030 and beyond. This also includes consideration of the potential future role of imports, opportunities for exports, and wider environmental impacts such technologies could have.

The key policies to deliver our hydrogen ambitions are the £240 million Net Zero Hydrogen Fund (NZHF) which provides capital co-funding, and the Hydrogen Business Model (HBM), which provides contractual revenue support to production projects. The Low Carbon Hydrogen Standard (LCHS) ensures that all supported projects contribute to our emission reduction targets.

The HBM will be funded through the Industrial Decarbonisation and Hydrogen Revenue Support (IDHRS) scheme, with initial exchequer funding provided for projects operational before March 2025. The Net Zero Strategy set out that revenue support for hydrogen production will transition to levy funding from 2025, subject to consultation and parliamentary approval and with relevant provisions introduced via legislation. Levy design will need to reflect wider government priorities to ensure consumer affordability, fair distribution of costs, and that UK businesses remain competitive.



We have also committed to design by 2025 business models for hydrogen transport and storage (T&S) infrastructure, which will be critical to ensure security of supply and the growth of the hydrogen economy. We committed to set up a hydrogen certification scheme by 2025, to ensure that both exported and imported hydrogen meets the high standards UK companies expect.

We have made substantial progress on delivering these policies and on the wider hydrogen policy landscape, as captured in the July 2022 Hydrogen Strategy update to the market and in wider documents published alongside the Hydrogen Investor Roadmap in April and the Hydrogen Investment Summit in July.

We launched opportunities for development and capital funding under the NZHF in April 2022 and launched the first opportunities for joint capital and revenue support for electrolytic projects under the NZHF and HBM in July 2022. We published detailed LCHS guidance on the methodology for calculating emissions associated with hydrogen production and the steps producers are expected to take to prove compliance.

We also concluded Phase-1 of the CCUS Cluster Sequencing process, announcing HyNet and the East Coast Cluster as 'Track-1' clusters prioritised for deployment in the mid-2020s, with the Scottish Cluster in reserve. On 12 August 2022 we announced our selection of shortlisted CO₂ emitter projects – including CCUS-enabled hydrogen producers – to proceed to the due diligence stage of Phase-2 of the Cluster Sequencing process.

10. Carbon capture and storage is expected to play a small, but valuable, longterm role in the transition to net zero. The limited scale means that there is likely to be little appetite for the private sector to invest in it without a stable and enduring commitment from Government to support it. The Government should therefore play a role in setting up clusters and in designing market models as soon as feasible so that investors are given greater confidence that there will be a long-term market for carbon capture and storage. (Paragraph 94)

Response: The British Energy Security Strategy re-stated our commitment to support the deployment of four CCUS clusters by 2030. For CCUS deployment to be successful, it is essential that there are funding models that attract private finance, at a cost that represents value for money to taxpayers and consumers. We set out our investor road map alongside the British Energy Security Strategy and have engaged extensively with industry to ensure that our approach to delivering CCUS overcomes commercial issues which prevented the delivery of CCUS in the past.



We are making progress on establishing a framework of economic regulation for the transport and storage of CO₂, which provides stable returns for those investing in the development of the infrastructure. Our business models for carbon capture will facilitate the delivery of CCUS at scale to meet our 2030 ambitions, as well as positioning us to be a world leader in CCUS. There is a strong interest in the sector, which was highlighted by the number of applicants we received for Phase-2 of the Track-1 Cluster Sequencing Process. As part of that process, in August we announced that 20 CCUS projects will proceed to the due diligence stage and we have committed to publishing a funding envelope for Track 1 in due course.

11. There have been conflicting statements from ministers about whether the Government intends to start the construction process for one nuclear reactor each year so that up to eight are in development at the same time or intends a different sequencing. This is especially important if a RAB model of financing is used because of the costs that would fall on consumer bills, including those of the poorest, during construction. The Government should set out its delivery plan and construction timetable for nuclear reactors. It should also clarify what impact delivering multiple projects simultaneously could have on consumer bills. (Paragraph 104)

Response (11 and 13): In the British Energy Security Strategy, the Government announced it will establish Great British Nuclear to enable nuclear projects in the UK and help deliver its ambitions of 24GW nuclear by 2050 and two FIDs in the next Parliament. GBN will be tasked with helping projects through every stage of the development process and developing a resilient pipeline of new builds.

The RAB model is aimed at reducing the cost of finance, which is the biggest driver of project costs, for new nuclear projects, compared to the existing Contracts for Difference (CfD) model. Thereby it should reduce the end cost of electricity for consumers.

The Nuclear Energy (Financing) Act 2022, which establishes the RAB model for new nuclear projects, requires the Secretary of State to take the interests of existing and future consumers, including in terms of cost and security of supply, into account when making modifications to a designated nuclear company's licence for it to benefit from a RAB model. This would include consideration of the potential cumulative impact of multiple projects using the RAB model.

Under a RAB model there will also be multiple mechanisms to ensure that consumers don't bear unacceptable costs. These include robust due diligence of the project before making a final investment decision, and, if a project is approved, implementing an incentives regime placed on investors to manage project costs and schedules, overseen by Ofgem as the economic regulator.



12. The Government should explain why it is aiming for a target of 24GW to be supplied by nuclear by 2050 when this is over double the capacity assumed by the Climate Change Committee. The Government should set out its cost analysis of 24GW of nuclear capacity compared to alternative options of providing baseload capacity. (Paragraph 105)

Response: The Government believes that 24GW is a stretching but realistic ambition that will significantly strengthen the UK's energy security, enabling the UK to become a net energy exporter by 2040 and to reach net zero by 2050. It is crucial that we develop a rigorous base of nuclear power, as it is very low-carbon and energy-dense, and is a fundamental pillar for our energy security. In making this decision, Government was informed by a range of internal and external analysis, including its own energy and emissions projections.

13. While we have heard that the Regulated Asset Base model could unlock private sector investment for nuclear, questions remain about the cost impact on consumers. The Government should ensure that plans for new nuclear power stations are as robust as possible, and credible in terms of cost and timing, and the Government should set out how it will protect energy bill payers in the event of cost overruns and construction delays. (Paragraph 106)

Response: (See answer to 11 above.)

14. As there is evidence of substantial private sector-interest in investing in sustainable projects, the UK Infrastructure Bank should ensure that it adds value by focusing investment on innovative and potentially riskier projects with the aim of attracting and enabling additional private-sector funding. It should focus on using its investments to manage, share and reduce risk to enable the private sector to invest where otherwise it would be difficult. We note, however, that the UKIB has limited risk capital. (Paragraph 113)

Response: The UK Infrastructure Bank (UKIB) is wholly owned and backed by HM Treasury but has operational independence in its day-to-day activity. The projects which it finances must meet its investment principles of: supporting regional and local economic growth or helping to tackle climate change; being infrastructure assets or networks, or new infrastructure technology; delivering a positive financial return (with a portfolio level return on equity target of 2.5-4% set by HM Treasury); and crowding in significant private capital over time. The UKIB published its first Strategic Plan in June, which set out how it will deliver on its mission to partner with the private sector and local government to increase infrastructure investment to help to tackle climate change and promote economic growth across the regions and nations of the UK. This included highlighting its unique position between the market



and government, including its ability to encourage market development by taking on risks that other investors are not yet willing to take.

15. In the short term, Europe needs alternative sources of oil and gas to replace supply from Russia. Moreover, the UK will continue to require gas during the transition. Enabling more investment in North Sea production can help address this, although it will not provide a significant reduction in energy prices over the next few winters. Over the medium term, the use of oil and gas needs to fall to align with the strategies on climate change. Any extension of oil and gas exploration or investment should focus on projects with short lead times and payback periods to limit the risk of stranded assets. There is uncertainty over how the risk of creating stranded assets will be managed. The Climate Compatibility Checkpoint should ensure that additional investment in oil and gas is focused on production that reflects the UK's diminishing but continued demand for gas during the transition and not enable substantial levels of long-term production that conflicts with net zero objectives. (Paragraph 127)

Response: The government has endorsed the North Sea Transition Authority (NSTA) in launching a 33rd licensing round for offshore oil and gas exploration, which is expected to see over 100 new licences awarded to developers. This endorsement follows completion of the design of the climate compatibility checkpoint, which looks at the compatibility of new exploration licences with UK climate objectives, including assessing the sector's progress in reducing emissions in line with the North Sea Transition Deal.

The Government notes the Committee's important points about lead time, payback periods and the continued demand for gas during the transition. The Government believes that private companies are better placed to make judgements on commercial investments. The risk of 'stranded assets' is for them to consider; companies making and financing large new investments in offshore platforms will naturally consider the expected payback time and operational lifetime of these new developments, as well as the scope to which they will find reuse, for example as subsea carbon stores. In the unlikely case where a developer and operator did make a particularly poor decision on an asset and it ended up 'stranded' early in its life without any alternative use, the UK has a robust offshore decommissioning regime to protect taxpayers from the consequences. This includes the ability to pursue previous licence holders for the costs of decommissioning if, for example, a current operator enters insolvency.

Given the current gas supply restrictions across Europe, the Government is committed to domestic production as crucial to our energy security. Making the most



of our own gas resources makes us less dependent on imports and helps maintain the security of the UK's energy supply in both the short term and the long term.

16. The UK may benefit from additional gas storage capacity which can also be made suitable for hydrogen storage. We welcome the Government and Centrica examining the case for reopening the Rough storage facility. Additional storage could provide more resilience against supply bottlenecks and would provide more security were agreements to import energy from mainland Europe to break down. The Government should examine the case for opening other storage sites which could be adapted for hydrogen. (Paragraph 134)

Response: GB gas storage has remained an effective source of system flexibility even in cold winters, and in responding to short-term changes in supply and demand. Our storage has not been intended as a supply source. This is particularly owing to GB's indigenous and diverse sources of gas supply, which distinguishes GB from some European countries who have a relative larger storage capacity than GB due to their lack of indigenous gas supply. However, in light of recent events, it is sensible that we consider all possible options to maintain security of gas supply, and that includes the future of gas storage.

Part of our consideration is how we might benefit from additional gas storage capacity that might also be made suitable for hydrogen storage. We are also exploring options and locations to store clean energy longer-term without infringing our security of supply.

Government officials have met with Centrica Storage Limited (CSL) to discuss their storage facility. Government recognises the increased storage capacity Rough could provide and hence welcomes CSL taking the necessary steps to re-open Rough for this winter. It is Centrica's commercial decision to apply for regulatory approvals, and to invest in re-opening the site. The decisions to grant any and all approvals are taken by independent regulatory bodies including Ofgem, the North Sea Transition Authority (NSTA) and National Grid.

CSL have been granted Third Party Access exemption by Ofgem, a gas storage licence by NSTA and sign-off from the Health and Safety Executive among other necessary approvals.

17. Balancing national policy with local preferences is challenging but the planning process takes too long for renewables, nuclear and the transmission network. (Paragraph 144)



Response:

Transmission Network

Strategic infrastructure planning will be critical in helping to accelerate the delivery of new transmission network infrastructure required to support new generation and demand. Following the release of the British Energy Security Strategy (BESS), the Government has committed to reflect the importance of strategic network planning, such as the Holistic Network Design and Ofgem's Centralised Strategic Network Plan within the energy National Policy Statements NPS, which are currently being reviewed.

Renewables

- *Solar* - For medium to large scale solar, we will consult on changing planning rules to strengthen policy in favour of development, while maintaining community say and environmental protections.
- Existing permitted development rights allow solar on and around domestic and commercial buildings without planning permission, subject to certain conditions. We will review these permitted development rights to support deployment of more small scale solar in commercial settings.
- *Offshore wind* – we will reduce the time it takes to get planning consent from up to four years to one year whilst maintaining environmental protections by: strengthening the Energy National Policy Statements; reviewing the way in which the Habitats Regulations Assessments are carried out; implementing a new Offshore Wind Environmental Improvement Package; working with the Offshore Wind Acceleration Task Force and establishing a fast-track consenting route for priority cases where quality standards are met.
- *Onshore wind* – we understand the strength of feeling that some people have about the impact of wind turbines in England. Our plans will prioritise putting local communities in control. We will not introduce wholesale changes to current planning regulations for onshore wind but will consult this year on developing local partnerships for a limited number of supportive communities who wish to host new onshore wind infrastructure in return for benefits, including for example lower energy bills.

18. We recommend that the Government encourages schemes to compensate residents for energy projects built in their areas. This already happens for certain onshore wind projects but should be extended to other forms of low carbon generation, or grid infrastructure. (Paragraph 145)

Response: It is important that communities can participate in and benefit from the deployment of new low-carbon energy technologies in their local areas. However,



government does not generally have a formal role with regards to community benefits for onshore wind or other large scale low-carbon energy projects. These are best agreed at a local level on a project-by-project basis between the developer and the local community, as each community will have different needs and preferences.

We are aware that wind, solar and other renewable developers currently offer a range of community benefit schemes, including providing funding for environmental enhancements, job schemes, energy discounts, and investment in local infrastructure such as faster broadband, vehicle charging points or energy efficiency measures. Although new nuclear does not currently have a community benefits policy, there is an intent, which may be revisited, to support communities in some form.

Renewable and other low carbon projects can also bring wider socio-economic benefits to local people and businesses, including increasing local employment, creating regional supply chains and investing in new training facilities in the community. For new nuclear, government will continue to work with communities considering hosting new nuclear power plants to help unlock these benefits.

Within the British Energy Security Strategy, the government also committed to review community benefit options for electricity network infrastructure, which is strategic to helping to meet net zero targets. Any new community benefit options will not replace community engagement with developments through the existing planning and consultation processes but will ensure that communities hosting network infrastructure are recognised for their vital role.

The current approach to providing local community benefit packages for network infrastructure is voluntary and predominately led by the transmission operators. The Government is exploring if there should be a more standardised approach or whether providing a framework or benchmark offers more flexibility that would be of benefit to the distinct needs of individual communities and projects. We are engaging with stakeholders and working with Ofgem to review how benefits are currently delivered and how this can evolve, including for ongoing projects.

19. We recommend that energy security objectives be included in the National Planning Policy Framework alongside the existing climate change objectives. (Paragraph 146)

Response: The Government's British Energy Security Strategy sets out a series of changes to the planning system to accelerate the rollout of cleaner and cheaper renewable power.



Furthermore, we committed in the Net Zero Strategy to a fuller review of national planning policies to ensure they contribute to climate change mitigation and adaptation as fully as possible. Any changes to the NPPF, including those associated with the British Energy Security Strategy, will be subject to a public consultation.

20. We also recommend that the planning process be expedited for nuclear reactors that are sited on locations of former nuclear reactors, while maintaining high health and safety standards. (Paragraph 147)

Response: The British Energy Security Strategy includes a commitment to develop an overall siting strategy for the long term, which will inform the development of a new National Policy Statement (NPS) for the deployment of new nuclear power stations after 2025. Furthermore, without impacting the robust safety, security and environmental protections offered by the UK regulatory regime, the Government will work with the regulators to understand the potential for any streamlining or removing of duplication from the consenting and licensing of new nuclear power stations, including possibly new harmonisation on international regulation.

21. Insufficient investment in the transmission network, is delaying the deployment of renewable projects. We support proposals by Ofgem to improve anticipatory investment and deliver sufficient investment in grid capacity to unlock additional investment in renewables and to increase the UK's energy supply at greater speed provided that the impact on consumer bills can be contained. (Paragraph 153)

Response: Following the publication of the British Energy Security Strategy, Government and Ofgem have recently published a comprehensive Strategic Framework for the electricity networks.

Network regulation, including ensuring that the electricity network has the capacity to enable low carbon generation to meet new sources of demand, is a matter for Ofgem, the independent energy regulator. Ofgem uses the RIIO price control framework to incentivise electricity network companies to invest in the grid and to ensure that network companies can provide sufficient network capacity to accommodate new low-carbon generation and demand at the lowest possible cost to consumers. Government welcomes Ofgem's work to enable strategic investment ahead of need, which aims to ensure that no future pathway to deliver take-up of low carbon technologies is restricted.



Following the commitment in the BESS to aim to reduce transmission network infrastructure delivery timeframes, Ofgem has launched a consultation setting out how regulatory approvals can be sped up and on which projects to exempt from competition, enabling them to proceed at greater pace. Ofgem will publish its decision on these matters later this year.

22. The Future Systems Operator will have a key role in encouraging anticipatory investment to remove barriers in the grid transmission network and to enable a growing capacity of renewables to connect to the grid. We recommend that the Future Systems Operator be set up in a way that is operationally independent from Government. It should be set up promptly since decisions are needed in the short term to ensure that the grid is capable of transmitting the increased electricity supply needed for the net zero energy transition. (Paragraph 160)

Response: To be effective, the Future System Operator (FSO) will have to be free from actual or perceived conflicts of interest from other companies with commercial interests in energy or related sectors, but also be operationally independent from government. We have concluded that the most effective model for realising this vision is a public corporation. It will sit within the public sector but outside of central government, with freedom to deliver its roles and objectives. A publicly owned organisation will be inherently free from conflicts of interest with other parts of the energy sector. Additionally, the FSO will be regulated by Ofgem, which will provide accountability and limit operational involvement from the government. We anticipate that the FSO will have a greater role in network planning and making strategic recommendations to networks and to Ofgem on how anticipatory investment can be made to smooth the way towards Net Zero, whilst maintaining the interests of consumers.

Depending on a number of factors, including timings of legislation and discussing timelines with key parties, the FSO could be established by or in 2024.

23. The Government should set out clearly what the Future Systems Operator's relationship will be with BEIS, Treasury, Ofgem and the recently appointed Electricity Networks Commissioner. It is unclear what role the new Energy Networks Commissioner and industry champions will have in relation to the Future Systems Operator, especially since the Future Systems Operator is intended by the Government to take a 'whole system approach'. Although the Future Systems Operator should be operationally independent, the



**Government should be responsible for setting its overall policy remit.
(Paragraph 161)**

Response: The recently appointed Electricity Networks Commissioner will advise government on policies and regulatory changes needed to accelerate progress on electricity transmission network infrastructure and deployment. The Future System Operator (FSO) will have specific responsibilities in both the electricity and gas systems including ensuring a whole systems view is taken in planning and coordinating energy system development.

We intend for the FSO to act independently but still operate in the context of wider energy sector policy and the government's strategic objectives, and we are committed to developing a proportionate and effective regulatory structure for the FSO with clear and well-defined roles for government, Ofgem and the FSO to avoid overlaps and conflict. These will be clearly and transparently described in the FSO's framework document, articles of association and other foundational governance documents. We will also extend the existing Strategy and Policy Statement framework to the FSO to provide strategic focus and ensure alignment with government policy.

24. The Government has introduced an Energy Profits Levy to help pay for financial support to domestic energy consumers. It should explain what effect the levy is expected to have on investment decisions in the North Sea and when it says that the levy could end when oil and gas prices are at "normal" levels, it should quantify what "normal" means. (Paragraph 167)

Response:

The Government will keep oil and gas prices under review while the Energy Profits Levy is in operation. The levy has been introduced with a new investment allowance to encourage companies to invest in oil and gas extraction in the UK. The Government expects the combination of the levy and this investment allowance to lead to an overall increase in investment. The OBR will take account of this policy in their next forecast.

25. The Government's decision to announce a possible extension of the levy to electricity generators, before having assessed whether it is justified, may risk affecting investor confidence in renewables. The Government should set out whether it intends to move forward with a levy on electricity generators as soon as possible, to avoid damaging investor confidence further. (Paragraph 168)

Response: The Prime Minister has set out a clear view that we cannot tax our way to growth.



The Government has set out decisive action to support people and businesses with their energy bills and tackle the root causes of the issues in the UK energy market through increased supply – ensuring the country is not left in the same position again.

26. The Government should set out whether it plans to extend carbon pricing and provide detail on pricing levels and timescales. This could give more clarity to investors and could provide incentives to fund projects necessary for the transition. (Paragraph 171)

Response: The UK Emissions Trading Scheme is the UK Government's core approach to carbon pricing. It came into force on 1 January 2021, run in partnership by the four administrations of the UK. Now it is established, we are looking to evolve the scheme. The UK Government and Devolved Administrations consulted on its development in Spring 2022.

Through this:

- We are fulfilling our commitment to align the scheme with net zero and consulted on options to introduce the necessary changes to the cap predictably and smoothly over the coming decade.
- We are considering expansion of the scheme to more sectors of the economy – the domestic maritime sector, the energy from waste and incineration sector, and the inclusion of greenhouse gas removals in the ETS carbon market.
- We are remaining open to linking the UK ETS with other carbon markets internationally, in support of increasing free trade in carbon. We recognise the importance of international co-operation on carbon pricing and the important role international carbon markets can play.

The consultation has recently closed, and we will say more on next steps in due course.

Financial regulation

27. We note the Chancellor's decision to balance the Bank of England's remit to support the transition to net zero with a requirement to have regard to its policies on energy security. Net zero and energy security are compatible objectives and well-designed supervisory policy can support their alignment. We recommend that the Financial Policy Committee, the Prudential Regulation Committee and the Financial Conduct Authority set out, at the



earliest opportunity, high-level principles on how they are interpreting the Chancellor's instruction on energy security. (Paragraph 179)

Response: This is a point for the regulators. We understand that the Bank of England will respond to this report separately, and will set out more detail to HMT as part of its remit letter process.

28. Understanding climate risk and managing the transition to a lower carbon economy requires data and appropriate analytic approaches, which disclosures will help to accumulate. HM Treasury and financial regulators will need to support businesses to make disclosures consistently. Businesses will need support on how to identify quantitative data on their climate impact, particularly in relation to scope 3 emissions which are especially difficult for companies to assess. (Paragraph 188)

Response: In 2021, the Government announced that the UK will implement new Sustainability Disclosure Requirements (SDR), which will require economy-wide reporting of decision-useful sustainability information. SDR will require the information businesses disclose to be consistent and comparable, allowing market participants to accurately price their investments and invest according to their sustainability preferences.

In December 2021, BEIS conducted a Call for Evidence, which explored emissions reporting as part of wider discussion to grow the market for low carbon goods. This collected information on a broad range of issues including the ease of businesses obtaining Scope 1, 2 and 3 data. BEIS and HMT have analysed this evidence and will consult before the end of the year on a range of carbon leakage mitigation options and policies to grow the market for low emissions industrial products.

As set out in the Industrial Decarbonisation Strategy, this will include consultation on how any necessary emissions reporting could be achieved. This emissions reporting system could form the bedrock of any future policies brought forward in this space and government is committed to ensuring that any such system would be streamlined, user-friendly and place the least possible additional burden on industry.

29. The quality of data and analytic approaches for assessing climate risks, especially transition risks, are insufficient for regulators to reach judgements on increasing capital requirements on the financial sector. The weakness of the data is exacerbated by a lack of clarity from the Government on energy needs during the transition and how sectors will be expected to adapt. (Paragraph 198)



Response:

Bank capital requirements are set internationally by the Basel Committee on Banking Supervision. Just this year, the Committee published its principles for the effective management and supervision of climate-related financial risks, which are already embedded in the PRA's supervision of banks. As part of their work, the Basel committee will also consider what changes, if any, are required to the bank capital framework.

Regarding sector transition plans, see our answer to 37/38 below.

30. Green taxonomies can help to provide investors with greater confidence to invest in sustainable projects, but they can also be seriously misleading by implying that projects and technology are either green or brown. If poorly designed, they risk driving capital to a narrow subset of existing options, which may stifle innovation and investment and they can fail to take account of the process of transition towards new sets of activities. The Government should be mindful of this risk by avoiding a narrow interpretation of the taxonomy and ensure that guidance to investors reflects the fact that the transition to net zero may involve complex trade-offs and interlinkages between renewables and fossil fuels. The Government should work with other jurisdictions' authorities to ensure that the principles underpinning a UK taxonomy are consistent with other taxonomies: fragmentation causes confusion which can undermine investor confidence. (Paragraph 208)

The UK Green Taxonomy will clearly set out the criteria which specific economic activities must meet to be considered environmentally sustainable and therefore 'Taxonomy-aligned'. The Taxonomy aims to address consumer harms like greenwashing, which risk limiting the flow of capital into sustainable investments. Taxonomy-alignment will recognise activities which make a substantial contribution to environmental objectives as well as transitional activities. It will also include enabling activities, which are activities that currently support the transition by enabling substantial contributions to environmental objectives in other sectors, but which are not yet sustainable themselves.

One of HMT's key focusses is to avoid fragmentation between different national taxonomies. To that end, the UK has joined the International Platform on Sustainable Finance (IPSF). This allows us to work with our international colleagues to support the development of common international standards on Taxonomies. The UK has also driven bilateral cooperation through its programme of financial dialogues.

31. The Solvency II legislation is designed to protect policy holders and provide



financial stability, but it also limits investment levels by major asset holders in the insurance sector. Reform of Solvency II will be the first significant change to the UK's financial regulatory architecture following the UK's exit from the EU. We agree with the Government that there is a significant opportunity to allow insurers to provide long-term capital to support investment consistent with the transition to net zero. The insurance industry has said such changes would release substantial capital, but we note that insurers do not have an obligation to use released capital for such investments. When it publishes the outcome of its consultation the Government needs to set out how it can encourage unlocked capital to support the energy transition. (Paragraph 217)

Response: The Government is reviewing Solvency II, the regulatory regime that governs how much capital insurers must hold against their liabilities and how they manage their assets and risks. As an EU regime, it was designed with 28 member states in mind. Our reforms will ensure that it is properly tailored to take account of the structural features of the UK insurance sector and the UK regulatory approach, with the aims of making it less burdensome and rules-based, and creating an opportunity, worth in the region of tens of billions of pounds, for firms to increase the proportion of assets they hold in long-term productive and green assets. Insurers can already invest in any type of asset, but only a select group of assets are eligible to receive the matching adjustment benefit, allowing firms to hold less capital against their liabilities than they would otherwise have to, and so firms are incentivised to invest more heavily in these.

The reform to broaden the range of assets eligible for the matching adjustment portfolio brings a significant increase in flexibility to allow insurers to increase investment in long-term assets such as infrastructure and green assets. Reform of the risk margin, a capital buffer held by firms, will also create greater opportunity for investment. The Government intends to set out how it can encourage unlocked capital to support the energy transition.

International cooperation

32. The EU has started to create the foundations for a Common Purchase Platform so that it can leverage its collective weight in negotiations with gas and hydrogen producers. While these plans are at an early stage, if the EU's ambitions are realised, they may affect the UK's energy supply. The UK could benefit from buying energy with the EU, but more detail is needed on how trade would operate in practice. It is important that the Government engages with the EU to increase the chance that the UK can benefit from working with the Common Purchase Platform in the event that there is some advantage in doing so. The Government should explain its assessment of the EU's plans, what role it foresees for the UK, and how UK policymakers and



the private sector could contribute to policy decisions. (Paragraph 221)

Response: While the UK is in no way dependent on Russian fossil fuels, Europe's dependence on Russian gas is a concern and the UK will continue dialogue with the EU to support their efforts in reducing it. We recognise that some countries will move at different speeds to phase out Russian fossil fuels, having different levels of dependence. The EU recently published REPowerEU, a plan to phase out imports of Russian fossil fuels and many countries have made ambitious plans to stop Russian imports over the next couple of years.

The EU set out in REPowerEU their plans to reduce reliance on Russian gas by two thirds by the end of this year and have held frequent dialogues with alternative suppliers, including the US. Nevertheless, whilst a common purchase platform is a possible option, to date this has not been developed or taken forward by Member States. Such options need to be weighed carefully to avoid unintentional consequences when changing market dynamics so fundamentally.

We are also aware of several ideas for reducing Russian revenues whilst lowering the price of energy for consumers and the EU are still considering a range of proposals. The UK has committed to phasing out all imports of Russian LNG as soon as possible after the end of this year and we will continue to monitor and assess proposals that could have an impact on UK energy markets.

We will work with international partners to maintain stable energy markets and prices. We will also take a dual approach to reduce global reliance on Russian fossil fuels while pivoting towards clean, affordable energy, including through:

- Stepping up our collaboration on our plans for renewable and nuclear energy – for example, making maximum use of the North Sea.
- Maximising the effectiveness of European gas networks, including the UK's LNG terminals and interconnectors.
- Working with other oil and gas producers to stabilise energy markets.
- Helping emerging economies and developing countries make their energy transition and avoid the trap of energy dependency.

We will build on our important partnerships with non-Russian OPEC countries and the US, to promote market stability through the availability of alternative supplies of oil and gas, in addition to fully utilising our great North Sea reserve.

[33 is a repeat of 32]

34. Increasing the UK's reliance on renewable energy sources will create new dependencies on foreign countries, particularly in terms of manufacturing



renewable technologies and accessing critical minerals and components which

are used in the production of those technologies. This could create new risks in supply chains. To mitigate this, the Government should work with allies to ensure that the UK does not become reliant on strategic competitors, notably China, for critical minerals and components, and identify what investment is needed to achieve this. The Government will need to ensure that its foreign and trade policies (on both critical minerals and oil and gas) and its policy on net zero are aligned. (Paragraph 235)

Response: The Government published its Critical Minerals Strategy on 22 July, which sets out our plan to secure our supply chains, boost domestic capability in a way that generates new jobs and wealth, attract investment and play a leading role in solving global challenges with our international partners. One partnership example is the new Minerals Security Partnership, which includes the UK alongside ten likeminded countries and the European Commission. It aims to spur investment into critical mineral supply chains to incentivise diversification in the market, while ensuring that critical minerals are produced, processed, and recycled in a manner that supports the ability of countries to realise the full economic development benefit of their reserves.

We have already had success in securing investment in battery supply chains. In July 2021, Envision AESC announced investment in a new gigafactory in Sunderland, which forms part of the £1 billion North East Electric Vehicle Hub that also includes investment by Nissan in electric vehicle manufacturing. In January 2022, it was announced that intended government support for Britishvolt's gigafactory in Blyth had unlocked £1.7 billion of private investment. Recent investment by Stellantis and Bentley in electric vehicle manufacturing in the UK create further opportunities for the UK to continue to expand its battery manufacturing capabilities.

The Government is currently assessing with international partners the best way to ensure we have reliable supplies of the technologies, components and materials, including the critical minerals we need to deliver net zero. As set out in "Aligning UK international support for the clean energy transition"¹ the Government will not provide financial or diplomatic support for overseas oil and gas projects other than in exceptional circumstances.

[35 is a repeat of 34]

¹ <https://www.gov.uk/government/publications/how-the-government-will-implement-its-policy-on-support-for-the-fossil-fuel-energy-sector-overseas>



36. The Government's critical minerals strategy, which is due to be published later in 2022, should examine supply chain vulnerabilities and policies to mitigate them. Ahead of its publication, the Government should engage with the financial and industrial sectors to assess the viability of preferential supply chains, the timeframes in which they could be created and how they might affect the cost of capital over time for developing renewable technologies. It should publish its conclusions in the upcoming strategy. (Paragraph 236)

Response: The Critical Minerals Strategy sets out a wide range of policy levers to improve the resilience of critical mineral supply chains and – amongst other objectives – mitigate risks to the net zero transition.

BEIS carried out an extensive programme of stakeholder engagement, involving industry, finance, academia and civil society, across a wide range of topics to inform the Strategy. BEIS will establish a dedicated Critical Minerals Unit to act as Government's single point of contact. In the first instance, this will be focused on engaging stakeholders and bringing together existing expertise. Over the coming year, we will design and build the Unit for the long term.

With the launch of this strategy, government departments are engaging to agree an action log. Government will publish a delivery plan for the Strategy's commitments later in the year.

In July 2022, BEIS also launched the Critical Minerals Intelligence Centre (CMIC). This is a research centre aimed at providing up-to-date data and analysis on sources, supply, stock and flow of critical minerals. It will help demystify markets, support government policymaking decisions and help secure robust supplies of raw materials. The CMIC will be delivered by the British Geological Survey, due to its unparalleled expertise and access to data. The CMIC has published a criticality assessment, which will be updated over time to reflect changes in supply and demand.

An energy strategy for the future

37. Given all the issues raised in this report, we conclude that a detailed and comprehensive plan is needed from Government which so far is missing. The gaps between the Government's ambitions and practical policy are significant. The Government has set targets for low carbon power generation, without explaining what the transition will cost, what combination of public and private investment it expects, and what choices will be required. The Government should set this out in broad terms and provide an assessment of relevant costs and savings. (Paragraph 237)



38. The Russian invasion of Ukraine has created global energy supply issues and has highlighted the vulnerabilities of the UK energy supply. To help avoid a disorderly transition, the Government should set out a net zero delivery plan which takes account of energy security and foreign policy considerations. It should make clear what decisions will need to be made and by when. Any such plan will need to incorporate the flexibility required in a three decade, economy-wide transition. Nevertheless, such a plan would help to provide additional confidence to the public, businesses, and investors. The present uncertainty and lack of direction in policy and strategy is hampering consumers, businesses, and investors from responding on the scale and with the urgency required. (Paragraph 238)

Response (37 and 38):

The Government is taking action to support the rollout of low carbon technologies, including the CfD mechanism for renewable electricity and the establishment of the Regulated Asset Base model for nuclear power. We have also set out estimates for the costs of the transition in the 2020s and 2030s and noted that a substantial portion of this investment will come from the private sector.

The Net Zero Strategy provides a comprehensive overview of the approach to decarbonisation in different sectors of the economy, the key interactions and trade-offs and an illustrative pathway which could deliver emission reductions in line with our Carbon Budget commitments. We have committed to provide a public update every year on progress against the delivery pathway to net zero set out in the Strategy. The Government has launched a review to ensure we are meeting our Net Zero 2050 target in a way that is pro-business and pro-growth.