House of Commons

Environmental Audit Committee

Accelerating the transition from fossil fuels and securing energy supplies: Government and Regulator Response to the Committee's Fourth Report

Fourth Special Report of Session 2022–23

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Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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Fourth Special Report

The Environmental Audit Committee published its Fourth Report of Session 2022–23, Accelerating the transition from fossil fuels and securing energy supplies (HC 109) on 5 January 2023. Responses from the Government and the North Sea Transition Authority were received on 8 March 2023, and both are appended to this report.

Appendix 1: Government Response

1. **The Government welcomes the Environmental Audit Committee's report Accelerating the Transition from Fossil Fuels and Securing Energy Supplies, published on 5 January 2023. We are grateful to the Committee for delivering such a comprehensive report at an opportune time.**

2. **As the Committee will be aware, there was a machinery of government change during the production of the Government's response. References to the Department for Business, Energy and Industrial Strategy (BEIS) are to activities and events prior to 8 February, those to the Department for Energy Security and Net Zero from that date on.**

3. **The Department for Transport; the Department for Levelling Up, Housing and Communities and HM Treasury have provided material on the recommendations relevant to those departments. The North Sea Transition Authority (NSTA) has provided responses on recommendations 35, 38, and 39. As the NSTA is independent from the Government, these are provided in a separate annex.**

4. **The structure of this paper corresponds to the conclusions and recommendations section of the Committee's report. Paragraphs with recommendations are quoted, with the recommendation itself in italics and the government response in bold underneath**

Conclusion/Recommendation 8

The Government's current fuel poverty target 'to ensure that as many fuel-poor homes as is reasonably practicable achieve a minimum energy efficiency rating of band C, by 2030' is vague and unspecific. *Informed by the CCC's Sixth Carbon Budget advice, we recommend that the new Energy Efficiency Taskforce is directed to advise the Government on appropriate interim targets to lift 100% of domestic properties to EPC C by 2035. Improving homes to EPC C or above will reduce the UK's reliance on energy imports and cut carbon emissions while delivering a wealth of co-benefits, including warmer homes, improved health outcomes, and a job-creating boost to local tradespeople.*

5. **Fuel poverty is a devolved matter. The fuel poverty target for England is to ensure that as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating of Band C, by 2030. This is in parallel to the Governments aspiration in the Clean Growth Strategy for as many homes as possible to reach EPC Band C by 2035 where cost-effective, affordable & practical. Energy efficiency improvements reduce the amount of energy required to heat a home, contributing to reduced energy bills and reduced carbon emissions in line with Net Zero.**

6. **In England we use the Low Income Low Energy Efficiency (LILEE) metric to track progress against the 2030 fuel poverty target. Delivery is being progressed through multiple targeted energy efficiency schemes including the Local Authority Delivery Scheme (LAD), the Home Upgrade Grant (HUG), Social Housing Decarbonisation Fund (SHDF) and the Energy Company Obligation (ECO).**

7. **The latest official Fuel Poverty Statistics for England were published in February 2023, concerning 2022 estimates. The next official publication of the statistics will be early 2024. In England, we use the Low-Income Low Energy Efficiency (LILEE) metric, which finds a household to be fuel poor if it:**

- **Has a residual income below the poverty line (after accounting for required fuel costs) and**
- **Lives in a home that has an energy efficiency rating below Band C.**

8. **The Committee on Fuel Poverty (CFP) is an advisory non-departmental public body sponsored by ESNZ. The CFP provide support and challenge to the government on delivery, monitoring progress towards the fuel poverty target, and encourage and foster a partnership approach between government and stakeholders in relation to fuel poverty in England, working where appropriate with the Committee on Climate Change.**

9. **In addition to our Fuel Poverty commitments our existing plans are expected to deliver around half of our new ambition to reduce the UK's energy consumption by 15% by 2030, with £6.6 billion already being spent this Parliament, saving 500,000 households hundreds of pounds a year.**

10. **When the Energy Efficiency Taskforce meets for the first time in early March, it is likely they will agree to focus on a range of areas, including green finance, supply chains and industrial processes to support a 15% reduction in energy demand across the whole economy by 2030.**

Conclusion/Recommendation 9

Poor implementation has been a recurring issue for energy efficiency schemes for owner occupiers in England, which has undermined confidence among consumers and contractors. The Green Deal failed to offer sufficiently attractive loans to incentivise large scale take up. More recently, the Green Homes Grant was administered shambolically. The scale of the current fossil fuel price shock crisis requires a rapid acceleration of energy efficiency measures and a commitment to effective delivery.

11. **The Government is committed to improving the energy efficiency of homes in England. There has been good progress improving the energy efficiency of households but there is more to do. 47% of homes in England now have reached the Government's 2035 target of achieving EPC C levels, up from 14% in 2010. The Government is firmly committed to achieving net zero carbon emissions by 2050.**

12. **To accelerate a reduction in energy demand, the Government announced a new long-term commitment at the 2022 Autumn Statement to drive improvement in energy efficiency to bring down bills for households, businesses, and the public sector, with an ambition to reduce the UK's final energy consumption from buildings and industry by 15% by 2030 against 2021 levels.**

13. **The Energy Efficiency Taskforce (EETF) has been established by the Secretary of State for the Department for Energy Security & Net Zero (DESNZ) to support a step change in the reduction of energy demand through accelerated delivery of energy efficiency across the economy. The Government announced the appointment of Alison Rose DBE as Co-Chair of the Energy Efficiency Taskforce (EETF) on 21 February.**

14. **To support this new target £6 billion of new funding will be made available from 2025 to 2028 to improve consumer homes, in addition to the £6.6 billion allocated in this Parliament. This provides long-term funding certainty, supporting the growth of supply chains, ensuring a scale up of delivery over time.**

15. **The Government 'Help to Heat' schemes ensure homes will be warmer and cheaper to heat. The Government will deliver upgrades to over half a million homes in the coming years through our Social Housing Decarbonisation, Home Upgrade Grant Schemes and Energy Company Obligation Scheme. These schemes are providing significant energy efficiency upgrades and low-carbon heating measures to low-income households living in the worst performing homes in England, to tackle fuel poverty and make progress towards net zero 2050 and save consumers money on their energy bills.**

16. **Energy efficiency measures installed under current Government schemes mentioned above must be done in accordance with the PAS 2030 and PAS 2035 standards to ensure installations are done to the highest quality, protecting the consumer against poor workmanship. To be able to install measures under support schemes, installers will need to be TrustMark registered and MCS certified.**

17. **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. On 20 September 2022 we launched a new £9.2m skills competition. The Department will continue 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.**

18. **In July 2022 Government launched a home retrofit tool on GOV.UK, 'Find ways to save energy in your home'. Users can get tailored recommendations for home improvements that could make their property cheaper to heat and keep warm. This is the first stage to an enhanced digital provision on GOV.UK and there is a planned programme of work to improve the customer journey and add more functionality.**

19. **The Green Homes Grant Voucher scheme was designed to provide a short-term economic stimulus while tackling our contribution to climate change. However, we recognise it was not delivering at the rate and scale the government had originally intended, facing a number of delivery challenges.**

20. **The Green Homes Grant Voucher scheme benefitted 43,200 households, each having at least one energy efficiency measure installed. We are implementing lessons learned in future deliveries. We refocused efforts and funding on alternative approaches to maximise the delivery of home retrofits for consumers who were most in need and supporting the supply chain to keep delivering.**

Conclusion/Recommendation 10

The Government must first act to increase the funding of schemes that are already in place and have a proven track record of effective delivery. The £1 billion of further funding that the Government has provided to the Energy Company Obligation scheme over the next three years is welcome, but it is not commensurate with the scale or urgency of the energy security challenge. With over six million households now in fuel poverty, action on energy efficiency needs to be ramped up urgently.

21. **Energy efficiency improvements are key in helping low income, fuel poor and vulnerable households to heat their homes. The Government is investing £6.6 billion over this Parliament on clean heat and improving energy efficiency in buildings, reducing our reliance on fossil fuel heating. In addition, £6 billion of new Government funding will be made available from 2025 to 2028. This provides long-term funding certainty, supporting the growth of supply chains, and ensuring we can scale up our delivery over time.**

22. **Energy efficiency measures are available to low-income and vulnerable households through schemes including the Energy Company Obligation (ECO), the Home Upgrade Grant (HUG), the Local Authority Delivery (LAD) scheme and the Social Housing Decarbonisation Fund.**

23. **The Energy Company Obligation (ECO) is an obligation on larger energy suppliers to provide energy efficiency and heating measures to low-income and vulnerable households living in the least energy efficient homes across Great Britain.**

24. **The Government currently intends to launch the new ECO+ scheme in spring 2023 and for it to run until March 2026, aligning with the current ECO4 scheme. ECO+ is proposed to be worth £1 billion over three years, delivering predominantly low-cost insulation to the least efficient homes in lower council tax bands, and to the most vulnerable.**

25. **It is proposed that ECO+ will include a mix of insulation measures that can be delivered on a large scale, including loft insulation, cavity wall insulation and heating controls (for the low-income group and when accompanied by another insulation measure). More expensive measures can be delivered but are more likely to require a consumer contribution.**

26. **It is proposed that all households in the lower council tax bands with an EPC of D or below will be eligible for energy efficiency measures, as well as low income and vulnerable households. The Government has recently consulted on ECO+ and is aiming to publish a response in spring 2023 before scheme launch.**

Conclusion/Recommendation 11

The current ECO scheme is not delivering anywhere near the numbers of energy efficiency improvements it did at its peak a decade ago. The Government needs to ensure that ECO+ is properly funded to deliver hundreds of thousands if not millions of improvements every year for the remainder of this decade. *We recommend that the Government set a target to build capacity in the energy efficiency sector, with an objective to deliver at least*

1 million installations a year by 2025 and 2.5 million a year by the end of the decade. The Government should direct the newly-announced Energy Efficiency Taskforce to estimate the extent of additional funding required to achieve such a timetable.

27. **Energy Company Obligation (ECO) is focused on the lowest income households living in the least energy efficient housing, who are unable to heat their homes cost effectively. Eligibility for those in receipt of non-means tested benefits has been removed, including non-means tested disability benefits. Disabled people on means-tested benefits will continue to be eligible, whilst those on non-means tested benefits may receive support under ECO4 Flex.**

28. **The current scheme, ECO4, focuses support on low income and vulnerable households living in the least energy efficient homes across Great Britain. The scheme is worth £1 billion per annum and will run from 2022 – 2026. We estimate that this will help upgrade an extra 450,000 homes, cutting on average £300 off their energy bills, preventing 15.08 megatons of carbon emissions over the total lifetime of the measures.**

29. **The Government intends to launch the ECO+ scheme in spring 2023 and for it to run until March 2026, aligning with the current ECO4 scheme. ECO+ is proposed to be worth £1 billion over three years, delivering predominantly low-cost insulation to the least efficient homes in lower council tax bands, and to the most vulnerable. The Government has recently consulted on ECO+ and is aiming to publish a response in spring 2023 before scheme launch.**

30. **The Energy Efficiency Taskforce will advise and work with ministers on delivery of the government's ambition to reduce total UK energy demand by 15% from 2021 levels by 2030, across domestic and commercial buildings and industrial processes. The Taskforce will have a particular focus on the role of the private sector and the stimulation of investment.**

Conclusion/Recommendation 12

The Government must also urgently bring forward measures to incentivise energy efficiency improvements via the mortgage market. The Department for Business, Energy and Industrial Strategy conducted a consultation on how an obligation on lenders could be introduced to improve the energy performance of domestic properties with mortgages. This consultation closed in February 2021: but more than 18 months afterwards the Government has yet to come forward with concrete proposals to kick-start a retrofit revolution in this part of the housing market. *We are disappointed at this delay and recommend that the Department now fast track its response to that consultation and publish detailed policy proposals on green mortgages not later than the end of February 2023. If the Government has not published these proposals by the time the response to this report is due, we recommend that Ministers set out a timetable for doing so by the end of March 2023.*

31. **Government agrees that mortgage lenders have an important role to play in improving the energy efficiency of the UK's housing stock. However, it is imperative, given the recent increases in energy prices, interest rates and overall high levels of inflation, that while homeowners are under unprecedented financial pressure, we make certain that policy design in this area is right. Government is using the valuable feedback received to the consultation to refine policy in this area. Once that is resolved a government response will be published.**

32. **In the meantime, Government is investing up to £20m through the Green Home Finance Accelerator programme to support the development of innovative green finance products and services which will allow homeowners to meet the upfront cost of decarbonising their homes and improving thermal comfort.**

Conclusion/Recommendation 13

In response to the Committee's report on Energy Efficiency of Existing Homes, published in March 2021, the Government said that it was considering what further action might be required to catalyse the market for a wide range of attractive and low-cost green finance products. Yet it said that the variation of stamp duty rate to incentivise green mortgages was not being considered, as to do so would risk the Exchequer's revenue. *We recommend that the Government direct the Energy Efficiency Taskforce to seek stakeholder views on how variations to the rate of stamp duty could be used to progressively incentivise energy efficiency improvements without jeopardising tax revenues.*

33. **Catalysing the market for Green Finance is a priority for Government to help support homeowners not eligible for grants with the upfront costs of improvement. 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 has been followed by the Green Home Finance Accelerator programme, which launched in October 2022. The competition will make up to £20m available on a competitive basis to support the development of innovative green finance products and services which will allow homeowners to meet the upfront cost of decarbonising their homes and improving thermal comfort.**

34. **We are also working with the new UK Infrastructure Bank to explore whether they can play a wider role in scaling up green home finance in the future.**

35. **The Energy Efficiency Taskforce will advise and work with ministers on delivery of the government's ambition to reduce total UK energy demand by 15% from 2021 levels by 2030, across domestic and commercial buildings and industrial processes. The Taskforce will have a particular focus on the role of the private sector and the stimulation of investment.**

36. **The first meeting of the EETF will be held in March, where members of the EETF will begin developing their workplan.**

Conclusion/Recommendation 15

The promise of £6bn further funding from the Chancellor is welcome, but those in fuel poverty cannot afford three winters of delay. We believe it is a false economy to hold this money back at a time when households are struggling, and the taxpayer is having to spend billions to subsidise energy bills. *The extra money promised on energy efficiency should be brought forward now to fulfil the Government's manifesto commitment, not begin to be spent after a two year interval. We recommend that the Government launch a national 'war effort' push on energy saving and efficiency. The Government must treat the upgrading of all homes in England at band D or below to band C as a national priority to ensure affordability, enhance the UK's energy security and reduce the high emissions from the country's leaky and draughty building stock.*

37. **The Government has recommitted the net zero targets through the creation of the Department for Energy Security and Net Zero. The new department will deliver security of energy supply, ensuring properly functioning energy markets, encouraging greater energy efficiency, cutting energy bills and seizing the opportunities of net zero to lead the world in new green industries.**

38. **The Government has set an aspiration for as many homes as possible to reach EPC Band C by 2035 where cost-effective, affordable & practical. There has been good progress improving the energy efficiency of households but there is more to do. 47% of homes in England now have reached the Government's 2035 target of achieving EPC C levels, up from 14% in 2010.**

39. **The Government is investing £6.6 billion over this Parliament on clean heat and improving energy efficiency in buildings, reducing our reliance on fossil fuel heating. In addition, £6 billion of new Government funding will be made available from 2025 to 2028. This provides long-term funding certainty, supporting the growth of supply chains, and ensuring we can scale up our delivery over time.**

40. **The Government's 'Help to Heat' schemes have continued to deliver upgrades to consumer homes over the 22–23 winter period and are expected to deliver upgrades to over half a million homes in the coming years through our Social Housing Decarbonisation, Home Upgrade Grant Schemes and Energy Company Obligation Scheme.**

41. **The Home Upgrade Grant scheme provides grants for energy efficiency measures and low carbon heat to low-income households (below £31,000) living in off gas grid homes with an Energy Performance Certificate (EPC) rating of band D, E, F, or G in England.**

42. **The Local Authority Delivery scheme is focused on low-income households in homes that most need energy efficiency upgrades. The scheme prioritised homes with low Energy Performance Certificate (EPC) ratings of D, E, F&G. Over 200 Local Authorities took part in Phase 1 of the scheme – and participation increased further through Phase 2 of the scheme.**

43. **ECO4 is fully focused on providing support to low income and vulnerable households and is estimated to bring a positive value to society of around £810m, with around 800,000 measures to be installed in around 450,000 homes.**

44. **The Government intends to launch the ECO+ scheme in spring 2023 and for it to run until March 2026, aligning with the current ECO4 scheme. ECO+ is proposed to be worth £1 billion over three years, delivering predominantly low-cost insulation to the least efficient homes in lower council tax bands, and to the most vulnerable. It is proposed that all households in the lower council tax bands with an EPC of D or below will be eligible for energy efficiency measures, as well as low income and vulnerable households.**

Conclusion/Recommendation 16

The Energy Efficiency Taskforce announced in November 2022, if appropriately resourced and commissioned, has the potential to make a significant practical contribution to

policy implementation. In our view it would be well placed to advise Ministers in the Departments for Business, Energy and Industrial Strategy and Levelling Up Housing and Communities on the best means to achieve the step change in measures to decarbonise domestic and commercial property that the CCC has advocated. *We recommend that the remit of the Energy Efficiency Taskforce expressly include the provision of advice to Ministers on any and all measures— including primary and secondary legislation, codes of practice and guidance—which in the Taskforce's view will contribute to the swiftest possible implementation of energy efficiency measures at the scale the current situation demands.*

45. **The Energy Efficiency Taskforce will advise and work with ministers on delivery of the government's ambition to reduce total UK energy demand by 15% from 2021 levels by 2030, across domestic and commercial buildings and industrial processes. When discussing and agreeing solutions, the taskforce will work within the parameters of existing government funding envelopes and policy, including the need to meet our statutory net zero and fuel poverty targets, as well as the Public Sector Equality Duty.**

Conclusion/Recommendation 17

The Government can take further practical measures to make its policy on energy efficiency more effective. The current system of Energy Performance Certificates still requires a thorough overhaul to ensure that they represent an accurate assessment of the improved energy performance of buildings. *We recommend that the Government bring forward amendments to the Energy Bill, currently in the House of Lords, to provide for a more effective rating system. The Government has also promised to publish a consultation on the Energy Performance of Buildings (England and Wales) Regulations before the end of 2022. If this has not been published by the time the Government responds to this report, we recommend that it sets out an explanation for the delay and sets a new urgent deadline for publication of the consultation, along with a timetable for the publication of its response and policy decisions, which should be issued no later than the end of 2023.*

46. **Government recognises the important role that Energy Performance Certificates play in providing an accurate, reliable and trusted source of information on the energy performance of buildings, as well as recommendations to improve them. We intend to consult on proposed reforms to the entire Energy Performance of Buildings framework in 2023 including options for an improved set of metrics which encourage action to be taken to improve the performance and comfort of buildings in terms of energy use, costs and carbon emissions.**

Conclusion/Recommendation 19

We are encouraged that the Government has now included one of the cheapest forms of renewable energy—onshore wind—in Contracts for Difference auctions and will consult on proposed changes to national planning policy to relax the de facto prohibition that has existed for the technology since 2015. We welcome these moves, while recognising that constraints remain. *We recommend that the Government's proposals establish clear guidelines to provide benefits for local communities in areas that accept onshore wind farms, including potentially reduced electricity bills. The Government should also set a clear ambition to expand its generating capacity from onshore wind by 2035 in line with the goals it has set for other technologies in the British Energy Security Strategy.*

47. **In December 2021, Government published updated community engagement and benefits guidance for onshore wind in England. The guidance is designed to encourage developers to offer more innovative and community friendly 'in-kind' benefits packages, such as shared ownership or investment in infrastructure.**

48. **Furthermore, the onshore wind industry maintains a community benefits protocol, endorsed by government in 2013, that sets an expectation on the level of benefits to be provided by developers to local communities of £5,000 per MW of installed capacity per annum.**

49. **As part of the British Energy Security Strategy, Government committed to consult on developing local partnerships for onshore wind in England for communities who wish to host projects in return for benefits, such as lower energy bill discounts. The Government will publish the consultation shortly.**

50. **The Government recognises that meeting the UK's decarbonisation targets will require a sustained increase in locally supported onshore wind. The Government also recognises that, whilst reaching net zero means that electricity demand is likely to double by 2050 as other sectors are electrified, there is no single optimal technology mix to meet this demand.**

51. **It is for this reason that the Government does not believe it should prescribe the proportion of generation that will come from every specific technology. Rather the role of Government should be to enable the market to deliver the levels of deployment required whilst minimising both emissions and overall system costs.**

Conclusion/Recommendation 20

It is unclear whether Ministers will maintain the current position whereby grade 3b agricultural land is available for ground-mounted solar installations. We recognise that the Government must balance the needs of energy security with biodiversity protection and food production. Nevertheless, moves to limit the land available for solar installations will make it harder to achieve the Government's stated ambition in the British Energy Security Strategy to increase solar capacity to 70GW by 2035. *We recommend that the Government set out, in its response to this report, its assessment of the likely impact that reducing the classes of land available for ground mounted solar would have on its ability to achieve its own target of 70GW target by 2035.*

52. **Solar photovoltaics is a mature, versatile, and effective technology that is an important part of the UK's energy mix. As of September 2022, we have around 14 gigawatts (GW) of solar capacity installed in the UK (split between large- and small-scale installations), of which 99% has been installed since 2010.**

53. **BEIS published analysis suggests utility scale solar is now the cheapest form of electricity generation on a levelised cost basis1 and therefore is key to Government's strategy for decarbonising the energy system at low cost. We will therefore need to see**

1 An assessment of the lifetime cost of producing electricity to the generator, as set out in the 2020 Electricity Generation Costs Report. This does not factor in wider system costs. See: https://www.gov.uk/government/publications/beis-electricity-generation-costs-2020

a sustained increase in both ground-mount and rooftop solar deployment to meet the expectation for a fivefold increase in solar capacity (up to 70 gigawatts) by 2035, as set out in the British Energy Security Strategy.

54. **'Best and most versatile' (BMV) agricultural land is defined in the National Planning Policy Framework and constitutes land in grades 1, 2 and 3a of the Agricultural Land Classification, and therefore not 3b. Government has clarified the definition of BMV land in letters to the Environmental Audit Committee2 and to the BEIS Select Committee3. Planning decisions should continue to be made based on the current definition.**

Conclusion/Recommendation 22

We welcome the inclusion of tidal power in Contracts for Difference auctions which has resulted in 40MW of clean power from tides being awarded contracts. *Tidal and other marine energy projects should be a vital component of the Government's strategies for delivering both net zero and energy security. We recommend that the Government incorporate, as part of the revised net zero strategy to be published by March 2023, an approach to developing tidal and marine energy that includes a stated ambition for the sector set out in gigawatts of generating capacity. The UK should be aiming to generate a significant proportion of its power from these sources by the middle of the 2030s. This approach must be extremely sensitive to biodiversity considerations given the obvious risks of disrupting important habitats, and the Government should make this clear in planning guidance.*

55. **The Government is committed to exploring the potential of tidal power to contribute to our Net Zero ambitions. We continue to review the merits of setting a potential target for tidal stream deployment. We recognise that achieving our 2050 net zero target will require increased deployment across a range of renewable technologies, including tidal and marine energy. The Government is open to considering well-developed proposals for harnessing the tidal range energy in the bays and estuaries around our coastlines, including barrage schemes and other alternatives.**

56. **To enable delivery of the commitments in British Energy Security Strategy, DESNZ has strengthened the draft energy National Policy Statements, including for the first time a framework for assessing planning applications for tidal stream projects of above 100MW capacity. The draft planning guidance contains provisions for assessing and mitigating impacts of tidal stream infrastructure on seabed habitats and on distributions or movements of marine species. We will reconsult on the draft National Policy Statements shortly.**

57. **A revised criteria for what constitutes a well-developed tidal range proposal will be published in the draft energy National Policy Statement.**

Conclusion/Recommendation 23

The British Energy Security Strategy appears to reflect a 20th century approach to energy security, prioritising the construction of big, centralised power generation facilities to

2 Letter from Rt. Hon. George Eustice MP dated 6 September 2022: https://committees.parliament.uk/publications/28710/documents/172754/default/

3 Letter from Rt. Hon Grant Shapps MP dated 15 December 2022: https://committees.parliament.uk/publications/33348/documents/180418/default/

meet fixed demand. A move to a smarter, more flexible, digitally-enabled grid, which technological innovations now make possible, holds exciting potential to smooth demand peaks by flexing demand up and down in a way that was hitherto impossible. Developments in this area could have important implications for other elements of the Government's energy strategy - for instance, how much baseload electricity is necessary and how much grid distribution capacity is needed to connect a more dispersed generation network. *We recommend that the Government provides a progress report in 2023 on the joint Ofgem and BEIS Smart Systems and Flexibility Plan and incorporates any relevant actions from this report into its ongoing efforts to enhance energy security and decarbonise the electricity grid.*

58. **The Government, Ofgem and industry are delivering the actions in the joint Ofgem and BEIS 2021 Smart Systems and Flexibility Plan as well as the Energy Digitalisation Strategy. The Plan and Strategy set out actions to facilitate flexibility from consumers, remove barriers to flexibility on the grid, reform markets to reward flexibility, and digitalise the system, through both policy and innovation. The government has since set out further proposals which build on these actions and embed smart and flexibility principles throughout our work. This includes the Review of Electricity Market Arrangements Consultation (REMA), which contained a vision for future market arrangements that includes providing the right signals for flexibility across the system and facilitating consumers to take greater control of their electricity use by rewarding them through improved price signals, whilst ensuring fair outcomes. We have also consulted on proposals for the Capacity Market to strengthen GB's electricity security and to align the Capacity Market with the Government's net zero targets. As set out in Autumn Statement, the Government will bring forward retail market reforms that deliver a retail market that works for consumers, that is resilient and investable over the long-term, and that supports system transformation. To achieve power decarbonisation by 2035 and support energy independence we are working across government to deliver a net zero energy system.**

Conclusion/Recommendation 25

If the classes of land available for ground-mounted solar are further restricted, it will make it all the more imperative to mandate the widespread deployment of rooftop solar in new developments where there are appropriate south facing aspects. *We recommend that the Future Homes Standard requires developers to fit solar PV as standard where it is possible.*

59. **Our approach to achieving higher standards remains technology-neutral, to provide developers with the flexibility to innovate and choose the most appropriate and cost-effective solutions for their site. However, renewable energy, such as that generated from solar panels, is a key part of our strategy to get to net zero via a decarbonised electricity grid. We must therefore take the opportunity, where appropriate, to fit solar panels.**

60. **The Government introduced an uplift in energy efficiency standards, which came into force in June 2022. The uplift delivers a meaningful reduction in carbon emissions and provides a stepping-stone to the Future Homes Standard in 2025. We expect that in order to comply with the uplift, most developers will choose to install solar panels on new homes or use other low-carbon technology such as a heat pump. Introducing an amendment to mandate solar panels would therefore be largely redundant.**

61. **We will publish a full technical consultation on the Future Homes Standard later this year. As part of the consultation we will explore how we can continue to drive onsite renewable electricity generation, such as solar panels, where appropriate in new homes and buildings.**

Conclusion/Recommendation 27

The best way to reduce the UK's future exposure to volatility in the price of oil is to reduce oil consumption. The rapid growth in electric car sales is encouraging, but it will take many years to replace petrol and diesel vehicles. More must be done to improve the energy efficiency of our transport system and reduce its contribution to climate change in the meantime. The International Energy Agency and other bodies have identified a range of demand side measures that the Government could use to cut oil use, make public transport more affordable and reduce transport emissions. *We recommend that the Department for Transport consult on measures, such as those listed in the IEA's ten-point plan, that it could introduce in the UK to improve energy security, reduce oil demand and cut climate-changing emissions from transport.*

62. **As the UK's largest emitting sector, decarbonising transport and reducing its contribution to climate change is a priority. To this end, in 2021 DfT published the Transport Decarbonisation Plan (TDP) to set the sector on an ambitious path to net zero by 2050. The TDP – and subsequent Net Zero Strategy – also made clear how we will capture the significant co-benefits this transition will deliver for our energy security, environment and economy.**

63. **We will continue to consider options – including those put forward by the IEA – to decarbonise transport, many of which are already being progressed. Existing commitments include phasing out the sale of all new non-zero emission road vehicles by 2040, with over £2bn of existing Government support for the transition to zero emission vehicles and plans to introduce a ZEV mandate to require a percentage of manufacturers' new car and van sales to be zero emission each year from 2024. For heavier vehicles, our zero emission HGV demonstrator programme will deploy vehicles and associated infrastructure at scale on UK roads, providing certainty to industry to invest.**

64. **DfT is also delivering on the National Bus Strategy for England and Plan for Rail to increase access to and use of public transport. This includes over £1bn for Local Transport Authorities to deliver Bus Service Improvement Plans, and we recently provided up to £60m to help bus operators cap single bus fares in England outside London at £2 for a limited period. On rail, the Government is investing £360m in fares, ticketing and retailing, delivering a major overhaul to the way in which rail travel is bought and paid for.**

65. **In 2022, DfT published the second statutory Cycling and Walking Investment Strategy (CWIS2), including an objective to deliver a world-class cycling and walking network by 2040. The newly launched executive agency Active Travel England will support local authorities and oversee extensive funding to develop and build new walking, wheeling and cycling routes across England.**

66. **We are also supporting local and regional organisations to drive decarbonisation and reduce reliance on fossil fuels at a local level. Last year DfT published the first**

iteration of the Local Authority Transport Decarbonisation Toolkit, providing advice to local authorities on actions to reduce transport emissions. We are updating Local Transport Plan guidance and publishing standalone guidance on Quantifiable Carbon Reductions in local transport to help local authorities make long-term, evidence-based plans for carbon reductions. We are also working with the Sub-National Transport bodies to develop Regional Centres of Excellence which will provide bespoke capability support to Local Transport Authorities in their region.

Conclusion/Recommendation 29

In light of the Prime Minister's confirmation at the Despatch Box to the Chair of this committee that he will personally drive cross-government action on climate change, *we recommend that the Prime Minister directs the Secretary of State for Business, Energy and Industrial Strategy to work with his counterparts in the Department for Levelling Up, Housing and Communities and the Department for Transport to seek further contributions from their departments to the national effort to enhance the UK's energy security and reduce energy wastage. This cross-government work on energy security should inform the new and revised Net Zero Strategy that the Government is required to publish by March 2023. We further recommend that these Departments contribute to a comprehensive update to the British Energy Security Strategy in the spring of 2023. In that update the Government should indicate its progress in reducing direct and indirect reliance on Russian imports, securing energy supplies and improving energy efficiency.*

67. **DESNZ and DLUHC work closely together on some climate change policy areas. As the department for housing policy, DLUHC has a lead role in delivering the homes this country needs, both in terms of quality and supply, and we want to see high quality, energy efficient and climate change resilient homes across all tenures.**

68. **The Government remains committed to meeting its target of net zero emissions by 2050 and recognises the important contribution that the energy efficiency of buildings has to make in meeting it. We must ensure that the energy efficiency standards we set through the Building Regulations for new homes and buildings put us on track to meet the 2050 target. By improving energy efficiency and using renewable energy in new buildings, we can reduce carbon emissions and improve energy security within the UK.**

69. **From 2025, the Future Homes Standard will ensure that new homes produce at least 75% less CO2 emissions compared to those built to the 2013 standards. These homes will have very high fabric standards and be extremely energy efficient. Similarly, the Future Buildings Standard will ensure that new non-domestic buildings are highly efficient and have the best fabric standards possible.**

70. **In December 2021 the Government introduced an uplift in energy efficiency standards, which came into force in June 2022. As a result, new homes are now expected to produce around 30% less CO2 emissions and new non-domestic buildings are expected to produce 27% less CO2 emissions. We expect that renewable electricity generation, such as solar panels, will be widely used to meet the new standards.**

71. **The Government's world-first July 2021 Transport Decarbonisation Plan – Decarbonising Transport: A Better, Greener Britain – detailed 78 commitments setting the sector on the path to net zero by 2050, helping to meet carbon budgets and**

reducing reliance on fossils fuels on the way. We have committed to publishing an updated plan within five years to ensure our approach remains suitable and sufficiently ambitious and considers the latest emerging factors.

72. **As the Chancellor announced in his Autumn statement, the Government will soon publish more detail about its approach to delivering energy security, consistent with achieving Net Zero by 2050.**

Conclusion/Recommendation 32

The UK Government showed admirable international climate leadership at COP26 in Glasgow, pushing for a renewed resolve to pursue efforts to limit the temperature increase to 1.5°C. When making decisions about future oil and gas licensing, the UK Government must also consider the international context. As the country which launched the first Industrial Revolution, the UK has a historic responsibility to set a leadership example on climate change. The Paris Agreement enshrined an important principle of 'equity and common but differentiated responsibilities', which the UK must honour if it is to remain a credible climate leader. *We therefore recommend that the UK set a clear date for ending new oil and gas licensing rounds in the North Sea: this date should fall well before 2050. We further recommend the Government should consult on what this date should be, based on the oil and gas production currently being planned by the UK and other producer states and on the remaining global carbon budget if temperatures are to be limited to 1.5°C.*

73. **Even with continued development, UK production is projected by the NSTA to fall by 7% per year, while it is estimated that global production will need to shrink by 3–4% in order to meet 1.5°C (UN Production Gap Report). The North Sea is a super-mature basin. Even with continued licensing, output is expected to decline.**

74. **Supporting our domestic oil and gas sector is not incompatible with tackling climate change, when we know we will need oil and gas for decades to come. As the energy crisis in the UK has shown, constraining supply and dramatically increasing prices does not eliminate demand for oil and gas. While we are working to drive down demand for fossil fuels, even when the UK has achieved net zero in 2050, some oil and gas will be needed for certain industrial purposes and essential products. Even with significantly reduced fossil fuel use in 2050, the UK is projected to remain a net importer of both. A faster decline in domestic production would mean greater reliance on imports, at greater expense, and in the case of gas, potentially resulting in additional global emissions. Imported Liquified Natural Gas (LNG) has twice the associated emissions of domestic gas production.**

75. **The Government has implemented a Climate Compatibility Checkpoint to check whether offering new oil and gas licences remains compatible with meeting our climate targets. The tests of this Checkpoint compare production emissions internationally, and against sector commitments in the North Sea Transition Deal, giving Ministers key information to assess the overall climate impacts of UK oil and gas production. The Checkpoint also looks ahead to whether the UK is forecast to remain a net importer of oil and gas; it would not be helpful environmentally, economically or in terms of maintaining offshore skills for the transition, to reduce domestic production where this merely increases our dependency on imports.**

76. **The Government agrees with the principle of 'equity and common but differentiated responsibilities' and acts on this by following IPCC recognised equity principles in its Nationally Determined Contribution (NDC). This is because the Government believes that principles of equity, when applied to restrictions on greenhouse gas emissions, result in better global outcomes. Through internationally agreed NDCs more economically developed countries are incentivised to invest in alternative sources of energy, transitioning traditional energy systems, and directly reducing GHG emissions. However, it is unclear that applying the same equity principles on the supply side would have the same shared benefits. If the UK were to scale down production, the international market would determine where additional production is scaled up. In a market where suppliers manage output to influence prices, it cannot be said that a small producer like the UK limiting production would decrease production overall or result in lower emissions globally.**

Conclusion/Recommendation 33

The emissions targets currently set under the North Sea Transition Deal are not stretching enough. The Climate Change Committee suggests that it is feasible and necessary for oil and gas production emissions to be reduced by 68% by 2030. We agree. The oil and gas industry has been aware of the contribution of its activities to man-made climate change since the 1990s, or earlier. A responsible industry should have been working to clean up its operations with far greater urgency than this timescale suggests. The Government needs to push the industry to go further and faster than its current approach. Challenging targets for the industry to undergo rapid decarbonisation must be introduced without delay. The fossil fuel industry should not be granted headroom in the UK's carbon budgets that other hard to decarbonise sectors may need. *We recommend that the North Sea Transition Deal be modified to include stronger targets and verification arrangements in line with the Government's commitments under the Paris Agreement.*

77. **The Government's view is that the decarbonisation targets in the North Sea Transition Deal to reduce emissions from operations to 50% of 2018 levels by 2030 are sufficiently ambitious and will help significantly to reduce emissions, ultimately ensuring that the UK Continental Shelf reaches net zero by 2050.**

Conclusion/Recommendation 34

Sectoral involvement in drafting a deal of this nature is normal. It also makes sense for the industry to be involved in the monitoring and governance of a voluntary deal. However, we are concerned that the targets and accountability arrangements in the Deal are weak and lack the urgent and transformative action which the CCC says is required. In particular, there appear to be few sanctions available to the North Sea Transition Authority in the event that companies do not achieve the production emissions targets they have agreed to meet.

78. **Government considers that the approach to targets and accountability arrangements in the Deal are right and good progress has been made thus far. The NSTA estimates that total upstream greenhouse gas (GHG) emissions declined by 14.6% in 2021, resulting in an estimated overall reduction relative to 2018 of 21.5%.**

79. **The North Sea Transition Authority holds industry to account by tracking and monitoring its emissions and compliance with the targets in the Deal. It drives**

reductions by robustly managing performance, including through the annual stewardship survey, monitoring and benchmarking, tier reviews and publishing new and updated guidance. The NSTA reports domestic production emission data via its annual Emissions Monitoring Report at an aggregated (basin-wide) level and has also recently published asset level domestic production emission information in publicly available dashboards [NSTA Emissions Monitoring Dashboard].

80. **In the first half of 2021, the NSTA started requiring licensees to implement emissions reduction plans for new and existing projects and introduced tough new guidance to drive down emissions from flaring and venting - the source of more than a fifth of sector emissions. The industry has committed to eliminating routine flaring and venting by 2030 at the latest, and has already made significant progress in reducing emissions-intensive production practices.**

Conclusion/Recommendation 35

To date the NSTA has not published the names of those operators lagging behind in reducing their production emissions. This prevents investors, shareholders and other interested parties from being able to appraise the performance of individual companies against their net zero pledges. The NSTA has indicated to us that it would potentially be prepared to use its 'soft power' to influence operators by publishing details of the performance of individual operators or companies. *We recommend that the North Sea Transition Authority publish an annual league table in its Emissions Monitoring Report detailing the performance on emissions reduction of individual operators and companies. The Government should signal its support for such an approach, which would encourage action by operators to reduce their upstream emissions.*

81. **The NSTA reports domestic production emission data via its annual Emissions Monitoring Report at an aggregated (basin-wide) level and has also recently published asset level domestic production emission information in publicly available dashboards [NSTA Emissions Monitoring Dashboard]. The Government supports the NSTA's approach.**

[See NSTA response at Appendix 2]

Conclusion/Recommendation 36

Given the urgency of the climate crisis and the need to deliver significant cuts in emissions by 2030 to meet the UK's current Nationally Determined Contribution under the Paris Agreement, mandatory targets for the reduction of oil and gas operational emissions may well be more appropriate than voluntary targets. *We therefore recommend that the Government, the regulator and the industry should review the provisions of the North Sea Transition Deal during the course of the fourth carbon budget (2023–2027), with a view to ensuring that they are still appropriate and sufficient to contribute to the UK's obligations. If insufficient progress has been made on electrifying platforms and ending methane emissions during that budget period, we recommend that the Government should set mandatory upstream emissions reduction targets.*

82. **The North Sea Transition Deal is a global exemplar of how a government can work in partnership with the offshore oil and gas industry to achieve a managed energy transition. The Deal already contains ambitious emission reduction targets, which**

have been agreed with industry. We do not propose reopening this deal for negotiation but Government and the North Sea Transition Authority will be monitoring progress closely including checking that the sector is on track to meet the 2030 target and whether further steps may be necessary.

83. **Industry has committed to reducing its emissions 50% by 2030, ensuring a net zero basin by 2050 and supporting our goal of decarbonising the economy.**

Conclusion/Recommendation 38.

Oil and gas companies must accelerate their efforts to electrify offshore platforms, stop flaring and address methane leakage. *We recommend that all oil and gas companies involved in extraction of fossil fuels from areas within the UK's jurisdiction report annually on their progress in decarbonising their activities. We further recommend that the North Sea Transition Authority identify and publish a league table of the best and worst performing companies, so that investors, non-governmental organisations and policymakers can monitor progress.*

[See NSTA response at Appendix 2]

Conclusion/Recommendation 39

We are disappointed to observe that only two electrification projects are expected to be commissioned by 2027. During the development phase of a new project the NSTA approves Concept Select and Field Development Plans. *We recommend that the regulator uses its powers at this stage of the project assessment to insist on the electrification for all new projects due to be licenced in the 33rd licensing round.*

[See NSTA response at Appendix 2]

Conclusion/Recommendation 40

The routine flaring of unwanted fossil gas must be banned outright, as it has been by Norway since 1971. We recommend that the Government introduces an amendment to the Energy Bill to provide for a total prohibition on flaring from installations in the UK's jurisdiction to be introduced not later than the end of 2025. This would help ensure the UK fulfils commitments it made at COP26 and COP27 under the Global Methane Pledge.

84. **The Government already has ambitious plans to end routine flaring and venting. As well as the challenging target we set of 2030 we have signed up to The World Bank Zero Routine Flaring initiative, which aims to eliminate routine flaring of gas globally. Under the initiative we have committed to make every effort to ensure that routine flaring from existing oil fields ends as soon as possible, and no later than 2030.**

85. **The North Sea Transition Authority expects flaring and venting emissions to be at the lowest possible levels – with new developments approved on the basis of zero routine flaring and venting.**

86. **We continue to work with industry and regulators to decarbonise oil and gas production – to deliver on the North Sea Transition Deal targets.**

Conclusion/Recommendation 41

It is encouraging that the North Sea Transition Authority is in the process of issuing licences to CCUS projects in the UK. We support the North Sea Transition Deal's intention to drive forward the deployment of this technology which will be essential in decarbonising heavy industry. *The Government must ensure that there is certainty for the industry: there must be no repetition of the sudden withdrawal of Government support which previously disrupted the development of CCUS projects in the UK.*

87. **Our £1 billion CCS Infrastructure Fund and the £240mn Net Zero Hydrogen Fund, along with work on enduring business models and revenue support, will provide industry with the certainty required to deploy CCUS at pace and at scale.**

88. **The Energy Security Bill brings forward provisions to establish CO2 transport and storage, industrial carbon capture and low carbon hydrogen business models, which, among other things will put in place the framework for providing the long-term revenue certainty needed to establish and scale up deployment of the CCUS and hydrogen industries across the UK. The Energy Bill has completed Lords' Committee Stage and continues to progress through Parliament, with Royal Assent expected this parliamentary session.**

Conclusion/Recommendation 44

The Energy Bills Support Scheme and the subsequent Energy Price Guarantee have provided badly-needed support for billpayers, saving four million households from fuel poverty. While we welcome the support the Government has provided, we note that currently it will only help eligible households through two winters. It will not deliver the energy efficiency measures which will lead to permanently lower energy bills. *We call on the newly announced Energy Efficiency Taskforce to work with the Chancellor to allocate a proportion of the Energy Profits Levy revenue in the current Parliament to increasing energy efficiency investments, targeting these investments at the most vulnerable to lower permanently the costs of heating their homes. This additional investment should also fulfil the Government's 2019 manifesto commitment to expenditure of £9 billion on energy efficiency in this Parliament.*

89. **The Government would have considerable fiscal sustainability concerns with regards to the use of EPL revenue for a hypothecated fund for energy efficiency investments, mostly due to the volatility of projections of EPL revenues as well the constraining impact on the management of public finances.**

Conclusion/Recommendation 46

The Government is not providing renewable energy generators with the same level of generous tax reliefs for new investment to enhance the UK's energy security. *We recommend that the Treasury examine how a similar low-carbon Investment Allowance could be introduced for electricity producers paying the new temporary tax of 45%*

90. **The Government <u>does not</u> accept this recomsmendation. Government is supporting renewables deployment through a range of policy levers, including the hugely successful Contracts for Difference (CfD) scheme, through which generators have received almost £6 billion net in price support to date. Compared to the Energy**

Profits Levy (EPL) applied to the oil and gas sector, the Electricity Generator Levy (EGL) is charged on a different base, and at a lower combined rate. The 35% rate of the EPL is applied to total profits, rather than a measure of extraordinary returns to which EGL is applied.

Appendix 2: North Sea Transition Authority (NSTA) Response

Summary

The North Sea Transition Authority has worked with the Department for Energy Security and Net Zero and its predecessor to provide input to the responses to the recommendations on North Sea oil and gas in the report.

For the three recommendations aimed specifically at the NSTA we have provided our own responses, independent of the department.

NSTA Responses

Recommendation

We recommend that the North Sea Transition Authority publish an annual league table in its Emissions Monitoring Report detailing the performance on emissions reduction of individual operators and companies. The Government should signal its support for such an approach, which would encourage action by operators to reduce their upstream emissions.

NSTA Response

The NSTA reports domestic production emission data via its annual Emissions Monitoring Report at an aggregated (basin-wide) level.

As part of the NSTA's work to increase transparency we have recently published asset level domestic production emission information in publicly available dashboards [NSTA Emissions Monitoring Dashboard]. This information will allow interested parties to compare the relative emissions performance of all oil and gas operations in the UKCS.

The NSTA will also update its natural gas footprint analysis page to reflect latest data.

Recommendation

We recommend that all oil and gas companies involved in extraction of fossil fuels from areas within the UK's jurisdiction report annually on their progress in decarbonising their activities. We further recommend that the North Sea Transition Authority identify and publish a league table of the best and worst performing companies, so that investors, non-governmental organisations and policymakers can monitor progress.

NSTA Response

The NSTA reports domestic production emission data via its annual Emissions Monitoring Report at an aggregated (basin-wide) level.

As part of the NSTA's work to increase transparency we have recently published asset level domestic

production emission information in publicly available dashboards [NSTA Emissions Monitoring Dashboard]. This information will allow interested parties to compare the relative emissions performance of all oil and gas operations in the UKCS.

The NSTA actively promotes the importance of robust, consistent, and transparent annual reporting. In December 2022 the NSTA published its first ESG disclosure report highlighting industry progress on ESG reporting.

Recommendation

During the development phase of a new project the NSTA approves Concept Select and Field Development Plans. We recommend that the regulator uses its powers at this stage of the project assessment to insist on the electrification for all new projects due to be licenced in the 33rd licensing round.

Response

The NSTA has net zero considerations embedded throughout the entire project lifecycle and considers a number of factors sometimes collectively referred to as an 'effective net zero test' for decisions such as approving new field developments under the Field Development Plan (FDP) process. The NSTA already uses this process to incentivise new developments to be electrification ready or incorporate low carbon power solutions.

The NSTA Emissions Monitoring Report contains upstream emission projections out to 2050 including contributions from new developments. Projections estimate that through proactive abatement initiatives such as platform electrification and ending routine flaring and venting a mid-case of ~11 MtCO2e of additional emissions abatement could be prevented across brownfield and greenfield projects up to 2050.