

Sustainability First- Written evidence (ONZ0058)

House of Lords Industry and Regulators Committee Inquiry on Ofgem and Net Zero - Follow up Questions

Sustainability First welcomes the chance to provide additional evidence to the Committee following the recent publication of the suite of policy documents (Net Zero Strategy, Net Zero Review, Heat and Buildings Strategy).

1. Following the Government's policy announcements last week, do you believe that the UK now has a clear policy framework in place to support the objective of a net zero energy system?

The recent suite of documents were helpful in presenting an over-arching policy framework to support the objective of a net zero strategy. Inevitably they did not answer all questions and they typically set out a programme of further work and further policy decisions that will be needed. The challenge now for the government is to ensure that it keeps to the timescales set out in these documents for filling in the next level of detail in policy terms and for taking some of the big outstanding decisions (on eg the role of hydrogen in domestic heat). The delays that we saw in the publication of the most recent suite of documents do not instil confidence that Government will be able to keep to these timescales.

2. Were there any urgent policy decisions that the policy announcements did not address? If so, can you specify what these were and how and when they should be addressed?

Energy efficiency

Given the current energy crisis with households facing significantly increased energy bills this winter and with more to come next year, the most effective way to help is through the provision of support on insulation and wider advice and education around energy saving. Policies around consumer engagement to support behaviour change which were lacking in the Heat and Buildings Strategy are urgently needed both to help in tackling climate change but also to deal with the current affordability crisis.

Given the challenges in delivering on heat decarbonisation there is an urgent need for engagement at a number of levels - to build awareness (noting that around half of customers are not aware their heating contributes to climate change); to prompt a wider public debate around the long term options; to provide tailored advice on what households should spend money on if they are in a position to invest in improving

their home; to give practical advice including on how to find a trusted installer and support in dealing with any problems. The section of the Heat and Buildings Strategy dealing with public engagement had no proposals to address this gap but simply set out existing arrangements such as Citizens Advice's role and BEIS's track record on policy consultation (which in my view is not public engagement).

Overall the scale of activity on heat decarbonisation needs to be ramped up considerably and the scale of the funding in this area still falls a long way short of what is required, although currently the challenge seems to be as much about skills and delivery as it is funding. A clear decision on the future basis of funding for energy efficiency would help in building the necessary supply chain capacity.

Distributional impacts

The other major gap relates to ensuring that the distributional impacts are addressed and how those on low incomes will be protected in the face of rising costs. As discussed in my oral evidence, even if the overall costs of net zero are considered affordable there will be winners and losers. The Treasury Net Zero Review provided a comprehensive analysis of the key issues but was positioned as considerations for policy makers rather than an answer to the question that it was expected to address about how the transition to net zero would be funded and where the costs would fall. It is also notable that the BEIS Call for Evidence on Affordability and Fairness (which in the Energy White Paper last December was promised by April this year) is not now expected until next year.

Heat flexibility

On electric heat and the role of heat pumps we continue to have a significant concern that there's a lack of hard / empirical evidence – be that from trials or experience - on the capability of electric heat to operate flexibly at scale. Assumptions that electric heat will have a capacity to operate flexibly are widespread in BEIS, FES, CCC models and reflected in the Heat and Buildings Strategy. In turn, this hinges on assumptions that sufficient thermal insulation will permit peak shifting etc. All of these assumptions must be tested in real life – or we could be looking at far higher costs of meeting net-zero than currently assumed for electric heat. Decisions are then needed on how building standards (and other policy levers) need to evolve to accommodate the need for flexibility, not just energy efficiency.

3. Are there any necessary changes to Ofgem's regulatory framework and/or remit to enable net zero that have not been announced by the Government?

In our original evidence we advocated amending Ofgem's duties to put a clear emphasis on the net zero statutory target and on climate resilience / adaptation to help ensure that Ofgem can continue to give these issues the focus they require, even in the face of short-term pressures.

Other than this, we were not advocating significant or immediate change to Ofgem's remit. This was because our work on the Future of Regulation¹ has clearly shown that Ofgem already has the necessary powers and has significant discretion in how it weighs its various duties. However, we do see it as imperative for Ofgem to have strategic and political clarity on critical tradeoffs and their relative priorities. We therefore see it as essential for the Secretary of State to press ahead urgently with putting in place a Strategy and Policy Statement for Ofgem, as promised in the Energy White Paper, which committed to consulting on a draft Statement this year.

26 November 2021

¹ <https://www.sustainabilityfirst.org.uk/publications-project-research-reports/242-regulation-for-the-future>