

Written evidence submitted by MCS Charitable Foundation

Background

The Glasgow Financial Alliance for Net Zero (GFANZ) was established as a coalition of global financial institutions which have made commitments to “accelerating and mainstreaming the decarbonisation of the world economy and reaching net-zero emissions by 2050. The Environmental Audit Committee considers that the global reach and total assets covered within these initiatives, and the increasing use of net zero statements as part of corporate climate strategies issued by banks, insurance companies, pension funds, asset managers and other stakeholders which is already in the public domain, could play a significant role in helping determine whether the UK Government’s carbon budgets and its net zero target are likely to be met. Success would depend, however, on the signatory firms following through on their commitments effectively, and on others joining them. <https://committees.parliament.uk/call-for-evidence/2650/>

The deadline for submitting evidence is Wednesday **30 June 2022**

To respond online via the portal

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Organisations: **MCS Charitable Foundation**

MCS Charitable Foundation

Our vision is to decarbonise homes, heat and energy in helping to deliver a net zero future and to avert a climate crisis. As a Foundation we work to increase public confidence, awareness and access to renewable energy and zero carbon solutions across the UK. We support education and engagement programmes, fund research and facilitate innovative solutions to drive widespread adoption of zero carbon technologies. In addition, the Foundation oversees the [Microgeneration Certification Scheme \(MCS\)](#) which defines, maintains and improves quality standards for renewable energy at buildings scale.

MCS (Service Company Ltd)

Since 2008, MCS has been the only recognised Standard for UK products and their installation in the small-scale renewables sector. It is a mark of quality. We create and maintain standards that allows for the certification of low-carbon products and installers used to produce electricity and heat from renewable sources. We are impartial: technology neutral, manufacturer neutral, and supportive of Installers committed to quality installations and consumer protection. Membership of MCS demonstrates adherence to recognised industry standards, highlighting quality, competency and compliance. Our mission is to give people confidence in low-carbon energy technology by defining, maintaining and improving quality.

Evidence Questions

To inquire into the initiatives and their impact, with particular regard to:

1. Corporate approaches to the financing of existing and planned fossil fuel projects;

MCS Foundation is opposed to financing planned fossil fuel projects, such as North Sea Oil & Gas expansion, as well as blue hydrogen development which relies on new gas fields and expansion of the fossil fuel industry. This expansion is not required as part of a transition.

It is of great concern that the Government is pursuing new oil and gas (whether CCUS enabled or not), which will do little to address energy security or costs due to the long lead times to bring new fields online. Once approved, new fields take on average three years to become operational¹, and whatever additional domestic production this results in will have minimal impact on energy prices. On costs, the Climate Change Committee wrote to the Secretary of State in February this year² to make this point:

“The prices paid for fossil fuels by UK consumers are determined by international markets. The best approach to reducing consumers’ exposure to fossil fuel prices is to make systematic efforts to reduce UK demand for fossil fuels, through policies that enable and encourage a cost-effective switch to low-carbon alternatives and improved efficiency. For example, recent public estimates showed that had rates of household energy efficiency improvement continued in the past decade at the rate achieved until 2012 and the zero-carbon homes standard come into force in 2016 as originally planned, UK households would face annual energy bills from April 2022 around £1 billion lower (~£40 per household) than they will be under the recently announced price cap.

Mature renewables such as wind and solar are already being contracted at prices that were cost-competitive with gas-fired electricity generation even before the recent surge in gas prices. If high fossil fuel prices were to be sustained on a long-term basis, as predicted by Cornwall Insights³, decarbonisation of electricity supply would reduce bills significantly. For example, were the Government’s target for 40 GW of offshore wind by 2030⁴ in place now, that would save around £100 per household under the current price cap. There is also further potential for low-cost generation from onshore wind and solar to reduce emissions and energy bills.”

More fundamentally, pursuing a policy that reinforces dependency on gas seems at best illogical in a time of global record prices and insecurity of supply. The recent push within the Energy Security Strategy for new oil and gas development in the UK, combined with the investment relief allowance introduced by the Treasury as part of its cost of living support package⁵ have sent a clear signal that the Government is committed to exploiting North Sea gas reserves. But this is clearly contradictory to the latest IPCC⁶ and IEA⁷ reports that have

¹ <https://www.nstauthority.co.uk/news-publications/publications/2018/>

² <https://www.theccc.org.uk/publication/letter-climate-compatibility-of-new-oil-and-gas-fields/>

³ <https://www.cornwall-insight.com/press/energy-prices-to-remain-significantly-above-average-up-to-2030-and-beyond/>

⁴ <https://www.gov.uk/government/news/new-plans-to-make-uk-world-leader-in-green-energy>

⁵ <https://www.gov.uk/government/speeches/cost-of-living-support>

⁶ <https://www.ipcc.ch/report/ar6/wg3/>

sent a strong signal that no new fossil fuel fields should be developed if we are to have any chance of reaching our net zero and climate change goals.

Moreover, we are concerned that by pursuing blue hydrogen (a fossil fuel project) as part of the 'twin track' approach, Government is not following its own approach to risk as set out in both the UK Climate Change Risk Assessment⁸ and the Hydrogen Strategy⁹.

A recent example of Government intervention to overrule local authorities was the Sunny Hills gas drilling project. The government are now facing complaints from campaigners in the Surrey Hills where a conservative run council has been overruled by government on a gas drilling project. The decision, formally announced in a written statement by the housing minister Stuart Andrew, gives the green light to three years of exploratory drilling at a site near the edge of the Surrey Hills area of outstanding natural beauty. With North Sea licences being given the green light it is undermining net zero targets and continuing to support fossil fuel companies at a time when the EU has decided to move to a 100% Green Hydrogen strategy. The message from Government to financial institutions is mixed, and is encouraging the investment and support of the fossil fuel sector, rather than investing in known and reliable renewable technologies like Green Hydrogen.

2. The potential effectiveness of the financial sector, including through alliances such as GFANZ, in encouraging the decarbonisation of the economy in time to limit global temperature rises to 1.5°C;

The 60 largest commercial and investment banks have collectively financed \$3.8 trillion in fossil fuel companies between 2016 and 2020, the five years since the Paris Agreement was signed, according to a report published in March from a collection of climate organizations titled Banking on Climate Chaos 2021. But that number is not the full story: Some banks have been increasing their business with fossil fuel companies while others have been decreasing during that time.¹⁰

A new report¹¹ titled 'The Financial Impact of Divestment from Fossil Fuels' from the University of Groningen concludes that divesting from fossil fuels does not have a statistically significant impact on overall portfolio performance, and only a very marginal impact on the utility derived from such portfolios. The policy implication is that investors can divest from fossil fuels without significantly hurting their financial performance.

The Financial sector needs to move rapidly away from fossil fuel and any future fuel production based on fossil fuel extraction, like blue hydrogen. If this is a slow transition away from fossil fuels we risk never reaching Net Zero targets.

⁷ https://iea.blob.core.windows.net/assets/7ebafc81-74ed-412b-9c60-5cc32c8396e4/NetZeroby2050-ARoadmapfortheGlobalEnergySector-SummaryforPolicyMakers_CORR.pdf

⁸ <https://www.gov.uk/government/publications/uk-climate-change-risk-assessment-2022>

⁹ <https://www.gov.uk/government/publications/uk-hydrogen-strategy>

¹⁰ <https://www.cnbc.com/2021/04/22/which-banks-are-increasing-decreasing-fossil-fuel-financing-.html>

¹¹ <https://www.bankofengland.co.uk/-/media/boe/files/events/2016/november/the-financial-impact-of-divestment-from-fossil-fuels-speaker-slides>

The UK government is “fast-tracking” new North Sea oil and gas licences. Unlike other countries, such as Denmark, Ireland and France, the UK has not ruled out issuing new licences for offshore oil and gas exploration.

Instead, it is supporting new licensing rounds if the oil and gas sector can pass a “climate compatibility checkpoint” that ensures any new production is in line with the country’s goal of reaching net-zero emissions by 2050. Ministers argue that, given demand for oil and gas is expected to continue on the journey to net-zero – albeit at a much lower level – it would be more climate-friendly to meet this with “cleaner” domestic production rather than imports. But many have criticised the idea, citing an influential report from the International Energy Agency¹² finding there is no space for any new fossil fuel production, if the world is to meet its aspiration of limiting global warming to 1.5C above pre-industrial levels.¹³

3. Pathways to reducing investment in fossil fuel extraction;

Green Hydrogen offers an excellent investment pathway and is a long-term sustainable source of power and clean energy. By developing this technology it mitigates the risk of stranded assets associated with blue hydrogen production¹⁴ and risks around yet to be deployed carbon capture technology, which based on current performance of the few sites deployed around the world are expensive to build, maintain and have failed to meet stated emission capture targets.

Other opportunities exist around the heat pump industry with research, development and new production facilities which would offer good stable long term investments, as the Government needs to reach 600,000 installations a year by 2028 and with just over 30,000 heat pumps installed every year is a clear investment growth opportunity, with clear policies. Offshore and onshore wind options are also available along with zero carbon transport options as well as zero carbon fuels.

By investing in the technologies and industries of the future it is possible to look at huge growth and long-term rewards for investors and moves rapidly away from fossil fuel production.

Europe is moving fast to wean itself off Russian gas and has rejected a blue hydrogen¹⁵ path as it relies on natural gas and has huge disposal issues, high capital investments, especially with carbon capture and storage and with no current market for hydrogen, which is an expensive fuel. The sooner the market moves away from fossil fuels it can achieve energy security more rapidly.

China is ramping up its production of electrolyzers, but so is the UK. ITM electrolyzers based in Sheffield is opening a new Gigafactory that will reduce the cost of electrolyzers by 40%¹⁶ and will be one of the largest manufactures of electrolyser in Europe. With the EU now pursuing a 100% green hydrogen strategy this presents a significant investment opportunity

¹² <https://www.carbonbrief.org/iea-renewables-should-overtake-coal-within-five-years-to-secure-1-5c-goal/>

¹³ <https://www.carbonbrief.org/factcheck-can-new-uk-oil-and-gas-licences-ever-be-climate-compatible/>

¹⁴ <https://www.bloomberg.com/news/articles/2021-12-16/market-risks-white-elephant-in-push-for-blue-hydrogen-bnef-view>

¹⁵ <https://sciencebusiness.net/climate-news/news/hydrogen-get-boost-eu-looks-secure-energy-independence>

¹⁶ <https://www.rechargenews.com/energy-transition/green-hydrogen-itm-power-s-new-gigafactory-will-cut-costs-of-electrolysers-by-almost-40-/2-1-948190>

to divest away from fossil fuels. It should also help with the rapid transition to green hydrogen as the cost threshold for it being cheaper than blue hydrogen¹⁷ is close to being reached due to global instability of gas prices and the fact that gas will not drop in price and remain at very high levels for the medium term according to research from Cornwall Insight.¹⁸

4. Current and planned investment in renewable energy generation, distribution and storage;

Large-scale wind in the North and Irish Seas, along with onshore wind and solar PV deployment along with tidal energy will be crucial, backed up by other zero carbon generating options during peak demand. I would discount blue hydrogen, as this is not renewable energy, relies on fossil fuel production and as there is no carbon capture and storage deployed within the UK is a yet to be developed technology.

Mine water, ground water and thermal springs all offer huge potential for heat networks, but little investment is being seen. When we look at heat pumps investment, there is the £30 million Heat Pump Investment Accelerator Competition¹⁹, introduced as part of the Energy Security Strategy, whereas the Government is hoping to attract at least £4 billion into mainly blue hydrogen projects on the hope that it can produce low carbon hydrogen at scale, which is looking doubtful due to high gas prices for the foreseeable future²⁰.

The elephant in the room is energy efficiency in homes. This is the energy we don't use and is the cheapest and best way to help reduce bills, fuel poverty and CO2 emissions. The Government is failing to invest or provide schemes for the able to pay sector or to create the financial products that allow 0% interest borrowing, like Property Linked Finance.

The decarbonisation of homes and buildings presents a significant potential growth area for investment - with around 29 million UK homes requiring retrofits to get on track for net zero by 2050. Given the divergent nature of the UK's building stock, and the different financial circumstances of different households, there is significant potential scope for growth and innovation within the UK financial services sector. Examples of emerging financial products and instruments are briefly overviewed below. For a wider portfolio of potential innovative financial products and services, please see the Green Finance Institute's Coalition for the Energy Efficiency of Buildings market review report.

Green mortgages

The UK's green mortgage market is showing signs that it is ready for lift off. Encouraged by the innovation of peers in this space, banks and building societies in the UK are launching green mortgage products at an ever increasing rate. Green mortgage products come in a variety of different forms, but all aim to incentivise homeowners to invest in improving the energy efficiency of their properties. The Green Finance Institute has profiled the current market of green mortgages available, and mapped out the way ahead in a market-review briefing.²¹

Property Linked Finance

¹⁷ <https://www.weforum.org/agenda/2021/12/what-is-green-hydrogen-expert-explains-benefits/>

¹⁸ <https://www.cornwall-insight.com/press/energy-prices-to-remain-significantly-above-average-up-to-2030-and-beyond/>

¹⁹ <https://www.installeronline.co.uk/uk-energy-security-strategy-launched/>

²⁰ <https://www.cornwall-insight.com/press/energy-prices-to-remain-significantly-above-average-up-to-2030-and-beyond/>

²¹ <https://www.greenfinanceinstitute.co.uk/programmes/ceeb/green-mortgages/>

There are a number of areas suitable for growth in the UK financial sector which have been tried and are successful in Australia, EU and the United States. This relates to Property Linked Finance loans to help retrofit homes for the able to pay sector. These loans should be at 0% interest rates and underwritten by the UKIB, to remove the risk for high street lenders. The Government should cover the administration fees to all high street lenders.²²

Currently the system to provide such loans in the UK is unsuitable as the loan remains with the property and is not paid off via a mortgage. The loan remains in the same way an energy bill would and would be paid back through savings on energy bills, so is a basic pay as you save scheme. We are all used to buying a home with an energy bill, and additional energy tariff for 20 years would help release capital for energy efficiency measures as requested by the Chancellor in his letter to the UKIB on 18March 2022²³

In this letter the Chancellor requested that the UKIB accelerate the UK's transition to clean energy and improve the energy efficiency of buildings and homes. Property Linked Finance is a way this can happen. It also has the added benefit of reducing the poor housing stock on many lenders portfolios and helps achieve a higher EPC C rating to help meet the 2035 target²⁴

These simple long-term loans are secured against the property and can only be used to improve energy efficiency and install zero carbon heating systems or domestic renewables. It is proposed that they should be at 0% interest rate as previous schemes around the world including the Green Deal in the UK all failed due to charges for interest rates.

To introduce Property assessed Clean Energy (PACE) loans or Property Linked Finance²⁵ there needs to be some fundamental improvements to legislation on loan structures linked to properties if this change is to happen.

With the UKIB acting as Guarantor it removes the risk in the portfolio for lenders and can work alongside existing green mortgages, which are another way of improving the EPC rating of poor performing homes²⁶.

Property linked finance enables homeowners to receive financing to support 100% of the upfront costs for a retrofit project. The liability is secured against the property and repaid through an additional property tax, typically over extended timescales (e.g. 15-25 years) that make repayments more affordable. Importantly, the liability remains with the property if there is a change of ownership. In the US, PACE schemes have mobilised over \$5 billion into domestic retrofits and trials, and other 'property-linked' financing mechanisms are being trailed around the world.

Demand Aggregation Financing

²² <https://www.energy.gov/eere/slsc/property-assessed-clean-energy-programs>

²³ Letter from the Chancellor to UKIB

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1061776/Strategic_steer_to_the_UK_Infrastructure_Bank_180322.pdf

²⁴ <https://www.thisismoney.co.uk/money/mortgageshome/article-10523887/Will-15million-homes-need-energy-efficiency-improvements-2035-order-meet-EPC-C-rating.html>

²⁵ <https://www.greenfinanceinstitute.co.uk/news-and-insights/press-release-green-finance-institutes-coalition-for-the-energy-efficiency-of-buildings-releases-first-report-on-scaling-up-retrofit-financing/>

²⁶ <https://www.gov.uk/government/publications/improving-energy-performance-certificates-action-plan-progress-report/improving-energy-performance-certificates-action-plan-progress-report>

Demand Aggregation Finance (DAF) is an innovative solution to help address the UK's national retrofitting challenge. DAF uses an online platform to leverage economies of scale and connect households with attractive financial products that can bring down the upfront cost of energy efficiency and clean heat measures for consumers. Typically sponsored by local authorities, DAF schemes allow local residents to register interest in particular retrofit technologies, such as solar PV or heat pumps, to form a group with sufficient purchasing power to bulk order and mass install low carbon technologies.

Comfort-as-a-service business models

Comfort-, or heat-, as-a-service models support the construction or refurbishment of homes to high energy performance standards, delivering significant energy bill savings that outweigh the upfront costs of retrofit. These models can be attractive to households, making retrofits easy and hassle-free. Service providers can aggregate demand (including by working with social and private landlords) to reduce upfront costs. Companies are already offering these services across the UK, including Sero. Supported by Energy Systems catapult, Baxi Heating UK and Bristol Energy are also supporting a heat-as-service model. The new UK Infrastructure Bank could provide upfront finance to service providers (potentially energy companies, retrofit companies and housebuilders) to support the initial upfront costs associated with retrofits, enabling the scaling of this consumer-friendly business model across the country.

UK Infrastructure Bank

In addition to innovation in green private finance offerings, there could be a major role for blended finance in meeting the major investment gap for financing green homes and buildings. The UK Infrastructure Bank could play an important role – developing an attractive consumer offer inspired by the successful German KfW programme²⁷ and offered via retail banks. The Kreditanstalt für Wiederaufbau (KfW) – the Reconstruction Loan Company – is Germany's development bank. Lending to promote energy efficient buildings has been a core component of the bank's model since the oil crisis of the 1970s. A similarly ambitious approach is warranted in light of today's gas crisis.

In Germany, projects which lead to the most efficient homes can access the most attractive rates and subsidies, incentivising greater ambition and promoting additional economic activity. The KfW loan can be used to cover 50% of the costs of hiring retrofit specialists on the German Energy Agency's list of accredited supervisors to oversee and plan the work, providing confidence to the household that the correct measures are being expertly installed. Between 2007-17.4 million individual housing units were either newly built or refurbished to high standards of energy efficiency. For every €1 invested by the bank, building owners invested a further €6. In 2021, KfW commitments reached a new high of €34.5bn.

Several factors have been important to the success of the KfW's energy efficiency programmes. The long-term nature of the programme, combined with favourable terms, relative ease of application and ability to link KfW packages together and with other sources of finance are all vital in making the schemes attractive. They incentivise energy efficiency upgrades at crucial "trigger points" like other home upgrades – like a new kitchen or loft conversion – or home purchases. The integration of the loans with connections to trusted

²⁷ <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Topics/Urban-Development/>

sources of advice and the supply chain has been important to pave a smooth consumer journey.

To replicate Germany's success, there is an important need for long-term cooperation across government departments, as well as with industry and local delivery partners. In the near-term, the Treasury could provide public funding to support a trial KfW style loan with the UKIB and a high-street bank. The offer must be consumer-centred, with trusted advice provided to support the household to select appropriate measures, and information provided to guide the homeowner on how to use new appliances and installations efficiently.

Private and blended finance can play an important role in filling the green home investment gap – but only with the right ecosystem of drivers in place to stimulate significant new demand, like 0% interest rates. Measures targeted at different 'trigger points' where people are likely to undertake works are needed to meet government targets, as well as considering the needs and drivers of different segments of the population.

5. The effect (if any) on the pace and scale of disinvestment plans of disruption to supply chains and energy markets arising from the 2022 Russian invasion of Ukraine, and what is being done to mitigate any such effects, and

The Government has issued new oil and gas licences, instead of following the European model of heavy and additional investment across the renewables sector. The EU have opted for 100% green hydrogen strategy to move away from their dependence on Russian gas and are now changing legislation to ban gas boilers, install heat pumps only and maximise the electrification of the grid and invest in new electricity infrastructure and transformer networks to cope with additional electrification.

The pace and scale of what is required for the renewable sector is not enough. There is too much focus on a slow transition, not a rapid one. The situation in Ukraine and the ban on Russian oil and gas should have been a wake-up call for the Government. Instead it is investing in oil and gas, increasing outputs to 15% above current production levels to off set a 5% gap left by Russian gas. The huge profits being made by oil and gas companies is driving inflation across all sectors and not enough investment in the renewable sector is taking place, especially in domestic renewables.

The current Boiler Upgrade Scheme is a welcome boost to the sector, but it is not enough on its own. The £450 million funding over three years helps around 30,000 installations a year and maintains current levels on installations, but there needs to be a ten-fold increase to achieve 300,000 installations a year, which is still only half of the UKs 600,000 target²⁸.

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June 2022

²⁸ <https://www.gov.uk/government/news/pm-outlines-his-ten-point-plan-for-a-green-industrial-revolution-for-250000-jobs>

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