

OVO Energy's response to the BEIS Select Committee Inquiry on Net Zero Governance

About OVO

OVO is one of the UK's largest energy suppliers. We serve nearly five million customers and employ just under 8,000 people. Our work goes far beyond that of a traditional energy retailer; we are a decarbonisation company for the home. Our vision is not just to help consumers cut carbon but to do so in a way that puts the value generated from decarbonisation directly back into consumers' pockets. We are also at the forefront of innovating the technologies and products that will be pivotal to decarbonising homes across the UK.

OVO is a collection of companies at the forefront of innovation on net zero carbon living to harness clean, affordable energy for our members. Founded in 2009 by Stephen Fitzpatrick, OVO redesigned the energy experience to be fairer, greener, and simpler for all. Today, OVO is on a mission through its sustainability strategy, Plan Zero, to tackle the most critical issue of our time - the climate crisis. This includes our commitment to achieve net zero emissions across our operations and support our five million members in eliminating their household emissions by 2030. Kaluza - OVO Energy's technology partner - is pivotal in enabling our energy customers' real-time billing and domestic flexibility offerings.

Introduction

We welcome the BEIS Select Committee's inquiry on Net Zero Governance at this pivotal moment for the climate agenda. The IPCC's recent report paints a stark picture that no less than rapid reduction of emissions by 2030 and reaching net zero CO2 emissions by 2050 will be needed to keep global warming at or below 1.5 degrees. It is **critical for decision making across all parts of Government and the energy system to be aligned in order to deliver net zero by 2050**. Not only do Government's actions need to be clear and coordinated across departments, but also across organisations that are critical to the shape of the market, particularly Ofgem and National Grid.

This is not currently the case – **the current approach to energy system governance is uneven and creates silos across different markets**. A holistic review of the governance framework is therefore vital if we are to deliver the pace of change required to deliver the net zero target. To achieve net zero, Government departments and wider stakeholders, such as Ofgem and National Grid, must have clear accountability to ensure that all are driving progress in the same direction and to avoid 'passing the stick' on critical decisions.

Given that increasing system flexibility will be critical at all levels of the energy system to achieve the net zero target, **this governance reform should prioritise how the new framework will unlock the power of the market to promote investment in new sources of flexibility**, including at a household level

Key Recommendations:

- **Create a formal Net Zero Coordination Unit in No10** to bring together the leads from each department involved in the transition, as well as provide strategic direction and oversight of progress so that the UK remains on track to meet its legally binding climate obligations.
- **Assign clear accountability across Government departments** responsible for issues related to the transition, as well as other key decision makers such as Ofgem, the Future System Operator and National Grid.
- **Set up a Home Decarbonisation Hub** to accelerate progress on creating the right policy and regulatory framework to drive the roll out and bring down costs of low-carbon heat technologies, energy efficiency measures and domestic flexibility.
- **Organise a group within Government focussed on representing the voice of consumers** to provide live feedback on the effectiveness of policy and regulation, particularly on how costs are assigned, to reach net zero emissions by 2050.

Ambition

- **Ensure all parts of Government are aligned around the delivery of the Carbon Budgets**, as well as meeting the overall net zero emissions target by 2050.
- **Publish a clear roadmap to net zero** that industry and the public can get behind to unlock the necessary investment and accelerate progress.
- **HMT should be required to assess each individual fiscal event for its cumulative impact on the net zero target, setting out its findings in a transparent way.** This ‘net zero test’ would ensure that departmental spending plans are aligned to the Government’s climate targets.
- **Fully align policy mechanisms to support investment with net zero and carbon budget targets**, revising the current approach where needed. Specifically, Government should **move policy costs onto general taxation, combined with the introduction of a carbon tax, to accelerate heat pump uptake** whilst minimising the impact for the Exchequer and ensuring little impact on the most vulnerable consumers.
- **Revise Ofgem’s duties to account for the net zero target and the UK’s legally binding carbon targets.**
- Ensure that Parliament, particularly Select Committees where there is deep expertise of the issues central to the net zero transition, can **hold the Government to account effectively on its targets.**

Response to inquiry questions

1. Key requirements for a net zero governance structure

As the department responsible, **BEIS should continue to take a leadership role in the transition, but its work should be more closely coordinated with other departments** (e.g., DfT, HMT, MCHLG) to ensure that the whole energy system framework moves together, and parts do not get left behind.

We welcome the recent suite of documents published by BEIS outlining how the markets and institutions that govern the energy system need to transform for a net zero future. The scale of change required is huge and it's great to see the Government stepping up with ambitious action. However, **industry, Government and Ofgem now need to work in partnership to turn this vision into a reality.** Publication of the Government's Net Zero and Heat and Building Strategies in the autumn will be crucial next steps in setting the policy and regulatory framework specifically for decarbonising homes. There needs to be a **clear roadmap** to net zero that industry and the public can get behind to unlock the necessary investment and accelerate progress.

The central grip on Government thinking on net zero should also be improved, **potentially through a formal Net Zero Coordination Unit in No10.** This unit would ideally bring together the leads from each department involved in the transition, as well as provide strategic direction and oversight of progress so that the UK remains on track to meet its legally binding climate obligations. Without clear monitoring, there is a risk that we unknowingly fall behind the pace of change required and only realise once it is then too late to rectify.

Governance changes that secure a clear role for flexibility at all levels, including amongst households. Specifically, these changes should include:

- **Clear accountability across Government departments** responsible for issues related to the transition, as well as other key decision-makers such as Ofgem and National Grid;
- **Improved coordination** on the action needed to decarbonise homes, led by a Home Decarbonisation Hub;
- **A group focussed on representing the voice of consumers within Government** to provide live feedback on the effectiveness of policy and regulation to reach net zero emissions by 2050.

1a. The current approach to energy system governance is uneven and creates silos across different markets. A holistic review of the governance framework is therefore vital if we are to deliver the pace of change required to deliver the net zero target.

In many cases, it is **still unclear which departments hold responsibility for critical issues related to the transition.** For example, the roll out of Vehicle to Grid charging point infrastructure cuts across the DfT and BEIS, as well as Ofgem. This can often result in departments lacking clear accountability and responsibility for delivering policy outcomes, which can slow the business planning and investment required for net zero infrastructure. Clear responsibilities need to be attributed to the key Government departments as well as Ofgem and the Future System Operator going forward so that each is empowered to take action and is held accountable for delivery.

1b. To aid coordination across Government on cross-cutting issues, it may be valuable to consider setting up dedicated forums focussed on specific elements of delivering the transition. For example, given the scale of the task ahead, we **recommend the Government sets up a Home Decarbonisation Hub** to accelerate progress on creating the right policy and regulatory framework to drive roll out and bring down costs of low-carbon heat technologies, energy efficiency measures and domestic flexibility. Effective decarbonisation of homes is just one area of the transition that will require action from across Government departments, including BEIS, HMT, DEFRA and the DfT. A Home Decarbonisation Hub will help to provide a unified view to industry and households to avoid mixed signals which could result in progress stalling.

Consumer behaviour will be a key enabler to the transition. **Government and industry will have to work closely together to inform consumers and mobilise them to take action,** especially to promote the changes needed within the home (e.g., heat pump installation). Key to making this a reality will be **harnessing the value of dedicated consumer research,** an area OVO is working on closely already. Therefore, Government should take a more proactive role in collating and sourcing consumer research from the market to guide its decision-making approach. This will be particularly important as the transition progresses to ensure that policy and regulatory measures remain effective. **A new group within Government could also be set up to represent the interests of consumers in the net zero transition,** particularly on how costs are attributed and potential barriers to roll out. Constant feedback from consumers throughout the transition will be crucial to protecting the most vulnerable households and maintaining momentum on implementation.

Improved coordination between Government and industry will be essential to successfully delivering the transition to net zero at the lowest cost to consumers. A **Net Zero Coordination Unit with central oversight of progress on the transition, ideally located in No10,** would help to ensure that policy and regulation is driving in the same direction.

Avoiding mixed signals to industry should be a core priority for this Unit to avoid investment decisions being stalled which will delay progress. Given the wide range of departments and stakeholders responsible for elements of the transition, this central coordinating function will help to maintain momentum and ensure key decisions do not fall through the cracks. This Unit should not seek to replicate industry expertise; its focus should be on coordinating action across Government, Ofgem, National Grid and industry.

1c. Government already has a clear framework for measuring progress towards net zero in the form of its legally binding carbon budgets. These provide an effective tool both for tracking progress to date, as well as assessing the future impact of policy against a clear net zero emissions trajectory.

With the Government recently accepting the Climate Change Committee's advice on the level of the 6th Carbon Budget (a 78% emissions reduction on 1990 levels by 2035), **all parts of Government need to be aligned around delivery of the Carbon Budgets, as well as the overall net zero emissions target.**

2. Governance structures to enable HM Treasury to give greater priority to net zero

Policy and regulation are inherently intertwined. But without clear direction, it can prove difficult for regulators to make decisions where a trade-off may be required between their duties and the wider policy agenda. **HMT's forthcoming overarching policy statement on economic regulation will help to align the work of economic regulators with reaching the Government's net zero by 2050 target**, in addition to wider policy priorities such as levelling up.

2a. To give industry confidence to invest for the long-term, HMT needs to ensure that its spending decisions support this trajectory. Specifically, **HMT should be required to assess each individual fiscal event for its cumulative impact on the net zero target, setting out its findings in a transparent way.** This 'net zero test' would ensure that departmental spending plans are aligned to the Government's climate targets. It would also enable the public and industry to have full confidence in Government's spending decisions aligning with the net zero target.

HMT's Net Zero Review expected in the autumn will be critical to setting the framework for how the costs of the transition should be distributed to realise the best value for money for consumers and taxpayers. OVO is working hard to ensure that no home is left behind in the net zero transition which requires investment right across the country. Distributing costs fairly will be key to protecting vulnerable consumers and unlocking the greatest value from decarbonising homes. We know from our extensive consumer research that value is a stronger motivator for individuals to adopt green measures than climate concerns.

A key element of assigning costs fairly to incentivise the transition to net zero will be **redistributing policy costs on energy bills.** Environmental and social policy costs - including Feed-In Tariffs, Renewable Obligation Certificates and Contracts for Difference - across energy bills comprise 23% of the average electricity bill compared to 2% of the average gas bill. Research from [Public First](#), commissioned by OVO, shows that by **moving policy costs onto general taxation, combined with the introduction of a carbon tax, has the greatest impact on accelerating heat pump uptake** whilst minimising the impact for the Exchequer and ensuring little impact on the most vulnerable consumers. HMT should ensure that policy mechanisms to support investment are fully aligned with the net zero target in future and revise its approach where needed.

3. Signals and support business need from the Government in order to deliver cross-economy decarbonisation in line with the carbon budgets and the net zero targets

Business needs a clear policy and regulatory framework to deliver the scale of change necessary to meet the UK's climate targets. **Signals and support from across Government need to be consistent to allow businesses to act.** Where signals are contradictory, business is unlikely to be able to take decisive action and invest for the long term. The forthcoming Heat and Buildings Strategy will be pivotal giving industry the signals to kick start investment in technology and skills; however, this must be supported by a delivery plan to realise the scale and pace of change needed to reach net zero by 2050.

Whilst we recognise there is still considerable uncertainty on the path to net zero, a range of technologies are likely to be ultimately required. Certainly, in the case of decarbonising homes, there is not a one size fits all solution. Therefore, **the policy and regulatory frameworks need to drive continued innovation whilst providing increasingly clarity on the**

trajectory to net zero. Bold action from Government is required to maximise the impact that businesses can have. For example, Government should continue to provide funding support for research and innovation on the technologies central to home decarbonisation, but in tandem should support investment in the skills needed to install technology such as heat pumps and expand manufacturing capacity.

3a. Short term political cycles mean that policy and regulatory signals to business have fluctuated in recent years. **Short term incentives often drive key decisions, rather than a long-term, strategic approach.** This makes it difficult for businesses to invest in the technology and skills needed to realise the Government's longer term policy objectives. The National Infrastructure Strategy has provided some sense of long-term vision to mitigate this; however, much of the detail on how this vision will be implemented is still lacking. Without stability and consistency of policy and regulatory signals, business will be forced to take a similarly short termist approach to minimise potential commercial risks.

3b. As part of wider changes to the structure of the governance framework, **it is vital that Ofgem's duties are revised to account for the net zero target and the UK's legally binding carbon targets.** This is critical to ensuring that equal thought is given in regulatory decisions to the need to prioritise the interests of future consumers, opposed to a singular focus on current consumer bills. This will enable Ofgem to take decisions where difficult trade offs may be required, for example between the interests of current and future consumers.

We welcome the commitment in Ofgem's latest Forward Work Programme to work with the Government, industry and consumer groups to deliver a net zero economy, at the lowest cost to consumers. To achieve this, it will be important for Ofgem to advance its thinking on how it can support an energy system which delivers full-chain flexibility, harnesses the benefits of digitalisation and creates a sustainable retail market. Given these are areas where policy and regulation inherently overlap, **we support the forthcoming publication of the Strategy and Policy Statement for Ofgem by BEIS to set a clear framework for decision making.** This will help market participants such as OVO to better anticipate the direction of travel on regulation and policy long term to unlock investment. The Statement should specifically make provision for Ofgem to adhere to the UK's legally binding net zero and carbon targets.

4. Current parliamentary scrutiny arrangements for climate change

Parliament, particularly Select Committees where there is deep expertise of the issues central to the net zero transition, will play a **valuable role in holding the Government to account on its targets.** It will be important that Parliament ensures the Government does not shy away from its ambition such that the pace of change slows and the UK risks missing its legally binding climate targets. **Members of Parliament should also act as spokespeople for their constituencies' experience of the transition** to provide feedback on policy so that it remains effective and efficient with minimal disruption to households. This will help the Government to identify blockers to rolling out technologies early on and work to address these with industry as quickly as possible, whilst maintaining public support for the transition.

Should you have any questions or would like to discuss our response bilaterally please feel free to contact us at policy@ovoenergy.com.

Kind Regards,

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