

Business, Energy and Industrial Strategy Committee inquiry on Net Zero Governance – Energy UK written evidence

1. What are the key requirements for a governance structure that can deliver cross-Government climate action at the pace, scale and over the duration required to meet the carbon budgets and the 2050 net zero target?

For the UK to meet its legally binding net zero target by 2050, while also meeting its 2030, and 2035 carbon budget targets, the UK requires a new governmental structure that is far better coordinated, provides clarity of roles and responsibilities, and ensures key oversight against delivery. This new system of decision making must ensure cross-economy decisions are taken with net zero as a key factor.

To facilitate such a move and significant shift in decision making HM Treasury (HMT) should be empowered to urgently implement a Net Zero Test across all new policies, and a Minister in the Cabinet Office should be assigned with overall responsibility for coordinating net zero delivery across the UK government.

Clarity on roles and responsibilities across government, regulators and industry will be essential to successful delivery. Further alignment of objectives across bodies in government and regulators will be key to effective delivery of the cross-sector changes needed to meet the net zero target. It would be beneficial for all departments and regulators to have the same net zero objectives underlying their work. There also needs to be greater cooperation between the UK, Scottish, Welsh and Northern Irish Governments, as well as with local authorities, to support the requirements of net zero.

There may be merit in additional incremental targets at specific points before 2050, setting out a clear timeline and trajectory, to focus public and private efforts and investment through to 2050.

a) Are the Government's existing net zero governance structures effective in this role, both in terms of coordination across Whitehall, and coordination with the devolved administrations and local and regional authorities?

No. The current structures have served well to date, however, looking towards 2050 there needs to be much more coordination across government and institutions, including devolved administrations and local authorities. This includes greater visibility and understanding of the roles and responsibilities of different levels of government. The energy sector has led decarbonisation efforts to date, through investment in low carbon power supply, but wider decarbonisation requires greater coordination between public and private organisations. Reducing carbon emissions in heat, transport and industry will impact our homes, places of business, and public spaces, and as such needs much more collaborative and coordinated delivery to minimise additional cost and disruption to consumers.

Delivering a net-zero economy by 2050 will require cross-departmental working on a much wider scale than we've seen previously. For example, to decarbonise our housing and heating systems there will need to be joined-up decision making from across HMT, BEIS and the Ministry of Housing, Communities and Local Government (MHCLG). The level of coordination between these bodies at present remains insufficient, with building regulations, support mechanisms, and taxation often at

odds. At the same time, modernising the role of the energy industry regulator, Ofgem, will be critical to delivery of wider government policy. Ofgem currently holds no statutory duty to consider the net zero target when regulating.

Carbon emission reductions targets which are now enshrined in law, including the net zero target, need to be reflected in government departments' and regulators' objectives and statutory duties¹ to ensure they can and must deliver policy and regulation that supports net zero while avoiding short term political influences.

There needs to be much more cooperation between devolved administrations to support each other's net zero ambitions, while also reducing the regulatory and cost burden on industries and businesses. There is also an opportunity for these Governments to learn from each other's own delivery, sharing information to develop best practice. For example, the Scottish and Welsh Government's energy efficiency schemes provide wider support for Scottish and Welsh customers, while also helping to support their net zero ambitions. The UK Government could learn from the successes and failures of these sorts of programmes in the development of their own energy efficiency schemes for customers in England.

At the Local Authority level, there needs to be a greater understanding of the roles and responsibilities for delivering net zero. At present, many local authorities have announced plans for decarbonisation and net zero delivery, but without an understanding of how to deliver this and, more importantly, without the funding and resources to succeed. Central government has a role to play in creating a framework under which these plans can be fleshed out and delivered, without which disparate effort will result in a postcode lottery for consumers and an administrative nightmare for industry.

b) What alternative governance structures could be established to coordinate and deliver cross-Government action on climate change more effectively?

There needs to be a fundamental shift in thinking across the government if the UK is to achieve net zero. A change in thinking, primarily from HMT, around seeing net zero delivery as an opportunity for economic growth could vastly accelerate change. This means enabling departments to invest now for longer-term returns in the future. To achieve this, HMT's Green Book needs to be updated to enshrine new thinking across every HMT team and to take account of a new Net Zero Test.

Departments and regulators should be asked to use the guidance in an updated Green Book² in relation to assessing Greenhouse Gas impacts on expenditure. The assessment should then be used to inform decisions consistent with net zero and decarbonisation goals (i.e. using a principle similar to that of 'additionality'³).

Nationally, the Cabinet Office should coordinate cross-government action and policies to ensure the UK delivers on its net zero ambitions, working with the Devolved Administrations where powers and policies are devolved. At the same time, each department should be responsible for planning and implementing their sector's policies towards decarbonisation. We believe significant progress can be made by simply defining new responsibilities and increased coordination across existing departments.

C) What metrics should the Government use to measure their progress towards net zero?

¹ As recommended in the NIC [Strategic Investment and Public Confidence publication](#)

² [The Green Book 2020](#)

³ As defined on page 5 the [Glossary of the UN Clean Development Mechanism](#)

The Government should measure progress against the Committee on Climate Change's (CCC) carbon budgets and forecasts to ensure the UK is on track to reach net zero. Regulators and other bodies should also be required to measure their performance by appropriate benchmarks to demonstrate they are on track to contribute to net zero by 2050, and to limit global temperature rise to within 1.5C as per the Paris agreement.

2. What governance structures would enable HM Treasury to give greater priority to the net zero target and the carbon budgets in its financial and economic decisions?

a) How could HMT better ensure that spending decisions contribute to achieving net zero in the long term?

As well as updating the Green Book, while implementing a Net Zero Test, HMT needs to more fully consider the longer-term economic impact of avoiding or delaying net zero related investment now which could mitigate future climate change impacts. This includes taking into account the economic opportunities of 'green growth'.

HMT needs objectives, consistent with the net zero target, that ensure the most economic delivery across multiple government terms. For example, recognising that the fairest way to recover costs may not be via energy bills but rather by taxation (which may include capital allowances) or other methods that target costs to end users equitably. At present, taxation changes between government terms cause uncertainty and undermine investor confidence, so consistency and fairness must be considered alongside each other.

3. What signals and support does business need from the Government in order to deliver cross-economy decarbonisation in line with the carbon budgets and the net zero target? What delivery function should Government provide itself and are relevant regulatory bodies mandated and resourced effectively to deliver on Government priorities?

Industry needs clear and consistent policy and regulatory frameworks that provide long term investment signals, with a regular cycle of support mechanism processes to ensure targeted and cost-efficient incentives throughout the transition. Government and regulators need to be appropriately resourced to support industry whilst ensuring focus on key deliverables for net zero and balancing this with other core activities. We are not confident that any part of government is sufficiently resourced at this stage to be confident in the delivery of net zero.

a) How do policy and regulatory signals and support vary between Government Departments (and how have they varied over time)? How is this affecting business activity on climate change?

There is a clear disparity between departments with a short term focus and those with a longer term focus. Those focussing on short term targets do not often factor in the longer term climate impacts. The clearest example is in energy efficiency and heating, where measures to build a large number of homes under a short timeline has at times been in opposition to the need to make all new build homes fit for consumers to use right up to 2050.

b) Should Ofgem play a greater role in delivering on net zero and, if so, what changes are required to deliver this?

Ofgem should be able to pay greater attention to net zero as part of its objectives and this should be supported in the forthcoming Strategic Policy Statement (SPS) to be issued by BEIS. However, the SPS should only be considered as a stepping stone on the expedited path to statutory duty updates

supporting the net zero target. Whilst Ofgem should remain technology neutral, much more consideration needs to be given to how its decisions and projects can facilitate net zero. For example, by facilitating competitive markets and targeted network investment that enable and encourage private investment ahead of need, saving public funds in future.

The scale of change is increasing and we recognise that Ofgem may need to play an increased role. Where Ofgem is given more powers it should ensure it is adequately resourced to undertake them. At the same time Ofgem needs to ensure it is focusing on the key areas that matter to consumers in the delivery of net zero.

On the path to net zero there is likely to be a significant consumer benefit in early investment. Ofgem needs to demonstrate how it is making decisions in the best interest of current and future customers, including evidencing that it has holistically assessed the benefits to future customers of investing more today.

We consider there may currently be too little emphasis on the cost to future customers, and that this may delay forward-looking investment, risking additional costs to customers in the longer term. For example; when considering the cost benefit of options to address constraints, such as network investment versus market-based solutions, consideration should be given to how this would impact the development of markets that will be required to meet the UK's net zero objectives.

The price control framework for networks to date encouraged networks to spend less money on reinforcement, leaving the UK with an aging infrastructure that is not fit for the uptake of low carbon power, heat and transport – As such, investment in these networks will be delivered under a shorter time-period at greater cost to consumers. Equally, the approach has favoured physical investment over the use of smart technologies to create market signals that encourage the right behaviours from consumers. This has left the UK in need of new, stronger market signals to encourage investment ahead of need if we are to maintain system stability through to 2050.

Without a reform of the approach to regulatory impact assessment methodologies, Ofgem cannot factor in these longer-term impacts when implementing changes to regulation. As such, the regulator must undergo some reform before playing a larger role in delivery. This should not undermine the role of ministers and Parliament in setting the direction of travel for the UK, but should better target regulation to delivery of that intended pathway.

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