CBI

12 June 2019

Rt Hon Greg Clark MP
Secretary of State for Business, Energy and Industrial Strategy
Department for Business Energy and Industrial Strategy
1 Victoria Street
London
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Dear Greg

CBI recommendations ahead of the Energy White Paper

I write in advance of the Government's planned Energy White Paper to share views from the CBI and its members on this opportunity to secure a long-term approach towards decarbonising our economy.

A major challenge that we must address is the need to secure long-term investor confidence needed to deliver new technologies, and support major shifts in consumer behaviour, while maintaining the competitiveness of our industries. Delivering this scale of change will involve coordinated action across government departments and regulators taking a whole systems approach in order to create a coherent mix of long-term, stable policies and robust market signals that business and consumers need. Delivering decarbonisation at the lowest cost is an absolute priority, ensure things are done in a fair way with equitable distribution of costs across society.

The Energy White Paper is an opportunity to give investors confidence in the long-term plans to maintain decarbonisation of the power sector, and how this interlinks with the challenges in other sectors. A mix of market-based mechanisms, targeted intervention to support new technologies, and consistent long-term policy frameworks will make this possible and maximise the power of business and industry to deliver this fundamental change.

Business supports the UK's international climate leadership and net-zero target

The decision to set a net-zero target for greenhouse gas emissions is extremely welcome and is backed by UK business. This legislation introduced today must be followed by a commitment to long-term policies that support decarbonisation across the economy.

The UK has shown significant international leadership on climate change. UK businesses support the bid to host COP26 next year. This would be an opportunity to showcase to the world our expertise in a range of green technology and knowledge disciplines and further demonstrate the UK's commitment to leading on climate change.

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Unlocking investment to further decarbonise the electricity sector

The development of an electricity mix that is now more than 53 per cent low-carbon is an important achievement. The Electricity Market Reform policies introduced earlier this decade have contributed to this vital shift, with investment secured across a range of low-carbon power generation technologies. But challenges remain, with clear issues surrounding the financing of new nuclear power, developing carbon capture technology, the delivery of a smart, flexible transmission and distribution network and the continuing block on a significant pipeline of affordable onshore wind projects in suitable locations with public support.

The Government must maintain the current framework for securing investment in large-scale, low-carbon power generation via Contracts for Difference (CfD) auctions. It is important that these competitive auctions continue in the longer-term, to maintain the momentum and progress already achieved in the sector.

We must also ensure the auction process adapts to remain fit for purpose which includes optimising the framework of the CfD itself especially around milestone delivery dates to encourage competition and promote innovation in the supply chain over longer periods of time as well as providing an open market and level playing field for all established renewable technologies to compete, including onshore wind. Hindering the continued deployment of the cheapest from of renewable electricity is hampering the goal of decarbonising at lowest cost, and we must see action to unblock the substantial pipeline of onshore wind projects ready to be developed and built in parts of the country where they receive public support, such as Scotland. Maximising the contribution of low-cost solar power, including projects that combine battery storage, can also be achieved if there are viable routes to market.

The CBI sees an important role for new nuclear power as part of a diverse, low-carbon energy mix. We support efforts to build new nuclear power at the right price and affordability for consumers and urge the Government to explore proposals for financing mechanisms such as the Regulated Asset Base (RAB) model. Doing so in a timely way can maximise the potential cost savings of follow-on projects to Hinkley Point C. Government should also consider support for innovative nuclear technologies such as Small Modular Reactors (SMRs). We believe such measures could encourage both foreign and domestic capital investment into new nuclear projects which can help us meet the UK's carbon reduction targets while benefitting from the industrial and economic benefits of a domestic nuclear construction industry.

Equally, the CBI fully welcomes the establishment of the Carbon Capture, Utilisation and Storage (CCUS) Taskforce and the publication of the CCUS Action Plan. As the IPCC Special Report on 1.5C and the Committee on Climate Change's Net-Zero report have recently illustrated, CCUS technology will be "a necessity, not an option" if we are to reach net-zero greenhouse gas emissions by 2050 given CCUS's unique capacity to address industrial process emissions as well as providing decarbonisation solutions for heat, power and transport. We must see CCUS technology scaled-up during the 2020s with infrastructure to match within the same timeline. Large-scale use of CCUS should be promoted as we reach 2030, but we need policy support to achieve this. The UK has the capability to be a global leader in this technology, and we must build on this advantage if we are to create export opportunities as the world adapts to the effects of global warming. Given the UK's significant investment in oil and gas and the resources of the UK Continental Shelf, CCUS will support the long-term transition of this sector and provide opportunities for further investment.

A plan to decarbonise heat and improve energy efficiency

The way in which we heat our homes and buildings will be a major challenge over the coming years. In order for the UK to meet its climate commitments, we will need to almost fully decarbonise heat in buildings and industrial processes. Government should accelerate policy development and support technology trials to help determine the most cost-effective solutions for different parts of the country.

Energy efficiency is key to this effort and the Government needs a clearer strategy and policy framework to improve energy efficiency of all buildings. The CBI recommends that energy efficiency is treated as a national infrastructure priority, which would support improved action across Government departments. Designating it as a national infrastructure priority would send a clear message to investors and consumers as to the direction of policy and allow for more robust tracking of progress and transparent reporting and will assist in accountability towards meeting targets.

As part of this prioritisation, Government must consider how best to drive up building standards for both domestic and commercial buildings, strengthening at the same time the accreditation and enforcement regimes to deliver quality throughout the supply chain and support construction to a robust standard.

For the domestic sector, the Future Homes Standard announcement made in the Chancellor's Spring Statement is a welcome step forward, however, the detail of these proposals needs to be seen, and they must match the ambition from the Zero Carbon Homes policy previously abandoned in 2016. It is vital that Government works with the housing sector to reduce the risk of building too many new homes that will need to be retrofitted at an increased cost at a later date.

As well as supporting better standards in new buildings, Government must prioritise energy efficiency in the current stock. As a first step, Government should rationalise the tax system to ensure green energy and energy efficiency is not penalised. For example, businesses that improve their office or energy supply with energy efficiency measures such as energy efficient lightbulbs or with solar panels or batteries increase the rateable value of their property and therefore see their business rates rise. That is why the CBI has recently called for reform of the business rates system to remove such counter-incentives.

For businesses, more can be done to improve the information available about measures available to improve energy efficiency, particularly for SMEs. Access to resources and data on the benefits of energy efficiency would assist in removing the financial and practical barriers to action and help expand the market. We recommend that the Government considers improved access to finance, such as strengthening the current ESCO system, integrating support such as Green Loans and coupling this with a Government-managed consultancy service to provide advice to businesses that need it. This would provide information, expertise and financing on energy efficiency in an integrated way, which could benefit businesses of all sizes.

This need for a more ambitious set of actions and strategy also applies to the domestic sector, where we see a major funding gap and delivery shortfall if we are to achieve the 2035 target of all homes meeting Band C EPC ratings or above. It is essential this funding gap is met in the least regressive way possible, noting the current Energy Company Obligation is funded via consumers and policy costs already make up £150 of the average consumer energy bill. A clear energy efficiency strategy, that links with a plan to decarbonise heat in homes needs to put in place to deliver this target.

Driving the rapid uptake of low-emission vehicles

The decarbonisation of transport is an urgent priority if we are to meet our climate targets.

The CBI welcomed the Government's ambition to end the sale of new conventional petrol and diesel cars and vans by 2040, but with the second consecutive annual rise in new car CO2 emissions following decades of decline, it is urgent that consumers are encouraged into electric and low-emission vehicles. We need a clear mix of consumer incentives coupled with the development of a comprehensive national charging and refuelling network ready for future demand from electric and hydrogen-powered vehicles.

Delivering a world-class recharging infrastructure network is necessary to ensure a rapid uptake in electric vehicles during the 2020s.This will only be possible if a comprehensive charging network is in place, with smart home charging and interoperable public charge points that provide simple access for consumers. To create a future-ready network it is clear that the Government needs to have a clearer strategy to deliver the right mix of

slow-speed charging where cars park for longer periods, supplemented by an ultra-rapid network on the motorways and strategic road network that can give confidence to all users. This should take into account the recent recommendations of the National Infrastructure Assessment and the Committee on Climate Change's 'Net Zero' report around the potential role for Ofgem in facilitating anticipatory grid investment to support the uptake and roll out of electric vehicles. Effective planning will help ensure that the switch to electric vehicles and increased electricity use is complemented by increased power generation from low-carbon sources, with the potential for electricity storage and increased network flexibility resulting from vehicle to grid charging.

I would be happy to discuss any of these recommendations at our next meeting.

All best wishes

Carolyn Fairbairn
Director General