

# Spring Budget Response

January 2017

## About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry, from established FTSE 100 companies' right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain resulting in the following benefits for the British economy:

- Provides jobs for 637,000 people in every corner of the country, providing lifelong employment as well as quality apprenticeships and training for those starting their careers.
- Contributes £87bn to the British economy, equivalent to 5% of GDP.
- Invested £17.8bn in the UK in 2015; which is 10% of all UK investment.
- Pays over £6bn in tax annually to HMT.

## Key Asks

The following is a list of key steps which Government could take now to ensure a secure, supply of low carbon energy at least cost to the consumer. Energy UK calls on the Chancellor to:

1. Ensure a clear, long-term policy framework which provides stability and facilitates investment in the UK energy system by confirming Government intent for the future of the Carbon Price Floor, Capacity Market and Contract for Difference auctions beyond the 2020s.
2. Support cost-effective energy efficiency schemes for fuel poor and support the able to pay market through a combination of incentives e.g. stamp duty reductions for new build energy efficient homes and for those households who have installed energy efficiency measures.
3. Utilise Research and Development funding to support innovation in technologies such as green-gas and hydrogen for heating.
4. Support Ofgem in enabling a holistic review of network charging from a whole system approach perspective, while ensuring that urgently needed reforms are progressed swiftly.
5. Provide greater transparency about the impact of energy related policy costs on consumer bills (e.g. expected to be a £176 increase per household by 2020).
6. Promote the integral role of energy in the UK economy in the forthcoming Industrial Strategy.
7. Allow the CMA's recommendations to be implemented in the energy retail market, avoiding the unintended consequences of further government intervention into a competitive energy market.
8. Establish a Government led energy taskforce to drive forward the decarbonisation of the heat and transport sector.

## Industrial Strategy

**KEY ASK: Ensure the value of the energy sector to UK plc is recognised in the forthcoming Industrial Strategy. Investment in energy infrastructure can stimulate growth in other parts of the economy (including the supply chain) with the ability to create jobs across all regions of the UK.**

A secure, sustainable and cost-competitive supply of energy is integral to a modern economy. Energy UK believes the forthcoming Industrial Strategy is an opportunity to recognise the potential for Britain to become a world leader in new energy technologies and to ensure there is a stable and long-term policy framework in place to deliver the investment required in our energy system. A thriving energy supply chain could help deliver a rebalancing of economic growth across the UK and provide

thousands of jobs in the manufacturing sector. Energy UK will be responding in detail to the Government's consultation on Industrial Strategy.

## Retail energy market

**KEY ASK:** After a thorough two-year investigation into the market Government must allow time for the CMA's remedies to be worked through and implemented. The investigation was a lengthy and well-considered exercise and has resulted in a number of remedies which are designed to address the disparities between those engaged and disengaged customers which Government has also noted. The CMA remedies – along with a number of other initiatives in train which will help to put consumers more in control of their energy, such as Faster Switching and the rollout of smart meters – should be allowed to be implemented and be given time to succeed in the market before further intervention on retail pricing is considered. This is the best and most effective way for Government to achieve its aims, working with competition.

The industry is committed to an engaged, competitive retail market offering great service from a wide range of suppliers, ensuring that competition works for all households.

There are now over 40 suppliers in the domestic market; big and small, competing for new customers; switching is now simpler and faster than ever – with the Energy Switch Guarantee in place giving customers even more confidence to switch. Last year almost five million households changed energy supplier in 2016, a record high with 37% of those first time switchers in the market.<sup>1</sup> This continues the trend of increasing overall switching figures for the past two years. The average number of monthly switches was over 400,000 in 2016.

The industry, however, recognises that there is more to be done to help customers and especially those who've yet to engage. This is why, industry remains committed to working with government and Ofgem to successfully deliver the CMA's remedy package. It is, however, vital that the CMA's recommendations are given a chance to work. Government must not undermine the outcomes of a detailed two year market investigation.

It is imperative that Government remains conscious of the potential for unintended consequences resulting from well-intentioned but unnecessary interventions in the market. For example, the Retail Market Review tariff simplification proposals, which arose from public concerns about the number and structure of tariffs available, were actually shown to have a detrimental impact on competition.

## Policy costs

**KEY ASK:** Whilst recognising the costs the rising cost of policies on consumers' energy bills. while accepting that these costs are unavoidable to meet essential decarbonisation commitments and maintain security of supply. Energy UK would welcome further exploration and consultation on costs of social policies, such as those combatting fuel poverty, from the bills of every consumer (including the fuel poor) and funding these from tiered general taxation.

Energy UK believes that it would be in the interests of consumers, media, government, the regulator and companies for there to be a common understanding of how different costs are influencing consumer's energy bills. In recent months wholesale prices have been rising putting pressure on customer tariffs. Policy costs are also increasing and last year added up to £118 per household. By 2020 that figure is going to be £176 per household.

Supplier obligations are regressive. Costs are distributed among consumers regardless of ability to pay and this inevitably creates winners (those who receive measures) and losers (those who cannot or do not receive measures). According to the Department of Business, Energy and Industrial Strategy's statistics, only 4.7% of those households who have contributed towards the cost of the Energy

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<sup>1</sup> Gray, Jane 2017, *37 per cent first time energy switches in 2016*, viewed 18 January 2017, <http://utilityweek.co.uk/news/37-per-cent-first-time-energy-switches-in-2016/1293022#.WH9E11OLSUK>

Company Obligation, including those in or at risk of energy poverty, have benefitted directly from the installation of measures<sup>2</sup>.

## Meeting the Investment Challenge

**KEY ASK:** To deliver investment in the energy sector the Government should provide signals of clear direction of travel through a functional policy framework. This includes long-term direction on carbon pricing, foresight on money available for low carbon investment in the 2020s and ensuring all technologies can compete in a consistent basis in market mechanisms on a level playing field

The level of investment required in the energy sector is substantial; the UK Government expects that over £140bn must be invested in new generation capacity by 2030, whilst other sources have put this figure even higher. Energy UK maintains that the strongest signal UK Government can provide for investors is to minimise domestic policy uncertainty through the continued implementation of the Electricity Market Reform. We welcome the Government's commitment to spending £730 million over the course of this Parliament on auctions for "less established" technologies. Energy projects are, however, long term and while we await the forthcoming Emission Reductions Plan, we believe the Government could take the following steps to provide long term clarity to the industry by:

1. Setting out its intention for the long-term direction of the Carbon Price Floor beyond 2021 while continuing to aim for improvements to the EU Emissions Trading System.
2. Provide the long term projected spend to deliver low carbon electricity generation by publishing a schedule of future Contract for Difference allocation rounds.
3. Ensure a framework is in place to provide long-term visibility of future spend that is essential for investment, whilst controlling the costs on customers.
4. Supporting a technology neutral approach, so far as is practicable, to achieve decarbonisation at least cost.
5. Pressing Ofgem to review network charging arrangements to ensure that costs for maintaining and building our network infrastructure are fairly distributed across all users.
6. Alter the business rates regime so that:
  - a. Mothballed or decommissioned electricity generation plants do not pay business rates which presently furthers the incentive to close plant permanently.
  - b. Low carbon generation plant is treated as exempted plant and machinery under the Plant and Machinery Regulations to align with the Government's low carbon agenda.
  - c. New guidelines provide clarity to Local Authorities over when part occupied relief should be applied.
  - d. Ensure that business rates for organisations that have solar PV systems where the energy is for self-consumption are rated appropriately.

## Energy efficiency

**KEY ASK:** Consumer funded energy efficiency programmes should be aimed at those who need it the most i.e. the fuel poor. Government should consider regulations and incentives to create an energy efficiency market for able-to-pay households. This could be achieved through setting housing standards or rebates on stamp duty for home-owners who install efficiency measures.

Longer term, industry would welcome clarification from Government around its priorities for any future energy efficiency obligation. Energy UK agrees with Government that focusing energy efficiency measures under the Energy Companies Obligation to the fuel poor is an effective way to help those in greatest need.

We would, however, note that supplier obligations are not necessarily the best way of funding and delivering energy efficiency measures. In our view, energy efficiency supplier obligations have held back the market. The supply chain has come to rely on subsidies rather than developing ways to sell

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<sup>2</sup> DECC, 'Domestic Green Deal, Energy Companies Obligation and Insulation Levels in Great Britain', Detailed Report, 17 September 2015

energy efficiency measures. As a result, consumers across the income scale have come to expect delivery of energy efficiency measures for free. This has led to delivery being constrained to those measures actively funded through Energy Company Obligation and other subsidised schemes.

The take up of energy efficiency measures also has to be a more prominent concern of cross-government policy design. More focus should be given to removing barriers and incentivising those who are able to pay, and will materially benefit from doing so, to undertake energy efficiency improvements. Measures such as regulatory tools on the housing sector, or financial incentives (including tax exemptions) should be considered.

### Delivering a decarbonised wider economy

**KEY ASK: Government must urgently come forward with a strategy to decarbonise the UK's heating and transport infrastructure. We recommend the establishment of a taskforce to ensure the private and public sector work together to identify and introduce technologies which can achieve this goal. Research and Development funding should be provided to support innovation in heat.**

Energy UK recognises that electric vehicles and low carbon heat could play a major role in decarbonising infrastructure in the future and has established a working group to consider and assess the likely impacts on electricity demand and infrastructure requirements. The industry is keen to see a clear road-map of the Government's intentions in this area; not least so that it can plan the necessary generation capacity to support these aspirations. To achieve this, the industry recommends the Government:

1. Establishes a taskforce comprising representatives from the electricity, heat and transport sectors to map out the critical path towards decarbonisation in these sectors
2. Works with stakeholders across power networks, heat technology companies, energy retailers and gas to consider and where possible promote hybrid technology options for customers who are off the gas grid;
3. Provide funding through Research and Development budgets for science and innovation at technologies which can decarbonise the UK's heat system. Explore options including:
  - a. Hydrogen
  - b. Green-gas/biogas
  - c. Electrification of the heat network
4. Supports the development of a price control for heat networks and appropriate regulatory regimes and consumer protections that would enable more long term investment decisions to be made;
5. Works with the energy and motor industry to develop a deployment model that will enable electric vehicles to be integrated into smart energy systems in a manner which enables customers to become actively engaged.