WA BRIEFING

What does the Clean Growth Strategy mean for the Energy Sector?

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INTRODUCTION

The Government's Clean Growth Strategy is set to be a key pillar of Theresa May's domestic agenda. Yesterday the Government published a 163 page document, launched four consultations and opened a further funding round. It is rare for both a Prime Minister and Secretary of State to provide forewords to the same document and the existence of such should leave no doubt of the importance of this.

In launching the strategy, Theresa May stated her determination to "leave our natural environment in a better condition than we found it". While this might be the opening statement, the strategy has a clear economic foundation and as such it explicitly and implicitly offers a number of opportunities for businesses to engage and benefit. With the exception of the energy price cap, it reads much more like a Cameron or Osborne strategy than something one would expect from Theresa May, with a tone that will be familiar to those experienced in dealing with the previous Government.

The economic foundation comes from two sources: The first is to provide opportunities for economic growth and exports, and the second is to address costs of energy in the UK for businesses and consumers. It is seen as stubbornly high compared to the US, although it is reasonable in comparison to other EU states. This economic narrative is further cemented by Greg Clark's comments where he identifies this as an industrial opportunity.

Finally, it also draws attention to the huge 32 per cent contribution to emissions from heating. This is an issue that doesn't have the glamour of electric vehicles (EVs) and solar panels but is absolutely essential if the UK is to meet its Paris climate agreement requirements. In doing so, the Government opens up significant new opportunities for companies operating in this space.

The strategy sets out two overriding objectives:

1. To meet our domestic climate commitments at the lowest possible net cost to UK taxpayers, consumers and businesses; and
2. To maximise the social and economic benefits for the UK from this transition.

The Government has not shied away from investing financially in these objectives. It has committed over £2.5 billion from 2015 to 2021. The National Productivity Investment Fund also provides an additional £4.7 billion, with an extra £2 billion a year by 2020-21. This is the largest increase in public spending on UK science, research and innovation since 1979.

Beyond the financial investment, there are policies to reduce emissions, improve energy efficiency and provide greater energy security. These include policies for more energy efficient buildings and accelerating the rollout of low emission vehicles.

LIVE CONSULTATIONS

In addition to the publication of the Clean Growth Strategy paper, the Government has invited industry to engage directly via three consultations on:

- Reform of the Green Deal Framework: A broad review of all aspects of the Green Deal Framework, but retaining the focus on putting consumers' needs first.

- An industrial Heat Recovery Support Programme: A call for ideas on the development of a new support programme to overcome barriers to recover and reuse waste heat in industry.

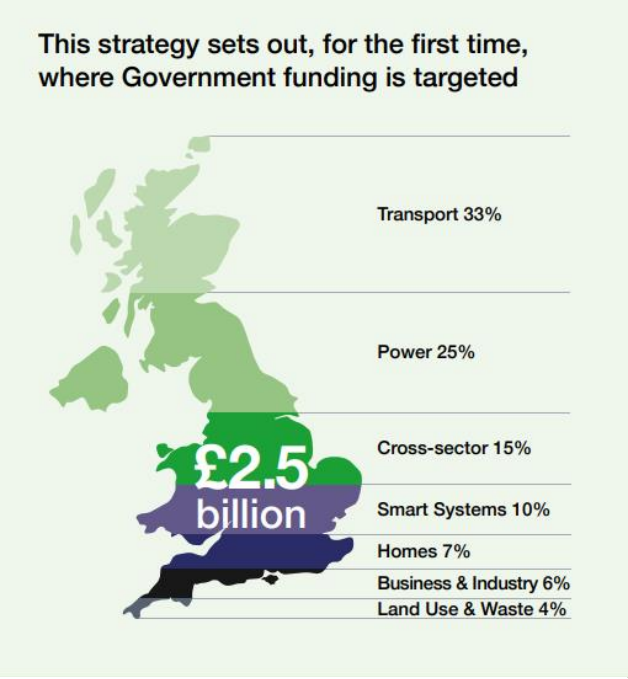
- Cutting energy bills and carbon emissions in the public sector: A call for ideas to reduce carbon emissions in the public and higher education sectors.

The Government has also opened a funding round on innovations in the built environment, a £10 million fund to develop technologies that reduce the carbon emissions associated with providing heat and hot water to UK buildings.

Finally, the Government has also called for content suggestions for an annual "Green Great Britain Week" to be sent to CleanGrowthStrategy@beis.gov.uk by 31 December 2017. While this might not seem directly relevant to many businesses, these occasions open up the opportunity for businesses to establish long-term mutually beneficial working relationships with Government officials.

FOCUS OF EXPENDITURE

New and previously confirmed expenditure forms a significant proportion of this strategy and the Government has shown a willingness to invest heavily in supporting new innovations via development grants and installing new infrastructure. Continuing to invest in infrastructure was one of the lessons learnt from the post-2007 austerity implementation.



HM Government, Clean Growth Strategy, 2017

Unsurprisingly, transport receives the biggest proportion of funding. This is partially because of the significant opportunities available from electric vehicles. The Office of Low Emission Vehicles (OLEV) has predicted that the cost of Electric Vehicles will fall below that of conventional vehicles by the mid-2020s. It is also driven by the lack of progress made in the transport sector to date. Power as well as Business and Industry have reduced their emissions by 49 per cent and 47 per cent respectively since 1990, whereas it has only reduced by two per cent in transport.

The strategy contains conspicuously little about the much-needed electrification of Britain's railways. There is a commitment to moving more road freight to rail freight but the only mention of rail

electrification is generally a non-binding statement to "continue to invest in route electrification where it provides benefits to passengers". This will be seen by many as an opportunity lost as the technology required to do this is already well established and electrification would provide an opportunity to install other infrastructure such as communications cables.

	Emissions (Mt)		
Sector	1990 base year[47]	2015	Percentage change 1990-2015
Business and industry	231	123	-47%
Transport	122	120	-2%
Power	204	104	-49%
Natural resources	152	77	-50%
Homes	80	64	-20%
Public sector	13	8	-40%
Total	**803**	**496**	**-38%[48]**

KEY MEASURES

The report contains 50 measures, set out under eight themes. We have analysed each of the energy sector focussed themes and provided a breakdown of the key energy measures contained within the strategy.

Accelerating Clean Growth

This is perhaps the area that provides the biggest immediate opportunity for businesses to help shape the direction of Government support in this space, either by ensuring that new standards take into account technologies that are being developed or by working with the Green Finance Taskforce to help identify the areas that should receive greater public and private investment.

1. Develop world leading Green Finance capabilities, including by:

- Setting up a Green Finance Taskforce to provide recommendations for delivery of the public and private investment we need to meet our carbon budgets and maximise the UK's share of the global green finance market.
- Working with the British Standards Institution to develop a set of voluntary green and sustainable finance management standards.
- Providing up to £20 million to support a new clean technology early stage investment fund.
- Working with mortgage lenders to develop green mortgage products that take account of the lower lending risk and enhanced repayment associated with more energy efficient properties.

Improving Business and Industry Efficiency – 25 per cent of UK Emissions

The strategy turns its attention to two areas that have recently not received much attention from Government as its previous announcements focussed on energy storage and zero-carbon energy production – carbon capture and storage and heating, particularly building efficiency.

The Government makes a £100 million financial commitment to carbon capture and storage, equivalent to about 40 per cent of the funding awarded to the much publicised Faraday Challenge to support battery technologies.

It also, rightly, draws attention to the energy inefficiency of buildings in the UK. It sets out plans to phase out the installation of high carbon heat sources by 2020.

1. Develop a package of measures to support businesses to improve their energy productivity, by at least 20 per cent by 2030.
2. Establish an Industrial Energy Efficiency scheme to help large companies install measures to cut their energy use and bills.
3. Invest up to £100 million in leading edge Carbon Capture Usage and Storage (CCUS) and industrial innovation to drive down costs.
4. Work in partnership with industry, through a new CCUS Council, to develop the option of deploying CCUS at scale in the UK and to maximise its industrial opportunity.
5. Phase out the installation of high carbon forms of fossil fuel heating in new and existing businesses off the gas grid during the 2020s, starting with new build.
6. Invest around £162 million of public funds in research and innovation in Energy, Resource and Process efficiency, including up to £20 million to encourage switching to lower carbon fuels. Also, Support innovative energy technologies and processes with £14 million of further investment through the Energy Entrepreneurs Fund.

Improving the energy efficiency of our homes

This is largely focused on improving the efficiency of homes, particularly households in fuel poverty, through measures such as a continuation of the homes insulation grant and smart meter rollout. i.e. the gas boilers that heat most domestic dwellings. However, Government seems to have missed an opportunity to drive a rapid increase in the efficiency of gas boilers. An easy win given the products already on the market that can be retrofitted into existing boilers.

The wording around the smart meter rollout is key. It is offering all households the opportunity to have a smart meter. This continues the rollback of the Government's initial plans to install smart meters in all homes and small businesses by the end of 2020. This is a recognition of the fact that the current generation of smart meters suffer from a number of deficiencies, including some that can lock customers into particular suppliers. It is also aligned with information WA has received to suggest that the Energy Minister and Energy Secretary are not as supportive of smart meters as they once were.

1. Support around £3.6 billion of investment to upgrade around a million homes through the Energy Company Obligation (ECO) and extend support for home energy efficiency improvements until 2028 at the current level of ECO funding.
2. Upgrade all fuel poor homes to Energy Performance Certificate (EPC) Band C by 2030.
3. Consult on strengthening energy performance standards for new and existing homes under Building Regulations, including futureproofing new homes for low carbon heating systems.
4. Offer all households the opportunity to have a smart meter to help them save energy by the end of 2020.

Rolling out low carbon heating

Regulatory sources expect investment in heat networks to be modest – indeed this strategy sets out no additional funding for heat networks – because there are few viable sites given the cost and inconvenience of retrospective installation. It will be used most commonly in new large-scale

apartment block developments where it is already used extensively given the current financial savings it offers house builders and occupiers.

1. Build and extend heat networks across the country, underpinned with public funding (allocated in the Spending Review 2015) out to 2021.
2. Phase out the installation of high carbon fossil fuel heating in new and existing homes currently off the gas grid during the 2020s, starting with new homes.
3. Improve standards on the 1.2 million new boilers installed every year in England and require installations of control devices to help people save energy.
4. Invest in low carbon heating by reforming the Renewable Heat Incentive, spending £4.5 billion to support innovative low carbon heat technologies in homes and businesses between 2016 and 2021.
5. Invest around £184 million of public funds, including two new £10 million innovation programmes to develop new energy efficiency and heating technologies to enable lower cost low carbon homes.

Accelerating the Shift to Low Carbon Transport – 24 per cent of UK Emissions

The Government is placing a huge amount of focus on transport and, within that, electric vehicles. It is surprising to see money being set aside for direct subsidies to reduce the costs of electric vehicles for consumers given its forecast that EVs will be cheaper than conventional cars by the mid-2020s. Most industry insiders believe that a lack of infrastructure will be the main hindrance to widespread take up.

We would expect current plans to result in increased pressure on the current infrastructure over the next five years and it is likely that the Government will be forced to put further resources towards supporting companies that can offer a solution.

1. End the sale of new conventional petrol and diesel cars and vans by 2040 and spend £1 billion supporting the take-up of ultra-low emission vehicles (ULEV) including customer subsidies.
2. Invest an additional £80 million in electric charging networks, alongside £15 million from Highways England, to support charging infrastructure deployment and set requirements for the provision of charging points.
3. Accelerate the uptake of low emission taxis and buses by providing a further £50 million to subsidise the costs of new ULEV taxis and £100 million to retrofit new low emission buses.
4. Work with industry as they develop an Automotive Sector Deal to accelerate the transition to zero emission vehicles.
5. Establish the Centre for Connected and Autonomous Vehicles and investment of over £250 million, matched by industry.
6. Invest around £841 million of public funds in innovation in low carbon transport technology and fuels. This includes £246 million to support the development of battery technology through the previously announced Faraday Challenge fund.

Delivering Clean, Smart, Flexible Power – 21 per cent of UK Emissions

Broad plans have been laid out but much of the detail depends on the outcome of the forth coming Dieter Helm review of the cost of energy. However, there are still many significant announcements within this. In particular, the proposal to create a more independent system operator (National Grid). This shifts the Conservative Party to the right and further from the Labour Party position of renationalising National Grid. Until now, this administration had been seen to be moving much more to the political left in regards to energy policy.

There is also the much needed confirmation of further Contract for Difference 'pot 2' funding for new technologies such as offshore (but not onshore) wind and biomass. This will give developers just enough time to develop sufficient plans to submit an application for 2019.

The Government also confirms two controversial measures: The publication of a draft bill for an energy price cap that will impact 18 million households and the construction of Hinkley Point C. It also indicates an appetite for more nuclear after Hinkley.

1. Reduce power costs for households and businesses by implementing the smart systems plan, creating a more independent system operator, responding to the Dieter Helm review and publishing a draft bill to require Ofgem to impose a cap on standard variable and default tariffs across the whole market.
2. Phase out the use of unabated coal to produce electricity by 2025.
3. Deliver new nuclear power through Hinkley Point C and progress discussions with developers to secure a competitive price for future projects in the pipeline.
4. Improve the route to market for renewable technologies through up to £557 million for further Pot 2 CfD auctions, with the next one planned for spring 2019 as well as developing a Sector Deal for offshore wind, which could result in 10 gigawatts of new capacity.
5. Target a total carbon price in the power sector which will give businesses greater clarity on the total price they will pay for each tonne of emissions. Further details on carbon prices for the 2020s will be set out in the Autumn 2017 Budget.
6. Innovation: Invest around £900 million of public funds, including:
    - £265 million in smart systems to reduce the cost of electricity storage, advance innovative demand response technologies and develop new ways of balancing the grid.
    - £460 million in nuclear to support work in areas including future nuclear fuels, new nuclear manufacturing techniques, recycling and reprocessing, and advanced reactor design.
    - £177 million to further reduce the cost of renewables, including innovation in offshore wind turbine blade technology and foundations.

Other non-energy sector carbon reduction measures – 17 per cent of UK Emissions

The strategy concludes with a number of measures that are not of particular relevance to the energy sector but show a desire to reduce emission in other sectors such as farming and the public sector. This includes a new environmental focused package of farmer support after Brexit and more stringent commitments for Government to reduce its own emissions.

The economic link of this strategy is restated via a new "emissions intensity ratio" that will measure carbon emissions in relation to economic growth and will be reported on annually.

HOW WA CAN HELP YOU

Assessing the impact on your business
An assessment of the immediate economic implications of the Clean Growth Strategy and the broader political narrative:

1. The latest political developments and implications for you.
2. How to effectively position your organisation within the developing political, media and policy narrative around energy and the Clean Growth Strategy.
3. A presentation to your senior team on the Government's proposals and our analysis.

Supporting your engagement strategy
A deep-dive into your public affairs, PR and communications strategy to help you maximise impact and exploit new opportunities:

1. Review your strategy and stress-test your messaging in light of the Clean Growth Strategy.
2. Make recommendations on how to revise your strategy to ensure it effectively responds.
3. Support in engaging with ministers, government officials and political players.
4. Help you to forward-plan your political engagement against key milestones.

ABOUT WA

WA is the agency of choice for clients with complex public affairs and strategic communications challenges.

WA blends creative, strategic thinking with experience to solve public affairs and strategic communications challenges. We develop and protect clients' reputation, inform the policy debate and help clients get up to speed quickly on the external issues and stakeholders that matter.

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