



NATIONAL INFRASTRUCTURE COMMISSION

Rt Hon Prime Minister
10 Downing Street
London
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Date 6th September 2022

Policies to support energy security

Cc: Chancellor of the Exchequer; Secretary of State for Business, Energy and Industrial Strategy

Dear Prime Minister,

Congratulations on your appointment. We look forward to working with you on the major challenges of climate, infrastructure, and energy.

We welcome your support for the UK's Net Zero target. Meeting Net Zero can help secure the UK's energy sovereignty and protect it from volatile fossil fuel prices. Infrastructure has a critical role in supporting delivery of Net Zero.

The UK is facing a set of grim records: high energy prices, extreme summer temperatures, a historic drought and surging inflation. These are indicative of the long-term challenges of climate change, and the immediate economic challenges which could see up to three-quarters of UK households threatened by fuel poverty. The OBR expects natural gas to remain expensive, at three to four times the average pre-invasion price, until 2027. 90% of the recent increase in the energy price cap is driven by changes in the price of gas. Addressing our dependency on fossil energy offers us the best way out of these crises.

Decisive Government action in the near term can deliver lasting benefits to the UK's climate and energy security. In addition to any new package of support for consumers this winter, we urge you to follow the principles laid out in the British Energy Security Strategy and the Net Zero Strategy. The best policies for the consumer are those that support lasting energy security and a low carbon, low-cost energy system. The independent analysis of our respective organisations is that this will deliver a long-term return on investment and set the UK on a path to prosperity.

The UK cannot address this crisis solely by increasing its production of natural gas. Greater domestic production of fossil fuels may improve energy security, particularly this winter. But our gas reserves – offshore or from shale – are too small to impact meaningfully the prices faced by UK consumers.

Energy security and reducing the UK's exposure to volatile fossil fuel prices requires strong policies that reduce energy waste across the economy and boost domestic

production of cheap and secure low carbon energy. The following actions can support this:

1. **Develop credible policies for energy efficiency in buildings.** Investing in efficiency now will provide meaningful reductions in the amount of energy wasted over the long-term and support the necessary transition to low-carbon heat. In addition to policies and investment already made this requires:
 - **Owner-occupiers:** Develop and publish (by the end of Q2 2023) new policies which will ensure that all owner-occupied homes reach a minimum standard of EPC C by 2035.
 - **Public sector:** Expedite and increase investment to reduce energy use across the public sector estate.
 - **Rented sector:** Finalise policies to increase minimum energy efficiency standards for the private rented sector to EPC C by 2028.
 - **Businesses:** Finalise policies to increase minimum energy efficiency standards for the private rented sector to EPC B by 2030 and introduce a performance-based rating system for large commercial buildings.

The Government lacks credible long-lasting policies to improve energy efficiency in UK buildings. The stop-start nature of energy efficiency policy is hampering development of the supply chain. We estimate that at least 15 million homes require some form of energy efficiency improvement. As recently as 2012 government programmes supported the installation of more than 2.3 million insulation measures that year. Equivalent schemes only installed 93,500 measures in 2021. Slow progress on improving the efficiency of the public sector estate means that it faces extraordinary bills this winter. NHS England alone could see gas and electricity bills rise from £600m in 2021 to over £2bn in 2022. Businesses face similar challenges and need policy support.

2. **Provide and promote a comprehensive energy advice service.** This would build on the energy advice service launched this summer and follow through on the commitment made in the British Energy Security Strategy.

Public awareness of what can be done to reduce energy use (either in homes or businesses) is too low. Specific advice on this could help in the near term by increasing awareness of low or zero-cost actions that could reduce wasted energy straightaway, such as lowering boiler flow temperatures, and simple draught proofing. Lowering boiler flow temperatures can reduce gas consumption alone by 6-8%. This service can also provide households and businesses with comprehensive information about longer-term measures, such as low carbon heating.

3. **Deliver a working market-based mechanism for low-carbon heat.** This is the main policy the Government has put in train to deliver on its goal to grow the market for heat pumps. It is therefore imperative that it is delivered and that its progress is monitored from the start to support its success.

Reducing and ultimately removing our reliance on fossil energy for heating supports both our climate and energy security goals. The Government needs to sustain its level of ambition for low-carbon heat. Accelerating the development of market mechanisms should drive installation rates up and costs down, boost skilled employment and improve access to low-cost finance for heating systems. But the current proposals carry risks. One such risk is the persistently higher price of electricity relative to gas, which acts as a disincentive to switch from gas boilers. The Government should address this disparity for

consumers in its review of electricity market arrangements, creating a strategic incentive to shift to electricity for heat.

- 4. Make full use of new auctions for onshore wind and solar.** Renewables are the cheapest form of electricity generation. Onshore wind and solar have the potential to be deployed fastest and thus reduce our reliance on natural gas sooner.

The Government has made a welcome commitment to a 2035 decarbonised power system. We encourage you to remove any practical barriers to its delivery. Growing renewable generation is already reducing our exposure to international gas prices and therefore reducing energy bills. The contracts for difference mechanism has proven its success in delivering new capacity in renewable energy at low cost. The latest auction revealed prices for renewables that are nine times cheaper than current high electricity prices set by gas generation. These high prices mean renewable generators with contracts for difference are saving £23 per year for a dual-fuel customer under the latest price cap announcement.

- 5. Deliver updated National Policy Statements for energy and act at pace to resolve barriers to deployment of strategic energy infrastructure.** Finalising the revised National Policy Statements as soon as possible is a critical first step to support a low carbon low-cost energy system. It must be followed with rapid action to overcome barriers to deployment, for both new low-carbon electricity capacity and the network infrastructure required to support this.

The process for revising National Policy Statements for energy has stalled. These statements, setting out Government's strategic priorities, need to be finalised as soon as possible. We welcome improvements to the strategic planning, detailed design, and delivery of energy infrastructure that have been signalled, including: the establishment of a new independent system operator and steps being taken to improve the Nationally Significant Infrastructure Planning process. But we face a situation today that calls for more urgency in solutions to unblock the delivery of infrastructure essential to the efficient operation of the electricity system, including networks, that will ultimately reduce energy bills to households and businesses.

We offer you this advice in line with the remits of our organisations. There is an opportunity in the coming months to deliver policies which will drive a recovery that secures a long-term advantage for the UK. By doubling down on efforts to end our dependence on gas we can lower consumer energy costs and make meaningful contributions towards combatting climate change.

We would welcome the opportunity to discuss these matters further.

Yours sincerely,



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Chair, Climate Change Committee



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