

BRITISH ENERGY SECURITY STRATEGY - HIGH ON AMBITION, STILL LOW ON DETAIL

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Legal Briefings

Amid soaring prices, political obstacles and pressure for enhanced security, the Government's new energy playbook needs more than eye-catching targets to tackle the key issues

BACKGROUND: A GLOBAL CRISIS WITH UK QUIRKS

On 7 April, the Government published its [British energy security strategy](#) amid a period of remarkable turbulence and controversy in the sector. Just consider the background to the launch. Our November 2021 [briefing](#) and [podcast](#) looked at the worsening global energy crisis and in [this briefing](#) and [podcast](#) we assessed issues specific to the UK.

On 3 February, the scale of the political impact hit when a 54% increase to the UK's [Default Tariff Cap](#) was [announced](#) from 1 April 2022. For the six months prior, consumers were shielded from price rises while 30 energy suppliers [went bust](#). The Government's [Energy Bills Rebate](#) scheme and other measures were announced in response.

Russia's invasion of Ukraine on 24 February prompted countries across Europe to reassess their energy strategies. See our briefing [here](#) on the EU Commission's plans.

Unlike several European countries, most notably Germany, the UK imports little energy directly from Russia (8% for oil, 4% for gas). However, gas fuels over a third of its electricity generation (and as the marginal generation it largely determines its price) and heats over 80% of homes. So, as the UK imports much of its gas, UK consumers and industry are exposed to global price increases. In March, European gas prices breached recent winter records to levels 13 times higher than a year ago.

Below, under each of the strategy's headings, we summarise key points and provide our own comments and assessments of its impact on UK energy policy and markets. Click the headings to reveal.

"Politically, perhaps the most interesting aspect is that the Government's Net Zero commitments now firmly align with its focus on security of supply in response to the invasion of Ukraine and the existing global energy crisis. The hope is this will help sustain a broader coalition in favour of these policies in the future, particularly among the Government's own backbenchers."

Paul Butcher, Director of Public Policy

"Overall, the strategy largely ignored measures which could have substantially helped with short term decarbonisation and costs. To some extent, this seems due to the challenges of agreeing new spending outside set-piece fiscal events. So those disappointed will now shift their focus to the Autumn Budget."

Silke Goldberg, Partner

IMMEDIATE SUPPORT ON ENERGY BILLS

- The strategy reiterates existing consumer support, with no new measures.
- Recognising UK industrial prices are now higher than competitors, it:
 - extends the Energy-Intensive Industry Compensation Scheme by three years,
 - "intends" to increase the aid intensity up to 100% (1.5% of gross value added); and
 - will consider measures that could aid business such as increasing the renewable obligation exemption to 100%.

Our comment: It is likely the Government will look again at consumer support ahead of the next Default Tariff Cap period (expected from 1 October 2022 at the latest). Government will also face continued pressure for support beyond the limited measures for energy-intensive industry.

ENERGY EFFICIENCY

- The strategy reiterates:
 - existing proposals from the Heat and Building Strategy, the Spring Statement and the ECO4 consultation; and
 - plans to move surcharges on energy bills from electricity to gas to encourage electrification.
- There were minor new commitments to encourage heat pumps, including a competition to boost UK production.

Our comment: Given the UK's poorly insulated housing stock, improving energy efficiency is thought to be the quickest and cheapest way to reduce consumer energy bills by 20%. So, the absence of an accelerated rollout is a missed opportunity when return on investment is at an all-time high. However, such changes require additional Government funding which would need to have been announced in the Spring Statement, so this was not a surprise. Focus now shifts to the Government's Autumn Budget.

OIL AND GAS

- The strategy references the re-named North Sea Transition Authority's plans for the [first licensing](#) round since 2020 this autumn, taking account of the forthcoming climate

compatibility checkpoint and the need for energy security.

- While the moratorium on shale gas exploration remains, the Government has commissioned a review by the British Geological Society on shale gas extraction which might pave the way for its lifting. See our commentary [here](#).
- It reiterated commitment to four industrial clusters based around new carbon capture, usage, and storage (CCUS) projects.

Our comment: *The Government is seeking to square the circle between increased oil and gas exploration investment and its Net Zero by 2050 commitments by keeping a substantial role for natural gas during the UK's transition. However, Government plans still assume an over 40% reduction in gas consumption by 2030 and further reductions beyond. The North Sea legacy provides the UK with some of the world's most advantageous CCUS conditions. So, it makes sense for UK CCUS and blue hydrogen to provide a way for gas to continue its transitional role balancing renewables' intermittency with a drive to decarbonise heavy industry. Following the strategy, the Government published its [Carbon capture, usage and storage \(CCUS\): investor roadmap](#). This is part of a series of roadmaps being published in 2022 for each sector of the Government's [Ten Point Plan](#). Investors will continue to monitor the Government's strategy to deliver the necessary pipeline of investment and supply chain capacity.*

OFFSHORE WIND

- The strategy increased the target for offshore wind by 2030 from 40GW to 50GW, including up to 5GW (from 1GW) of floating wind.
- It proposed new planning reforms to cut the overall development time by over half, partly through amendments to the Planning Act 2008.

Our comment: *With offshore wind costs becoming increasingly competitive, even prior to the recent energy crisis, together with the UK's geography this focus makes sense. However, the ultimate test will be delivery rather than ambition.*

Investors will wait to see the details and impact of the Government's planning reforms and wider delivery strategy.

ONSHORE WIND

- The Government has stepped back from substantive changes to planning regulations for English onshore wind. Instead, this year, it will consult local communities who wish to host new projects with partnerships for certain benefits such as lower energy bills.
- The Government will support the Welsh and Scottish Governments in onshore wind deployment with grid improvements.

Our comment: *The easing of the moratorium on new onshore wind in England will be seen as too little by many given that it is the cheapest route to decarbonise in the short term. Government concerns over local opposition are outdated given the [big increases](#) in support over the last five years (now at around 70% support), including for those living nearby. However, opposition within the Conservative Party to onshore wind remains, which may partly explain the Government's stance.*

Investors will be looking carefully at the upcoming community consultations.

SOLAR AND OTHER TECHNOLOGIES

- The Government has not committed to a specific target on solar power but expects a five-fold increase by 2035 from the current 14GW capacity.
- It will run consultation on permitted development rights to simplify planning processes and support increased solar installations on domestic and commercial rooftops. It will also consult on amending planning rules to promote development of non-protected land.
- It has committed to explore opportunities for tidal and geothermal power and potential expansion of the [Contracts for Difference](#) support scheme.

Our comment: *As with onshore wind, and increasingly with offshore wind, the barriers to greater investment in solar do not relate to subsidy. Consultations on other obstacles are welcome.*

Potential investors in other technologies await the results of the Government's current thinking on expanding low carbon support, although the timeline on this remains unclear.

NUCLEAR

- Nuclear supplies 15% of the UK's electricity. The strategy increases the target share to 25% by 2050. At 24GW of capacity this is three times the current contribution.
- The Government already committed to take one project to Final Investment Decision (FID) by the end of this Parliament (expected to be Sizewell C) and the strategy commits to bringing two further projects to FID by the end of the next Parliament, including small modular reactors.
- A new body, the Great British Nuclear Vehicle, will be set up to accelerate delivery.
- The planning and consenting process will be reviewed to remove duplication and identify streamlining opportunities.

Our comment: *The greater ambition on nuclear will be welcomed by those who agree with the International Energy Agency's view that expansion of nuclear power is necessary alongside renewables under most realistic Net Zero by 2050 scenarios. The UK is well placed to contribute to this.*

A key and often overlooked benefit of additional nuclear output is the role it can play mitigating the intermittency of renewables as its share of generation expands. This is via so-called pink hydrogen (hydrogen through electrolysis powered by nuclear energy where excess power would otherwise unbalance the system) and heat (switching from electricity to heat production for the same reason).

However, the strategy itself identifies the enormous delivery challenge: it requires drastically improving the UK's track record to now start approving "the equivalent of one reactor a year, rather than one a decade".

Investors will be watching carefully as further details of the Government's delivery strategy emerge, including the extent of its appetite for co-investment alongside the private sector.

HYDROGEN

- The strategy doubles the 2030 hydrogen production target to 10GW.
- The Government aims to run annual allocation rounds for green hydrogen, moving to price-based competitions by 2025, to get to 1GW of green hydrogen in construction or operational by then.

Our comment: Hydrogen has a central role to store energy from renewables and nuclear as necessary to balance the system. It is also key to being able to decarbonise heavy industry including via natural gas and CCUS at the Government proposed industrial clusters (see under CCUS above).

Following the strategy, the Government published its [Hydrogen investor roadmap: leading the way to net zero](#). This is part of a series of roadmaps being published in 2022 for each sector of the Government's [Ten Point Plan](#).

NETWORKS, STORAGE, AND FLEXIBILITY

- The Government is [proceeding with plans](#) to establish a publicly owned Future System Operator to take on a wider strategic planning remit overseeing the energy system.
- It reiterated its plan to set out a blueprint for the whole system by the end of 2022 in the Holistic Network Design and Centralised Strategic Network Plan.
- It announced a Review of Electricity Market Arrangements in Great Britain with options for reform set out this summer.

Our comment: As with all the areas covered by this high-level strategy, both the detail and delivery are vital.

INTERNATIONAL DELIVERY

- The strategy reiterates existing targets, including commitments to phase out Russian oil and coal by the end of 2022 and imports of Russian liquified natural gas as soon as possible thereafter.

Our comment: *Even outside the EU, co-operation, including the use of interconnectors, can play an important role to assist decarbonisation at the lowest cost for both the UK and European partners while improving security of supply.*

A different version of this analysis was first published on Lexis®PSL on 13 April 2022 and can be found [here](#) subscription required.

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