Energy and Climate Change Select Committee
Inquiry into future challenges in energy and climate change policy

Written evidence submitted by Sustainability First

Summary

1. Investor confidence in Government low-carbon interventions is poor. It can be improved in future by better intervention design, through the use of a set of Good Intervention Principles. This should be a priority for the next Government.

Creating an appropriate climate for low-carbon investment

2. Successive UK Governments have introduced a range of interventions over the last 20 years to support large- and small-scale low-carbon electricity generation and investment in energy efficiency and demand-side response, and more recently to achieve major changes to the structure of the wholesale electricity market as part of the Electricity Market Reform package.
3. Government intervention, however, requires targets to be set - either by quantity or by price - each likely to need later modification. But ad hoc changes to policy upset potential investors. The rules for making such modifications need to be made clear from the outset.
4. Some Government interventions, such as the Feed-In Tariff for small scale renewables and the various energy supplier-driven energy efficiency schemes, have delivered significant outcomes, while others, such as the Green Deal, have so far been less successful. But almost all of these interventions have been subject to unplanned changes as a result of unanticipated changes in costs or circumstances. The willingness of investors to commit to low-carbon investments has suffered accordingly. Concern has been expressed by a number of commentators, most recently the International Energy Agency[1] and Ernst & Young[2].
5. Given the level of investment needed to meet the Government's low-carbon ambitions, it is essential to maintain an environment that encourages investors to invest, while recognising that policies cannot be set in stone for ever. An examination of the issue by Sustainability First[3] proposes a set of Good Intervention Principles, akin to the Better Regulation framework, to assist those introducing or administering low-carbon energy interventions, to balance the needs of investors and the public purse:

    1. Well-defined break points, pre-determined from the outset
    2. No retrospective changes to financial support for approved projects
    3. A clear progression over time from even-handed support for particular new technologies - to a technology-neutral approach with a common price for carbon
    4. Long term nature of investment requires a cross-party approach

---

[1] "Policy uncertainty threatens to slow renewable energy momentum", IEA press release, 28 August 2014, http://www.iea.org/newsroomandevents/pressreleases/2014/august/name-125080-en.html

[2] "UK renewables attractiveness falls to its lowest level for five years", EY news release, 16 September 2014, http://www.ey.com/UK/en/Newsroom/News-releases/14-09-16---Perfect-storm-sees-UK-renewables-attractiveness-fall-to-its-lowest-level-in-five-years

[3] Balancing Investor Needs & Cost Control : a framework for improving Government low- carbon interventions. (In draft – for publication Spring 2015).

5. Clarity on the impact on different user groups (eg fuel poor, all-electric households, intensive energy users)
6. Keep number of interventions to a minimum and reduce complexity

DECC should work with the Better Regulation Executive to establish such Principles, which should underpin all new Government low-carbon interventions.

Sustainability First

Sustainability *First* is a small environment think-tank and charity. It undertakes research, publishes policy and discussion papers, organises workshops and high level seminars to promote new thinking on sustainability.

November 2014