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UK NET ZERO POLICY: KEY TAKEAWAYS FROM THE POWERING UP BRITAIN PACKAGE 2023

GOVERNANCE & SUSTAINABILITY
Part of the Horizon Scanning series

The Sunak government set out its vision of the UK's transition to a net zero, nature-positive economy in a series of publications on 30 March 2023. Originally dubbed "Green Day" and renamed "Energy Security Day", the difficulty in nomenclature stems from the breadth of policy published. Whilst the package largely updates or restates existing policy, important progress has been made in energy, nature, and green finance. These policies and proposals will have wide-ranging implications across the UK economy, affecting all market participants from corporates and funders to developers and their supply chains. We consolidate the key documentation and consider the central points from the publications below.

Several drivers prompted this policy bonanza. The government was complying with a High Court ruling following a challenge to the 2021 Net Zero Strategy which gave the UK a deadline of the end of March 2023 to publish more detailed policies that show how the UK's carbon budgets would be met. The publications also highlight the opportunities for capitalising on green growth and seek to respond to the EU's Net Zero Industrial Plan and the USA's Inflation Reduction Act which some commentators have characterised as "an arm's race" to capture the advantages of the green economy.

The **Powering Up Britain** package includes the **Energy Security Plan**, the **Net Zero Growth Plan** and the **Carbon Budget Delivery Plan**, as well as the government's responses to Chris Skidmore's **Independent Review of Net Zero** and to the Climate Change Committee's **2022 Progress Report**. Alongside this, the government also published the **2023 Green Finance Strategy**, which seeks to ensure the necessary finance flows to the UK's net zero, energy security and nature economies, and the **Nature Markets Framework** to engage the private sector to mobilise green finance towards nature. Significant consultations focused on **regulating ESG ratings providers**, **minimising carbon leakage** and national planning policy were also published.

1. Reporting on sustainability-related disclosures, the UK taxonomy and transition plans remains a priority

The government has confirmed it plans to press ahead with the previously announced Sustainability Disclosure Requirements (**SDR**) regime, which is aimed at streamlining and enhancing existing sustainability-related disclosure requirements for businesses, the financial sector and investment products.

The new regime will closely follow the Taskforce on Climate-related Financial Disclosures (**TCFD**) framework, which is already being disclosed against by large public and private companies as well as listed companies. It will also incorporate the disclosure standards being developed by the International Sustainability Standards Board (**ISSB**), following a formal assessment of whether they are appropriate to the UK once the first ISSB standard is published, likely in June 2023. Further details on the SDR regime are expected in the summer, tied to the development and publication of the ISSB standards.

As part of the **2023 Green Finance Strategy** (**GFS23**), a broader review of the UK's non-financial reporting framework will also be undertaken, which will take a fresh look at the wider legal landscape in which sustainability disclosures and other planned reforms will take place. A call for evidence is to follow.

Despite some delay, the government is maintaining its commitment to deliver a UK Green Taxonomy, to provide investors with definitions of which economic activities can be labelled as “green”. It expects to consult in autumn 2023 and has said proposals will be developed with proportionality in mind to minimise the burden on business. Subject to consultation, nuclear will be included (see below). Once finalised, Taxonomy-related reporting will be voluntary for at least two reporting years, after which the government will explore mandating disclosures. A “Transition Taxonomy” may also be developed (as recommended by Independent Review of Net Zero), or certain transitional activities may be included in a unified Taxonomy.

The GFS23 also includes a renewed commitment to consult on new requirements for the UK’s largest companies to disclose their transition plans if they have them, and to work with the Financial Conduct Authority (**FCA**) to deliver similar requirements for the financial services sector. This will, presumably, follow publication of at least the first phase of recommendations from the UK’s Transition Plan Taskforce (**TPT**), the taskforce currently tasked with developing guidance for gold standard transition plans.

To ensure parity between public and private companies, the government has said the stance in its transition plan consultation will align closely with the requirements the FCA already imposes on listed companies and large asset owners and managers. Importantly, this includes adopting a “comply or explain” approach, i.e. businesses will have to disclose their transition plans or explain why they have not and what steps they plan to take to do so.

More generally, the TPT is looking to align with the ISSB and Glasgow Financial Alliance for Net Zero (**GFANZ**) guidance, and the government has said it will advocate for international adoption of the UK’s “gold standard” for transition plans, through the G7 and G20.

2. ESG ratings providers may be brought within the regulatory perimeter

In order to provide further transparency and assurance to the market, HM Treasury has launched its consultation outlining how those who provide ESG ratings for specified investments under the Regulated Activities Order (**RAO**) could be brought within the regulatory perimeter. This would require an amendment to the RAO and mean that ESG ratings providers would need to become FCA-authorised firms in order to provide such ratings compliantly.

HM Treasury’s proposal intends to capture a wide range of ESG ratings used in the financial markets, regardless of their name or how they are marketed. This would include any assessment of ESG factors, regardless of whether it is labelled as a rating or not, but not raw ESG data or ESG data which has only been minimally processed. A number of other activities will also be excluded. These include, for example, provision of ESG ratings by not-for-profit entities; ESG ratings assessment created by an entity solely for use by that entity; credit ratings which consider the impact of ESG factors on creditworthiness; investment research products; and proxy advisor services.

HM Treasury is proposing to include only direct provision of paid-for ESG ratings to users in the UK, by both UK and overseas providers. Equivalent overseas regimes may be recognised in the future, subject to conditions. The FCA is also considering whether ratings firms would need to have a physical presence in the UK to obtain authorisation.

Finally, the consultation recognises that smaller providers may be more disproportionately affected by regulation than larger ones and is considering whether exemptions for smaller providers may be appropriate. The consultation will close on 30 June 2023.

3. Investment funds and investor engagement - encouraging the transition of capital

Investment labelling and investor disclosure

As part of the SDR, the FCA is currently consulting on an investment labelling and investor disclosure regime aimed at protecting investors from greenwashing, increasing the transparency of products’ actual sustainability and helping investors navigate the market and make more informed decisions. At its core, the proposed regime is seeking to stimulate and encourage the transition of capital of both institutional and retail investors towards investments which are genuinely sustainable.

The proposed regime is currently limited to asset managers and, in respect of a number of proposed targeted rules, distributors of investment products to

UK retail investors. The FCA is, however, seeking views on expanding the regime to FCA-regulated asset owners in respect of their investment products. The proposals also focus on UK-based funds and portfolio management, but the FCA intends to consult further on extending the regime to overseas funds and other products, including pension products, in time. The FCA is cited in the GFS23 as noting that a taxonomy "such as the UK Green Taxonomy" (more on which, see above), once developed, could be one way of demonstrating that assets meet a "credible standard of sustainability".

The FCA published an update, at the same time as publication of the GFS23, indicating it had received 240 responses to its consultation, which it is currently reviewing. It expects to provide a policy statement with finalised rules in Q3 2023 with proposed commencement dates of the finalised regime being adjusted accordingly.

Investor stewardship

The GFS23 also cites the importance of investor stewardship in contributing to the transition of capital safely and responsibly, and to the management of climate-related and environmental risks. Signatories to the Stewardship Code of the Financial Reporting Council (**FRC**) stand at 254, representing £46.4 trillion AUM (up from 235 and £40.7 trillion in 2022).

A particular priority is improving information flow to create a comprehensive disclosure environment, so that decision-useful information and metrics can flow into and out of the financial system, and stewardship can be efficiently implemented and transparently assessed. With this in mind, the FRC, working with the FCA, Pensions Regulator and the Department for Work and Pensions, will review in Q4 2023 the regulatory framework for effective stewardship, including the operation of the Stewardship Code, and the need for any further regulation in this area.

The importance of pension scheme trustees is acknowledged in the GFS23, not least given the more than £3 trillion in UK pension investments currently, and reference is made to the existing FCA reporting requirements in relation to trustees' investment portfolios and their alignment with the Paris Agreement. A number of steps will be taken to provide further clarity on trustees' fiduciary duty in the context of net zero transition, including a series of roundtables later in 2023 and a new Financial Markets Law Committee working group dedicated to fiduciary duty and the issues which may arise.

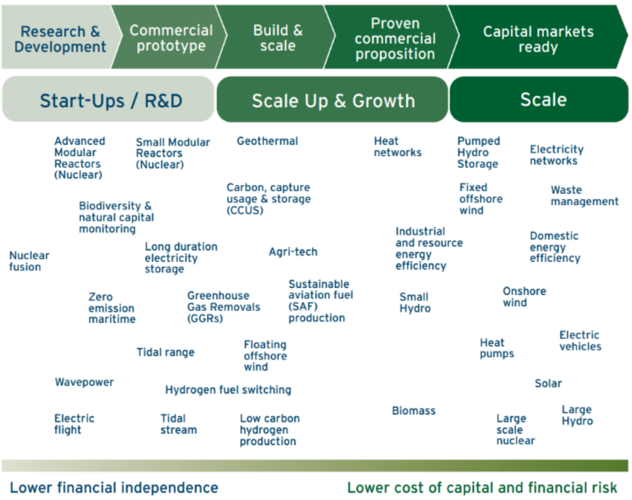
4. Significant funding is needed for the transition

Significant capital investment is required both to strengthen the UK's energy security and to transition the UK economy to net zero. In the GFS23, the government estimates that to deliver on the UK's net zero ambitions, through the late 2020s and 2030s, an additional £50-60 billion of capital investment will be required each year. Already the GFS23 reports that investment in low carbon sectors has more than doubled in real terms over the last five years, with over £50 billion of new investments delivered in the UK across 2021 and 2022. A key focus of the GFS23 is to accelerate this momentum and to transform the UK's financial sector to deliver the investment needed.

The regulatory reforms mentioned above are intended to contribute to this funding requirement by providing market participants with the information and tools necessary to assess climate and environmental opportunities and risks effectively, channelling private capital to low carbon investments.

The GFS23 acknowledges that many of the sectors and technologies needed for the transition to net zero are still pre-commercial, lack scale or carry risks which make them unattractive to the investment market. As a result, intervention is required to address barriers to investment. Where financial support is needed, the type of intervention (ranging from grants and capital support, to operating support and tax incentives) varies depending on the commercial maturity of the technology (shown in the graphic below).

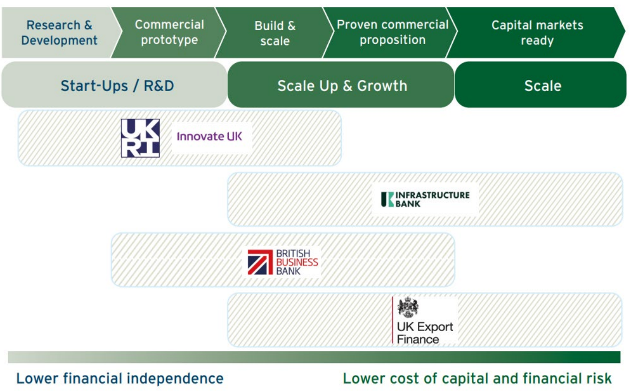
Figure 6: Commercial maturity of key sectors and technology in the UK to meet our net zero, nature and climate adaptation commitments



Source: 2023 Green Finance Strategy

Alongside support schemes, public finance institutions have a role in overcoming these barriers and mobilising private investment into net zero, nature and adaptation in the UK. The GFS23 highlights the role that institutions such as UK Export Finance, the UK Infrastructure Bank (**UKIB**), the British Business Bank, UK Research and Innovation, and Great British Nuclear have in supporting sectors and technologies to mature and up-scale. UKIB has £22 billion to support investment and, according to the Net Zero Growth Plan, expects clean energy to be the largest sector in its portfolio, "building a strong pipeline of opportunities in areas such as hydrogen, CCUS, electricity storage and clean transport." The focus of UK public finance institutions across the technology maturity spectrum is shown in the diagram below.

Figure 7: Focus of public finance institutions and UK Export Finance across the commercial maturity spectrum



Source: 2023 Green Finance Strategy

Acknowledging that if private investment is to be unlocked, investors require clarity, the government intends to develop and publish a series of net zero investment roadmaps throughout 2023. These will "articulate investment needs by sector" – including heat pumps, CCUS and hydrogen – and summarise relevant policy and "opportunities to support investment decisions".

In line with the Independent Review of Net Zero recommendations, the government plans to commission an industry-led market review into how the UK can enhance its position and become "the best place in the world for raising transition capital," an acknowledgment of the key role of transition finance in achieving net zero.

The government has also said in its UK International Climate Finance Strategy that it remains committed to spending at least £11.6 billion on International Climate Finance up to 2025/26 (including at least £3 billion on development solutions that protect and restore nature), meeting its share of the internationally agreed target of $100 billion a year in climate finance funded by developed countries. Prioritising clean energy, nature and biodiversity, climate adaptation and resilience, sustainable cities, infrastructure and transport, it will continue to engage with partners across the private sector, along with climate funds and development banks, governments, and other global institutions.

5. Material advances for nature conservation and restoration

The 2030 Strategic Framework for International Climate and Nature Action (the **2030 Strategic Framework**) serves as the UK's "answer" to the evolving requirement on the parties to the Convention on Biodiversity (**CBD**), to "develop national strategies, plans or programmes for the conservation and sustainable use of biological diversity or adapt…existing strategies, plans and programmes… [to reflect] the measures set out in [the] Convention" (CBD, Article 6). The 2030 Strategic Framework replaces the previous UK National Biodiversity Strategy and Action Plan (**NBSAP**) set in 2011 and reflects what was agreed by parties to the CBD in Kunming and Montreal at COP15 in December 2022.

The government has set out six "Challenge Areas", each tethered to 130 distinct actions which provide insight into how it intends to make use of the five "levers" it has identified as being at its disposal in this exercise: International Partnerships, Finance, Trade, Investment Expertise and Domestic leadership and Science, innovation, and technology.

On funding, the 2030 Strategic Framework provisions up to £3 billion for nature and biodiversity. Whilst additional funds will be welcomed by NGOs, civil society and others, the total amount earmarked by the government still represents a fraction of the overall value of the UK's natural capital (£1.2trn in 2019) and the estimated annual contribution of ecosystem services to the UK's GDP.

A key aspect of the Nature Markets Framework (**NMF**) is providing further detail on the government's planned approach to implementing the Biodiversity Net Gain (**BNG**) requirement in developments. In practice, this will require every development to contribute to a material (>10%) improvement in *biodiversity*. Where this is not possible (and there is a deficit), a developer will be expected to purchase biodiversity credits centrally or directly from accredited landowners, farmers and/or nature NGOs.

The BNG market represents a significant opportunity for nature, with estimates indicating that the market for biodiversity credits could generate in the region of £135 million annually and that these funds could be channelled to protect and restore the UK's biodiversity. Whilst the NMF provides much needed detail, further work will likely be required to win-over sceptics and assure stakeholders and would-be market-participants that the necessary safeguards (such as assurance, governance and transparency) are adequate to ensure market stability and mitigate against the risk of greenwashing.

The government has also committed to publishing a Biomass Strategy in 2023. The strategy will set out how sustainable biomass could be best utilised across the economy to help achieve the government's net zero and wider environmental commitments while also supporting energy security.

6. Tangible progress for CCUS

The **Net Zero Growth Plan** identifies carbon capture, usage and storage (**CCUS**) as a key net zero technology, driving economic growth whilst decarbonising "hard to abate industrial sectors" with estimates that CCUS may need to reach a total of around 50 tonnes per year of CO2 storage by the mid-2030s.

The government confirmed the selection of eight shortlisted projects (down from 20 projects previously shortlisted last summer) for "Track 1" negotiations to form two CCUS clusters, HyNet (in Northwest England and North Wales), and the East Coast Cluster (Teesside and Humber – however, no Humber projects were chosen for the first eight projects which is particularly disappointing given the region is the UK's largest emitter of CO2), adding that "Teesside Power... subject to successful negotiations, could be the UK's first ever power CCUS project." The Track 1 clusters and these early CCUS projects will be funded by £20 billion announced by the Chancellor, Jeremy Hunt, in the Spring Budget 2023. Later in 2023, the government also intends to set out the process for further projects to connect by 2030 in the next expansion of Track-1 (including Humber), and it is hoped this will provide some clarity regarding future opportunities for projects that were not shortlisted.

Track-2 of the CCUS cluster sequencing process, aiming to have two further clusters ready for operation by 2030, was launched with Lord Callanan, Minister for Energy Efficiency and Green Finance, making a **written statement** to Parliament expressing the government's "initial view" that the Acorn and Viking transport systems are "the leading contenders", although expressions of interest are invited (closing date 28 April 2023). In addition, acknowledging the Independent Review of Net Zero's call for a CCUS roadmap beyond 2030 to provide investors with more certainty, there are government pledges to publish shortly "an updated investment roadmap on CCUS, summarising government policy and funding."

The government's objectives for the four clusters include "to capture and store up to 6 million tonnes of CO2 a year from industrial sectors, at least 5 million tonnes of CO2 a year from engineered greenhouse gas removals". Two projects were identified as meeting the deliverability assessment for bioenergy with carbon capture and storage (**BECCS**) projects: Drax Power Ltd and Lynemouth Power Ltd. A **response** to the power BECCS business model consultation was also published (albeit containing very few updates on Government's positions on the key points), whilst the government's long-overdue Biomass Strategy is now expected in June 2023 (as noted above). In relation to engineered greenhouse gas removals, the consultation response on a business model for negative emissions is expected later in 2023 and the UK Emissions Trading Scheme Authority will also work to consider options for integrating engineered greenhouse gas removals in the UK Emissions Trading Scheme (**UK ETS**), with further detail expected in the government response to the UK ETS consultation.

7. Low carbon hydrogen production projects move closer to final investment decision

The government sees "low-carbon hydrogen as a critical component of its broader strategy to deliver energy security, create economic growth and contribute to our net zero target." Crucially for the sector, 20 electrolytic hydrogen production projects (albeit totalling circa 400MW of capacity when only 250MW is on offer for the first round), and two CCS-enabled hydrogen production projects, are being taken forwards to due diligence and negotiation stages respectively in the first allocation rounds for the award of contracts for support under the Hydrogen Production Business Model (**HPBM**). Grant funding under the Net Zero Hydrogen Fund was also awarded to 15 applicants, with a second competition planned in the spring.

A second electrolytic hydrogen allocation round is planned to launch in the autumn. Further blue CCS-enabled projects may be brought forwards under the Track 1 expansion and Track 2 processes planned later this year (see above). In its response to the Climate Change Committee 2022 Progress Report (**CCC Progress Report**), the government indicated its intention to hold more price competitive allocations rounds "from 2025, as soon as legislation and market conditions allow".

The Energy Bill (currently progressing through Parliament) includes enabling powers for the HPBM and the revenue support for CCUS projects. Whilst a recently published consultation on regulations underpinning this revenue support does not cover this in detail, it does include a brief confirmation that revenue support made to projects under the HPBM will be levy funded (subject to consultation and legislation being in place).

Beyond hydrogen production projects, the government intends to consult in 2023 on the need and potential design options for market intervention to support hydrogen to power, which may provide valuable flexible generation to future power networks. The outcome of a Low Carbon Hydrogen Certification Scheme consultation to facilitate international trade is also expected later this year and the government remains committed to developing business models for hydrogen transportation and storage to be in place by 2025.

8. Further investment in nuclear power underway

Nuclear power, both fission and fusion, forms part of the government's long-term energy security and decarbonisation plans. As well as working to ensure Sizewell C achieves its final investment decision this Parliament, the government is committing to further new nuclear, launching Great British Nuclear (**GBN**) to drive delivery.

GBN's immediate priority will be a competitive process to select small modular reactor (**SMR**) technologies, starting in April with the aim of assessing and selecting the leading technologies by autumn. These technologies will receive government co-funding and the government "will work with successful bidders on ensuring the right financing is in place, in line with its commitment to take two Final Investment Decisions next parliament." GBN will also play a role in securing potential sites for new nuclear projects and will "support the government's consideration of further large gigawatt-scale projects." Recognising the role of planning policy in delivering these goals, the government will consult on its approach to siting new nuclear projects later this year and aims to designate a new National Policy Statement for nuclear by early 2025.

In addition, (as noted above) subject to an autumn consultation, nuclear power generation will be classed as "environmentally sustainable" under a revised and modified UK Green Taxonomy regime. It is hoped this will facilitate private investment in new nuclear on a par with that seen in the renewable energy sector.

9. A missed opportunity to double down on renewables

Although the Powering Up Britain package provides reassurance that renewables remain a key area of focus under the Sunak administration, it contains few new initiatives, prompting criticism from industry group RenewableUK which called for "bolder action to secure Britain's clean energy future" in the face of global competition.

Whilst there was recognition that significant investment would be needed to meet the UK's ambitions to reach up to 50GW of offshore wind deployment by 2030, including up to 5GW of floating offshore wind, no new funding was proposed for the sector. A new **Offshore wind net zero investment roadmap** highlights investment opportunities as well as the areas where reforms are focused – namely in determining a coordinated approach to onshore and offshore grids, planning policy reforms, radar mitigation solutions and port investment.

Solar power and onshore wind also receive endorsements, with plans to continue to support both under the Contract for Difference (**CfD**) scheme. In relation to solar power, the package reiterates the British Energy Security Strategy ambition for 70GW of ground and rooftop capacity by 2035. To support this, the Powering Up Britain package asserts that deployment of rooftop solar on industrial and commercial properties will be facilitated (but with little detail on how this might be achieved) and confirmed it would not be making changes to categories of agricultural land in a way which might constrain solar, breaking from the Truss administration's policy.

Planning policy reforms are envisaged to facilitate development of renewables. It will be crucial to get the updates of both **National Policy Statements** and the Strategy and Policy Statement for Energy Policy in Britain right, both to deliver the new renewable capacity needed for net zero but also the network infrastructure required to deliver the power produced to consumers.

The Energy Security Plan notably highlights plans for a call for evidence on non-price factors in CfD allocation in April 2023, which may see system integration and supply chain development included as factors in the selection process. With cost reductions beginning to plateau due to inflation and supply chain constraints, the government is beginning to consider selection criteria other than cost. And, with 1.4GW of onshore wind projects estimated to be approaching the end of their life by 2030, the plan also suggests progress is to be expected on the participation of repowered assets in the CfD scheme which is currently under **consultation**. Finally, the UK is considering overseas projects, highlighting its interest in considering the Xlinks project, to connect onshore wind, solar and battery electricity in Morocco to Britain.

10. Energy networks will be increasingly in the spotlight

Once taken for granted, investment in energy networks is established as an energy security priority and a key area of focus for the Future System Operator (**FSO**), once it is operational in 2024. Revised draft National Policy Statements have been published for Oil and Gas Pipelines and Electricity Networks and are now subject to consultation ending on 23 May 2023.

In relation to power networks, to facilitate a smooth transition to a fully decarbonised electricity system by 2035 and the doubling of electricity demand by 2050, the FSO intends to introduce the first full Centralised Strategic Network Plan in 2025 "to set out a blueprint for the whole electricity network". In the nearer term, work is underway to improve connections processes and development times. The Net Zero Growth Plan includes a commitment to publish an action plan in 2023 in response to recommendations by Electricity Networks Commissioner on halving the development time for projects that help the electricity network accommodate increasing domestic energy supply and new clean energy technologies.

Electricity interconnectors are also expected to play a role in the UK's energy security. The UK has an ambition of realising at least 18 GW by 2030 (over double the current capacity) and is expected to set out its target beyond 2030 before spring 2024 to enable work by the North Seas Energy Cooperation to progress. Offshore grid development will include hybrid projects and multi-purpose interconnectors which combine interconnectors or offshore transmission assets with offshore energy generation projects.

In relation to the future of gas networks, in the Energy Security Plan, the government has undertaken to engage with industry, consumer groups and other stakeholders on the future of the gas system and how to secure the necessary levels of investment alongside a decline in gas demand.

11. Sustainable transport: progress for low carbon vehicles, aviation and shipping

According to the Net Zero Growth Plan, decarbonising transport is a key priority for the government. Seeking to provide certainty to investors and operators, it includes a range of measures designed to boost the shift to EVs and support the transition to low carbon fuels in the maritime and aviation industries. These include a further £381 million investment in the Local Electric Vehicle Infrastructure Fund and £15 million in the On-Street Residential ChargePoint Scheme, helping to build much needed EV infrastructure by installing "tens of thousands" of new chargers across the UK. The government has also announced a final consultation on its **Zero Emissions Vehicle mandate** for new cars and vans, setting minimum targets for the percentage of new, zero emission car and van sales from 2024. In a similar vein, the government has signalled its intention to set an end date for the sale of new, non-zero emission buses along with an expectation for when the entire fleet should be zero emission.

With regard to the aviation and maritime sectors, a second consultation on a **Sustainable Aviation Fuel (SAF) mandate** has been launched to consider incentives for SAF producers (such as tradeable certificates awarded in proportion to GHG savings achieved) and a requirement for suppliers to use sustainable feedstocks for at least 10% of their jet fuel from 2025. The government will also update its **Clean Maritime Plan** (originally published in 2019) and develop targets for decarbonising domestic maritime. In addition, it intends to deliver initiatives such as trials of battery electric and alternative fuelled vessels and shoreside infrastructure by March 2025. It also continues to consider a potential phase out date for the sale of new non-zero emission domestic vessels.

Finally, the government has agreed to a recommendation made by the Independent Review of Net Zero to publish a **Low Carbon Fuels (LCF) Strategy** by the end of 2023, setting out a vision for investment, and legislating to include recycled carbon and nuclear derived fuels in renewables transport fuel schemes.

12. Heat and buildings: energy efficiency measures given more prominence

The UK's ambition is to achieve a 15% reduction in energy consumption from buildings and industry by 2030, backed by a £6.6 billion funding commitment from 2022 to 2025, and a further £6 billion commitment from 2025. Following criticism of previous policies, energy efficiency has been given more prominence and its role in the UK's energy security recognised. The government published its response on the **Energy Companies Obligation+** from 2023-2026 – now rebranded the Great British Insulation Scheme – requiring obligated suppliers to meet annual energy bill reductions through deployment of energy efficiency measures.

The Net Zero Growth Plan also outlines several initiatives to support the rollout of low carbon heat pump systems and reduce the UK's reliance on fossil fuel boilers. As recommended by the Independent Review of Net Zero, the government has decided to continue the Boiler Upgrade Scheme beyond 2025 to at least 2028. This is intended to provide reassurance to industry of the ongoing availability of public funding for heat pump deployment. Other measures include a £30m **Investment Accelerator Competition** for grants to manufacturers of heat pumps and strategically important components, and the extension to 2028 of capital support for the **Green Heat Network Fund**, assisting the construction, expansion and retrofitting of low- and zero-carbon heat networks.

In addition, a fresh consultation on a **Clean Heat Market Mechanism** was launched to stimulate heat pump supply. Like the proposed EV and SAF mandates, this mechanism – to be introduced in 2024 using powers in the Energy Bill – would require heating system manufacturers to meet targets for annual heat pump sales relative to fossil fuel boilers. The government also took the opportunity to restate its intention to introduce a regulatory framework for heat networks and begin implementing heat network zoning by 2025 (requiring buildings within defined areas to connect to a specific heat distribution system unless exempt). However, some commentators have observed that the government "**politely ducked**" a recommendation to bring forward the 2035 phase out date for gas boilers to

2033, agreeing only to "further consider" the recommendation.

13. Energy security concerns to continue

The on-going Russia-Ukraine war means that energy security concerns are expected to continue in 2023. The Energy Security Plan sets out a range of short and longer-term measures to ensure security of supply. Policy relating to low carbon generation (such as new nuclear, renewables, power with CCUS), low carbon hydrogen, as well as energy networks and energy efficiency, are discussed in the relevant sections above.

In addition, a significant focus is on securing the UK's gas supplies by maximising domestic gas field production, reviewing the UK's gas storage capacity, and maintaining gas import/export capacity (e.g. the government is considering development proposals for Floating Storage and Regassification Units). Recognising the longer-term decline in oil and gas usage but acknowledging the need for a managed transition and some level of supply even once net zero is reached, the government is beginning to grapple with the question of what framework is needed for long-term investment in UK gas networks and the UK continental shelf.

The Energy Security Plan also highlights the need for flexible, low carbon technologies and services. Industry is however still waiting for the consultation on investment in large scale, long-duration electricity storage which is still timetabled to be in place by 2024, and Ofgem's response to the call for input on the future of distributed flexibility is now expected later in 2023.

Internationally the UK is focused on developing strategic energy-focused relationships with the EU, USA, Qatar, Norway, Japan, and China. Securing access to essential critical minerals is also highlighted as a priority for the energy transition, with the government working in partnership to deepen collaboration on minerals mining with South Africa, Kazakhstan, and Canada.

14. Options for a new approach to consumer protection in energy markets to be considered

In the short term, government has committed to consult in summer 2023 on options for a new approach to consumer protection in the energy markets from April 2024 onwards, indicating that a more targeted approach to energy bill support is under consideration. The future of the price cap on default tariffs is "not a long-term solution". A consultation on the price cap, together with a call for evidence on new ways of offering energy supply will be published this summer. Taking on a recommendation by the Independent Review of Net Zero, the government will also look at "rebalancing" gas and electricity bills by the end of 2023/4 to encourage consumption away from natural gas for home heating and towards the installation of heat pumps.

In the longer term the government is progressing the Review of the Electricity Market Arrangements (**REMA**) and aims to publish a second REMA consultation in autumn 2023 as well as taking decisions on shorter-term reforms more quickly where it is viable to do so (such as refinements to the CfD and the Capacity Market schemes).

15. Proposals to minimise carbon leakage published

The government is mindful that efforts to reduce emissions and decarbonise industry could be undermined by so called carbon leakage (whereby companies move production to territories with weaker climate regulations to avoid higher carbon pricing and more stringent climate regulation). As a result, it has used the Net Zero Growth Plan to launch a consultation on a new framework and domestic policy options to protect against such leakage. Addressing Carbon Leakage Risk to Support Decarbonisation is seeking views on a range of measures, including Mandatory Product Standards (**MPS**), a carbon border adjustment mechanism (**CBAM**), additional demand side policies and proposals for an emissions reporting and tracking system, which could underpin the carbon leakage policy measures. The consultation runs until 22 June 2023 and has been greeted positively by industry bodies such as UK Steel, which sees a UK CBAM as going some way towards creating a "level playing field" with global competitors who do not pay carbon costs.

The proposed UK CBAM would introduce a carbon price on imported products, to reflect the carbon price that would have been incurred had they been produced in the UK. MPS would set an upper limit on the embodied emissions for products placed on the market, or produced, in the UK. The government would like views on when such measures should be introduced, which emissions should be within scope of the proposed policies, and which sectors the policies should apply to. The government faces challenging questions and answers as part of the consultation process, as the policies are likely to come under fire from free trade lobbyists and countries at different stages of development who may rely heavily on exports to the UK. The government is aware of the possible downstream effects of the policies, along with the potential impact on UK exports, and further challenges may include how to navigate developing its own CBAM in parallel with the EU CBAM, which is due to apply from October 2023.

Responding to a recommendation from the Independent Review of Net Zero, the government has also accepted the need to "set out a long-term pathway" for the UK ETS, currently the UK's main carbon pricing mechanism, and "explore expanding the scheme to more sectors of the economy, including high emitting sectors." Pledging to legislate to continue the UK ETS beyond 2030 until at least 2050, the government hopes to give the private sector the certainty it needs to "unlock investment in UK infrastructure". These measures will be explored in parallel with the government's consideration of a wider package of carbon leakage policy measures set out above. Decisions around the design of any such measures may impact the operational effectiveness of the UK ETS.

In responding to the CCC Progress Report, the government reconfirmed its support for the International Civil Aviation Organization's CORSIA scheme for international aviation emissions. As a sign of its support, the government signalled that, following a consultation, it will look to make all necessary amendments to the UK ETS to allow for the full integration of CORSIA into the scheme by the start of 2024.

16. UK progress to meet the sixth carbon budget in the balance

As part of the Powering Up Britain package, the government published the Carbon Budget Delivery Plan (**CBDP**) setting out the impact of the government's net zero policies on CO2 emissions reductions over the next 15 years. The CBDP is a formal response to the High Court ruling of 2022, which found the UK's net zero strategy to have fallen short of its obligations under section 14 of the Climate Change Act 2008. The Plan has been published to meet the obligations under section 14, explaining how it will meet the UK's legally binding Carbon Budgets (**CB**) 4, 5 and 6, as well as its international commitments, including any risks associated with the policies, and the numerical data underpinning those explanations.

The CBDP highlights that the rate of emissions reductions in Mt (CO2) p.a. is not quite keeping pace with the rate of emissions reductions set out in the CB targets. While the CB 4 target (2023-2027) and CB 5 target (2028-2032) are expected to be met, the CBDP projects that the UK will achieve 97% of the emissions reductions required by CB 6 (2033-2037). The projections are based on a calculation of the expected emissions savings for all quantifiable proposals and policies on the assumption that policies are delivered in full. With the inclusion of unquantifiable policies and the development and implementation of more policies going forward, the government is "confident that the CB 6 target can be met". To that end, they have included a list of unquantifiable policies alongside the quantifiable ones that formed the basis of projections.

To gauge the likelihood of the published policies being delivered, the CBDP sets out an assessment of the government's delivery confidence in relation to specific policies, as well as more generally by sector. Based on its own risk assessment, the government has overall "assessed the risks as being manageable and considers that the package of proposals and policies will enable carbon budgets to be met". The full and successful delivery of all the quantifiable policies included in the CBDP will be critical to the rate of emissions reduction. Alongside this, the focus going forward will be on the extent to which new policies, and the unquantifiable proposals included in the report, will make up for the shortfall to meeting CB6.

In relation to the UK's international climate-related obligations, the CBDP has calculated that current policy plans will deliver emissions savings of 88 Mt, or 92% of the UK's Nationally Determined Contribution (**NDC**) submitted to the UN under the Paris Agreement. As with the domestic targets noted above, the government remains confident that the gap will be closed by "unquantified policies." It also added that it "will bring forward further measures to ensure that the UK will meet its international commitments if required".

Conclusion

Whilst much of the government policy published was not new, confirmation that the Sunak administration would continue to develop and deploy targets set by the Johnson administration is of itself a source of reassurance. And whilst admittedly there was a lack of a "big bang", progress has been seen in sectors such as nuclear power, CCUS, low carbon hydrogen production and nature. But, with stiff competition to capture the benefits of a green economy from the USA and European Union, the UK may find that further ambition is required to be set out in the Autumn Budget.

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