

RECENT GOVERNMENT ANNOUNCEMENTS FOR THE ENERGY SECTOR

In a race to ensure it is on track to meet its net zero targets by 2050, the Government has announced the publication of its new British Energy Security Strategy and its intention to create a Future Systems Operator to oversee the UK energy system. Both announcements aim to assist the UK in meeting net zero targets whilst also increasing the security and resilience of Britain's energy supply. We provide our initial analysis of both announcements in this briefing.

ENERGY STRATEGY FINALLY RELEASED

After delays due to concerns within the Treasury, the Government released its highly anticipated [British Energy Security Strategy](#) yesterday.

Key highlights from the Strategy:

- **Nuclear:** There is a heavy focus on nuclear within the Strategy, with the Government setting a target of 24GW coming from nuclear by 2050 which would represent 25% of projected energy demand. This equates to up to 8 reactors, although small and advanced modular reactors are identified as options and plans to approve two new reactors at Sizewell have also been announced. Wylfa is also specifically identified as a confirmed project. In terms of funding and planning these nuclear projects, the Strategy signals that a new body (the Great British Nuclear body ("GBN")) will be established with "substantial funding" to bring forward these projects (in addition to the £1.8 billion already promised in the Autumn budget). There is also to be a £120 million future nuclear enabling fund available.
- **Offshore wind:** Offshore wind is also one of the key cornerstones of the Strategy with the Government signalling its intention to increase capacity up to 50GW by 2030 (with 5GW allocated in deeper sea areas). In order to facilitate this increase, planning reforms are also promised to cut consenting time frames down from 4 years to 1 year and introduce other measures to reduce the time it takes for new projects to reach construction stages.
- **Oil & Gas:** Oil and gas still make an appearance with new licencing rounds announced for North Sea oil and gas in summer 2022 and the establishment of Gas and Oil New Project Regulatory Accelerators to facilitate the rapid deployment of projects. A geological survey on shale

Key points

- The Government has released its long awaited British Energy Security Strategy which places heavy reliance on new nuclear and offshore wind projects and sets out ambitious targets across energy sectors.
- However, the Strategy fails to provide immediate measures to meaningfully reduce UK reliance on overseas imports or improve the high energy costs now being incurred by UK households.
- A new FSO will be established to provide strategic oversight of the UK energy stem and ensure integration of emerging technologies within the existing network.
- Legislation is to follow but the FSO will acquire the current powers of National Grid Electricity System Operator (and some of National Grid Gas). It is anticipated that the FSO could be established by 2024.

gas has been commissioned which could potentially result in the lifting of the current moratorium on fracking. While this appears at odds with the Prime Ministers promises around "clean power" and the climate change commitments, it is inevitably included as a way to try to improve Britain's energy independence and security in the immediate short-term.

- **Onshore wind:** No targets are set on how much capacity the Government will seek to implement for onshore wind, which is arguably one of the easiest infrastructures to consent and build. All that is proposed in respect of onshore wind is that the Government plans to consult on partnerships with willing local communities who wish to host onshore wind infrastructure in return for lower energy bills.
- **Solar:** The current capacity of 14GW will be increased by five-fold by 2035 and the Government will consult on the planning rules that apply to ground-based solar projects. Focus will also be on encouraging rooftop installation on commercial and domestic buildings.
- **Hydrogen:** Targets for low carbon hydrogen production capacity have been doubled to up to 10GW by 2030, with half coming from green hydrogen.
- **Heat pump manufacturing:** A Heat Pump Investment Competition worth £30 million will be run in 2022 to boost UK manufacturing of heat pumps in order to reduce reliance on gas.

The Strategy has already drawn criticism on the grounds that that it does very little to tackle eye-wateringly high energy bills in the immediate future, with Business Secretary Kwasi Kwarteng admitting it is "more of a medium three, four, five year answer". The key issue with the Strategy is that it will take years (if not decades) for these big infrastructure projects to become operational and have any impact on Britain's energy security or consumers' pockets (and in fact will only add to energy costs as taxpayers pay towards the cost of these nuclear projects).

Limited detail has been provided at this stage on the funding of any new nuclear projects which has always been a critical issue in the investment and construction of nuclear in Britain. The Strategy only outlines that GBN will be backed by "substantial funding" but there is no indication as to how much or how projects will be selected for investment. Also notably absent from the Strategy is any substantive measures to meaningfully reduce energy demand through energy efficiency or insulation measures (which would provide short-term improvements) or the use of other emerging technologies such as tidal power. The Strategy also marks an about-turn on onshore wind which was previously heralded in the 2020 Energy White Paper as one of the "key building blocks of the future generation mix, along with offshore wind".

More detail will be released on how the Government intends to implement the various policy objectives in the Strategy. While the boost to nuclear and offshore power is welcomed, the significant lead times of any benefit are glossed over and little is provided to immediately take steps to reduce UK reliance on overseas imports or improve the high energy costs now being incurred by UK households.

FUTURE SYSTEMS OPERATOR TO BE ESTABLISHED TO OVERSEE UK ENERGY SECTOR

Following industry consultation in July last year, the Department for Business, Energy & Industrial Strategy ("**BEIS**") and Ofgem have now confirmed plans to create a new FSO which will be tasked with supporting the transition to net

zero by 2050 and securing the independence of UK energy supplies. This announcement was also reconfirmed within the Strategy yesterday.

In its [Response to Consultation](#) document released this week, BEIS announced that the new FSO will have a strategic oversight role in shaping Britain's energy system and will take a whole-system approach to the UK energy system, including identifying ways to integrate emerging technologies, such as hydrogen and carbon capture, into the existing network. The FSO will also:

- Be a public body, licensed and regulated by Ofgem, and funded via price control arrangements.
- Assume some of the main roles and responsibilities of National Grid Electricity System Operator and, where appropriate, National Grid Gas.
- Have a primary statutory duty to achieve three core objectives: achieving net zero; ensuring security of supply of electricity and gas; and ensuring an efficient, co-ordinated and economical electricity and gas system. In undertaking its functions, it will also have statutory duties to facilitate competition and innovation, comply with existing strategic policy, and consider impacts on consumers and the whole energy system.
- Provide strategic oversight of the UK gas system by taking on longer-term planning in respect of gas, although real-time operation will remain with National Grid Gas.
- Provide independent advice and technical input to the Government and Ofgem in respect of strategic policy decisions.

Legislation to establish and transfer the necessary capabilities to the FSO will be introduced following further discussions with Ofgem, key parties and industry and it is anticipated that the FSO could be established by or in 2024. With the Government's achievement of net zero targets coming under fire in recent months, expectations for the FSO have been set high with Energy Minister Greg Hands stating the FSO will "boost our energy resilience, reduce our dependence on expensive imports and slash emissions". We will need to see how effective the legislation, and the FSO itself, is at meeting these expectations.

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