

THE BRITISH ENERGY SECURITY STRATEGY

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The *British Energy Security Strategy*, published 7 April 2022, rightly calls energy “*the lifeblood of the global economy*”, citing our reliance on energy for everything from “*heating our homes to powering our factories*”. Against the backdrop of an upsurge in demand post pandemic, and Russia’s invasion of Ukraine, energy security is the focus of this strategy.

"Investors and developers should take comfort from the political will to drive forward clean and low carbon technologies, despite the current lack of regulatory certainty."

While there is still a strong emphasis on an energy transition, this seems to be a bit of a sidestep from 2021’s Net Zero Strategy (see our series on that strategy here) and the decarbonisation focus of COP26, hosted in Glasgow in October 2021.

Nevertheless, investors and developers should take comfort from the political will to drive forward clean and low carbon technologies, despite the current lack of regulatory certainty. With engagement from industry stakeholders, that certainty will come in due course.

The new Energy Security Strategy (“the Strategy”) comprises policies on:

1. Energy efficiency;

Oil and gas;

2.

3. Renewables;

4. Nuclear;

5. Hydrogen;

6. Networks, storage and flexibility; and

7. International delivery.

We set out the key measures in these areas below in more detail. However, it’s worth noting that the biggest opportunities for investors will be in the following areas:

- A renewed push for North Sea oil and gas as a medium-term transition fuel;
- Offshore wind with an increased target of 50 GW by 2030, including 5 GW of floating offshore wind;

- Onshore wind and solar will get a chance to participate in future CfD Allocation Rounds, though planning reviews are likely to be more positive for solar than onshore wind; and
- Hydrogen for those who can make a compelling and financeable business case in the run up to 2025, the deadline the UK government has set itself for developing a market to meet its increased target of 10 GW of low carbon hydrogen production by 2030.

On the other hand, some areas get short shrift:

- Energy efficiency measures again focus on changing consumer behaviour, which has been a tough nut to crack for decades;
- Nuclear ambitions are set out, but with a heavy reliance on industry to take it forward – given the progress on Hinkley Point C in the six years since signature of its CfD contract, we do not anticipate quick progress;
- Networks, storage and flexibility have been under the spotlight for many years, with various Ofgem reviews concluded and ongoing over the last decade – it will be interesting to see whether yet another review of electricity markets arrangement will result in substantive changes and easier access to networks; and
- International delivery is shorthand for reducing reliance on Russian gas.

ENERGY EFFICIENCY

The suite of measures on energy efficiency still relies heavily on changing consumer behaviours rather than mandating specific changes. It is unlikely that a conservative government would force homeowners to undertake home improvements like installing cavity wall insulation and replacing gas fired boilers; instead, they lean on financial incentives such as:

- **Tax breaks:** a promised zero-rating of VAT for the next five years on the installation of energy saving materials;
- **Funding for homeowners:** the launch of the £450m Boiler Upgrade Scheme; and
- **Network costs review:** a promised ‘rebalancing’ of the costs placed on energy bills away from electricity to incentivise electrification across the economy and accelerate a shift away from volatile global commodity markets over the decade.

OIL AND GAS

While the Net Zero Strategy focussed on regulating the oil and gas sector to cut emissions alongside a move toward hydrogen, world events seem to have pushed the UK government toward breathing renewed life into North Sea oil and gas assets:

Gas is currently the glue that holds our electricity system together and it will be an important transition fuel. We are taking a balanced approach to this unique subterranean asset. There is no contradiction between our commitment to net zero and our commitment to a strong and evolving North Sea industry. Indeed, one depends on the other. (page 14)

Given the current state of global affairs, the government has prioritised energy security over carbon reduction. The Energy Security Strategy places a heavy emphasis on using domestic oil and gas in the shorter term to deter reliance on foreign supplies. It remains to be seen how this will impact the UK’s Carbon Budgets, particularly as domestic oil and gas extraction adds further carbon emissions on top of the gas burned in industry and homes.

The Oil and Gas Authority has been re-branded as the North Sea Transition Authority and plans to *“launch another licensing round in the autumn, taking into account the forthcoming climate compatibility checkpoint and the need for energy security”*.

The Strategy also promises to establish *“Gas and Oil New Project Regulatory Accelerators”* to provide dedicated support to specific projects, to reduce the emissions of our offshore oil and gas further, by *“driving rapid industry investment in electrifying offshore production, to ensure our gas remains the low-carbon choice”*.

A big caveat is the promise to remain *“open-minded about our onshore reserves”*, leaving the door wide open to the use of shale gas and fracking despite the current pause in this activity.

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RENEWABLES

Unsurprisingly, the government seems keen to build on the success story that is offshore wind, increasing the target to 50 GW by 2030, including up to 5 GW of floating wind. An admirable target, but it will be hard to deliver this without wholesale changes to grid connections and the approach to developing the offshore transmission network.

Onshore wind also gets a mention, with a continued commitment to including it in future CfD Allocation Rounds (along with solar), while prioritising *“putting local communities in control”*. This may not be the best of news to developers, as local planning and objections can often hinder progress.

Solar is also on the cards, with an expected *“five-fold increase in deployment by 2035”*, given that the *“cost of solar has fallen by around 85 per cent over the past decade”*. This will be supported by a consultation on amending planning rules to strengthen policy in favour of the development of non-protected land for ground-mounted solar. But the strategy strikes a note of caution; while encouraging the siting of large-scale projects on previously developed, or lower value land, where possible, projects must be designed to avoid, mitigate and, where necessary, compensate for the impact of using greenfield sites.

The strategy also promises that government will *“aggressively explore renewable opportunities afforded by our geography and geology, including tidal and geothermal”*. It's unclear what an “aggressive” exploration entails, particularly as there are no consultations or policies proposed.

NUCLEAR

The Energy Security Strategy makes some bold claims about nuclear, particularly given the signature of the Hinkley Point C CfD contract in September 2016:

“... we need to build a British energy system that is much more self-sufficient. This requires power that can be relied on, even when the sun is not shining, or the wind is not blowing. So, this government will reverse decades of myopia, and make the big call to lead again in a technology the UK was the first to pioneer, by investing massively in nuclear power.” (page 6)

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The Strategy targets up to 24 GW by 2050, representing up to 25% of projected demand. While the Strategy states the government's intent to take forward one project to Final Investment Decision ("FID") in this parliament, and two projects to FID in the next parliament, this is set out as *"a challenge to the industry to come forward and compete for projects and aim to come online this decade"*. While the heavy lifting will be left to the industry, the Strategy does promise a raft of funding packages and a streamlining of consenting and licensing processes for new nuclear.

HYDROGEN

The Energy Security Strategy places hydrogen front and centre, doubling the goal set out in the Hydrogen Strategy to 10 GW of *"low carbon hydrogen production capacity by 2030, subject to affordability and value for money, with at least half of this coming from electrolytic hydrogen"*.

The government wants to move to *"price competitive allocation by 2025 as soon as legislation and market conditions allow, so that up to 1 GW of electrolytic hydrogen is in construction or operational by 2025"*. However, market conditions will only develop to allow this once regulatory and legislative certainty gives investors enough confidence in business and financial models. It is hard to see how this will happen given the other aims that are stated to be deliverable *"by 2025"*:

- design of new business models for hydrogen transport and storage infrastructure (recognised as *"essential to grow the hydrogen economy"*); and
- setting up a hydrogen certification scheme, to *"demonstrate high-grade British hydrogen for export and ensure any imported hydrogen meets the same high standards that UK companies expect"*.

NETWORKS, STORAGE AND FLEXIBILITY

The Strategy's key theme on networks is how to use them more efficiently. This involves one key point of oversight for the UK energy system (establishing the Future System Operator), appointment of an Electricity Networks Commissioner to advise the government on policies and regulatory changes to accelerate progress on network infrastructure, and setting out a blueprint for the whole system by the end of 2022 in the Holistic Network Design ("HND") and Centralised Strategic Network Plan ("CSNP"):

"The HND will identify strategic infrastructure needed to deliver offshore wind by 2030. Certain infrastructure identified in the HND and CSNP will be exempt from the introduction of onshore network competition."

These measures are intended to make the best use of existing infrastructure and limited resources. These sit alongside a raft of measures intended to make access to networks easier for low and zero carbon generation, including:

- publication of a strategic framework this year with Ofgem for how networks will deliver net zero;
- updates to the National Policy Statements to recognise the HND and CSNP blueprints in the planning system, increasing certainty for the planning inspectorate, developers and other stakeholders, and speeding up delivery; and
- ensuring Ofgem expedites its approvals process to build networks in anticipation of major new sources of generation and demand.

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While general comments are made about encouraging “*all forms of flexibility*”, including storage and electrolyzers, the more concrete commitment to note is the launch of “*a comprehensive Review of Electricity Market Arrangements (REMA) in Great Britain, with high-level options for reform set out this summer.*” This will be joined with the ongoing retail review (driven by high energy prices, ongoing market volatility and supplier insolvencies).

INTERNATIONAL DELIVERY

The intention of the actions set out here is to reduce “*global reliance on Russian fossil fuels*”. These are mainly centred around building relationships with the US and Qatar to provide “*a key EU entry point for non-Russian supplies of gas*” and aiming for more efficient trading over our electricity interconnectors with Europe.

WHAT’S NEXT?

We see more of the same in this Strategy that we’ve come to expect from the government’s other recent strategies (e.g. Net Zero, Hydrogen etc.): a lot of “let’s wait and see”. While this doesn’t give investors and developers a lot of regulatory certainty, some political certainty is useful and opens the door for stakeholder engagement with the relevant government bodies.

If you’d like to discuss any of these areas, please get in touch with the authors or your usual contact at WFW.

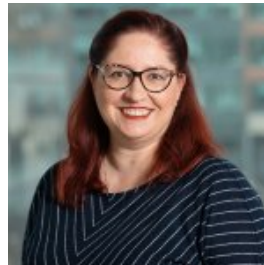
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