



Rt Hon Kwasi Kwarteng MP
Minister of State for Energy and Clean Growth
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

17

September 2019

Dear Kwasi

Further to the Written Statement by Greg Clarke MP on 22 July providing a policy update in lieu of the proposed Energy White Paper and the nine consultations published on the same day, this letter and its annex, constitutes our strategic response to the issues raised in the Statement and consultations.

Welsh Government welcomes the ambition expressed in the Written Statement, particularly as UK Government retains many of the levers which must be used in order for Wales to reach our ambitious carbon reduction targets. Welsh Government is also generally supportive of UK Government's vision for the future of the energy system.

The rapid decarbonisation of energy presents both enormous opportunities and challenges. In recent history, the provision of power, heating and transport fuel has been largely separate and centralised. This system is now undergoing significant change, with energy generation and delivery becoming more distributed in the communities and regions where the energy is used.

The boundaries between systems are also becoming blurred, with energy being converted into different forms to address a range of needs. In future, electric vehicle batteries may transfer electricity from workplace solar charging to supply homes during peak demand. Heating may be from hybrid heat pump and boiler systems using electricity or gas depending on which places least demand on the system at the time. We may see renewable electricity being converted to gas to be stored when demand is low. The gas could be used to generate electricity or to fuel heat or transport. This "multi-vector system" approach will be required to fully exploit the inter-relationships and synergies between the power, heat and transport sectors.

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400
Gohebiaeth.Lesley.Griffiths@llyw.cymru
Correspondence.Lesley.Griffiths@gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

A multi-vector system could deliver the low-carbon energy transition at low cost to citizens, preserving security of supply even at peak demand. We need a new approach to decarbonising the systems supplying power, heat and transport, to ensure the commitment to a zero carbon UK by 2050 can be reached in a way which both drives early action, is affordable and creates a fairer future across the whole of the UK.

This affordable, high security, low-carbon energy transition offers an attractive low-carbon investment at both a large central and smaller local scale. New smart use of energy and storage will be driven by the powerful global digital revolution and be much more locally determined. Distribution and transmission networks will provide the grid balancing and security of supply. We will also see greater energy efficiency in buildings and appliances, and the use of new building fabrics turning buildings into power stations.

However, if the people of Wales are to welcome and support this change, it must increase well-being within Wales. We are establishing a strong local policy and regulatory framework to ensure this happens. As it becomes clearer which specific changes UK Government intends to make, Welsh Government will need the opportunity to be involved at key stages in their development. Establishing a governance structure to ensure UK policy meets the needs of all areas of the union is therefore a priority.

Decarbonisation and the transition to a more distributed energy system means we will be increasingly reliant on small- scale energy production. As innovation, aggregation and flexibility deploy on a larger scale change will significantly accelerate. For innovation to play a full part in helping shape whole system solutions it will be necessary to reduce regulatory barriers.

We recognise finding the right balance between promoting innovation and protecting energy users is challenging. We urge UK Government to continue to engage with stakeholders to best achieve this balance. The assumption consumers are best served by a healthy competitive market with which they can easily engage may not be the case for some people and businesses. This can only be achieved through real involvement of devolved administrations in the development of energy policy.

The Welsh Government, therefore, supports, in principle, the proposed changes in the Capacity Market emissions limits consultation. These are intended to prevent the most inefficient forms of fossil fuels to compete for capacity payments. Recognising the challenge ahead, we need to be in a position to allow these changes to come into force sooner rather than later and we would prefer the capacity restrictions to come into force at the earliest date (1 October 2024). BEIS will need to assess the effects of these changes on the industry in Wales in greater detail and ensure it involves the Welsh Government and stakeholders in this work.

Wales hosts 20% of the UK's gas generation currently, and in recognising there will be a role for gas to ensure security of supply, we do not wish to see unintended consequences of this policy leading to further gas generation stations developed in Wales. Wales requires the tools to deliver the cheapest forms of renewable energy and support more innovative technologies in order to provide the mix of energy generation required to create a secure energy supply as soon as possible.

The UK Climate Change Commission (UK CCC) acknowledges that Wales has a higher share of emissions from hard to reduce sectors than the rest of the UK, including industry for which paths to very low emissions by 2050 have yet to be identified.

The UK CCC has also identified the importance of Carbon Capture Utilisation and Storage (CCUS) to meeting the UK and Wales' carbon targets for both industry and power sectors.

We recognise that many of the powers in this area rest with the UK Government and we will want to work with you as your policy in this area develops, to understand how CCUS can best be deployed in Wales. We are proposing to commission an independent study on CCUS to build on the work carried out to date by BEIS to provide us with some Wales specific information to inform activity in this area.

We recognise BEIS has established a number of CCUS funding schemes in recent years to further explore and develop the potential for CCUS in the UK. These are welcome and it will be important for the learning from these schemes to be shared across the UK. The UK as a whole must benefit from this investment, rather than resource focusing only on one low carbon cluster.

In this context, it would be helpful if BEIS would share the findings of the two consultations on CCUS with the Welsh Government so we are better able to understand the views of stakeholders.

Officials will provide more detailed responses to a selection of the consultation documents where we have specific further information to provide. Welsh Government should have the opportunity to work together with the UK Government on policies which meet the needs of all regions of the UK.

Could you ensure your officials continue to liaise with Welsh Government as these proposals are developed during the development of the evidence and policy not at later stages.

I am copying this letter to the Secretary of State for Wales.

Regards



Lesley Griffiths AC/AM

Gweinidog yr Amgylchedd, Ynni a Materion Gwledig
Minister for Environment, Energy and Rural Affairs