

# Centrica's high-level climate policy positions

February 2024

## Introduction

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The policy environment is a key determinant of Centrica's ability to achieve net zero, and we are strong proponents of policies that facilitate this. We are technology agnostic – our business model means we do not need to favour any specific technology or solution, but rather advocate for policies that move us all forward in the transition. We endorse well-designed public policies that foster a rapid and orderly energy transition in accordance with the Paris Agreement's goals, while also considering the energy trilemma of affordability, security and sustainability. The balance among these three elements is vital for the success of the transition in establishing a low-carbon future that is equitable for all. We are concerned that some of the current policy conditions are not conducive to reaching net zero, and we urge policymakers to act quickly to address this.

Our policy engagement generates considerable and legitimate interest, and we have therefore outlined in this document our climate policies for scrutiny, along with some specific proposals that are relevant, and we are actively pursuing. These are applicable as of the publication of this document, and they are subject to change as the policy environment evolves. We will update this document when appropriate, ensuring the overarching positions still represent our priorities, and the specific proposals do not become outdated.

## Support for the Paris Agreement

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We endorse the aims of the Paris Agreement and the increasing consensus that it is imperative to avert the worst consequences of climate change by restricting global warming to well below 2°C, and aspiring for a threshold of 1.5°C, which necessitates reducing emissions at pace and attaining net zero by 2050 or sooner. This demands contributions from all stakeholders: governments and policy makers, the commercial sector and consumers. We recognise the vital role that Centrica plays in the transition to a low carbon future, including by establishing and fulfilling net zero targets consistent with the Paris Agreement.

## The "Just Transition"

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The transition to net zero in the energy sector must not worsen existing social problems such as lack of access to affordable energy or barriers to adopting digital services. We ensure all our public policy positions support our Just Transition Principles: *to minimise harm and maximise benefits for people and to ensure no groups are 'left behind' as we transition.*

We advocate for policies that reduce the negative impacts on those who are most vulnerable and affected by the move to a lower carbon economy. And we believe that a consistent policy framework is essential to foster investment in green skills to deliver the transition. This will demand the collaboration of government, the education sector and business to ensure the availability of the required skills in the appropriate locations and quantities.

Energy is an essential service and the transition to net zero must be socially just. Our main ask for the government is to introduce a social tariff that is sufficiently material, and with broad enough eligibility, to ensure that energy is affordable for those least able to pay. Policy costs – including the social tariff – should be funded through general taxation rather than through energy bills. Policies to deliver net zero should be funded progressively to ensure that those least able to pay do not carry a disproportionate burden.

We should also improve the availability and accessibility of training opportunities for heat pump installers. We urge the government to use the surplus funds from the Apprenticeship Levy to finance such education.

## Hydrogen

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We believe that hydrogen is a vital low carbon solution that can help the UK reach net zero by complementing electrification and optimisation and addressing hard to decarbonise sectors such as industrial processes, heavy transport and heating. It also offers a solution for long-term energy storage to support with the decarbonisation of the power sector. We support the development of low carbon hydrogen at scale, and we favour green hydrogen, or other renewable equivalents, but we believe that alternatives such as blue hydrogen, with CO<sub>2</sub> permanently stored, will be needed to establish value chains. We understand that the future priorities for hydrogen use are not fully clear yet as they will depend on its cost-effectiveness and testing various use cases, such as hydrogen for heating, hydrogen as a long-duration energy storage medium and hydrogen decarbonisation solutions for large natural gas users (through blending hydrogen into the grid and providing distributed hydrogen solutions).

Our main asks are for the government to support hydrogen as a low carbon energy source by designing a fair and efficient levy system, investing in hydrogen transport & storage infrastructure, and testing and establishing a competitive and innovative hydrogen production business model.

## Clean Power

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We fully support the UK's target of achieving a zero carbon electricity grid by 2035, which is a bold and ambitious goal. To make this happen, we will need build significant new generation capacity including renewable and nuclear technologies alongside solutions to ensure that supply and demand are matched at all times, even when renewable energy sources are intermittent. We will also need to put the customers at the heart of the transition, and make sure that they are not faced with excessive costs or disruptions that could undermine their confidence and willingness to switch to clean energy. Moreover, we will need strong policy and market mechanisms to stimulate more investment in renewable and low-carbon energy generation and infrastructure, as well as to overcome the barriers of grid connections and wholesale market arrangements.

We are asking the government to fulfil the Transmission Acceleration Action Plan and Connections Action Plan to reduce network infrastructure build time and invest strategically ahead of demand, and to improve network access for ready projects, discouraging capacity hoarding, and removing stalled projects. Furthermore, the Government and Ofgem should monitor networks' progress in freeing up and re-allocating firm capacity and avoid excessive reliance on non-firm capacity. More scrutiny of networks is also needed to ensure that curtailment of non-firm plant only happens when necessary. Finally, we are urging the

Government to urgently address the skills gap in network engineering, planning, and local authority planning.

## Energy Efficiency

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Improving the energy efficiency of our buildings is essential for achieving net zero. This will reduce both costs and emissions and enhance the performance of low carbon heating solutions. We advocate for policies that encourage insulation and other beneficial measures, especially for customers who struggle to afford energy. We think that an energy reduction plan would supplement the UK's Energy Resiliency Plan that is already in place.

We call on the government to review the numerous funding and incentive programmes for energy efficiency interventions. We believe there is scope to simplify and consolidate existing initiatives, which will enable a renewed focus on value for money and simplicity of delivery. We also require a strategy to lower energy demand, which could include introducing a unified programme for energy efficiency and low-carbon heating from 2025. By combining energy efficiency and heat decarbonisation policies, we could also offer consumers clear advice, grant assistance and a way to monitor the improvements they make to their home.

## Decarbonisation of Heat

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We support the UK's goal of achieving net zero by eliminating fossil fuel-based heating systems and replacing them with low carbon alternatives, while ensuring customer satisfaction and affordability. We are technology agnostic and understand that different types of buildings and locations will require different solutions for low carbon heating, so we need to develop various pathways that enable fuel switching. Heat pumps are currently the most viable option for many UK homes to reduce their carbon emissions from heating, but there are still some challenges that hinder their widespread adoption, including the need for extensive planning and the reliance on adequate insulation for optimal performance.

We are asking the government to help customers reduce the planning and cost barriers for installing heat pumps, which will make them more attractive to households. In addition to the support currently on offer in the form of incentives, we would like to see the easing of planning permission requirements and a reform of the EPC system. And to create a more equitable system and lower the running costs of electric heating,

## Transport

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We believe that the transport sector needs to decarbonise at pace, and we are ready to contribute to this goal. We have pledged to switch our fleet to electric vehicles (EVs) and other zero emission solutions, and to help our customers do the same by installing EV chargers for them. We also acknowledge that hydrogen is likely to have a role in decarbonising transport. To speed up the shift to a low-carbon transport sector, incentives are needed to encourage and sustain the uptake of EVs. And to support this, a focus on facilitating the deployment of EV charging infrastructure to increase consumers' confidence to adopt an EV: public charge points should be reliable, easy to locate, easy to operate, and easy to pay for.

Our main request to the government is to remove barriers to make EVs accessible for all. Key barriers include no driveway/off street parking. Government should look at ways to make it easier for this group of customers to own and charge an EV at home, for example, through EV cable channels or “gully” installations across pavements.

## Natural Gas

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We recognise the uncertainty and diversity of views on how Gas can contribute to the net zero goal. Our view is that Natural Gas plays a vital role as a bridge fuel in the near to medium term, to facilitate a smooth and fair transition. Globally, shifting from high-carbon intensive fuels such as oil or coal, is an essential step. Gas is essential for warming UK homes and bridging the gap until we have widespread electrification or a low-carbon gas alternative that is affordable and accessible. Gas-fired peaking plants help to balance the power supply to customers as we shift to a renewable electricity grid. And the storage of methane ensures a necessary level of energy security for the UK in unpredictable times before these sites can be transformed to safely store hydrogen or carbon.

## Carbon Capture, Utilization and Storage (CCUS)

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Our position is that the UK should take advantage of its rich resource of natural geological formations that can store carbon dioxide. We also acknowledge that to achieve net zero emissions across all sectors with high emissions intensity, negative emissions technologies are essential. We endorse public policies that create feasible and sustainable business models for each component of the CCUS value chain - capture, transport, use and underground storage. Centrica’s gas fields in Morecambe Bay have the potential to become a valuable asset for reducing carbon emissions through CCUS.

## Carbon Pricing

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To facilitate the shift to lower carbon energy sources, we think that carbon pricing is an essential instrument. It creates the right incentives for both energy producers and consumers to reduce their emissions. However, an escalating carbon price is not a sufficient measure by itself, it must increase in step with the development of low-carbon alternatives that are technically and economically viable. Otherwise, carbon pricing could be regressive, causing inflation and higher costs for consumers. We also need to ensure consistency between the prices set in different regions such as Europe.