

The Infrastructure Forum
49 Whitehall
London SW1A 2BX

Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London SW1A 2HQ

14 March 2014

Dear Chancellor,

The Infrastructure Forum Energy Working Group submission to the Budget 2014

We write on behalf of The Infrastructure Forum's working group on energy infrastructure. The working group's members are companies and groups from a range of sectors involved in energy infrastructure, including energy generation, supply, transmission, construction, finance, legal, insurance and regulation, demand side, and other inward investors. Since the last Budget, there has clearly been much progress developing the reforms to the electricity market which are necessary to bring forward much needed investment. With the Energy Act now in place, investors have more confidence in the UK as a place to invest. However, if we are to secure the £100bn of investment required before 2020, then more needs to be done to have the energy supply needed to sustain economic growth.

Progress of Electricity Market Reform (EMR)

We would like to commend the Government for its work on securing Royal Assent of the Energy Act at the end of last year. This development, alongside continued progress on the detail behind the legislation, is a vital step towards securing the required investment that the UK needs. These reforms will add to the positive impact made by recent changes to the UK's planning system and corporation tax rates; and will help give investors increased confidence. However, a number of significant barriers to investment remain.

More clarity is needed on the detail of areas of reform to the electricity market, including the Capacity Market, and the terms of the Contracts for Difference (CfDs). On the Capacity Market, auctions need to occur on schedule if we are to ensure that this mechanism encourages the investment in existing and new generating capacity in time to meet our future needs. Members of our working group have also reported difficulty negotiating with DECC over necessary changes to the terms of the Contracts for Difference to make them robust enough to attract investors. As a result, many developers are rushing to take advantage of the last available Renewables Obligation Certificates, rather than the new CfDs. We call on the Government to engage fully with the industry on these points, to ensure that we make the most of this opportunity.

As you will be aware, the European Commission is investigating the investment contract for the proposed new nuclear power station at Hinkley Point C. This investigation is looking at fundamental questions about reform of the electricity market in the UK and the need for market intervention. Therefore, this investigation is an important hurdle for the whole process of EMR and it is vital that the UK Government continues to make a strong case to the Commission about why reform is needed to bring forward the required investment.

Addressing the energy 'trilemma'

Balancing the demands of energy costs, security of supply and decarbonisation is a major challenge for industry and government alike. Unfortunately, this debate has led to the increased

politicisation of energy policy. This shift of political focus, so evident in recent months, has created another significant barrier to securing necessary investment. Between November 2013 and February 2014 nearly 6GW of planned offshore wind capacity was either cancelled or curtailed. This is a worrying trend, given the scale of investment required over a short period of time to avoid an energy capacity shortfall. There would be benefits in transferring long-term planning decisions from the Government to an independent body along the lines of the Armit review.

Further pressure is being created by the speed of the UK's economic recovery. While increased GDP is to be welcomed, we need to recognise that increased economic activity leads to higher demands on our power sector. The UK's continued economic performance will be dependent on a secure and affordable energy supply, and we all need to work to ensure that our economy is not constrained due to lack of investment in critical infrastructure.

A Competition Review

As a group, we are acutely aware of the impact of rising energy bills on customers and the effect this is having on the energy debate. We believe that it is only right for there to be a full investigation carried out by the Competition and Markets Authority (CMA) into the energy market. This would be an important step towards rebuilding trust with the public and could deliver real improvements for the benefit of customers. Honest conversations need to be had, including about the need for companies to make a return on their investment. A full referral to the CMA would provide the right setting for this, guided by strong terms of reference that would help set up a rigorous and effective investigation. We would like to see the terms of reference for such an investigation receiving cross-party support

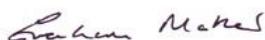
This process could be complemented by an independent assessment of the sector from a trustworthy figurehead. Sir Ian Wood's recent review of the North Sea Oil and Gas sector is a useful template, which could be applied to the energy sector in another effort to improve transparency and build trust.

Conclusion

While the economic and legislative achievements of the last year need to be commended, there also needs to be recognition of the challenges that remain. Investment in new energy infrastructure remains very limited, and continuing delays will impact on the long-term costs of energy to households and businesses. We require regulatory stability to provide the confidence needed for private sector investment, and an honest conversation with the public to help take the politics out of long-term decision making.

If you would like any further information, or would like to meet with members of our working group, or in particular with international investors involved in the work of the Forum, please do not hesitate to get in touch.

Yours sincerely,



Graham Mather
**President,
The Infrastructure Forum**



Paul Spence
**Director of Strategy and Corporate
Affairs, EDF Energy,
Chair of the Energy Working Group**