



What does a Labour Government mean for energy and utilities?

July 2024



Sir Keir Starmer has set out ‘5 Missions’ for a Labour Government. One of these is to fully decarbonise the power system by 2030.

In doing so, Labour wants to make Britain a ‘clean energy superpower’, but what does this mean for energy and utilities companies and investors focused on the energy transition?

Key points ▼

► Accelerating the Energy Transition

- This as a key driver for Labour’s economic strategy via job creation and investment across the UK.

► 2030 fully decarbonised power system

- To be achieved through rapid deployment of renewables and other low-carbon technologies.

► Creation of GB Energy

- In addition to a National Wealth Fund to de-risk private sector investments; along with reform of the planning and consenting regimes to speed up deployment.

► Tax and Investment

- Upstream oil and gas companies will face a higher windfall tax and withdrawal of “unjustifiably generous” investment allowances.

► Energy Retail

- We expect the price cap to remain in place for the foreseeable future.

► Company scrutiny and reporting

- There will be greater scrutiny on how companies treat their customers and staff. Larger companies will face new obligations to produce ‘Paris-aligned’ Climate Transition Plans’.



01

Priorities for Labour on energy and climate change



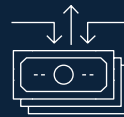
Clean power by 2030

This is Labour's **'North Star'**, when it comes to energy policy. Ed Miliband refers to it as a 'moon shot' (given that today just over half our power is decarbonised). Sir Patrick Vallance, the former Government Chief Scientific Advisor, has endorsed the aim as "achievable".

To deliver it, Labour have set out the aim of doubling onshore wind generation, tripling solar, and quadrupling offshore wind production by 2030. They will support new nuclear, both Sizewell C and Small Modular Reactors (SMRs); plus invest in hydrogen, carbon capture and marine technology, as well as ensuring we have the long-term energy storage we need. Ed Miliband refers to overcoming **"the four horsemen of apocalypse"**: planning, grid, skills and supply chain to deliver this mission.

Keir Starmer has said that Labour will **"back the builders and not the blockers"** by reforming the planning system and tackling the delays in grid connection. Labour have said that they will maintain a 'strategic reserve' of gas power stations to ensure security of supply, as they accelerate the deployment of renewables.

Setting up GB Energy - this will be a new **"publicly-owned clean power company"**, with headquarters in Scotland. It will be capitalised with £8.3bn over the next Parliament to help accelerate the energy transition and will be put on statutory footing via an 'Energy and Independence Bill'. The aim is to **"emulate the success of public ownership abroad"**, like Orsted in Denmark, or Vattenfall in Sweden. GB Energy will have three main priorities. These are to:



Invest in new low carbon technologies, like floating offshore wind, tidal power or hydrogen.



Support community energy projects - **£3.3bn** of the **£8.3bn** is allocated to help deliver 8GW of community energy; and



Help scale up mature low carbon technologies, like wind solar and nuclear.



Industrial decarbonisation

In addition to establishing GB Energy, Labour have also allocated £7.3bn through a new **National Wealth Fund** (NWF) to invest in ports, green hydrogen, green steel, industrial clusters and gigafactories. The aim is to attract at least £3 of private sector funding for every £1 the public sector invests in these industries. The NWF is likely to build on existing institutions like the UK Investment Bank (UKIB).



Creating 650K green jobs by 2030 and cutting energy bills

Labour has seen accelerating the energy transition as a way to create skilled jobs, drive investment and growth right across the UK and reduce energy bills.

The Manifesto refers to a 'British Jobs Bonus' of 'up to £500m pa from 2026' to incentivise firms who offer good skilled jobs and build UK supply chains.

Labour have also cited research ([produced by Ember consultancy](#)) saying that decarbonisation of the power system could cut energy bills 'by £300pa on average', compared to a counterfactual based on continued high gas prices.



Warm Homes Plan

Labour have allocated £6.6bn over five years to insulate 'up to 5million' homes. Labour says this is a 'doubling' of current spending levels. (Previously, when Labour talked about investing £28bn pa in the energy transition the commitment was to retrofit 19m homes, but this ambition got scaled back given the fiscal constraints).

Labour sees a big role for local government and City Mayors here through the design of Local Area Energy plans (LAEPs). Given the more limited public spending available, Labour have said that they will work with the banks and building societies to provide private finance to accelerate home upgrades and deployment of low carbon heating.

See our [latest thought leadership](#) on how this could be achieved.



Windfall tax on the oil and gas companies

Labour will increase the tax rate to 78% (from 75% currently) and extend the tax to the end of the next Parliament. Crucially, they say they also plan to remove the "**unjustifiably generous investment allowances**". The money raised (which they estimate to be £1.2bn pa) will be used to help pay for investment in clean technologies via the NWF and GB Energy. Labour have also said that they will not issue any new oil and gas licences.



Energy system reform

Labour have also stated their intention to reform how the energy system is governed, by **'strengthening the regulator'**, **'reform of standing charges'** on energy bills, and requiring higher standards of performance from companies.

Labour will also tackle, in partnership with industry, the grid connection delays that remain a major barrier to delivering their 2030 Clean Power Mission.



Corporate reporting and climate transition plans

Labour have said that they will mandate "UK regulated financial institutions and FTSE 100 companies to develop and implement credible **climate transition plans** that align with the 1.5 degree C goal of the Paris Agreement". This would form part of a plan **"to make the UK the green finance capital of the world"**. We await further details on exactly how and when this commitment would be implemented.



Protecting nature and clean water

Labour have committed to reversing the decline in biodiversity and natural habitats. They will plant 'millions of trees', creating three new National Parks and nine new National River Walks.

In a clear warning to the water companies, Labour have said that they will **"put failing water companies under special measures to clean up our water"** and give regulators **"new powers to block bonuses to executives who pollute our waterways"**.



Carbon Border Adjustment Mechanism (CBAM)

The EU CBAM comes into full effect from 2026. Labour supports the introduction of a UK CBAM **"to protect British industry as we decarbonise"** and **"prevent countries from dumping lower-quality goods into British markets"**.



02

Implications for energy and water companies



Prepare for changes to planning and consenting regimes

Delivering the 2030 target will require immediate and fundamental changes to the **planning and consenting** regimes.

The earliest grid connections being offered for a new offshore wind project today are in the mid-2030s. Nick Winser, the Electricity Commissioner, produced a [report](#) in 2023 which aimed to halve these average times.

Labour will have to push through these reforms at pace and work with industry to tackle the supply chain and skills gaps to have any chance of meeting their target.

Anticipate other changes to speed up renewables deployment'

As part of this, Labour will need to change the **planning policy guidance (PPG) for onshore wind** in England, **free up more agricultural land for solar**, and **increase the size of the Contract for Difference (CfD) auction pots** for future allocation rounds (which now take place on an annual basis). One of the first decisions Labour could make would be to increase the pot for the upcoming CfD AR6 round, which takes place this August.

Invest in UK skills and supply chain to access extra funding

A '**British Jobs Bonus**' will be used to top up funding through the CfD allocation rounds for those companies who commit to invest in skills and supply chains in the UK. Companies involved in these projects should be thinking through how they might take advantage of this extra funding.

On skills, businesses will need to engage with the new **Industrial Strategy Council** and the newly created **Skills England** to help identify and secure the skills necessary for the energy transition. Changes may also be needed to the **apprenticeship levy** to support the training of apprenticeships with the necessary skills.

Expect deployment of hydrogen and Carbon Capture at scale

For companies involved in industrial decarbonisation and the industrial clusters, they should be looking to work with GB Energy and the NWF to help de-risk some of these investments in these newer, more nascent low carbon technologies.

Stay tuned to the zonal pricing debate

Labour have not said anything publicly about how they would take forward the **'Review of Electricity Market Arrangements'** currently underway, and specifically the key decision on whether to move to a system of **'zonal pricing'**, and move away from a single wholesale price for the whole of the GB system. This is a big decision that will be in the in-tray of new Ministers.

Whatever the pros and cons of moving to a zonal system the focus on pace of deployment may mean that a 7+year overhaul of the wholesale market may not be an attractive proposition and could get delayed to further down the line.

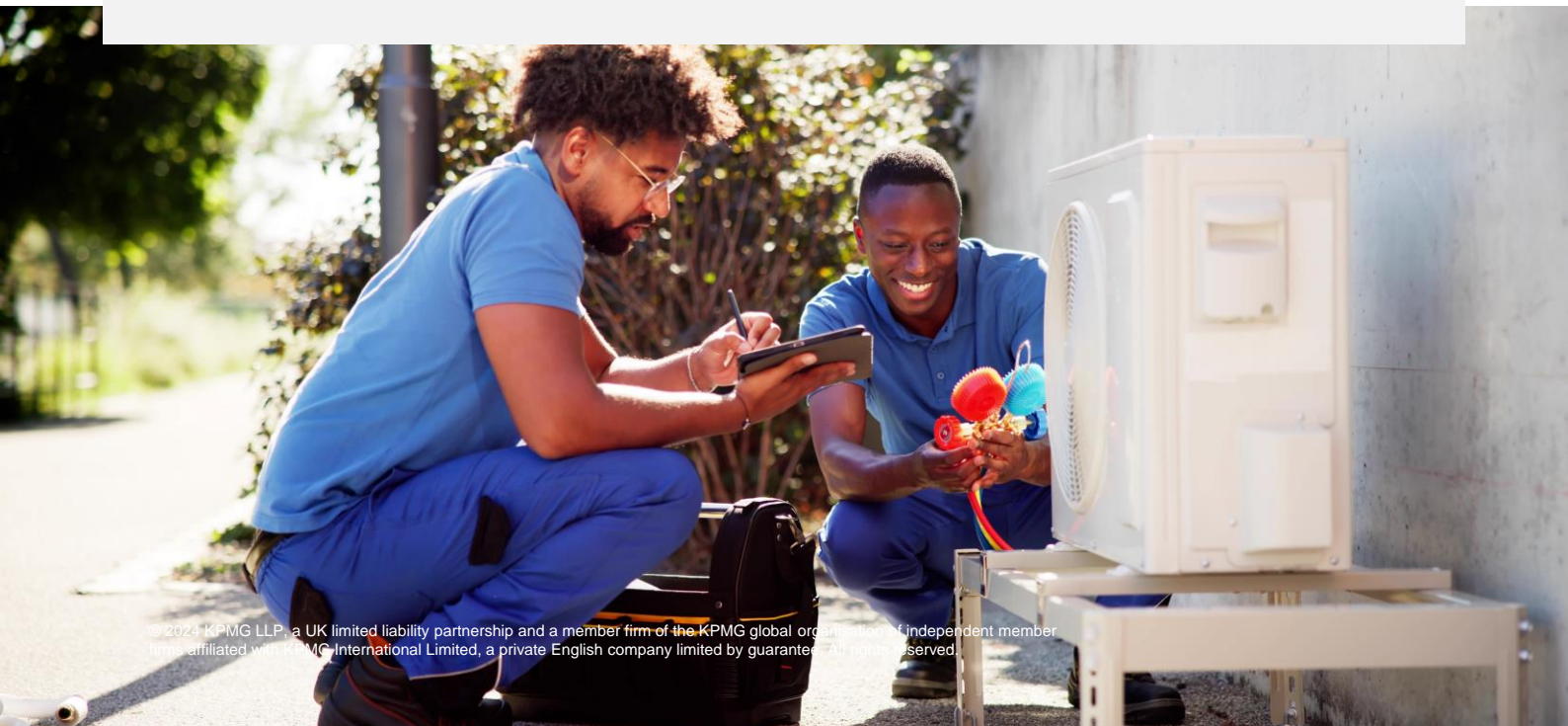
If that is the case, the incoming Government will need to be doing everything it can, short of moving to zonal pricing, to reduce the growing constraint and balancing costs, including accelerating transmission build out, maximising flexibility and dealing with key constrained nodes on the power grid.

Focus on low carbon flexible generation as part of Energy Transition

On the role of **gas** in the power system, Labour have indicated that would like to move to a **'strategic reserve'**. This could signal a move away from a market-wide capacity market. With gas still making up on average 30-40% of our power generation, it will be difficult to treat gas as a marginal fuel in the near term. So, the transition would need to be managed very carefully to avoid a further hiatus in investment in flexible generation necessary to keep the lights on.

Difficult outlook for North Sea oil and gas

For **upstream oil and gas**, much will depend on whether what Labour call the "unjustifiably generous" investment allowances are withdrawn altogether or just slimmed back in Rachel Reeves' first Budget, which is expected to take place this Autumn. Either way, the [outlook in the North Sea](#) looks very difficult, with production in permanent decline, some companies already going bust and the share prices of some companies still operating in the North Sea falling significantly since the Labour Manifesto was published.





Protect the waterways and improve customer experience

Labour have put the **water companies** on notice that they will act if problems, like excess sewerage discharge into rivers and waterways, persist. Ofwat will be expected to take tougher action to rectify poor performance by the water companies.

Labour will have an early decision to make on what to do about Thames Water.

Expect tougher scrutiny on ESG and Corporate reporting

All companies should expect tougher scrutiny on **all aspects of ESG and corporate reporting**.

On the **'E'**, we need to see the detail of how the 1.5 degree 'Paris Aligned' climate transition plans requirement plays out in practice.

On the **'S'**, companies need to be looking out for the details of the package on workers' rights, that Labour have said they will set out within the first 100 days.

On the **'G'**, all companies will be under close scrutiny for the way they operate, how they treat their customers and their staff, and the bonuses paid to top executives.

Be aware of changes in the energy delivery landscape

For the Office of Gas and Electricity Markets (**Ofgem**), there will be changes to reflect both the pace Labour want to move at in building new infrastructure, like electricity grids and in sorting out the grid queue.

Ofgem will need to demonstrate that they are really adhering to their new Net Zero duty in facilitating this deployment of new grid infrastructure at pace.

The new National Energy System Operator (**NESO**) will have a key role in setting out the national and regional plans for new energy infrastructure, working with other bodies like the **Crown Estate England & Wales, Crown Estate Scotland** and the Distribution Network Operators (DNOs).

More broadly, we should expect some new **machinery of Government changes** to reflect the Mission-led approach Keir Starmer has set out with the creation of 'Mission Boards', chaired by the Prime Minister, to make the key trade-offs and drive delivery and greater use of cross-departmental units e.g. between Department of energy security and net zero (DESNZ), and HM Treasury (HMT) on the Net Zero Mission.

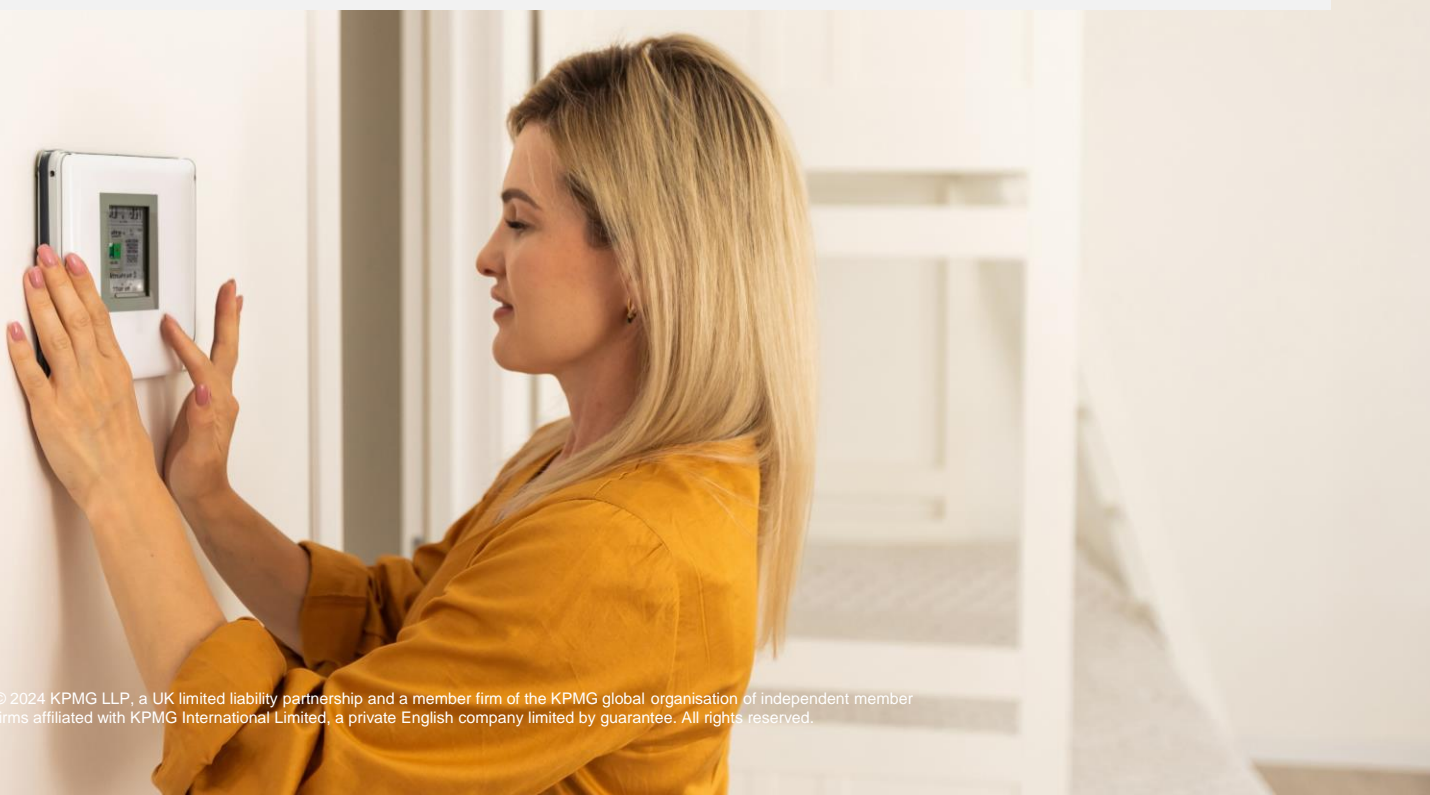
There remains an open question about the **respective roles of GB Energy and the NWF**, how they will relate to each other, as well as to existing institutions like the **UK Infrastructure Bank (UKIB)** and **Great British Nuclear?** We can expect to see some further detail on this alongside the King's Speech due in July 2024, or potentially sooner.

Deliver excellent customer service at affordable prices

For **energy retail**, it seems likely that the energy price cap will stay in place (given that Ed Miliband was the person to first suggest the idea back in 2013).

Ofgem will face a tricky handling issue to face if they have to put the energy price cap up this winter (as seems possible), when the general public might be under the impression that bills are coming down by £300 pa. There will be an expectation for Ofgem to be tougher on energy companies that don't deliver good customer service.

Labour may also seek to shift the cost of policy levies over time from electricity to gas bills, in order to support the take-up of heat pumps, EVs and other low carbon technologies.



Talk to our experts in energy and natural resources



Next steps:

These are just some of the implications we can identify from what Labour have said thus far. Once in Government, all the problems that need addressing will be theirs. The Civil Service will be preparing briefs on a host of other pressing issues as well, including the geopolitics of energy and the **outlook for energy security** this coming winter.

In energy policy, it is also worth remembering that **events**, like wars, accidents and extreme weather, can determine the direction taken (think Russia/Ukraine, extreme storms, or the Fukushima accident), as much as the best laid plans of any government.

In terms of next steps, we expect to have the full list of Ministerial appointments and portfolios in the Department for Energy Security and Net Zero announced in the next few weeks. Followed by more details on their plans shared alongside the **Kings Speech on 17th July 2024**.

Navigate the complexities of the global energy market with **KPMG professionals**. Our insights and expertise can help you understand and adapt to the shifting energy landscape, ensuring your business is prepared for the future.



Simon Virley CB

Vice Chair and Head of Energy and Natural Resources
KPMG in the UK

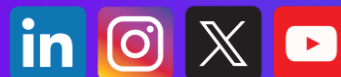
simon.virley@kpmg.co.uk



Claire Angell

Partner, Head of Energy Tax
KPMG in the UK

claire.angell@kpmg.co.uk



kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

CREATE: CRT156472A | July 2024