

The impact of COP 26 on achieving net zero in the UK

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24 November 2021

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How to finance net zero

- The Paris Agreement, reached at COP21 in 2015, shaped not only international policymaking but also flows of global capital.
- Institutional investors, such as pension funds and insurance companies, are increasingly ESG-conscious.
 - As they are targeting long-term returns, they are becoming aware of the material threats that climate change pose to our societies.
 - Energy infrastructure is an appealing investment asset class for these investors.
 - Equity investors and debt providers are both looking for stability, and the outcome of COP26 is arguably set to strengthen their commitment.

“Recent years have seen the emergence of large volumes of private sector capital looking to invest in infrastructure projects.

Governments around the world are seeking ways to access this capital, which in the UK primarily comprises pension funds and insurers.

This is potentially a major source of the investment required to meet our decarbonisation objectives.”

(Source: BEIS, *RAB Model for Nuclear*, 2019)

Significant commitments before and during COP26

Before COP26

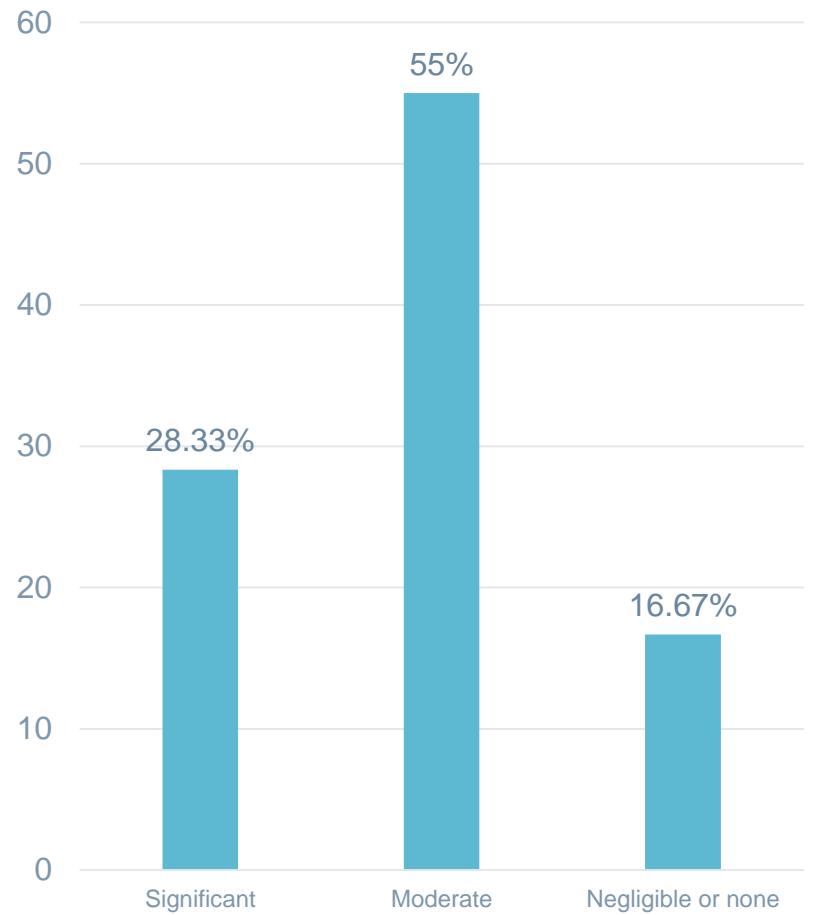
- The Budget
- Heat and Building Strategy
- Net Zero Strategy
- Green Finance Roadmap
- Heat Pump Ready Programme
- Market-based mechanism for low carbon heat
- Phasing out the installation of fossil fuel heating in homes off the gas grid
 - Separate document for businesses

During COP26

- Declaration on zero emission vehicle sales by 2035
- Energy Transition Council's 2022 strategic priorities
- UK Green Buildings Council announces its new Scottish network
- World Business Council for Sustainable Development called for the development of a new Corporate Determined Contributions
- Phase-out of inefficient fossil fuel subsidies and phase-down of coal
- Declaration on forest and land use
- Glasgow Financial Alliance for Net Zero (GFANZ)

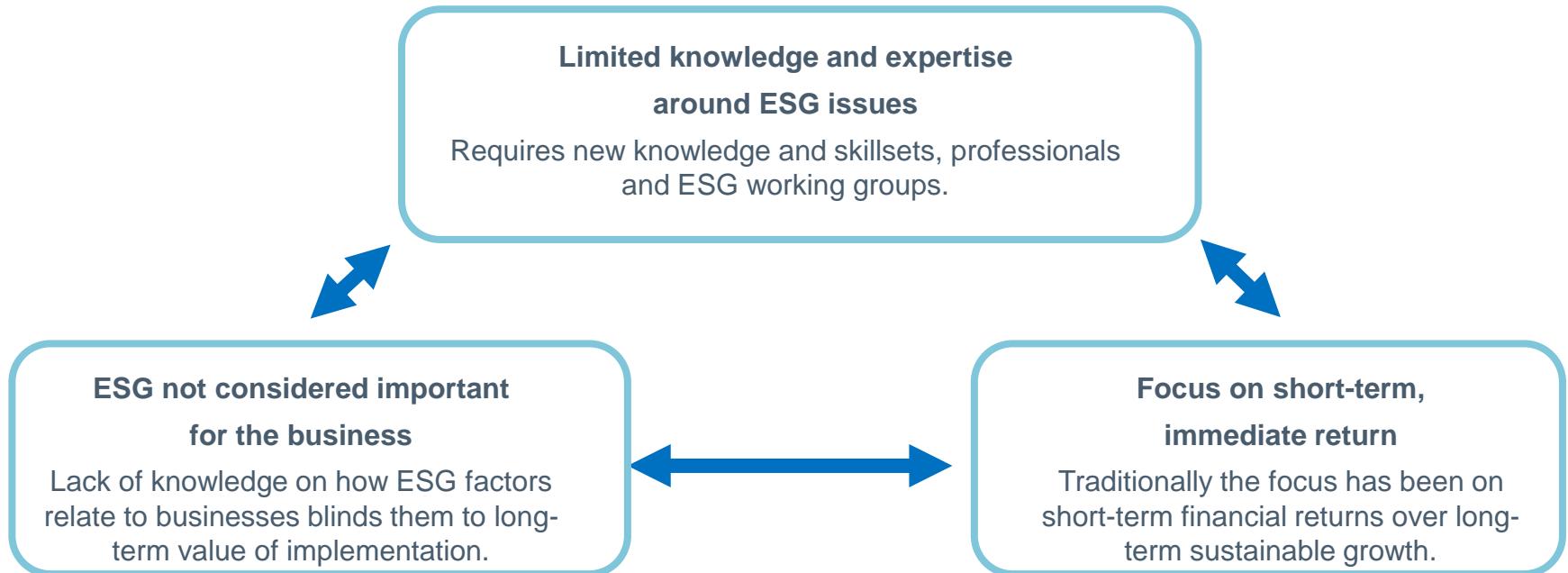
The impact of COP26 on UK net zero investment

- During our “Financing net zero” digital forum, which took place on 17 November, we asked our attendees “What impact will COP26 have on private investment in the UK’s net zero energy infrastructure?”
- Our forum is mainly aimed at energy investors; out of 121 attendees, we had a 50% response rate.
- The majority of our respondents is convinced COP26 will have a ‘moderate’ impact on private investment in the UK’s net zero energy infrastructure.
- Only 16.67% of our respondents think there will be no or negligible impact.

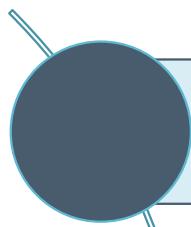


Source: Cornwall Insight's Financing net zero forum (17 November 2021)

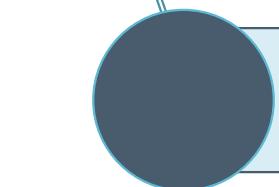
Barriers to ESG and net zero investment



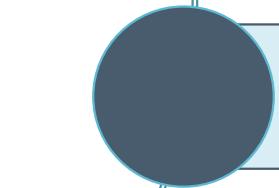
Risks from turmoil in the retail energy market



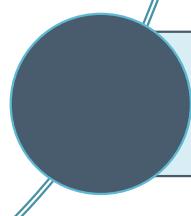
The increasing volatility of wholesale electricity prices has created instability in the energy supply market, leading to the failure of 25 UK retailers in 2021.



While the challenges have mostly focused on the supply market, ramifications could threaten contiguous – and interconnected – parts of the value chain.



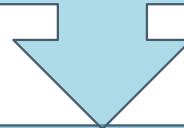
For example, instability could diminish investors' confidence in merchant financing, where renewable energy assets do not rely on subsidies, but on the revenues those assets can earn in wholesale markets.



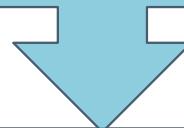
Policy consistency, and willingness to intervene to avoid contagion, are essential to keep private capital flowing.

The need for stability

COP26 has strengthened the case for investing in the UK's net zero transition.



Policy consistency will be crucial as long-term investors – particularly infrastructure funds and institutional investors – need stable regulatory frameworks.



Hence, policy can play a significant role in reducing energy investment risk and ensuring the flow of private capital.

Concluding remarks

The UK made significant net zero commitments before COP26, and COP26 added to the urgency.

- ESG factors are increasingly important for investors, particularly long-term investors.
- Contracts for difference has been crucial in de-risking investment in low-carbon generation such as offshore wind, allowing the deployment of cheap and abundant private capital.
- The UK is in a good position to attract flows of private capital to finance its energy infrastructure.

However, there are still several barriers to ESG and net zero investment.

- Obstacles to net zero investment include limited knowledge of ESG factors, and focus on short-term returns.
- The current turmoil in the retail energy market could threaten contiguous parts of the energy value chain.

Risk mitigation actions are needed.

- Overall, COP26 has strengthened the case for investing in the UK's net zero transition, but maintaining stability will be crucial to keep investor confidence.
- Policy can play a significant role in reducing energy investment risk and ensuring that private capital continues to flow into net zero investment.