GIIA Response: October 2022

Net Zero Review: Call for Evidence

Introduction

GIIA is the membership body for the world's leading institutional investors in infrastructure, with our members collectively responsible for over £1 trillion of infrastructure assets under management, across 70 countries. GIIA's investor member base is diverse – ranging from fund managers and pension funds to insurers, corporate investors and sovereign wealth funds (a full list of GIIA members can be found appended to this document).

GIIA members hold assets across a range of core sectors - from digital and utilities to social, renewables, transport and beyond. Our members are investing today to help deliver the smart, resilient and sustainable infrastructure of the future - ensuring we are able to keep pace with a growing population.

In response to the government's call for evidence on the *Net Zero Review*, we are writing to offer a high-level perspective that reflects a range of views from within our membership. As we look to the future, our collective decarbonisation journey will shift approaches across society, including from an investor perspective. The unprecedented cost of living crisis and increasingly unstable weather conditions have brought into sharp focus the pressing need to meet our climate objectives and bolster the UK's self-sufficiency in the energy space. Ensuring the UK retains its place as a primary market for investors will be critical to unlocking the transformational levels of investment required to facilitate our pathway to net zero.

Question 1

A core way in which net zero can help deliver the 2.5% growth target, is through the distribution of investment in green technologies, within the UK. As illustrated by GIIA's infographic[1], our members are actively investing right across the country – helping to resolve economic inequalities.

As we move towards a more autarkic approach in the energy space and greater reliance on renewable forms of energy, many of the key locations for these assets will fall outside of the capital/south. A wide and equal spread of investment will help create new jobs in maintaining the green infrastructure, in turn driving economic growth in former low-growth areas. Even distribution of investment to help drive growth should not, however, be achieved through measures such as locational pricing (explored in the *Review of Electricity Market Arrangements* consultation) which given this could ultimately amplify regional disparities.

A key example of this is the concept of industrial clusters. The HyNet and East Coast Clusters were last year confirmed as the two Track-1 clusters for the mid-2020s – helping to fulfil the commitment in the *10 Point Plan*, to deploy CCUS in a minimum of two industrial clusters by the mid-2020s. Given that industrial clusters are responsible for over half of the UK's industrial emissions[2], work on clusters will help generate CCUS-related jobs, level-up local economies and attract investment right across the UK, thus enabling the fulfilment of the 2.5% target.

[1] GIIA Infographic: 220405-GIIA-UK-and-Regional-Assets-Statistics-Final.pdf

[2] Towards Industrial Decarbonisation: The Strategic Role of Industrial Clusters - Energy Systems Catapult

Question 2:

From an investor perspective, a challenge to decarbonisation can certainly be seen as the nascent nature of the emerging technologies required to deliver net zero. As an example, while there remains strong enthusiasm from within the investor community towards the potential of hydrogen as a future fuel, much still remains uncertain, for example the lack of a finalised business model. In some cases, there is a mismatch between the pace within which government decisions are made and the timeline of investment decisions that our members must take. Infrastructure investments often span decades - the long-term nature of the asset class means that a challenge remains for the government to provide investors with sufficient clarity and certainty to allow investors to take decisions on nascent technology forms. The UK Infrastructure Bank (UKIB) also has an important role to play in the nascent technology space, through its ability to help de-risk investments and crowd-in private capital.

While many perceive electric vehicles (EVs) as being well on the way to growth, a further obstacle is the need to decarbonise heavy goods vehicles (e.g. freight) – an issue which remains challenging and in need of collective interest to help identify innovative new solutions.

Shifting focus to EV infrastructure – a challenge remains to deliver the capacity and reach of public charging points required to cater for society, particularly given the government's enforced restriction on the sale of new petrol and diesel vehicles by 2030. To facilitate the pathway to decarbonisation further attention must be paid to concepts that would allow charging infrastructure to be delivered at the scale required, including plans for converting existing petrol stations to charging forecourts with stable connections to the grid. This highlights the dual challenge of erecting the charging infrastructure itself, while also working on grid connectivity.

More broadly, a challenge for members that own utilities in the gas space will be to repurpose their existing infrastructure, to ensure it is capable of handling alternative forms of energy. This process will require extensive funding and will take time to implement, something that will be challenging to align with decarbonisation timelines.

Ultimately there also remains a need to strike the delicate balance required to achieve intergenerational fairness. Decarbonising and achieving our legally binding net zero commitments will require huge amounts of investment - counterbalancing this with the need to keep consumer bills affordable continues to be a key challenge.

Questions 3, 21 & 22

A key part of a pro-growth UK is continuing to attract the levels of private investment required to deliver resilient infrastructure. There have certainly been encouraging steps taken by the government to help generate confidence within the investor community, including the development of dedicated Hydrogen and CCUS investor roadmaps. Further publications including the *British Energy Security Strategy* have also been welcomed as offering greater clarity on the government's vision of a future energy mix that is both secure and sustainable.

A core consideration for investors is the provision of funding models for the asset class. As we look ahead, a replacement for the Private Finance Initiative (PFI) model is still awaited and could help build investor confidence particularly in the case of more nascent technologies, through the establishment of Public-Private Partnerships. At a time when public finances are stretched to the limit and beyond we believe the Government should revisit its approach to retire the PFI model.

In respect of amended measures - while, historically, the UK was perceived as having the "gold standard" of regulation, there are aspects now regarded as overly cumbersome and complex. From GIIA's perspective, greater attention must be paid to the regulatory approach taken to delivering the transition effectively. In our *'Regulating for Investment'* report[3], we outline a set of key recommendations to unlock the infrastructure required to contribute to economic growth and thriving communities and businesses – including streamlining and coordinating the role of regulators.

Adjustments to the planning systems to allow the more rapid delivery of infrastructure would also be a welcome approach. While transparency for local residents, in respect of new/planned developments remains key, efforts should be made to help shape the planning process to prevent unnecessary delays.

Question 6

GIIA recognises the difficult task of balancing the need for energy security with the need to deliver on net zero by 2050. From an investor standpoint, while reform is needed to accommodate the transition, it is important that changes are made at a pace that does not unsettle investor confidence. As an example, proposals set out in BEIS' *Review of Electricity Market Arrangements* including a possible move to a locational (nodal/zonal) pricing system would deviate significantly from the status quo, while lacking a reference case. While a proposal such as this is one of a package of measures to ensure the system adapts to a more heavily renewable energy mix, any sudden/large-scale changes could be unsettling to investor sentiment.

Energy security is key, but there must certainly be a perceived "transition" period to allow key stakeholders (including investors and consumers) to adapt to an entirely new approach. As outlined above, large projects including in connectivity infrastructure will be required to ensure the framework is fit to accommodate new/alternative forms of fuel.

Question 8

The net zero transition has presented a range of opportunities for investors. GIIA's members actively hold assets across a range of sectors that will play a key role in our decarbonisation journey, including in the transport and utilities sectors. Certainly from an energy perspective, opportunities are likely to multiply in the renewables field, as well as in more nascent forms of production involving sources such as hydrogen. Investors stand ready to help deliver this new infrastructure to help provide greater domestic energy security.

In the transport space, there are likely to be opportunities within the electric vehicle (EV) space, including the roll-out of charging infrastructure, as well as larger public transport infrastructure including the bus and rail network. Investment in transport remains a key factor in determining our success in achieving our net zero goal.

Question 14

To help support the decarbonisation of infrastructure, as outlined above, GIIA strongly advocates for the government to provide urgent clarity in key policy areas, such as decisions on the heating/blending uses of hydrogen. Measures such as this will be key to unlocking our full

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[3] GIIA-Regulating-for-Investment-Report.pdf

decarbonisation potential, but require the right signals from government, to build investor confidence.

Expediting key decisions such as those outlined above, as well as offering a finalised version of the hydrogen business model at the earliest opportunity, will provide investors with greater visibility of the overall investment horizon and stimulate the flow of capital into these more nascent technologies. In the absence of these key decisions, it remains unlikely that investors will be encouraged to invest at the scale and pace required, to deliver on our decarbonisation objectives.

Question 15

From an investor perspective, there continues to be a great deal of interest towards more nascent technologies, including the hydrogen economy. This was demonstrated during a BEIS roundtable with GIIA, which brought investors together with the Secretary of State. The level of determination within the investor community to help deliver on key net zero objectives and provide the infrastructure of the future, should not be understated.

As such, there is certainly a central role for private investment to play in aiding the roll-out of key technologies but, particularly in the case of hydrogen, it is reliant on the speed with which key policy decisions are taken.

It is also important to remember that many of our members require investments to fulfil a minimum ticket size- ensuring that the available opportunities are (for example, in the case of heat pumps) offered at the scale needed, would ensure that private investment can continue to play a key role in these more nascent areas.

Question 16

As outlined previously, the clean power industry is an area where our investors are actively involved and remain keen to contribute to. A key barrier to entry for new technologies, remains the lack of clarity around final business models.

The availability of appropriate funding models also remains a key concern, particularly in the case of new technologies with few reference cases to illustrate stable returns to/for investors. Greater government support to help de-risk investments in nascent sectors will be crucial to building investor confidence.

Regulation also remains a key barrier in some asset classes- in the case of clean power, existing frameworks must be adapted and streamlined to boost the attractiveness of the investment opportunities. Linked to this, is the need for clear pipelines of investable opportunities in clean energy, including those at the right scale for investors seeking a minimum ticket size.

Question 26

The planning system can alter the way in which investors approach opportunities that contribute to the UK's decarbonisation journey. Notably, there are a number of areas within the existing approach that could be streamlined. In doing so, it would allow an opportunity for decisions to be taken in a more time-effective way which, in turn, delivers much-needed infrastructure at a more rapid pace.

Timescales are a key factor here- for example, in the offshore wind space, overly complex and cumbersome regulatory practices can lead to a number of unnecessary delays. The huge potential of technologies including wind power to aid our decarbonisation journey means it is vital that we continue to encourage greater simplification in planning approach.

Questions 29 & 30

To seize the benefits of future innovation and technologies, greater attention must be given to the need for clear, investable pipelines of opportunities within the net zero space. In doing so, this will provide investors with greater clarity and ensure the UK remains a primary investment destination.

In order to position the UK as ready to receive the benefits from future innovation and technologies, our regulatory framework and decision-making timelines must be aligned to facilitate an inward flow of private capital. Final forms of business and funding models must also be provided to investors, as a key way of building confidence and highlighting investment prospects in the net zero space.

APPENDIX ONE – GIIA MEMBER COMPANIES

3i
abertis
AIMCo
ALINDA
Allianz
AMP CAPITAL
ANCALA
ANTIN INFRASTRUCTURE PARTNERS
apg
AQUILA CAPITAL
arcus INFRASTRUCTURE PARTNERS
ARDIAN
ARGO INFRASTRUCTURE PARTNERS
ARJUN Infrastructure
ATTEXO CAPITAL
AVIVA INVESTORS
Blackstone
BCI
Brookfield
CDPQ
CalPERS
CALSTRS
CPP Investments
CBRE CALEDON
CORSAIR
DALMORE CAPITAL
DIF CAPITAL PARTNERS
DIGITALBRIDGE
DWS
EDF Invest
equitix
ferrovial airports
GIC
GLOBAL INFRASTRUCTURE PARTNERS
GMR
Goldman Sachs
GPIF
Federated Hermes
FIERA INFRASTRUCTURE
HOOPP Healthcare of Ontario Pension Plan
IFC Asset Management Company
ifm investors
igneo Infrastructure Partners
Infracapital
InfraRed Capital Partners
IMCO Investment Management Corporation of Ontario
I SQUARED CAPITAL
John laing making infrastructure happen
J.P.Morgan
KKR
MACQUARIE
Marguerite
Morgan Stanley
NATIONAL INVESTMENT & INFRASTRUCTURE FUND
OAKTREE
OMERS
ONTARIO TEACHERS' PENSION PLAN
OPTrust
PEMBANI • REMGRO
PGGM
Plenary
PSP Investments
QIC
SLATE
SEARCHLIGHT
STEPSTONE inside private markets
STONEPEAK
SwissLife Asset Managers
UBS
VANTAGE INFRASTRUCTURE
WHI WREN HOUSE INFRASTRUCTURE