

# Cost of energy: independent review

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## Terms of reference

The Terms of Reference of the Review are set out below:

- The government has the ambition for the UK to have the lowest energy costs in Europe, for both households and businesses.
- The UK was the first country in the world to set a long-term, legally binding target for emission reduction. The Climate Change Act commits the UK to reduce emissions by at least 80% by 2050, and sets a framework for the setting of rolling five-year carbon budgets. Parliament has recently approved the 5th carbon budget, for the period 2028-2032, at a 57% reduction on 1990 levels.
- The carbon targets need to be met, whilst concurrently ensuring security of supplies of energy, in the most cost-effective way. The rapid closure of coal, the aging of the existing nuclear fleet, the intermittency of some renewables, the scope for demand management and new storage, the coming of electric vehicles and the timing of future nuclear capacity coming on stream will be taken into account in considering how best to meet the overall objective of system security of supply.
- The specific aim of this review is to report and make recommendations on how these objectives can be met in the power sector at minimum cost and without imposing further costs on the exchequer. In that context the review will consider the implications of the changing demand for power, including from industry, heat and transport.
- The review will report on the full supply chain of electricity generation, transmission, distribution and supply, and consider the opportunities to reduce costs in each part, taking into account the roll-out of smart meters and the work already underway to underpin the transition to a smarter energy system.
- The review will set out options for a long term road map for the power sector, and consider how technological change in the wider economy, as well as in the energy sector, may transform the power sector, and how energy policy can best facilitate and encourage such developments, consistent with the overall objectives of decarbonisation and security of supply, and with its industrial strategy.
- The review will consider the options for enhancing and extending the scope for auctions and other competitive mechanisms, and for reducing the complexity across the full supply chain of electricity generation.

- The review will consider the key factors affecting energy bills, including but not limited to energy and carbon pricing, energy efficiency, distributed generation, regulation of the networks, and innovation and R&D. The review will not propose detailed tax changes.
- The review will focus on system issues and will not comment on the status of individual projects.
- The review will provide recommendations as to how best minimise the costs of energy consistent with the overarching objectives, taking account of the costs and benefits of the recommendations. It will set out options for developing and enhancing energy policy. Where the issues the review covers fall to other players, for example Ofgem, it will make recommendations about how government can best work with them to reduce costs.