

Back to gas isn't the answer – but the government must have a firmer a grip on system costs

Author: Regen Markets Team

Approved by: Johnny Gowdy, director

jgowdy@regen.co.uk

Contents

1. Summary	2
2. A focus on affordability, yes – but a return to gas?	3
3. Getting a grip – network and system costs	7

1. Summary

Onward's publication of an alternative power system pathway, relying on expanded use of gas, makes little sense as an energy strategy. As commentators have highlighted, '[*Firm Foundations*](#)' is based on very optimistic – and potentially reckless – assumptions about future gas prices and the cost of building gas-generation technologies.

The Onward report does, however, provide a useful counterfactual for discussing current energy policy and shines a spotlight on areas of the energy transition where the government, Ofgem and NESO need a firm grip on costs. The numbers presented for network and system balancing costs may be inflated, but these non-commodity costs are now battleground issues in the debate about whether the government has got the balance right between its mission to deploy 'homegrown clean power' and an energy system that is cost-efficient and affordable.

Right now, power costs are rising and, even if this is primarily the result of international factors and rising gas prices, the perception is that not enough is being done to reduce costs across the energy system. Referencing studies like *Firm Foundations*, the media and politicians can point to any cost rise and argue that this is the result of net zero. To get on the front foot and demonstrate that clean power will deliver for the consumer, the government needs to look again at the drivers of system costs.

2. A focus on affordability, yes – but a return to gas?

Last month, the then Conservative shadow energy minister, Claire Coutinho, endorsed a paper produced by the centre-right think tank Onward. The report, “[Firm Foundations: The case for cheap and reliable power](#)”, offers an **Alternative Policy Pathway** for the power sector. It assumes that a future Conservative government will repeal the Climate Change Act 2008, so the current carbon reduction targets will no longer be a firm energy policy objective. Instead, the use of gas for power generation would double, with an expansion of nuclear energy in the 2040s and significantly less renewable energy.

Under the Alternative Policy Pathway, emissions from the power sector would be higher in 2050 than they are today, with a similar level of carbon intensity. The full pathway impact on carbon emissions is not provided, but given that electrification of heating and transport is lower, the alternative pathway will lead to higher emissions across the economy.

The projections for nuclear capacity, at 20 GW by 2050, are within the upper range being targeted by the current government’s strategic plan, and so, apart from being optimistic in terms of cost, do not represent a fundamental policy shift.⁴ The biggest difference is the continued use and expansion of gas generation and reliance on imported gas. Gas power generation in 2050, at 101 TWh, is almost double current levels. That is a massive turnaround in energy policy and has serious implications for energy security and costs, as well as carbon.

The report authors are unapologetic about the level of carbon, arguing that carbon reduction targets are arbitrary and that more focus should be placed on electricity cost reduction to address the cost-of-living crisis and to encourage further electrification in the economy.

Reaction to the Onward report has been mixed. Several commentators have welcomed the articulation of a counterfactual energy scenario to better understand and critique current energy policy, even if it is an unlikely pathway. Others have highlighted the flaws and unrealistic, or at least highly optimistic, assumptions that have underpinned the analysis. For example:

- That gas prices will fall to pre-Ukraine war levels (<£25 per MWh) and remain low for the next 20 years. The current European gas price is over £60 per MWh (TTR, 1/9/26).
- That there are no further gas price shocks in the period to 2050. This is a key assumption since, as the OBR stated in its Fiscal Risks and Sustainability report in 2023, an ongoing gas dependence with periodic price shocks can be fiscally, economically and socially detrimental for investment, debt and wellbeing.¹

¹ OBR [Fiscal Risks and Sustainability Report 2023](#)

- That 21 GW of CCGT plants can be built a lot faster, and at a far lower cost, than current benchmarks.²
- That 12 GW of new nuclear plants can be built in the 2040s at a much lower cost than has been experienced to date (although, in fairness, this optimism is also prevalent across government).
- That removing carbon costs for fossil generation results in bill reductions with no downside in terms of lost Treasury revenues or the inevitable costs that would be borne by exporters exposed to carbon import duties like the Carbon Border Adjustment Mechanism.

Forecast gas price assumptions are very optimistic in the face of ongoing gas price increases:

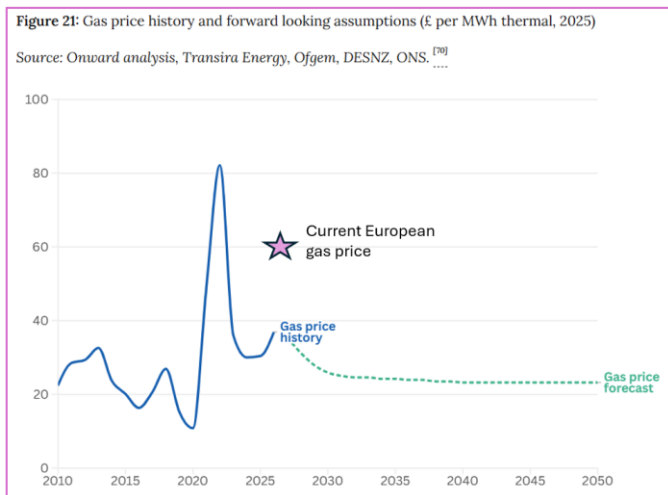


Figure 21: Firm Foundations: the case for cheap and reliable power August 2026

Reasons why European gas prices may not fall to, or remain at, pre-Ukraine levels:

1. Gas logistics have fundamentally changed
2. Prices are set more often by LNG
3. Ongoing risk premium for Middle East cargoes
4. Competition for flexible cargoes from Asia
5. US may reimpose export restrictions

Similar dynamics apply to petrol and diesel.

Figure 1. One of the key assumptions from the Onward report is that gas prices will somehow stabilise. Here we have added this summer's actual price, and listed the reasons to question this forecast.

An oddity of the Alternative Policy Pathway is what happens on the demand side. Despite the thesis that lower electricity prices will encourage electrification, overall power demand and the electrification of transport and heating are significantly lower.³ This, according to the report, is due to the removal of policy measures to encourage the uptake of EVs and heat pumps. The additional consumer cost of using more expensive diesel and petrol for transport is not included in the analysis, so it cannot provide a meaningful comparison of costs.

² Gas plant prices have surged – see Institute of Energy Economics and Financial Analysis: [Misguided Stampede to Build Gas Power Plants](#).

³ Electricity demand is also lower in the BAU scenario than the government's clean power projections.

Lower demand in heat and transport is partially offset by policies that would support an increase in data centre demand. Supporting data centre expansion ahead of renewables and low-carbon technologies is an interesting policy position for the Conservative Party to take.

On the generation side, the deployment of offshore wind all but stops in 2030, onshore wind capacity falls, and solar barely grows before falling in 2050. CfD, Capacity Market and other policy measures are instead channelled into gas generation and nuclear. Nuclear capacity grows in the 2040s to 20 GW, exceeding the modelled BAU scenario but within the range targeted by the current government.⁴ There are fewer interconnectors and a lot less energy storage.

Contrary to the author's claims, the criticisms of the *Firm Foundations* report have not just come from those pushing for renewables and climate action.⁵ While welcoming the opportunity to debate an alternative scenario, several centre-right and neutral industry leaders have raised the same points about unrealistic assumptions.⁶

“There’s a difference between a useful scenario and a plan you’d build a system around. This report is the former presented as the latter. If you accept its assumptions, the results follow logically. The problem is the assumptions – because this kind of modelling largely gives you back what you put in, and this pathway is built on a stack of optimistic inputs.”

– **Tom Glover, chair of RWE**

It is not clear to what extent the Onward report represents official Conservative policy. The tone and key messages certainly chime with Kemi Banadoch's shift away from previous climate change commitments and moves to purge the party of MPs who back the Climate Change Act. We would expect an incoming Conservative government to significantly reduce support for renewable energy, EVs and heat decarbonisation. But will the Tory party seriously campaign on a message that relying on imported gas will deliver secure and cheap energy? It may depend on what gas prices are doing in 2029 and the media's goldfish memory, but as a credible energy strategy, it is deeply flawed.

It also marks a very radical shift in centre-right thinking and potentially conflicts with the views of many Conservative voters. Onward itself authored a paper in 2022 called [Vote Blue, Stay Green](#), which argued that climate change remains one of the top issues for Conservative voter

⁴ The Labour Government has also moved to support nuclear expansion with support for Sizewell C and investment in SMR and AMR technologies. The range of nuclear pathways will depend on cost but is expected to be between 15-20 GW

⁵ See for example Carbon Brief [Factcheck: 10 flaws in the Conservative report on 'cheap power'](#)

⁶ See for example [Richard Howard LinkedIn Post](#), [Tom Glover Chair of RWE LinkedIn Post](#),

groups and that sticking to net zero was a core value. And in [another paper that same year](#), it found that scrapping the net zero target would cost the Tories 1.3m votes.

Removing support for EV uptake would be an easy step to take, but it would lock more consumers into expensive petrol and diesel-fuelled motors. This reinforces the point that if the analysis is going to consider total energy costs, it needs to consider the broadest use of energy across the economy, including alternatives to power. By contrast, NESO's decarbonisation pathway cost analysis, which has been criticised as being overly optimistic in favour of renewables, considered the impact of all energy uses as a percentage of GDP.⁷

Rowing back on things like ULEZ may go down well in the right-wing media, but the experiences of people living in lower-emission zones, as well as the medical evidence of health improvements, mean these remain popular. Given the increasing consumer demand for electric vehicles, it is arguable that market demand for better EV products and lower running costs will drive uptake regardless of pro-EV policies.⁸

Cancelling support for offshore wind would be more destructive. Would a Tory government immediately take steps to abandon the pipeline of offshore wind investment, given the jobs and growth opportunities this industry has created? By contrast, a Tory government coming in and promising to back the expansion of data centres, in the face of growing public opposition, would be problematic and prone to public backlash.

A summary critique of the Alternative Power Pathway is that, even if we were prepared to abandon carbon targets, it would lock us into a future reliance on imported gas based on an incredibly optimistic assumption that gas prices will be low and not subject to future price shocks. Launched on a day when energy bills once again rose due to the ongoing conflict in the Middle East, and with a looming winter of rising gas prices, this pathway must be viewed as very high risk, to the point of incredulity.

⁷ NESO [Decarbonisation Cost Pathway 2025](#) - Energy-related costs are projected to decline in all pathways, from around 10% of GDP in 2025 to around 5-6% by 2050

⁸ See for example [Autotrader article Watt a Turnaround 2026](#)

3. Getting a grip – network and system costs

Firm Foundations does highlight the need for the UK government and its officials at Ofgem and NESO to get a firmer grip on transitional costs. The largest modelled savings in the report come from network investment and system (balancing) costs. Cumulative network savings from 2030-2050 amount to £137bn, while balancing savings come in at £59 billion.

As with the other report assumptions, commentators have noted that these modelled savings are greatly inflated; nevertheless, the network and system cost increases are a major concern and must be addressed, or risk undermining the government's clean power strategy.

Network investment: a problem of transparency

The Alternative Power Pathway network savings, coming from £137bn lower asset value (i.e. less capital investment), assumes that a significant portion of new transmission capacity can be avoided (from not having to connect new offshore wind farms and interconnectors) while distribution network investment will also be lower with fewer EVs and heat pumps to support. Network load reduction is partially offset by data centre demand increases, which, under a Conservative government, would be supported by policies to accelerate their development.

The numbers are contested. The main point of contention isn't whether networks will need to be upgraded to support the energy transition – clearly they will – but the extent to which network investment will be needed in any case to replace aged infrastructure after years of underinvestment, and to support changes in energy demand and supply that are not specifically driven by net zero. For example, the growth in data centres, new housing and the increased electrification of the economy. EV uptake is likely to proceed, irrespective of government decarbonisation targets, because EVs are just better and cheaper.

A response from the Electricity Networks Association pointed out that, in Ofgem's calculations, network investment should reduce consumer bills, and that its own analysis suggests up to 80% of the investment will be to upgrade existing assets, not to build new infrastructure.⁹

“In approved baseline funding of network plans, ENA estimates that up to 80% of the investment will be focused on the maintenance, security and resilience of existing assets in the current system, not on building new infrastructure.”

– ENA response to Onward report

⁹ ENA response to [Onward report](#) [Firm Foundations](#)

This tallies with previous analysis, including DESNZ/Ofgem's [Electricity Networks Strategic Framework](#), the Electricity Commissioner's [Accelerating Electricity Transmission Network Deployment](#) report and the National Infrastructure Commission's [2025 study of the distribution network](#), which concluded that there was a need to:

- Accelerate network investment to catch up after years of underinvestment
- Make more strategic investment decisions (i.e. invest for the future)
- Better align network investment within an overall energy system plan.

None of these studies suggested writing a blank cheque to just go and build network capacity without a proper plan and without a robust cost-benefit analysis, but the message was clear: we need to build infrastructure more quickly, we need to catch up, and much of what we build will be needed in any pathway.

The problem for the government, and for network planners in NESO and Ofgem, is that none of this is very transparent, and therefore, stakeholders are rightly asking questions:

- More network capacity is needed, yes, but exactly how much and in which parts of the network?
- How robust are the network plans and delivery mechanisms to respond to uncertainties?
- How much is being driven by the drive for clean power versus legacy upgrades and other changes in the energy system?
- And since electricity demand growth is lower than forecast, connections are slower than promised, and we are not going to deliver the capacity targets included in the Clean Power Plan by 2030, could any of the planned network investment be rescheduled without increasing constraint costs?¹⁰
- If it makes sense economically to invest for the future ahead of load growth, how should these upfront costs be apportioned between current and future consumers?

These are all fair but difficult challenges. The nature of a network is that it serves many needs, and so it is not easy, and may not be appropriate, to assign investments to one cause. Meanwhile, customers are also complaining about the time required to obtain new network connections, suggesting that in many areas, capacity is needed even more urgently.

To be more specific, the Clean Power Plan 2030 came with a recommendation to commence delivery of more than 90 transmission grid upgrades and new transmission lines.¹¹ At the time, these were pitched as being essential upgrades that would save consumers money.¹²

¹⁰ For example, it is clear that the UK will not deliver 43-50 GW of Offshore wind by 2030. 35 GW would be a good outcome.

¹¹ For a list of recommended upgrades, see NESO Clean Power Plan Dataset [Sheet N1](#)

¹² In its ET3 determination, Ofgem calculated an overall saving of £80 per year for the average household, although it is unclear how this figure relates to the specific investments proposed

Those savings, however, were heavily reliant on the pace of electrification, which would deliver economies of scale while spreading the recovery of fixed costs over a very wide customer and demand base.

The government, Ofgem and NESO are currently facing calls to be much more transparent and to review their network investment plans in light of slower load growth in both demand and new generation.¹³ NESO's Strategic Spatial Energy Plan is now with the Secretary of State to consider, and will be followed by a Centralised Strategic Network Plan. Energy strategy and network investment alignments make sense, but this is also an opportunity to give investors and stakeholders greater confidence that this is being achieved at the lowest consumer cost.

Getting the plan right is one thing; energy policymakers will then face two further challenges:

1. Are network upgrades being delivered as efficiently and cheaply as possible, with the right delivery incentives and cost controls? And is there a better place for competition and third-party delivery, including by network customers – or even by the state?
2. Have we got the right basis to recover network costs, including the balance between domestic and commercial, and current and future consumers? And between those who may be unable to access cheaper energy using smart flexible solutions and those who may be enjoying additional system services for their EV charger, solar panels and home batteries, etc.

For example, some elements of network cost recovery could be weighted forward in time towards periods when electricity demand growth will help to reduce unit costs. This makes some economic sense, but raises concern that we may end up passing even more costs on to future generations, who will already have to bear many other burdens of climate change.

What is clear is that, given the costs and their impacts, Ofgem, NESO and the network operators will be under far greater scrutiny and must come up with a better way to communicate exactly what investments are being made, why they are needed and that they are being delivered cost-effectively.

System balancing costs – no room for complacency

The *Firm Foundations* analysis models very high balancing costs under a clean energy scenario, with costs as high as £7bn per year in 2040, as well as much higher ancillary costs at £1.5bn in 2040. Again, these projected numbers can be contested.

NESO reported balancing costs at c. £2.7bn in 2024/25, of which thermal constraints represented £1.9bn. A similar outturn is expected for 2025/26, while 2026/27 may be higher due to rising gas prices caused by the US's ongoing war in Iran.

¹³ EDF <https://www.gov.uk/government/publications/electricity-networks-strategic-framework/electricity-networks-strategic-framework-enabling-a-secure-net-zero-energy-system>

The underlying driver of rising constraint costs is the misalignment between generation and network capacity, mainly between Scotland and England – a legacy of previous decisions to delay network investment.¹⁴ Year-on-year, however, the big driver of changes in constraint costs is the level of network outages, caused by the need to take network lines down while they are upgraded and for new connections, and the cost of replacing constrained, mainly renewable, generation with mainly gas generation.

Outages affect the constraint volume, but it is important to note that around two-thirds of constraint costs are to turn up gas generation to replace lost renewable generation. This cost is heavily dependent on the marginal cost of gas generation and, therefore, the price of gas.

NESO has made several forward projections showing how balancing costs could rise to 2030, with an upper range scenario of £8bn. However, this is not a forecast, and its central projections are around £3-4bn in 2030. This is still a very high figure and would add around £80 to the average consumer's energy bill. [Analysis by LCP Delta](#) also suggests that, while balancing costs are on an upward trajectory, the figure could be reduced to £2.3bn if steps were taken to better manage outages, increase grid capacity utilisation and harness lower-cost balancing assets and flexibility.

In NESO's projections, 2030 is presented as the high point of balancing costs, reflecting the push for new generation under the Clean Power Plan and the crunch point for delivering new network capacity. A number of factors could come into play, including the delivery of key east coast grid upgrades and the timing of the deployment of North Sea offshore wind farms. Gas prices and wholesale power costs will also play a key role. Significantly, by 2030, the focus of constraints is expected to shift from the north of Scotland into northern England and the east coast.

Beyond 2030, the expectation is that balancing costs will reduce as network capacity is better aligned with new generation, guided by a strategically aligned Centralised Strategic Network Plan, outages are reduced, and the costs of balancing actions are made much more competitive with expanded use of storage and demand flexibility. Innovation in areas like the use of dynamic line rating, AI-based forecasting and a much more automated control room will also help. It is also expected that ancillary costs will fall, or at least stabilise, as new solutions and markets are found to provide frequency response, reactive power, stability and reserve services.

The authors of the *Firm Foundations* report clearly do not accept that outlook, and while their cost figures for 2030 may be at the high end of current expectations, the projected high balancing costs out to 2040 and beyond seem to ignore the better planning, smart innovation, use of flexibility and operational improvements that could and should be made.

¹⁴ Regen (2026) [Turn Down for What?](#)

But again, as with network costs, the transparency challenge is that, while balancing costs are rising today, and no doubt good work is happening behind the scenes, the perception in the media and among industry stakeholders is that not enough is being done.

Regen's paper [*Turn Down For What? Demystifying transmission network constraints*](#) earlier this year identified a large number of actions that should be prioritised in the near term to get a better grip on constraint costs. Better forecasting and management of outages was high on the list, and yet there seems, from the outside at least, to be very little happening in that area.



Figure 2. Extract from Regen's 2026 paper [*Turn Down For What?*](#) showing actions to reduce constraint costs

Regen's core recommendation, which we have repeated over the past four years, is to establish a DESNZ, Ofgem and NESO taskforce to monitor, manage and drive down constraint costs.

The government now faces a specific challenge on the east coast, where delays to new transmission lines could end up repeating what has occurred in the north of Scotland, with new offshore wind farms generating beyond grid capacity. If this happens, even for just a couple of years, and balancing costs then rise significantly, it will call into question the sense of pushing ahead with generation deployment to meet a mission target without having the infrastructure in place to make the system work. Tough choices, but if the new Secretary of State for Energy has come into office with a remit to be pragmatic, then consumer costs, and the perception of whether the system is efficient, must be given a higher priority.

Conclusion

The culture war, name-calling and politicisation of energy are certain to continue in the run-up to the next general election. There is little that can be done about that in the broader media, except to keep presenting the evidence, keep the dialogue as open as possible, and acknowledge that views on energy policy differ. Reports like Onward's are a useful reminder of this.

Even if the clean power strategy is right, the government, supported by industry and its delivery bodies, must recognise and address the areas where the impact of the energy transition could raise bills or create an uneven distribution of costs and value among consumer groups.

Moving costs from bills into general taxation is one approach and is certainly needed to kick-start electrification that will ultimately reduce unit costs. More than that, the government needs to clearly demonstrate that it is tackling cost increases wherever they arise and is not complacent about the affordability of clean power or the efficiency of its delivery.