

# Going for growth with energy

## The United Kingdom already leads the way in green technology; reform the market and unleash its full potential

**Energy has been delivering the Chancellor's four 'E's (Enterprise, Education, Employment, and Everywhere) for decades, and there are huge opportunities to deliver further.**

The United Kingdom has an incredible story to tell about the success of green technologies, especially in offshore wind where we are world leaders. Energy is fundamental to everything we do, and it offers opportunities and economic growth across the country.

The sector is constantly innovating, it's investing billions of pounds each year, employs hundreds of thousands of highly skilled people across the entire United Kingdom, invests in education and apprenticeships and provides huge export opportunities. The energy system interacts with every single industry, business, and home in the country.

Without a functioning, competitive and investable energy market the United Kingdom (quite literally) risks being left out in the cold in the global race for investment in low carbon technologies. The US, EU and China are all competing for that finite capital pot. The United Kingdom is already perfectly placed to be one of those major destinations for investment and Energy UK's members want that capital to be here at home.

Energy is a long-term market and many decisions made today will impact later this decade which is why it's essential to plan ahead. The scale of investment by 2030 needs to be about three times what it is today. A number of issues require urgent attention including barriers to investment through the need to reform planning and community benefit, review regulatory duties, enable connection and grid reform, and ensure the progress of the Review of Electricity Market Arrangements.

Further to this, legislating for new infrastructure is needed alongside HM Treasury providing financial stimulus not only to decarbonise the industry but to also establish a robust competitive market that attracts private investment.

That includes investment in new technologies where the United Kingdom can be a world leader, investment in existing technologies where we're already world-leading, and investment in the foundations which underpin the entire power system and future proofing the grid.

All of this requires the confidence to invest now for the future. The sector can do it. The appetite and capital are there. Remove some of the barriers to growth and we can maintain and grow the United Kingdom's world-leading position.

### **Five ways to make the United Kingdom's energy market one of the most attractive in the world**

#### **1. Introduce a new investment or capital allowance for low carbon projects**

- a. The United Kingdom needs tens of billions of pounds worth of investment to build low carbon infrastructure before the end of the decade in renewables, nuclear, hydrogen, CCS and other clean technologies. Introducing incentives that allow low carbon projects to reinvest the tax they pay into decarbonised technologies and new, clean capacity would be the start. For generators now subject to the Electricity Generator Levy, this should at least be on par with the investment allowance enjoyed under the Energy Profits (Oil and Gas) Levy (i.e., 94.1p/£1).

#### **2. Level the tax incentives for low carbon technologies for households**

- a. When it comes to technologies like solar panels and electric vehicles, the tax system has a series of anomalies which need addressing to encourage even greater take up. VAT on charging an electric vehicle at home for instance is 5% vs public charge points at 20%.

3. **Agree to review the extensive and overreaching powers granted in the Energy Prices Act 2022**
  - a. The Energy Prices Act has introduced uncertainty to energy markets by granting the Secretary of State significant and unnecessary new powers. The ability for the executive to arbitrarily intervene in energy markets makes it riskier for businesses to invest and operate in the energy sector. Removing these powers will – at no cost to the Government – send a positive signal to global investors about the United Kingdom’s energy market.
4. **Bring forward the £6bn allowance for a nationwide energy efficiency programme to this Parliament**
  - a. The United Kingdom has some of the least energy efficient homes in Europe and an estimated 6.7 million people are living in fuel poverty. The Government must urgently bring forward new measures to boost investment in energy efficiency such as the £6bn allocated at the Autumn Statement. This will give the signal to the supply chain now to help mitigate future energy crises.
5. **Cancel the planned increase in the Energy Price Guarantee (EPG)**
  - a. The Government should cancel the planned increase in the EPG level, maintaining it at an annual equivalent of £2,500 for a typical household until at least July. The decision on this will be required in advance of the Spring Statement to enable effective delivery and communication to consumers. Government should also maintain the option of using Energy Bill Support Scheme – possibly in a more targeted form – from October 2023 when higher demand over the winter will put pressure on bills.

## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat, and technology.

Our members deliver nearly 80% of the UK’s power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry supports around 700,000 jobs and is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

## Policy Asks

### Ask 1: amend the Electricity Generator Levy and align the Capital Allowance regime with Net Zero to attract global investment

The Electricity Generator Levy (EGL) was introduced at the Autumn Statement and will tax 45% of low-carbon generation revenue above £75/MWh from 2023 until 2028. The tax significantly reduces the viability of investment in new renewable assets and there is a concern that it will lead to a slowdown or hiatus in projects.

#### What

The EGL should be significantly pared back or abolished. Recognising the political and revenue importance of the tax, Energy UK proposes the following:

- **Suggestion 1a)** Introducing allowances that enable low carbon companies to invest in new, clean energy projects. This could take the form of changes to the capital allowance regime such as through extending the 130% super deduction regime to apply to all low carbon projects, and introducing an investment allowance in the EGL. For generators subject to the EGL, those

allowances should at least be on par with those enjoyed under the Energy Profits (Oil and Gas) Levy (i.e. 94.1p/£1).

- **Suggestion 1b)** More technical aspects of the tax should also be ironed out in the legislation, such as the need to exempt merchant nose revenue, and merchant investment that is scheduled to be built before 2028 and did not reach financial close by the start of the Russian invasion of Ukraine.

## Why

The United Kingdom needs tens of billions of pounds worth of investment to build around triple the current renewable capacity this decade. If the EGL delays this investment, it will:

- **Cost the consumer** by prolonging the energy crisis.
- **Cause the United Kingdom to miss environmental targets** especially for 50GW of offshore wind by 2030 and a net zero electricity sector by 2035.
- **Weaken the economy** through fewer jobs in the supply chain.
- **Cost the United Kingdom its position as a global leader** in offshore wind and solar technology as China and the USA catch up.

## What it means for the Government

The EGL was forecast to raise £14.2bn over its lifetime, with the majority coming in 2023/24 and 2024/25. If allowances are set at 100%, that forgone revenue is the potential cost of the policy. This cost should be seen in the context of:

- Increased tax revenue that the investment would facilitate by creating jobs.
- Increased EGL revenue towards the end of its lifetime by expanding the size of the tax base.
- Reducing potential cost of consumer support by reducing electricity prices.

## What it means for the economy

The wider economic impacts of the EGL include:

- New, high-quality jobs.
- Lower bills for households and businesses.
- An expanded, globally competitive UK supply chain.
- Greater liquidity in wholesale power markets.

## Impact

Possible wider societal impacts of optimising the EGL include:

- Lower carbon emissions by displacing fossil fuel generation.
- Lower power prices would benefit lower-income households more as they spend a greater proportion of their income on energy.
- Investment in low-carbon generation and its supply chain is primarily outside of the South East of England, facilitating levelling-up.
- Maintaining and advancing the United Kingdom's position as a scientific superpower.
- Supporting renewables adds to energy independence and bolsters security of supply.

## Ask 2: equalise the tax treatment of low carbon technologies

Following the reduction in VAT on measures such as solar panels, home insulation and heat pumps at the 2022 Spring Statement, there is an unfair disparity in how the tax system treats those technologies and other household spending essential to the transition to Net Zero. Likewise, charging an electric vehicle (EV) at home is liable for VAT at 5% (the rate for domestic energy), whereas using a public charger is liable at 20%.

## What

- **Suggestion 2a)** Remove standard VAT on installation of domestic EV charging equipment and standalone energy storage devices.
- **Suggestion 2b)** Bring VAT on public EV charge points (including at residential buildings) in line with domestic electricity (5%).

## Why

The Government's commitment to ban the sale of new petrol and diesel cars and vans (ICE) from 2030 positions the UK as one of the fastest G7 countries to decarbonise passenger road transport. Essential to the swift transition to electric vehicles is sufficient and appropriate charging infrastructure for all consumers. Any unnecessary barriers to the deployment of such infrastructure should therefore be removed.

With rising energy prices, it is also essential that EVs remain the more cost-effective alternative to their ICE counterparts, including for the 25% of UK households without access to off-street parking who do not benefit from domestic energy VAT rates.

Relatedly, standalone domestic batteries and thermal storage devices provide invaluable flexibility to the grid and maximise the potential of solar rooftop systems. To further incentivise uptake and therefore provide greatest benefit to consumers and grid, the standard rate of VAT in installation of these devices should be removed.

## What it means for the Government

There will be a reduction in VAT revenue from both public charging fees and the installation of at-home chargers and domestic energy storage. However, this is likely to be a relatively small amount and should be seen in the context of working towards environmental targets. Equally, by making access to chargepoints easier, this reform should accelerate uptake of EVs, increasing VAT revenues from new EV sales.

Alternatively, road user pricing could raise additional revenue and in a more economically efficient and equitable manner than taxing EV drivers through VAT on charging and charging infrastructure. Ultimately, the Government should pursue such reforms.

## What it means for the economy

The wider economic impacts of levelling VAT on EV charging and energy storage devices include:

- Lower taxes that will encourage swifter uptake of EVs, contributing to economic activity, jobs, and revenue throughout the EV supply chain.
- A faster transition to EVs which will reduce the UK's reliance on imported fossil fuels.
- Greater flexibility that will help reduce and stabilise power prices.

## Impact

Possible wider economic and social impacts of levelling VAT on EV charging and domestic Net Zero technologies include:

- Reduced carbon emissions as drivers switch from ICE vehicles to EVs, as well as lower air pollution from particulate matter and nitrogen oxide.
- Batteries will also reduce carbon emissions by allowing power from renewable sources to be used more flexibly.
- A fairer transition to EVs for low-income households who are 50% less likely to have off-street parking than high-income households<sup>1</sup>.

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<sup>1</sup> <https://economy2030.resolutionfoundation.org/wp-content/uploads/2022/03/Shrinking-footprints.pdf>

## Ask 3: correct the executive overreach enabled by the Energy Prices Act

The Energy Prices Act has introduced uncertainty to energy markets by granting the Secretary of State significant and unnecessary new powers. The ability for the executive to arbitrarily intervene in energy markets makes it riskier for businesses to invest and operate in the energy sector. Removing these powers will – at no cost to the Government – send a positive signal to global investors about re-establishing regulatory and policy stability in the United Kingdom’s energy market.

A huge amount of anticipatory investment is needed now in the grid, generation and new technologies for the late 2020s and beyond if we’re to continue to keep the country as a world leader in green industries. This concern about the Energy Prices Act requires urgent attention and is at no cost to the taxpayer.

### What

- **Suggestion 3a)** Publish further detail and launch a consultation for industry on the new powers given to the Secretary of State as mandated by the Energy Prices Act.
- **Suggestion 3b)** Amend the Energy Prices Act through the Energy Bill to ensure that extended powers enable government to respond in a timely way as the energy crisis evolves without unnecessarily impacting investor confidence.
- **Suggestion 3c)** Commit to only pass emergency legislation in an instance wherein the content of a Bill is related to and only to addressing the ‘emergency’ itself in order to allow the various avenues of scrutiny and accountability.

### Why

Whilst the need for consumer support schemes was welcomed by the energy sector, the previous Government, in passing the Energy Prices Act, subjected industry to a series of Non-Disclosure Agreements and a scattergun approach. This undermined the expectation and experience that the energy industry has of fair, transparent and accessible approaches to policy development.

This decision has created an environment of uncertainty, increasing concerns about the financial health of their organisation, amidst an ongoing debt and affordability crisis. It has also had a detrimental impact on investor confidence with many worried about the ramifications and unintended consequences of such broad and open-ended powers being exercised.

In order to address the concerns of industry, immediate details of the standing powers the Secretary of State now has alongside a commitment to not pass emergency legislation beyond the remit of what is considered ‘an emergency’ is required.

### What it means for the Government

Attention at BEIS and HM Treasury would shift towards the medium to long-term future of the energy markets, looking to regain the confidence and trust of investors and suppliers, whilst also delivering certainty to investors who wish to invest in the United Kingdom. There would be little immediate fiscal implication in addressing this issue, with only a consultation being published on the scope, depth, and breadth of the Secretary of State’s powers and a commitment delivered by Government.

### What it means for the economy

In addressing the concerns by the energy industry, the investment landscape of the United Kingdom may become more attractive to those who wish to inject capital into the economy by delivering on new critical energy infrastructure. This in turn contributes positively to employment and delivers clean, green power generation to bolster security of supply.

## Impact

As mentioned above, moving to reassure the sector would inject a degree of certainty to generators and suppliers at a time when investment. The certainty and confidence around such financial decisions is needed more so now than ever.

## Ask 4: safeguard households from future crises through energy efficiency

Improving the energy efficiency of existing buildings will protect consumers from volatile energy prices over the long-term, support the Net Zero transition, and the Government's recent commitment to reducing energy consumption from buildings and industry by 15% by 2030, all while boosting the move towards energy independence. This longer-term approach to delivery must be coordinated with the EPG but is not a replacement for the support for consumers in the immediate term and as such must be funded separately while maintaining the allocated funding for customer support.

With [figures from National Energy Action](#) showing that 6.7 million people are living in fuel poverty, the Government must urgently bring forward new measures to boost investment in energy efficiency, and the transition to low-carbon heat, while providing targeted support to those who need it most.

## What

There are several measures the Government can take to encourage energy efficiency:

- **Suggestion 4a)** Bring forward the £6bn committed to energy efficiency in the Autumn Statement to this Parliament, to provide confidence to the supply chain and to stimulate the market.
- **Suggestion 4b)** Maximise the potential of the Boiler Upgrade Scheme (BUS) by ringfencing any unspent budget and reinvesting this back into the scheme.
- **Suggestion 4c)** Make greater use of the tax system, such as through Stamp Duty Land Tax in the domestic sector, and through business rates, to help drive improvements in energy efficiency by rewarding properties that have higher EPC ratings<sup>2</sup>.

## Why

The United Kingdom has some of the least energy efficient homes in Europe. This has exacerbated the energy crises and makes it more difficult to bring down bills and decarbonise our home heating.

In its 2022 Progress Report to Parliament, the Climate Change Committee (CCC) noted that while energy efficiency upgrades had been installed in more than 150,000 homes in 2021, the rate of installs is not currently sufficient to achieve the one million per year needed by 2030 under the Government's Net Zero pathway. The CCC identified significant gaps in the Government's policy framework for existing buildings, and which are hampering growth in this area.

As a result of these policy gaps, domestic consumers are struggling to access energy efficiency improvements in a complex market with multiple consumer pathways. Furthermore, business customers are also struggling to access energy efficiency measures to combat their rising operating costs. The Net Zero Review notes that 'untapped measures are costing businesses £6bn per year, and 51% of industry surveyed [said] that access to finance to make upgrades is a key barrier'.

## What it means for the Government

Improving the energy efficiency of existing buildings will help protect consumers against high energy prices over the long-term. It also unlocks the connected [benefits](#) of a higher quality housing stock, including improved productivity, educational attainment, and a reduced burden on the NHS. It represents excellent value to the taxpayer who collectively are subsidising energy bills.

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<sup>2</sup> [https://www.energy-uk.org.uk/files/docs/The\\_Future\\_of\\_Energy/2019/FutureofEnergy\\_ReportSection\\_Chapter3\\_PartA&B\\_04.19.pdf](https://www.energy-uk.org.uk/files/docs/The_Future_of_Energy/2019/FutureofEnergy_ReportSection_Chapter3_PartA&B_04.19.pdf)

[Research by Nesta shows that](#) replacing a gas boiler with a hydronic heat pump reduces a home's gas use by over 70%, helping the UK to reduce its reliance on volatile overseas gas imports.

A long-term funding commitment is vital to providing consumers and businesses with the confidence to invest. By bringing forward funding commitments announced in the Autumn Statement, and by working with industry and consumer groups to ensure that a new scheme is fit for purpose, the Government can start to plug the gaps in their policy framework for decarbonising buildings.

### What it means for the economy

Improving energy efficiency will significantly benefit the economy by:

- **Building the supply chain:** energy efficiency schemes [lasting at least five years](#) gives business the confidence to invest in the supply chain.
  - Increased investment in energy efficiency is predicted to create around 350,000 new jobs in the construction industry by 2028, across a range of trades and professions. New analysis by the IPPR suggests that vacancies are likely to be found in current or former industrial heartlands and coastal communities.
- **Supporting demand:** reducing household energy bills will give people more disposable income to spend elsewhere in the economy, as well as protecting them against future energy shocks.

### Impact

The wider impacts of improving energy efficiency include:

- Lower carbon emissions, helping the UK meet its Net Zero targets.
- Reduced demand for natural gas, improving the UK's trade balance and energy independence.
- These proposals are of particular importance to lower-income households who spend a greater proportion of their income on energy and are least able to self-fund energy efficient measures.
- Improved energy efficiency helps reduce health issues associated with cold and damp, enhancing people's wellbeing whilst saving money in health costs and improving productivity.

## Ask 5: extend the Energy Price Guarantee and Energy Bills Support Scheme

The Energy Price Guarantee (EPG) is protecting consumers by limiting typical annual energy bills to £2,500 until April 2023, when the limit will increase to £3,000. The Energy Bills Support Scheme (EBSS) will provide a £400 discount off energy bills over the winter of 2022/23, coming to an end in March 2023.

### What

The Government should cancel the planned increase in the EPG threshold, maintaining it at an annual equivalent of £2,500 for a typical household until at least July. A decision on this will be required in advance of the Spring Statement (ideally by Monday 27 February and at the very latest by the beginning of March) to enable suppliers and PPMIPs (prepayment meter infrastructure provision) to communicate and charge the correct rates to consumers. Government should also maintain the option of using EBSS – possibly in a more targeted form – from October 2023 when higher demand over the winter will put pressure on bills.

### Why

Simultaneously removing the £66-£67 per month delivered through EBSS and withdrawing the equivalent of £500 per year in support through the EPG will lead to bills jumping in April – many households will see three-figure increases that they will not be able to afford. There will be a perceived unfairness if this occurs whilst wholesale energy prices continue to fall.

The cost of energy has increased dramatically, and even after the reduction in price pressures expected this year are still likely to be over £2,000 for a typical household, around double what they were before



the crisis. This imposes a significant burden on household budgets, people's health and wellbeing as they use insufficient heating and the economy in general as disposal income is consumed by energy bills.

### **What it means for the Government**

In the Autumn Statement, the EPG was expected to cost £12.8bn in 2023/24. Thanks to falling wholesale energy prices, the retail price cap is expected to reduce significantly over the course of 2023. This means that – so long as the trend in prices continues – the EPG could cost significantly less, potentially below £2bn this financial year. Maintaining the EPG at £2,500 until July is still likely to see the total cost well below £5bn in 2023/24, less than half initial estimates, meaning there is scope for even further reductions, as well as some form of EBSS next winter.

### **What it means for the economy**

Providing more support for energy bills would be a significant advantage to the economy:

- **Reducing inflation:** the EPG has already significantly reduced the level of peak inflation. Extending it can help speed up the fall in inflation (which in turn may reduce interest rates and thus the cost of borrowing for the Government, businesses, and consumers).
- **Encouraging growth:** extending the EPG mitigates against reduced demand in the economy, encouraging the economic recovery.
- **Stabilising the retail market:** by reducing burdens on consumers, extending the EPG will make it easier for consumers to manage their bills, easing issues of bad debt on energy suppliers, removing a degree of the systemic risk of supplier failures.

### **Impact**

The benefits of extending the EPG will be particularly felt among low-income households who typically spend a greater proportion of their income on energy.