Energy UK

The voice of the energy industry

An energy crunch looms; retain the UK's place as a global leader and support households this winter

Energy UK's Autumn Statement submission

The UK has led the world in showing the positive economic benefits of reducing emissions. Since 1990 our emissions have almost halved and at the same time GDP has grown around 75%.[1] For many years we've led the world in our renewables market, particularly offshore wind. Indeed, we're home to the world's four largest offshore wind farms. That leadership position is, however, being challenged during a crucial decade.

Nearly all major economies are doubling down on building out their domestic supply of low-carbon energy, while at the same time transforming their energy systems; investing in digitalisation to ensure they can respond to the needs of businesses and households and are fit for the 21st century.

Private investment is the way the world will fund the transition to a Net Zero economy and, in turn, shape all our futures. The UK's energy security, future prosperity, and the potential to achieve our climate goals are all reliant on our ability to attract investment. The private sector wants to invest, and the UK has a unique position to bring forward a strong policy and regulatory framework to attract that capital.

The UK has significant strengths as it faces the challenges of decarbonisation. These include our world-leading universities and financial services, our regulatory regime, our early success in offshore wind, and established industries that can support clean growth. With the right, targeted measures aimed at the private sector the UK can remain attractive in the global competition for investment.

While looking at the long-term pipeline of projects in the UK, there is also an urgent need to provide support for the most vulnerable in our society and businesses this coming winter. The winter of 2022/23 saw significant fiscal interventions by the Government, delivered and implemented in record time by suppliers. This unprecedented package of financial support was the right approach at the time to ensure the speed of delivery needed to mitigate the most damaging customer impacts, although many still suffered considerable hardship.

Going forward, however, the Government and industry need to work together to ensure there is both a short-term support package that is meaningful and targeted at the most vulnerable, and also to commit to longer-term reform of the retail market, including exploring ideas such as a form of social tariff.

To prevent an energy crunch in the coming years, Energy UK's Autumn Statement submission calls on the Government to focus on two main areas:

1. **Send a strong signal and improve investor confidence in the UK's low-carbon energy market by amending tax and regulatory structures.**
2. **Continue to support the most vulnerable in our society during periods of extraordinary energy prices.**

About Energy UK

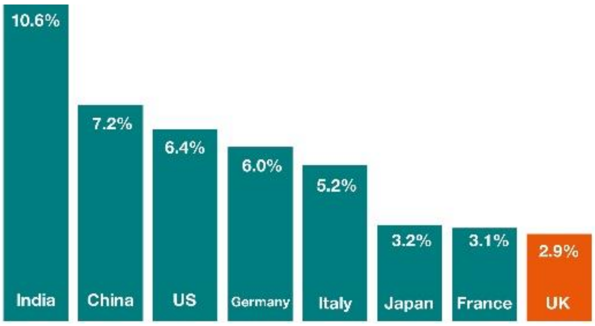
Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

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

[1] Net Zero: Economy and Jobs (ECIU, 2022)

Improving investor confidence in the UK's low carbon energy market

The UK was the first major economy to enshrine Net Zero into law, sending a clear signal to investors and companies all over the world that the UK's clean economy is a stable, long-term investment.



Forecast of average annual growth in low carbon electricity output, 2023-2030 (Source Energy UK 2023)

Our actions have proved that growth, energy security and reducing emissions are all linked. Since 1990, total greenhouse gas emissions in the UK have been slashed in half, largely driven by the energy sector reducing its emissions by around 70%.[2] Domestic, low-carbon electricity now accounts for over half of the total electricity generated.[3] At the same time, UK GDP has grown roughly 75%.[4]

While the UK saw the opportunities for a Net Zero economy early on, the rest of the world - particularly the US, China, and the EU - have now joined the global race and are leaping ahead quickly. For the country that wins, the economic opportunities are huge.

The private sector will deliver the vast majority of the £1.4 trillion in capital needed to invest in the transition to Net Zero but can only do this if there is a clear, stable policy and regulatory environment with the right signals and market framework. [5] To capitalise on this economic opportunity, the UK Government should double down and play to its strengths, building on the foundations already in place of a thriving low-carbon sector.

Energy UK is calling on the Chancellor to introduce the following at the Autumn Statement to improve investor confidence:

- Commit to urgently reform policies that impact investment attractiveness such as the Electricity Generator Levy, incentives for electric vehicles, and wider tax allowances for the low-carbon sector.
- Speedily implement the grid reforms the Prime Minister recently announced and act on recommendations included in reviews such as the Winser report.

Commit to urgently reform policies that impact investment attractiveness

There is no doubt that recent political decisions have impacted confidence in the UK energy market. In the last year, the Government has introduced a windfall tax on renewable generation, passed legislation to give the Secretary of State broad powers to intervene in the market through the Energy Prices Act, and altered deadlines governing the phase-out of gas boilers and internal combustion engine vehicles. The tone of the debate around Net Zero has also become highly politicised.

By themselves, these interventions would be counterproductive to a confident investor market but taken together and in the global context of competition these measures have a significant impact on the UK's reputation.

The UK cannot compete on the same level of subsidy or tax credits as the US, EU, or China. However, it can play to its strengths through a mature, stable policy and regulatory framework. There are various fiscal and legislative levers the Government can pull to create a more attractive investment environment. In our recent series of Clean Growth Gap reports[6] we looked at different measures the UK can take to attract the investment to maintain its world-leading role in clean energy. The conclusions of those reports should be read in conjunction with this submission.

Energy UK believes the following will have a considerable impact on the longer-term attractiveness of the UK market:

[2] Greenhouse Gas Emissions (UK Government, 2022)
[3] Greenhouse Gas Emissions (UK Government, 2022)
[4] Energy White Paper (UK Government, 2020)
[5] Fiscal Risks Report (OBR, 2021)
[6] Clean Growth Gap (Energy UK, 2023)

- **Rethink the Electricity Generation Levy (EGL)** by exempting new projects from the levy, introducing investment allowances equivalent to the oil and gas sector and a sunset clause on the EGL, as well as moving away from responsive, revenue-based taxation of the power sector. In spring 2023 the EGL was expected to raise £3.3 billion in 2023-24, falling to £2.4 billion in 2027-28, although continued falls in energy prices mean the levy is likely to make even less than that.[7] This means that any allowance regime would cost relatively little in the short term and by encouraging investment in new generation capacity it would create both a longer-term source of revenue and contribute to lower customer energy bills.

- **Encourage investment through the tax system** by amending the way our tax system recognises the importance of investment in clean energy. In particular, we recommend engaging with industry to discuss preferred capital allowance outcomes, reducing loss-relief rules to allow investment allowances to be spread more evenly over the life of the project, exempt renewable generation from the 25-year lifetime rule, as well as provide a holistic review of the treatment of clean technologies in the tax system.

- **Maximise capacity from the future Contracts for Difference (CfD) Allocation Rounds** by addressing design issues and increasing the budget for the next rounds to reflect the significant change of market conditions. Given the disappointing result of the last auction, the Government should commit to catching up on procurement missed from the AR5. This has been given added urgency by the EGL which has effectively redirected projects that might have pursued a subsidy-free route to market toward CfDs. The CfD programme is funded through customer bills, not by the Government. Given that the price of low-carbon electricity is expected to remain cheaper than that from gas, expanding the CfD scheme will save customers money, giving a long-term boost to the economy.

- **Continue to provide a strong carbon pricing signal** which will continue to remain a powerful instrument to drive decarbonisation of power and other sectors. The measures to take will include signalling clear intention to link the UK and EU Emissions Trading Scheme (ETS), introduce Supply Adjustment Mechanism (SAM) for UK ETS, as well as maintaining and strengthening the Carbon Price Support (CPS) in addition to tightening the UK ETSE where the price of carbon has been reducing significantly over recent months. The possibility of expanding the scope of UK ETS to other sectors should also be explored. A robust carbon price is critical to attracting investment in clean energy that can bring down prices, reduce emissions and bolster our energy security. The Government raised £4.3 billion through the UK ETS in 2022, maintaining a strong carbon price is essential to protect this revenue in coming years.[8]

- **Reduce the 20% VAT rate on electricity use at public EV chargepoints and ensure delivery of Project Rapid at pace.** A quarter of UK households do not have access to off-street parking and will depend entirely on the public network to charge their vehicles. Aligning the 20% VAT with the 5% rate at private domestic chargepoints and pressing on with the deployment of the Rapid Charging Fund's £900M to deliver rapid chargers across the country will facilitate a fairer transition to EVs for these customers. Collecting VAT on EV charging - either at 5% or 20% - will do very little to replace the £25 billion of Fuel Duty that is set to decline as drivers switch to EVs.[9] There must be fundamental reform of how driving is taxed, with the VAT regime used primarily to optimise the transition rather than raise revenue.

- **Modernise the list of low-carbon technologies eligible for VAT relief currently** included on the Energy Saving Materials list by bringing batteries, smart thermal storage, and home EV chargers in scope. Also by amending the reference to ground source heat pumps to include 'ground arrays'. Removing VAT on these technologies would reduce costs for customers while supporting the development of our smart, flexible energy system of the future. Extending this relief until 2030 would align the tax regime with the Government's target for a 15% reduction in energy demand from buildings and industry.

- **Adapt the Renewable Transport Fuels Obligation to include electricity use in transport.** By encouraging the market to provide charging infrastructure at no cost to the Government, this intervention will release public funding into areas where it is currently less attractive to privately invest in charging infrastructure.

[7] Economic Outlook (OBR, 2023)
[8] UK Environmental Taxes (ONS, 2023)
[9] Electric Vehicles and Infrastructure (House of Commons Library, 2023)

- **Clarify future budgets for the Boiler Upgrade Scheme (BUS).** Industry welcomes the recent uplift in grants for the BUS however the total budget for the coming years has not yet been announced. We would welcome clarity on this.

Urgently implement the various recommendations to reform the grid

With an increasingly electrified economy, the UK has a growing problem of businesses, new housing, EV infrastructure, and energy projects not being able to connect to the electricity grid in an appropriate timeframe. Exponential growth in energy projects seeking a connection, and a process that fails to guarantee that these projects progress, has led to a significant connections queue at the transmission level and delays at the distribution level. Reform of grid connections is urgently required, not only for connecting new clean energy but also to drive economic growth as we electrify other sectors including transport, heat, and industry.

It is expected that by 2035 the UK will see a 60% increase in electricity demand and by 2050 an estimated £170-£210 billion will need to be invested in the grid almost all by the private sector. [10,11] Delivery of these changes requires significant upgrades and extensions to the electricity grids, for England and Wales alone this is expected to include building over five times more land transmission lines and around four times more marine transmission cables than our current offshore network by 2030.[12]

Energy UK welcomes the Prime Minister's recent commitment to address issues in the connections process, as well as bringing forward work to develop an approach to spatial system planning. These issues are of huge importance to the wider economy as businesses look to decarbonise and as we connect new buildings to the system, for example, homes and hospitals.

While streamlining and modernising processes as recommended by the Winser report and industry workstreams will deliver efficiencies, there is a need for a more holistic review of the approach to the delivery of utility infrastructure. Alongside the Connections Action Plan consideration of how to effectively plan for energy infrastructure, the ongoing Department for Business and Trade review of economic regulation must be delivered to reform the approach to network investment.

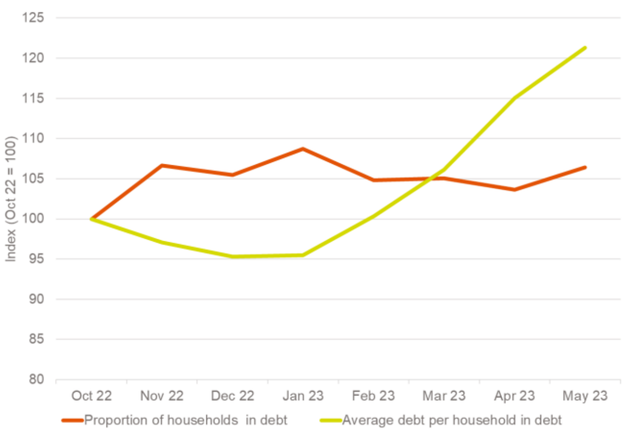
While many of the barriers to reforming the grid are regulatory, fiscal measures cannot be discounted. Local authorities, the Planning Inspectorate, and other regulatory agencies involved in the planning process must be appropriately resourced to speed up decision-making.

Continue to support the most vulnerable in our society during periods of extraordinary energy prices

Energy is essential to life, but more than six million households now live in fuel poverty.[13] Even after recent decreases in electricity prices, the ongoing impact of higher wholesale costs and supplier failures means the average household energy bill has risen dramatically to what appears to be a new normal, while incomes have failed to keep pace.

The Government deserves credit for the significant funding to provide universal support to households and businesses last winter which the industry worked at a significant pace to deliver to customers.

While the pressures of last winter may seem behind us, this winter will still be difficult for many, particularly the most vulnerable. Government funding has ended, and the price cap is now around £2,000 for the typical household. People are also unlikely to see any further meaningful reductions to households' energy bills. The combination of the Energy Bill Support Scheme and Energy Price Guarantee meant customers faced



Data from suppliers suggests energy debt will be a narrow but deep problem (Source Energy UK internal analysis)

[10] Decarbonising the Power Sector (National Audit Office, 2023)
[11] Building a GB electricity network for net zero (Regen, 2023)
[12] Delivering for 2035, (National Grid, 2023)
[13] Fuel Poverty Map (NEA, 2023)

prices in line with a £1,700 annual bill last winter, some 13% lower than is expected this winter.[14]

The energy industry is already seeing a specific set of customers falling into a significant amount of debt. Despite suppliers doing all they can to help their customers, including debt relief, repayment holidays, and additional credit, the situation is unsustainable. With some forecasting energy prices not falling back to historic levels for the rest of the decade, this presents an enormous challenge for those customers in more vulnerable positions - leaving many unable to afford their basic needs.[15]

While the level of funding to support customers last winter was significant, it was universal and therefore could be improved to deliver better value to the taxpayer. The Government had previously signalled its intention to look at implementing a social tariff from April 2024, however, this target is fast approaching, and Energy UK is disappointed that meaningful conversations on the future of a form of social tariff have not yet materialised. A consultation on a form of social tariff, at the very least, must urgently be brought forward as per calls from a wider number of stakeholders in society.

In the absence of longer-term reform to the retail market to support the most vulnerable, short-term, targeted support must be rolled out alongside interventions that will permanently reduce the price of energy.

Energy UK believes the following will have a considerable impact on supporting customers this winter and beyond:

- Targeted Energy Price Guarantee to support the 5.8 million most vulnerable households this winter.
- Develop a framework to provide longer-term support through a form of social tariff.
- Urgently roll out more action on energy efficiency, for example bringing forward the grant schemes already allocated for this Parliament.

Targeted Energy Price Guarantee support this winter

Any future scheme to support customers with their energy bills should be more targeted, for example by using the Energy Price Guarantee or Warm Home Discount with a form of data matching against that which the Government holds.

As a starting point, the Government should consider targeting additional energy support for those on means-tested benefits. Energy UK believes this to be around 5.8 million people meaning the support package the Government funded last winter would be considerably less overall but mean more to those people who are recipients.

At a minimum, the funding should mean that those 5.8 million households should receive support equivalent in value to the £400 households received through the Energy Bill Support Scheme (EBSS) last winter. Support of this nature would cost around £2.3 billion, a fraction of last year's universal support costs, but a vital lifeline for millions.

It is essential that this support begins in October 2023 and lasts until March 2024 or, at the very least, is backdated from January 2024 to be the equivalent of a discount scheme through six months but paid over three.

Develop a framework to provide longer-term support through a form of social tariff

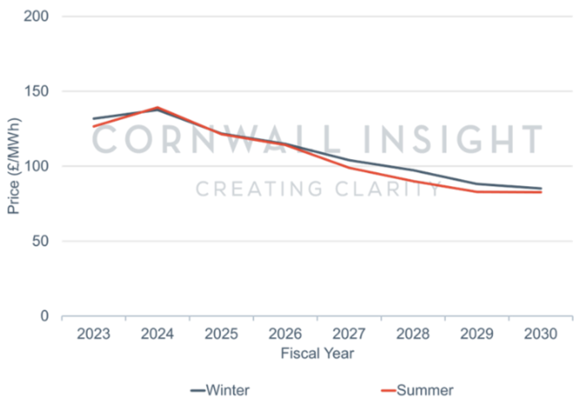
While short-term support is desperately needed for this winter, we cannot lose sight of the longer-term goal of providing a more permanent form of support to the most vulnerable. Household energy debt is growing very quickly. People who were already in debt are seeing the size of that debt become unmanageable. Meanwhile, many people who have never had an issue paying bills are experiencing debt and arrears for the first time as the wider cost of living pressures build. Volatility is also expected to remain high, exposing customers to sudden price movements they cannot afford.

[14] Gotta get through this (Resolution Foundation, 2023)
[15] Additional support for customers (Energy UK, 2023)

Current regulation helps ensure many households can keep the lights on, but it also lets bad debt (debt that cannot be recovered) grow largely unchecked, resulting in higher bills for paying customers and lower financial resilience for suppliers. This is compounding the problem for customers who are in debt, and negatively affecting those customers who aren't.

The Government had previously committed to exploring the idea of a social tariff. This would mean developing an enduring, targeted social tariff framework capable of combining supplier and Government data to target support to those who need it and react to changing circumstances.

Through consultation with its members, Energy UK believes the key principles for a social tariff should be:



Energy bills are expected to be around double their historic level of around £40-£50/MWh until 2030 (Source Cornwall Insight 2023)

- delivered through taxpayer support, as cross-subsidy is likely to simply move pressures from one group of customers to another;
- designed in a way that maintains incentives to engage in the market, and enables customers to participate, change their behaviour, and reduce and move their usage;
- underpinned by improved data and data-sharing capable of targeting support based on affordability; and,
- delivered by energy suppliers but determined by Government – avoiding suppliers becoming "arbiters".

Urgently rollout more action on energy efficiency

The UK's housing stock is the least energy-efficient in Europe and needs urgent attention from Government. Our homes waste energy through poor insulation, in some cases up to three times faster than other European countries. Citizens Advice's recent report identified that, of the 15 million homes in the UK currently below EPC C, 13 million had significant potential to reach this standard.[16] Should these homes be brought up to EPC C standard it would result in around £40 billion in cumulative benefits to the UK and save customers £24 billion on energy bills by 2030.

Energy efficiency is key to permanent demand reduction for buildings, lowering not only individual energy bills but also the amount of energy the country uses. Given that the UK is still heavily reliant on gas to heat our buildings, a more efficient building stock also goes some way to reducing exposure to volatile gas prices.

While a significant energy efficiency programme would require funding, removing several non-financial barriers would lead to a greater rollout of efficiency measures installed for many of the most vulnerable.

This should include urgently reforming the Energy Company Obligation to ensure that it is fit for purpose, by relaxing the minimum requirements, updating the outdated cost assumptions within the Impact Assessment, and reviewing how local authorities engage with the scheme.

The impact of poorly insulated buildings on those in the private rented sector, for example, is significant. An estimated one in four tenants in the private sector are living in fuel poverty with Citizens Advice also stating private renters will spend around £1.1 billion more on their energy bills this winter compared to those in better insulated homes.[17] In the context of the recent decision to scrap regulations applied to this sector, there is a need to create another approach that encourages and enables landlords to invest in their properties instead of a regulatory measure.

Small to medium-sized companies have also been vulnerable to high energy prices following the financial challenges of the COVID-19 pandemic. Energy UK welcomed the announcement in Powering Up Britain for an energy efficiency audit and grant scheme to be piloted, and we urge the Government to make this available nationwide as soon as possible.

[16] Home advantage (Citizens Advice, 2023)
[17] Response to Net Zero policies (Citizens Advice, 2023)

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