Energy UK

The voice of the energy industry

Spring Budget 2024

Energy UK Submission

The Spring Budget is an opportunity for the Government to build on the many positive energy policy announcements in the 2023 Autumn Statement, that will help to deliver the UK's targets. Unlocking private capital in the energy transition will be key and recent measures around tax relief and regulatory reform will go some way to boosting investment.

The UK has a good story to tell which has been driven in partnership between the public and private sector. The country has reduced emissions by around half since 1990, and in 2023 electricity from fossil fuels was the lowest since 1957.[1] The key is now speed of delivery which will involve working closely with the Government.

At a household level, the Spring Budget should use the tax system to make investments in green technologies cheaper, and more accessible and drive down prices in the long run.

While the supply-side changes announced in the Autumn Statement were welcome, for millions of households this year will remain as challenging as the previous two. Alongside many charities, Energy UK is calling for more support for households now and on an enduring basis.

Energy debt has risen to record levels of around £2.9 billion even across the warmer months.[2] Many paying customers are already facing costs of well over £100 per year to cover the cost of energy used by others but not paid for.[3] Indeed, the number of UK households failing to pay energy bills has jumped nearly 40% compared with a year ago with nearly 5.3 million in debt to their supplier.[4,5]

Going forward, with bills expected to remain significantly above pre-crisis levels for the rest of this decade, the need for additional Government-funded energy bill support is still prevalent. It must, however, be targeted to ensure it reaches the right households and is fair value to the taxpayer.

Energy UK's key asks are:

1) **Build on the positive announcements in the Autumn Statement and continue to support the UK's world-leading low-carbon sectors.**
    a) Maximise capacity from the future Contracts for Difference (CfD) Allocation Rounds.
    b) Increase the revenue income for HMT by linking the UK and EU Emissions Trading Schemes.
    c) Unlock greater investment impact from the recent full expensing commitment.
    d) Announce a long-term strategy for UK green manufacturing.
2) **Cut taxes for households and businesses to incentivise investment in low-carbon technologies, such as implementing a green home stamp duty.**
    a) Incentivise homeowners by introducing a green home stamp duty.
    b) Bring in VAT relief to a wider list of low-carbon technologies in buildings.
    c) End the no-driveway penalty for charging an electric vehicle.
    d) Adapt the Renewable Transport Fuels Obligation (RTFO) to include electricity use in transport.
3) **Deliver a targeted support package of energy bill relief for the millions struggling with debt.**
    a) Develop a framework to provide longer-term expanded support to vulnerable customers.
    b) Improve the quality of UK homes and buildings through greater energy efficiency.

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[1] Analysis: UK electricity use in 2023 (Carbon Brief, 2024)
[2] Ofgem Director Tim Jarvis (The Times, 2024)
[3] Additional debt costs review consultation (Ofgem, 2023)
[4] December Cost of Living Insights (Office for National Statistics, 2024)
[5] More than 2 million households will be cut off from supply (Citizens Advice, 2024)

Build on the positive announcements in the Autumn Statement and continue to support the UK's world-leading low-carbon sectors.

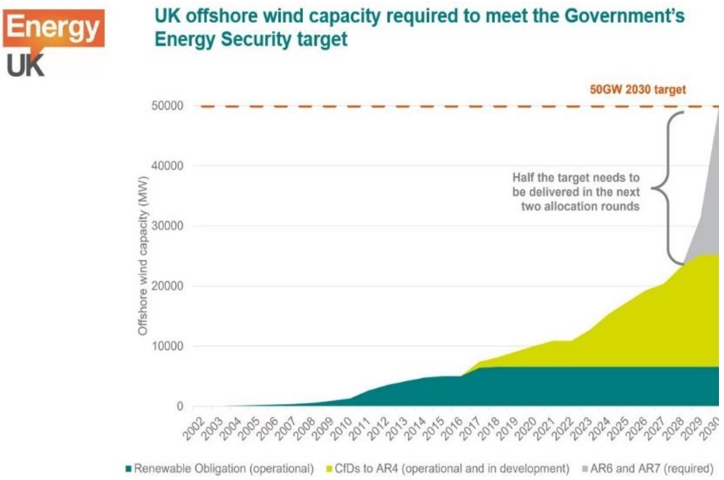
The energy industry welcomed the many announcements included in the Autumn Statement 2023 which recognised the changing nature of the global race to invest in low-carbon technologies.

The changes to capital allowances, the many reforms around the grid and connections, and the amendments to the Electricity Generator Levy will help make the United Kingdom an attractive and globally competitive place to invest. The energy industry also welcomed the commitment by the Government to make Allocation Round Six (AR6) a success and hopes this will go some way to rebuilding the UK's world-leading offshore wind sector. With the right budget and framework, it is the private sector that has the capital and skills to be able to invest, develop UK supply chains and build the infrastructure required for our power targets.

To build on this positive work by the Government, Energy UK is calling for the Spring Budget to:

- **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 in market conditions. The industry welcomed the many positive recent changes for Allocation Rounds, including reviewing the Administrative Strike Prices (ASPs) to be more reflective of market conditions. Assumptions for reference prices, however, continue to be considerably lower than views of industry, and load factors are also significantly higher, especially for offshore wind. If key auction parameters for AR6 are made more market-reflective, budgets can be reduced significantly, whilst still procuring the levels of renewables needed to meet Government ambitions.

  The lack of offshore wind capacity in last year's auction, however, means the UK needs to rapidly build a significant amount of capacity to meet its energy security target of 50GW of offshore wind by 2030. As such, the Government should commit to catching up on procurement missed from AR5, as shown in [Energy UK's briefing on the capacity gap following the round].



  Criteria should be set out to outline how the industry can deliver around treble the capacity of offshore wind to catch up the lost capacity. The appetite from the sector is there with the right conditions from the Government. Given that the CfD programme is funded through customer bills, not by the Government, and that the price of low-carbon electricity is expected to remain cheaper than gas, expanding the CfD scheme will save customers money and provide a long-term boost to the economy.

- **Increase the revenue income for HMT by linking the UK Emissions Trading Scheme (ETS) to the EU ETS**. Weak and volatile carbon prices from the UK ETS are having a detrimental effect on clean investment and UK businesses. This has an additional impact on the income HMT receives. If carbon prices continue at the low levels of recent months, the Treasury will be losing out on almost £3 billion of revenue annually. Combined with the possibility of power generated by low-carbon sources having to pay a tax to the EU once the EU CBAM is fully implemented in 2026, Energy UK is increasingly concerned about the signal the UK's carbon pricing and carbon leakage regimes are sending about the importance of investment in clean energy, at a moment in which the UK increasingly faces competition from other key markets. If the UK-EU carbon pricing dynamics remain the same, British companies will have to pay over half a billion pounds per year into EU coffers simply to export to Europe from 2026. The Auction Reserve Price (ARP) in the UK ETS could be used to close the gap if linking will prove challenging.

- **Unlock greater investment impact from the recent full expensing commitment** by providing measures such as more flexibility for the timing of claims, enabling companies to cash in losses arising as a result of full expensing, and including early-stage development costs as allowable expenses, following the recent precedent set by Gunfleet Sands legal case which further restricted expenditure. These technical changes would maximise the impact of the welcome commitment made at the Autumn Statement.

- **Remove overhanging uncertainty for low-carbon investment** by progressing the Review of Electricity Market Arrangements (REMA) to consider a reformed national market as outlined by Ofgem, with a delivery plan that is progressed at pace.

- **Urgently implement grid reforms and deliver on the timelines promised for low-carbon technologies.** While some progress has been made outlining the strategies and targets for technologies that will be vital to the energy transition (including, but not limited to, BECCS, CCUS, demand response technologies, hydrogen, long duration energy storage, and nuclear), the industry requires the Government to stick to timeframes when announcing next steps and would welcome greater longer-term visibility on pipelines (e.g. a Power CCS target and progress on Track 2 sequencing).

  The industry also broadly welcomed the announcements on speeding up the deployment of grid connections and planning. These reforms must be now delivered as fast as possible. The energy industry and many other sectors in the economy are in broad agreement that grid capacity will be a key enabler to the speed of decarbonising the country. Delays for industry often cause uncertainty and increased risk for investment. This is especially the case with an impending General Election.

- **Announce a long-term strategy for UK manufacturing and grasp the opportunities of the green economy.** Initiate a review of the industrial potential for the UK with regard to the manufacture and supply of low-carbon technologies. This should include reviewing how existing businesses can be supported to decarbonise, and considering how new businesses in this space can be encouraged to develop their capacity and supply chains in the UK. The UK will soon have an enormous challenge in developing the skills needed to manufacture and install the technologies to reach Net Zero. Until now, various strategies have been presented in silos; UK businesses need one clear and holistic strategy to deliver on the Government's ambition.

Cut taxes for households and businesses to incentivise investment in low-carbon technologies.

Amending the tax system, even marginally, can signal positive incentives to households and investors and drive significant behaviour change. Combined with grants, this incentive can be even more powerful. Indeed, since the grant for the Boiler Upgrade Scheme was increased by 50% last year, applications for a heat pump have increased by 60%.[6] Customer appetite for low-carbon technologies is there, and the Government can incentivise this behaviour further.

There are a series of changes to the tax system that HMT can make including:

- **Incentivise homeowners to upgrade their properties through introducing a green home stamp duty.** Several energy suppliers, building firms, financial institutions and think tanks are calling for a green home stamp duty or "Rebate to Renovate" scheme to be implemented. The scheme would involve a stamp duty rebate to buyers who improve their EPC rating within two years. Supporting homeowners to improve the efficiency of buildings is an important step in saving money and emissions, as well as supporting jobs and developing a supply chain across the country. The Government's estimates show that a well-insulated home could save

[6] Boiler Upgrade Scheme Statistics November 2023 (DESNZ, 2024)

the occupier around £400 on their bills.[7] The costs of such a scheme would vary depending on the length of time it would be available for and how many homes take up the offer. The scheme should form part of a holistic review of taxation and subsidy across low-carbon technologies.

- **Make it more attractive for customers to choose low-carbon alternatives for their homes and businesses** by expanding VAT relief for energy-saving technologies and materials. This includes bringing batteries, smart thermal storage, and home EV chargers in scope, potentially reducing the cost of a charger by £200 and a battery by £1,000.[8] Also, by amending the reference to ground source heat pumps to include 'ground arrays' this would give customers greater choice in purchasing the technologies right for their home. 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. Again, this is a transitional measure and a wider review of the taxation of low-carbon technologies should be performed to ensure a long-term solution is identified to enable uptake while balancing the budget.

- **End the no-driveway penalty for charging an electric vehicle (EV).** Up to 30% of UK households do not have access to off-street parking and, while some of these households will have no cars, many do, meaning their vehicles will depend entirely on the public network where it currently costs more to charge an EV.[9] Aligning the 20% VAT rate for public chargers with the 5% rate at private domestic chargepoints and pressing on with the deployment of the Rapid Charging Fund's £900 million 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.

- **Adapt the Renewable Transport Fuels Obligation (RTFO) to include electricity use in transport as a renewable fuel.** 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.

Deliver a targeted package of energy bill relief for the millions struggling with debt.

Energy is essential to life, but more than six million households now live in fuel poverty according to one fuel poverty charity.[10] While the pressures of last winter may soon seem behind us, the coming year will still be difficult for millions of households, particularly the most vulnerable. The price cap is forecast to decrease from highs of over £2,000, but it remains historically high compared to the price cap in 2021 which was just over £1,000.

The energy industry is also carrying record debt, with over one million households that owe an average of £2,200 and have no plan in place to repay it.[11,12] The sector has seen debt also increase by almost £1 billion in the last 12 months.[13] This situation is unsustainable as the cost of debt is then inevitably cross-subsidised by other customers. The growing bad debt has already added more than £100 to all energy bills. Ofgem has already suggested adding £16 to household bills to cover extra costs for 2023 alone.[14]

Voluntary support from suppliers is providing a lifeline to millions of households but they alone cannot address the fundamental issue of affordability across the economy.

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[7] Great British Insulation Scheme press release (DESNZ, 2023)
[8] Assuming a net price of chargers of £1,000 (as available on Carwow) and a net price of batteries of £5,000 (as available via Telsa)
[9] What will persuade the 30% of households without off-street parking to adopt electric vehicles (Energy Systems Catapult, 2021)
[10] Fuel Poverty Statistics (National Energy Action, 2024)
[11] Total Ofgem reported debt is now at ~£3bn for Q3-2023 (bfygroup.co.uk, 2023)
[12] Total Ofgem reported debt is now at ~£3bn for Q3-2023 (bfygroup.co.uk, 2023)
[13] Debt and Arrears Indicators (Ofgem, 2024)
[14] Additional debt costs review consultation (Ofgem, 2023)

Despite suppliers doing all they can to help their customers, including debt relief, repayment holidays, and additional credit, the situation is unsustainable. New protections, such as the [prepayment meter Code of Practice](), mean vulnerable customers are better protected and ensure that suppliers can support customers at risk of going off supply however more must be done. They do not, however, help address the root cause issue - that millions of households simply cannot afford their energy bills.

The number of UK households failing to pay their energy bill has jumped nearly 40% compared with a year ago.[15] For those paying by Direct Debit, the current rate of unpaid bills is 1.17%, roughly two and a half times the rate of those paying for water or mortgages. This rate is also more than four times the pre-crisis rate and about 20% higher than last winter.

Fundamentally, the energy customers use still needs to be paid for. With some forecasting energy prices not falling back to historic levels for the rest of the decade, this presents an enormous challenge for millions of customers, especially those in vulnerable circumstances - leaving many unable to afford their basic needs. The current approach means that bad debt is building quickly, and this cost will then be passed on to all other customers via even higher bills.

The Government should explore other revenue streams that could help to finance customer support. For example, the Treasury is set to temporarily receive an additional £500m per year in Crown Estate profits due to revenue from Offshore Wind Licensing Round 4 Option Fees, paid for by renewable developers and ultimately, therefore, energy customers. [16,17]

There are several ways to support the most vulnerable households, including:

- **Develop a framework to provide longer-term expanded support to vulnerable customers.** The Government had previously signalled its intention to implement an enduring support mechanism from April 2024 for the most vulnerable households, however, with this date fast approaching, Energy UK, alongside suppliers, charities, and consumer groups, is highly concerned that Government has all but abandoned this pledge. Through consultation with its members, Energy UK believes the key principles for expanded support should be: 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".

- **In the absence of longer-term reform, short-term, targeted support must be rolled out** alongside interventions that will permanently reduce the price of energy. The Government should also urgently ensure it fulfils its 2019 promise to look at levies on domestic electricity bills, with a view to rebalancing these across electricity, gas and general taxation. Moving these levies, for example, the Renewables Obligation (RO), Feed-in-Tariffs (FiTs), and the Energy Company Obligation (ECO) to general taxation would have the effect of almost instantly reducing household customers' energy bills by around £113 today.[18]

- **Improve the quality of UK homes and buildings through greater energy efficiency.** The energy industry has welcomed the recent Government increase to the Boiler Upgrade Scheme (BUS). The UK's housing stock, however, remains the least energy-efficient in Western Europe. Our homes waste money and energy through poor insulation, in some cases up to three times faster than other European countries.[19] Non-financial barriers to improving our building stock could include reforming the Energy Company Obligation (ECO) and Great British Insultation Scheme (GBIS) to ensure they are fit for purpose and are deliverable within their HMT set costs envelopes, by relaxing, for example, requirements of eligibility, updating outdated cost assumptions within the Impact Assessment, and reviewing

[15] December Cost of Living Insights (Office for National Statistics, 2024)
[16] Energy UK estimate based on HM Treasury data (HM Treasury, 2023). This is a temporary uplift in profit that will last for as long as developers maintain their options from Licensing Round 4.
[17] In the longer term, there should be a reconsideration of how offshore wind licenses are allocated to balance the sustainable rollout of offshore wind at scale and revenue for The Crown Estate
[18] Energy UK analysis. This number is correct at the time of writing and is subject to change.
[19] Tackling the UK's energy efficiency gap (Kingfisher, 2022)

how local authorities are resourced to engage with the scheme. 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.

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.

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