

## REA Townhall – Autumn Statement 2022: Generator Levy - Minutes

24<sup>th</sup> November 2022 – 09:00

**Attendees:** List of attendees at the end of minutes.

### 1. Competition Law

**Frank Gordon (FG)** went through REA's competition law policy.

### 2. Electricity Generation Levy

**FG** outlined the details of the new electricity generation levy. The key points are that it applies across portfolios and the levy will be applied for price being £75/MWh. The minimum threshold is 100GWh per annum. The levy will be put to Parliament in mid-December 2022, but the aim is for it to apply in January 2023.

**One member** queried how the average output price was defined and whether REA's working assumption was an average across the portfolio. **FG** clarified that the REA is seeking clarity on how 'group' is defined and want to know whether it is a portfolio.

### 3. Technical note

**FG** delved deeper into the technical note for the electricity levy. The levy will cover all potential routes to market and the calculation will be taken at an aggregate level. The levy will not be deductible from profits subject to Corporation Tax. Revenue from CfD projects, ROC and Capacity Market are exempt. Gas generation is excluded due to severely inflated costs. In addition, pumped hydro, battery storage, coal and oil are excluded, but the REA is seeking clarity on other storage technologies and co-location projects.

**One member** highlighted that BEIS previously recognised a distinction between fuelled and non-fuelled generation and asked whether this distinction applied to the levy. The REA reminded members that it has been putting this distinction to relevant civil servants. In terms of the levy, the distinction is only being considered within exceptional costs

**One member** asked whether 'per annum' is being defined as from January to December or would the levy be retrospectively put in place. REA is seeking clarity on this definition, but the assumption is that it will be going forward rather than applied retrospectively. **The member** also noted how in-scope revenue seemed to be broadly defined and that sales from ROC revenue appeared to be excluded. REA clarified that ROCs are excluded, and embedded benefits are to be confirmed. The same applies for REGOs, but the REA are seeking clarity on FiT projects.

**FG** set out that the technical document did highlight that there will be additional costs for some sites, and that those costs can be debited off against the levy. The REA needs evidence from members to demonstrate that and called for members to contribute evidence if possible.

### 4. Exceptional costs

#### a. REA Activities to Date

**Jack Abbott (JA)** covered what the REA has put out since the Autumn statement. The REA's response is increasingly direct, which is situated in a wider context of unease around government rhetoric. For instance, the withdrawal of support on solar by the Secretary of State for DEFRA. The REA released

its Energy Transition Readiness Index (ETRI) report last week and continues to press the government on key issues raised by the REA's members. The REA's view is that the government keeps offering warm word towards the industry and Net Zero, but we are not seeing policies that meet these ambitions words and, in some cases, we are seeing a reversal of some policies. Getting case studies is particularly helpful for the REA making its case, allowing the REA to explain how policies will tangibly impact their member's businesses.

**Mark Sommerfeld (MS)** outlined other actions that the REA has been doing. The REA has spoken to other trade bodies due to the scope affecting other technologies. The REA has joined discussions with government department, including a discussion with BEIS and the Treasury alongside other trade groups. A lot of feedback in that discussion concerned the lack of investment allowances given to the renewable sector. Government departments justified this decision based upon the renewable industry being given assistance such as CfD. In addition, concerns were raised around exceptional costs, inflation, and how that might be indexed to costs. The REA has a bilateral call with Treasury tomorrow to answer some of the questions posed by our members, and an important part of this call is to generate questions to ask the Treasury tomorrow.

**MS** covered the main concerns as the REA sees them:

- Lack of investment allowances
- Whether the gas exception also apply to green gas
- How groups are defined (e.g. incorporation)
- Whether all energy storage is exempt given that the technical note only mentions battery storage
- Will £75/MWh be indexed over the five-year period given current inflation rate
- Is energy waste applicable to this? The REA's assumption is that it is does but we need clarity on whether it is related to the biogenic function,
- Clarity on evidence we need for consideration of exceptional costs.

#### **b. Questions from members.**

**One member** raised how the landfill gas sector pay royalties through a cost of fuel to landlords, which is a percentage of gross revenue. The member was concerned over a potential situation where that cost is an exceptional cost linked to the price of electricity, potentially resulting in conflict over where responsibility lies. **Another member** queried whether we wanted to clarify this section given that it could potentially close a loophole. The REA believe that clarity should be sought and the question can be dressed up as clarity on third parties.

**One member** wanted clarity on whether it only applies to projects that are connected to distribution or transmission network, and they were not sure how it applied to spill on to the network from Private Wire projects, and where they applied to the final customer. The REA agreed that it was not clear, and we need clarity. It is strongly implied that the electricity sold is part of the levy rather than electricity that is stored.

**One member** asked for clarity on whether 'renewable' was defined using the definition under the CfDs. The REA does not believe that is a safe assumption to make because the definition under the CfD would not necessarily apply due to the amount of energy generated but could apply under a portfolio. The REA further clarified that the government has been careful not to call it a 'renewable' levy and it is being defined around every type of generation, meaning that an exact definition might be difficult to acquire.

**One member** raised that what was key for them is that a lot of their assets are in various stages of development and not necessarily making profit. They were not sure whether the Treasury realise that some assets are in very early stage and investors would be put off by investing in early-stage assets subject to this levy. The assumption here is that the whole portfolio puts you over the threshold which means that early-stage assets would be covered by this levy.

**One member** asked about the exception for gas and whether the current understanding was that it applied to both normal and green gas. The REA highlighted how this discussion sits within whole series of debates with the previous Secretary of State for BEIS and is a point of contention.

**One member** raised a point about whether the levy would apply to selling on power from generators to their internal traders, who then sell it on. However, if you're using an external trader, then the member assumed that they would not be covered by the levy.

**One member** raised concerns over the unintended consequences of introducing this levy and a resultant lack of investment. For instance, whether there would be a waste crisis in a few years due to insufficient investment caused by measures like this levy. The REA agreed and that this concerns reads across to other industries such as biomass and AD, solar and storage etc.

**One member** was concerned that the Treasury might move what the levy covers if the government met its tax aim, which would create uncertainty for the industry. The REA believes that the levy will be fixed in legislation and any changes would require secondary legislation to amend, which means that it is unlikely to change within the short term.

## **5. Demonstrating the impact of the levy**

**MS** outlined the evidence and data that the REA is seeking from its members:

- Understanding the impacts on portfolio and how it is applied,
- Impacts on future investments (e.g. investments being delayed or cancelled completely, especially critical for getting to Net Zero)
- Evidence of exceptional costs. The REA is making a strong case that fuel costs are increasing significantly but needs the data to support that claim.
- Impacts on market behaviour. For instance, battery storage is not included but does this affect business models such as flexibility assets and investment,
- Potential impacts on energy security, especially bioenergy members about firm generation within a flexible system.
- Any other data points to highlight to treasury.

The REA is aware that some of this data is commercially sensitive, and members should only give the REA data that they are happy being shared publicly. However, the REA can anonymise that data. Case studies are particularly useful, and the REA encourages members to submit case studies if they are able to do so.

## **6. Other Energy Announcements**

**FG** outlined other relevant announcements from the Autumn statement including: energy profit levy, electric vehicles, energy efficiency, alternative fuels payment, Consumer Energy Price Guarantee, nuclear, climate change levy and carbon price support rate, corporation tax and solvency II rules, business rates, annual investment allowance.

**One member** raised that, in terms of next steps, it would be helpful for members to know which areas the REA can have influence upon and which areas they anticipate to be immovable. The REA shared its view that the levy will happen, but the REA aims to try to ensure that it is done in the most sensible way possible, such as ensuring that clauses cover exceptional cost allowances, corporation tax, and portfolios. In terms of evidence, the current situation on member's businesses would be helpful in making this case.

**The REA** finished by stating that they would send an update to members tomorrow based upon the REA's conversation with the Treasury. The REA will also release a survey next week and encouraged members to complete that survey when they receive it.

## 7. Actions

The REA to share slides with attendees after the meeting.

## Attendees

Name	Company	Name	Company
Amy MacConnachie	REA	Kiara Zennaro	REA
Anas Papazchariou	EY (Ernst & Young LLP)	Mark Dawber	Valencia Waste Management Limited
Andy Lemon	Veolia Environmental Services Plc	Matthew Andrews	Mitsubishi HC Capital UK PLC T/A as Novuna
Ben Brown	Eversheds Sutherland	Mark Sommerfeld	REA
Chris Bruce	CT Group	Matt Clarke	Severn Trent Green Power Ltd
Christian Hellmund	Clarion Solicitors Limited	Megan Warrender	REA
Darren Williams	Eco2 Management Services Ltd	Melanie Ellis	Limejump Ltd
David Rice	CLP Envirogas Ltd	Michael Gibbons	Bluefield Solar
Egan Archer	Equitix	Mike Guy	Viridis Energy (Norgen) Ltd
Farryad Ishaq	Severn Trent Green Power Ltd	Neil Bennett	Bioenergy Infrastructure Limited
Frank Gordon	REA	Nick Minnitt	Enfinium Limited
Gavin Anderson	Veolia Environmental Services Plc	Dr Nina Skorupska	REA
Greg Williams	Bioenergy Infrastructure Limited	Pablo John	REA
Gregory Triantafyllidis	JBM Solar Projects (UK) Ltd	Paul Thompson	REA
Hilary Stone	Imperial College London	Peter Dickson	Glennmont Partners
Imran Hussain	Foresight Group	Rachael Levinson	Hawkins Wright Ltd
Jack Abbott	REA	Richard Marsh	BDB Pitmans LLP
James Milne	Infinis Energy Services Ltd	Rob Broom	EY (Ernst & Young LLP)

Jamie Horton	Burges Salmon LLP	Sophie Lowe	Eversheds Sutherland
Jamie Lawton	CLP Envirogas Ltd	Stan Fielding	REA
Jean-Pascal Boutin	EY (Ernst & Young LLP)	Steven Shaw	Veolia Environmental Services Plc
Jordan Dilworth	REA	Stuart Markham	Energy Developments (UK) Ltd
Katie Potter	AFRY Management Consulting Limited	Vijay Shinde	Vijay Shinde