REA Member Townhall
Autumn Statement 2022
Electricity Generator Levy

24th November 2022

REA Competition Law Policy

- REA's compliance with all aspects of UK Competition Law applies to all activities of REA including its subsidiaries Member Forums, committees, working groups, technical groups, and sub-groups and any other such meeting:

  - ➢ Members are not permitted to discuss competitively sensitive information, or to use REA as a conduit for such discussions

  - ➢ Competitively sensitive information covers any non-public strategic information about a business's commercial policy. It includes, but is not limited to, future pricing and output plans

  - ➢ Please note this session is being recorded for note taking purposes.

Agenda

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- Overview of the Electricity Generator Levy
- Current REA activities
- Concerns and questions raised by members
- Next Steps - Demonstrating the impacts of the Levy
- Other energy policy announcements in the Autumn Statement of relevance to members.

New 45% Electricity Generation Levy

The government has announced a new temporary 45% tax on 'extraordinary returns' from low carbon UK generation.

This replaces the previously planned 'Cost-plus Revenue' Cap trailed by Liz Truss's Government

It will be legislated to be in place from the 1st January 2023 to 31st March 2028.

- 'Extraordinary returns' defined as the **aggregate revenue that generators make per annum** from in-scope generation, across their group, at an average **output price above £75/MWh.**

- The tax will be limited to generators whose in-scope generation output exceeds **100GWh per annum** and apply to extraordinary returns **exceeding £10 million.**

- The tax will apply to extraordinary returns arising from 1 January 2023 and will be legislated for in Spring Finance Bill 2023. Draft Legislation expected in mid –December.

Additional Points from the Technical Note

- Will cover revenue from all potential routes to market including purchase power agreements, long forward contracts, and trading within the day-ahead and intra-day market.

- This calculation will be undertaken at an aggregate level across all in scope generation of the group in respect of a qualifying period.

- The levy will not be deductible from profits subject to **Corporation Tax.** This could mean an effective rate of up to 70% (assuming everything above £75/MWh is profit)

- **CfD projects and ROC and Capacity Market revenues are excluded** from the levy calculation. (We are seeking clarity on FiTs)

- ***Gas Generation is excluded*** – due to "severely inflated costs from the substantial increase in the price of gas inputs" and concerns that "inclusion of gas generators could have unintended impacts on pricing with implications across the entire market"

- ***Pumped Hydroelectricity, battery storage, coal and oil also excluded*** *(also seeking clarity on other storage technologies and co-location)*

Exceptional Costs

1.53 The government recognises that some of the benefit that generators are deriving through increased profit from higher electricity prices may be reduced by increases in the cost of production since the start of the energy crisis.

1.56 If the measure of extraordinary generation receipts was to take account of or be reduced by additional costs then those costs would themselves need to be extraordinary (i.e. costs that have risen to a similar extent to electricity prices and for reasons that are connected with the energy crisis)

1.58 In that case consideration could be given to the measure of extraordinary generation receipts being reduced by a measure of exceptional costs.

It is going to be important that we have evidence to demonstrate 'exceptional costs' where this might apply – especially around fuelled technologies.

REA Activities to Date

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- **REA issued strong statement to press in response, criticising proposals and will follow up**

- **REA speaking with other Trade Bodies to consider joint actions.**

- **REA joined talks with Treasury last Friday afternoon to review Energy Related Policy from the Autumn Statement:**
- Significant anger shown at the lack of investment allowance provided to the renewables sector connected to the levy.
- Concern of exceptional costs also highlighted
- Impact of inflation on the £75/MWh threshold also questioned
- Further questions asked, but there was not time to see them answered.

- **REA have a follow up bilateral call with Treasury this Friday and we are already submitting questions for further clarification.**

- **REA collecting data and information from members in order to be able to better demonstrate impact.**

Register of Concerns/ Questions

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This reverses the measures in Liz Truss's 'Plan for Growth', which put a cap directly on revenue. This Tax is seen as a marginal improvement – although as tax still focuses on revenue it is not dissimilar to what was proposed before.

REA have been collating member concerns:

- Lack of investment allowances for renewables
- Is FiT revenue included?
- Does the gas exception also apply to green gas?
- How are groups defined? (ownership vs management)
- Is all energy storage exempt? How is co-location dealt with?
- Will the £75/MWh threshold be indexed over the 5-year period given current inflation rates?
- Is energy from waste applicable to this? If it is does – is it only related to the biogenic fraction?
- If a EfW sites is based on a CfD – does generation not covered by CfD revenue still get included.
- How are shared revenue streams with Local Authorities dealt with?
- What evidnce is required to be able to see consideration of exceptional costs – especially for fuelled technologies (Biomass and EfW).

Anything Else?

Demonstrating the Impacts of the Levy

Evidence and data needed:

- Impacts on project portfolios – especially when mainly small projects that, together, put companies over the threshold.
- Impacts on futuer investments
- Evidence of exceptional costs which should be taken into consideration as negating exceptional profits.
- Impacts on market behaviours – including interest in flexibility services and assets, such as energy storage.
- Any potential impacts on energy security
- Any other pertinent data points that it would be useful to provide to Treasury.

REA recognise that much of this information could be commercially sensitive. We are happy to collect data and provide it to Government anonymously. Data will also not be shared with other members.

However, if companies do feel able to speak publicly about impacts, we would be keen to develop case studies around this to apply further pressure.

REA are developing a short members survey to also collect evidence.

Other Energy Policy Announcements - I

Energy Profits Levy	Electric Vehicles (EV)	Energy Efficiency	Alternative Fuels Payment	Consumer Energy Price Guarantee
➢ Oil and Gas profits levy will increase from 25 to 35%, extended to 31st March 2028. ➢ Investment tax break for oil and gas will be reduced to 29% for non-decarbonisation activities.	➢ EVs will pay vehicle excise duty for the first time, starting from 2025; ➢ Company Car Tax rates will also be marginally increased for EVs. ➢ Investment rate allowances have been extended to 2025 for charge points.	➢ A new energy efficiency scheme from 2024, extending eligible support to all properties below EPC D. ➢ Overall there will be a target to reduce energy use across the UK by 15% on 2021 levels by 2030.	➢ Support for those not on gas heating from £100 to £200 (the 'Alternative Fuels Payment', including those using biomass boilers).	➢ The consumer Energy Price Guarantee will continue until April 2024 (new cap of an average £3,000 per annum). ➢ A new approach to consumer protection in energy markets, which will apply from April 2024 onwards.

Other Energy Policy Announcements - II

Nuclear	Climate Change Levy and Carbon Price Support Rate	Corporation Tax and Solvency II Rules	Business Rates	Annual Investment Allowance
➢ Sizewell C nuclear plant is indicated to get the go-ahead in the next few weeks.	➢ CCL rates will be increased for gas to £0.00775/kWh but frozen for electricity, helping rebalance costs towards more polluting gas. The Carbon Price Support rate will be frozen at £18/t of carbon until 2024/25.	➢ Corporation Tax will be increased from April 2023 to 25% (reversing the Kwarteng/Truss cut to this measure). "Smaller profits" will be at 19%. ➢ The REA and others' call to reform Solvency II rules has been listened to with reform confirmed that could release institutional investment in our sector	➢ The 1st April 2023 Revaluation will reflect changes in property values in England since the last revaluation in 2017. Targeted support worth £13.6 billion over the next 5 years will support businesses to transition to their new bills. ➢ A freeze in the Business Rate Multiplier at 49.9p and 51.2p - meaning bills will be 6% lower.	➢ extension to the Capital Allowances for plant and machinery purchases – to £1million on a permanent basis (it had originally been slated to go back to £200,000 in April 2023) ➢ Annual Investment Allowance (AIA) gives a 100% write-off on certain types of plant and machinery in a 12-month period

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