



Meeting of the REA Finance Forum

25th May 2023



Welcome & Introduction

*Peter Dickson, Partner and Technical Director at Glenmont Partners
&
Chair of the REA Finance Forum*





Policy updates:

- Spring Statement, Electricity Generator Levy (EGL), Powering Up Britain, Power & Grid updates

Review of Electricity Market Arrangements update and next steps

Coffee break

The Green Finance Strategy & UK competitiveness (Olivia Johnson, DESNZ)

Capital allowances (Carly Drummond, MHA)

Business rates

REA activities & general discussion:

- Reports, campaigns, and the Finance Forum



Policy Updates

*Frank Gordon, Director of Policy at the REA
&
Mark Sommerfeld, Head of Power and Flexibility Policy at the REA*



Spring Budget published by Treasury on Wednesday 15th March.

REA responded critically of the lack of measures for renewables, with the exception of CCS.

Notable measures for our sector include:

- Billions in investment for BECCS & CCUS
- Investment support for businesses will allow 100% of eligible investment to be offset against UK taxes
- Fuel duty has been frozen
- Green Taxonomy will classify nuclear as 'environmentally sustainable'
- Competition for Small Modular Reactors
- 12 new Investment Zones
- Energy Bill Price Guarantee scheme is extended
- Moves to change pension investment rules to allow and enable pension fund investment in renewables and clean technology



In the Autumn Statement, the government announced a new temporary 45% tax on 'extraordinary returns' from low carbon UK generation.

- '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 is limited to generators whose in-scope generation output exceeded **50GWh per annum** and applies to extraordinary returns **exceeding £10 million**.
- Feedstock, Shared Revenue arrangements and revenues not associated with generation (e.g ROCs, SM payments, Ancillary services) excluded from EGL
- Policy intention that storage is excluded.
- The tax will apply to extraordinary returns arising from 1 January 2023 and will be legislated for in Spring Finance Bill 2023. Draft Legislation and HMRC guidance was published earlier in the year.



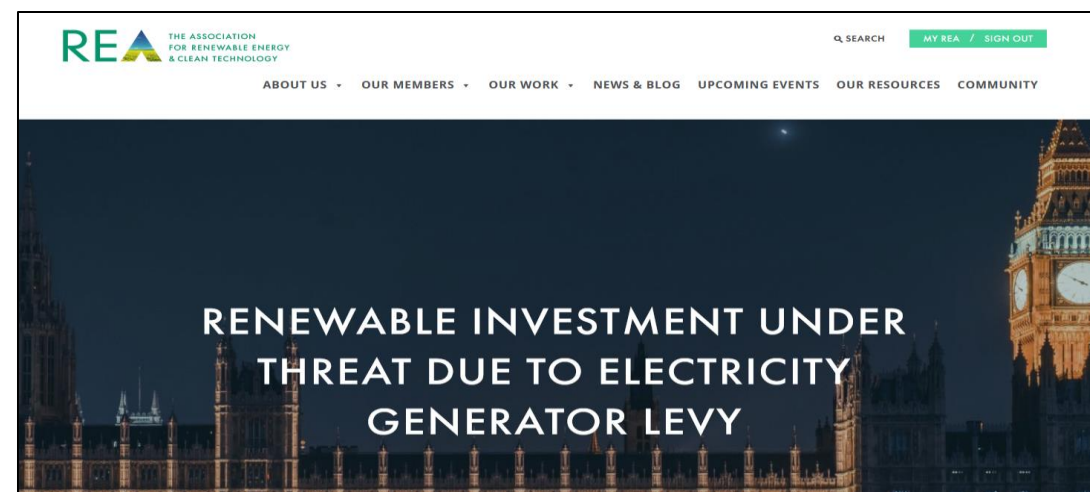
The REA engaged heavily with members to inform discussions with Treasury, HMRC and DES NZ during the development of the EGL.

- Ran a survey on impacts with members in November
- Hosted member Town Hall in January
- Publicly responded to publication of draft legislation
- Published column in the Telegraph highlighting issues
- Letters to Ministers
- Meeting with Minister Graham Stuart

REA continue to engage with Government as legislation making it way through parliament.

Secured a number of amendments, especially on fuel and revenue sharing cost allowances within the EGL.

However, it remains disappointing that the EGL does not include investment allowances.



Finance Bill published, following the spring statement included legislation to bring the Electricity Generator Levy (EGL) into force.

The REA has submitted a briefing to relevant MPs calling for amendments. This includes MPs on the Treasury committee, DESNZ and EAC Select Committees.

Bill currently still in committee stages.

Expected to receive royal assent in June/July.

5 Amendments being sought:

- **Provision of investment allowances within the EGL**
- **Bring forward the Sunset Clause of the EGL to 2026**
- **Exclusion of non-profit making, late commissioning, assets from levy**
- **The exclusion of all energy storage technologies must be explicit within the EGL Legislation**
- **Exceptional Cost Allowance should allow for negative pricing.**

REA Suggested Amendments to the Finance Bill – Electricity Generator Levy



Briefing for: MP's considering the Finance Bill 2023

Date: April 2023

Contact: Mark Sommerfeld, msommerfeld@r-e-a-net, Frank Gordon fgordon@r-e-a-net

Introduction: the need to amend the Electricity Generator Levy (EGL) legislation in the Finance Bill

The REA is the UK's leading trade association for the renewables and clean technology industry, with over 550 members. This includes generators impacted by the introduction of the Electricity Generator Levy (EGL) including solar, biomass, anaerobic digestion, energy from waste and landfill gas, as well as other clean technologies like energy storage.

The EGL is a new 45% tax on 'extraordinary returns' from low-carbon UK generation, which is being legislated to be in place until March 2028. The introduction of the EGL forms part of the Government's response to the energy crisis and is separate from the Energy Profits Levy (EPL), which is already in law and applies to companies involved in the production of oil and gas.

The legislation for this new levy is contained within the Finance Bill 2023, which was published following the spring statement. Once the Bill receives Royal Assent, the EGL will come into force, with a retrospective start date of the 1st January 2023.

The below briefing highlights suggested amendments to the design of the levy which will help to mitigate the impact of the levy on future investment in renewable and clean technologies, which are essential to energy security and keeping the UK aligned to our net zero targets.

The Need to Ensure Renewables are Treated Fairly Compared to the Oil and Gas Sector

Since the announcement of the EGL in the 2022 Autumn Statement, the industry has not opposed its introduction, recognising the importance of the sector playing its part in helping to reduce energy bills. However, the sector remains concerned about several design features of the EGL which, if not addressed, will make the UK less attractive for future low-carbon investments, at a time when the US and EU have both launched packages to accelerate the decarbonisation of their energy systems.

Significantly, the EGL is expected to tax renewable generation in a manner that is harsher than the Government's treatment of fossil fuel producers under the Energy Profits Levy. Key design differences include:

- In the EPL, oil and gas producers have been provided investment allowances of 29 – 80% against which the levy can be offset if profits are being invested in new production. These allowances have not been extended to the renewables sector under the EGL.

THE ASSOCIATION FOR RENEWABLE ENERGY AND CLEAN TECHNOLOGY
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Powering Up Britain: 'Energy Security / Green Day'

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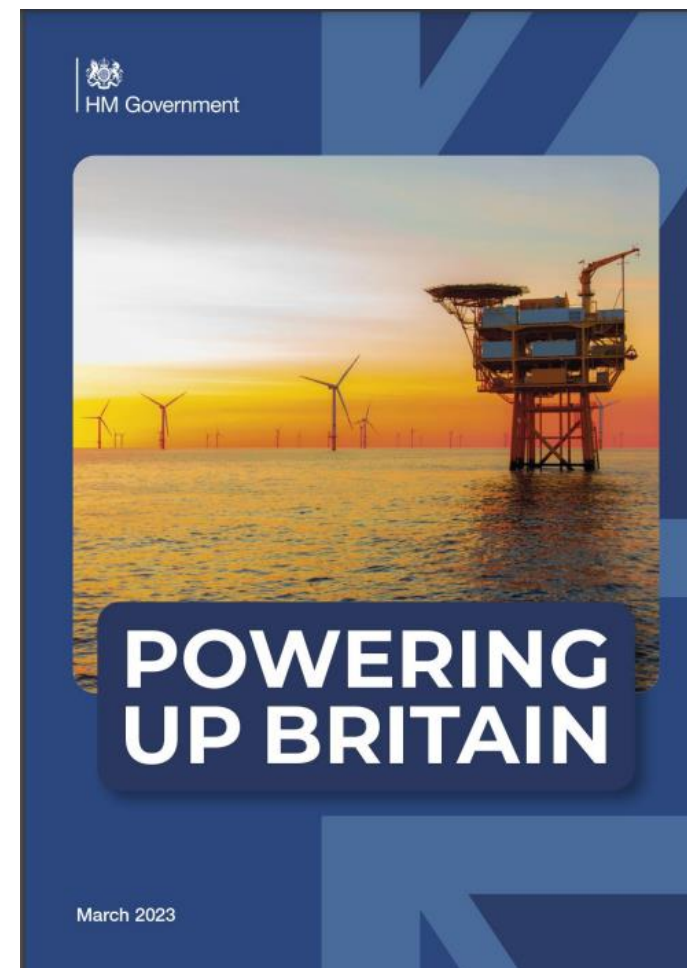
Government released over 40 documents concerning renewable energy and energy security on 30th March 2023.

The announcements included:

- Revised Energy Security and Net Zero Plans
- Formal response to Chris Skidmore MP's Independent Review of Net Zero, Commitments to CCS,
- 2023 Green Finance Strategy
- Vallance Review of Technology Regulation
- UK International Climate Finance Strategy
- ZEV and SAF Mandate consultations
- National Policy Statements – Planning Reform

However, the REA stressed that significant gaps remain to address some of the biggest barriers to the deployment of renewable energy.

This includes accelerating UK attractiveness in globally competitive investment markets and ensuring that renewables are treated on a level playing field with oil and gas investment.



Powering Up Britain: Technology Specific Highlights

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2023 Green Finance Strategy – to be discussed later

Solar:

- *Solar Government-industry taskforce & Solar Roadmap in 2024; 70GW solar capacity by 2035*
- *Net Zero Skills and Workforce Action Plan, 2024*
- *Commitment to not making changes to Best and Most Valuable categories of agricultural land*

Energy storage:

- *Policy framework by 2024 for investment in long-duration energy storage*
- *Publicly Available Standard for domestic battery storage*
- *UK Investment bank to invest up to £200 million in energy storage*

Biomass:

- *Energy Security Plan and Net Zero Growth Plan Government reiterates that Biomass does have a role to play in both net zero and energy security*
- *Response to Power BECCS business model published*
- *Committed to Publication of the Biomass Strategy in June*

Hydrogen

- *List of Successful Net Zero Hydrogen Fund Strands 1 & 2*
- *Hydrogen Investment Road Map*

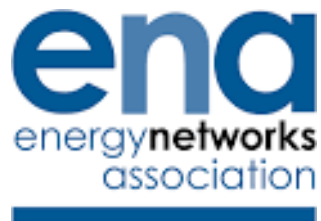
Transport

- *Zero Emission Vehicle (ZEV) mandate consultation*
- *Sustainable Aviation Fuel (SAF) mandate consultation*

Heat Pumps

- *Guidance for the Heat Pump Investment Accelerator Competition*





Energy Network Association Connections Action Plan

Action 1) Reforming the distribution network connection queue

Action 2) Changing how transmission and distribution coordinate connections

Action 3) Greater Flexibility for storage distribution customers

Expecting implementation of analysed solutions in second half of 2023



National Grid ESO – Five Point Plan and Connections Reform

1. Transmission entry capacity; Amnesty till Apr 23
2. Update modelling assumptions for current connection rates
3. Changing treatment of battery storage
4. Developing new contractual terms for connection contracts
5. Non-firm (stage) for all connections

Consultation on actions expected 12th June



Energy Networks Commission – Energy System Catapult

Government appointed review of connections issues.

Looks across whole process including strategic plan, standards, regulatory approval, planning, supply chain, skills and outage planning.

Final recommendations expected in June



Review of Electricity Market Arrangements

Mark Sommerfeld, Head of Power & Flexibility Policy at the REA



REMA Update – Summary of Responses

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Government published summary of responses to Review of Electricity Market Arrangements Call for Evidence.

Wide range of preferences expressed.

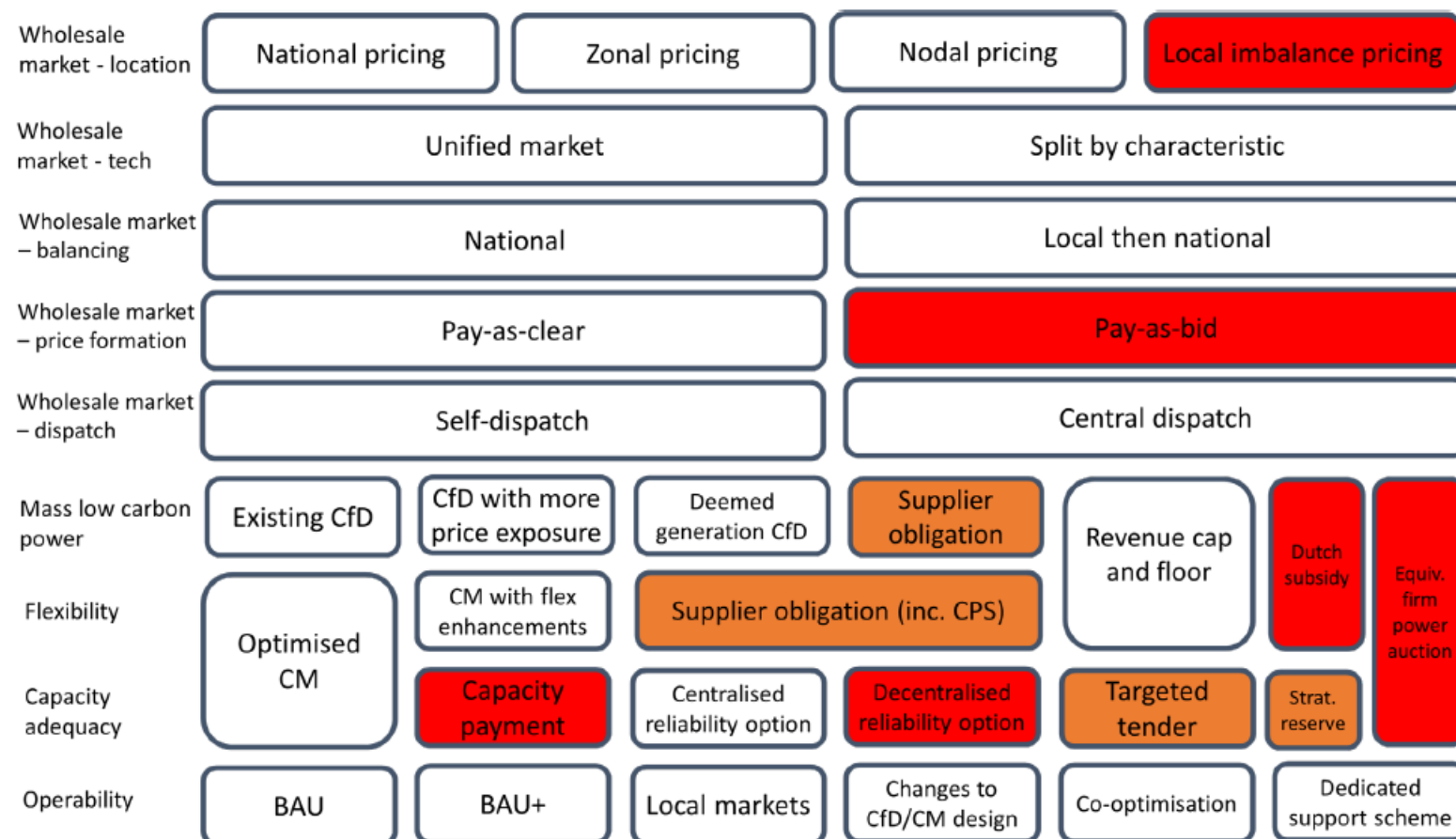
Document doesn't yet spell out Government's preferred position on reforming market, although some options removed (red) or no longer considered standalone policies (orange).

Government continuing to consider all other options including:

- Split Market
- Green Power Pool
- Evolution of Existing Market
- Locational Pricing

Further consultation expected Autumn 2023.

Figure 1: A map of the options space highlighting options discounted based on consultation feedback.



- REA attended the first two Market Participant Forums.
- Participants asked to explore wholesale options and locational marginal pricing. Majority of responses tended to want to avoid more radical wholesale market reforms.
- Some concern at complexity of Green Power Pool and Split Market.
- Most participants seemed to favour an option for the evolution of the existing CfD, capacity market and Corporate PPA market.
- There was also some support for exploring a “green paddling pool” arrangement – a smaller mechanism focused on smaller generation which suppliers could contract with.
- Mixed views in relation to LMP – recognition of both benefits and complexity. Some exploration of where locational pricing could be introduced outside of the wholesale energy prices (e.g. grid charging).
- Government still considering all options.



Ch 1: Wholesale Market Design

- Highlight current options: Green Power Pool, Split Market and Evolution of CfD
- Explain industry Concerns of more radical approaches
- Set out evolutionary approach of CfD
- Set out key design asks for evolving CfD
- Demonstrate how this addresses REMA priorities
- Possibly explore green paddling pool idea

Ch 2: Locational Pricing

Acknowledge benefits of locational pricing, but suggest locational pricing may be best looked at in the longer term, with transitional steps

Needs to have clarity on:

1. Transparency of price signals,
2. Impacts on existing generators.
3. How smaller stakeholder will be able to navigate the market
4. Consideration of geographical/physical limitations that may undermine locational signals, making the provision LMP less useful.
5. Interactions with existing mechanism – particularly CfD

Ch 3: Flexibility

Explain importance of flexibility and a market that appropriately rewards it.

Identify current barriers to flexibility market and status of government smart system and flexibility plan.

Will include:

- Examine reforms to CfD and Capacity Market as route to market
- Call for support for Long Duration Energy Storage
- Need for greater flexibility market signals

Ch 4: Creating an attractive market for investment and addressing more physical barriers to deployment

Emphasises that while Government is considering and, eventually, implementing REMA it creates market uncertainty and will have a negative impact on investor confidence

Describe what investors would like to see out of REMA to ensure long term financeable market.

Need to address physical barriers to deployment e.g. grid, planning and skills issues.



The case for change in the CfD and possible solutions

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- Only power generation is rewarded.
- No incentive to drive sustainable or UK focused economic benefits, such as ensuring UK supply chains or developing UK skills.
- No incentive for flexibility or firmness. Price signals removed from the market.
- Auction design does not promote a range of renewable projects or services.
- Allocation process is currently once a year but with no clear rolling timetable.
- Contract lengths are not tailored to technology or project need. 15 years is the only option.
- You cannot currently utilise both the CfD and the Capacity Market.
- The CfD is currently only for new projects – not yet clear what assets coming to the end of RO contracts will base repowering on.

Recommendations will consider:

- Rewarding Firmness (inc. co-located CfD)
- Exploring a Green Premium/ non-price signals
- Considering Auction Design (including contract length)
- Exploring options for Market Reference Price
- Interaction with the capacity market



27th June 2023

**Venue: BDB Pitmans,
One Bartholomew Close, London EC1A 7BL.**

Speakers include:

- **Dr Chris Harris**, University of Bath and REA Report Author
- **Alisha Ali**, DES NZ REMA Team
- **Mark Copley**, European Federation for Energy Traders
- **Jonathan Bowes**, Ofgem
- **Peter Dickson**, Glennmont Partners
- **Thomas Cahill**, Green Investment Group
- **Alberto Abascal**, Natwest
- **Kate Mulvany**, Cornwall Insights
- **Will Blyth**, UK Energy Research Council
- **Omer Ahmad**, Low Carbon Contracts Company



Book on the REA website events page.



Coffee Break



Green Investment in the UK

Olivia Johnson, Head of Private Investment into Net Zero at DESNZ



Capital Allowances

Carly Drummond, Senior Tax Manager at MHA LLP



Business Rates

Mark Sommerfeld, Head of Power and Flexibility Policy at the REA



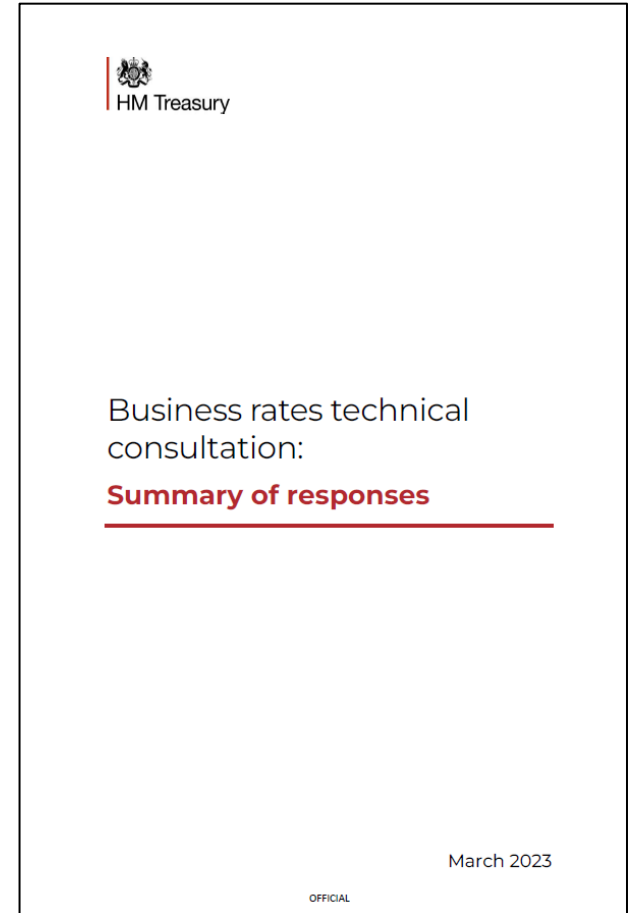
Rating Update Following Spring Budget 2023

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Government published response to the Business Rate Technical Consultation. Proposals now being introduced via the Non-Domestic Rating Bill before Parliament.

Key Changes:

- Move towards more regular **three-yearly revaluation cycle** from 2023
- **Duty to Inform:** new duty for ratepayers to inform the VOA of any changes to the occupier and property characteristics that affect the assessment of their properties for business rates within 60 days. Will come into full operation once VOA systems developed.
- **Changes to the Appeals Process** including removal of Check stage in Check, Challenge Appeal Process.
- A six month challenge window will be introduced from 2026
- **Introduction of 12 months of relief for qualifying improvements to be delayed until April 2024.**
- **Consultation on VOA Transparency and Disclosure Requirements**
- **Digitalising Business Rates: Connecting business rates and Tax Data-** indicative to come in 2026/7



2023 Revaluation and Plant & Machinery Relief

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The 2023 Rating Revaluation became live on 1st April 2023.

These will be reflected in Local Authority Ratings Demands for 2023/24.

Note Rateable Values based on a Valuation date of 1st April 2021 (1st Oct in Northern Ireland). Multipliers (UBR) have been frozen.

Last revaluation was in 2017. Appeals process now open for the 2023 list.

Plant and Machinery Relief for Onsite Generation, EV Charge Points and Heat Networks

Business Rates should include Green exemptions introduced last year for eligible plant and machinery.

Plant and machinery such as rooftop solar panels, wind turbines, and battery storage will be exempt along with storage used with electric vehicle storage points.

Also 100% relief for eligible low-carbon heat networks which have their own rates bill.

Measures in place from the 1st April 2022 to March 2035



REA Activities

Dr Nina Skorupska CBE, Chief Executive of the REA



REA STRATEGY

REA initiated its major **Strategic Review** on 21st July 2020 (during Covid) to determine the IMPACT its work must deliver for its members and the Sector as a whole.

It informed:

- **WORK PRIORITIES**
- **ORGANISATION TO DELIVER**
- **ATTRACT NEW MEMBERS to enable the REA to grow.**

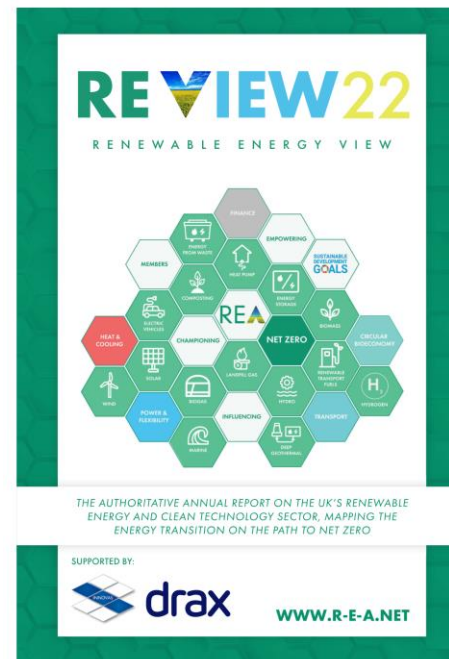
Close to 3 years later, the energy and clean technology landscape has changed significantly, it is appropriate for the REA to review progress to date and establish a GROWTH PLAN for next THREE YEARS and more



REA activities: REview (The REA annual industry report) @reassociation

REview is the REA's annual state of the industry report

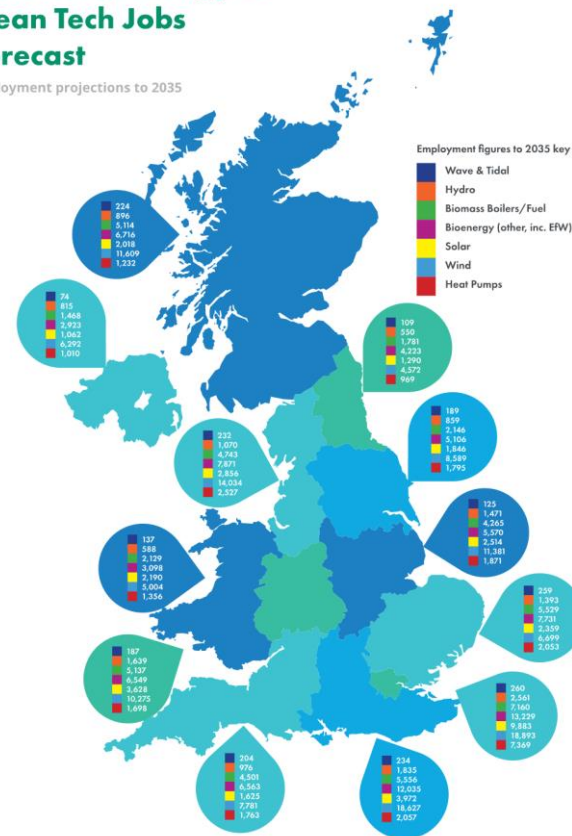
- It assesses the progress made over the previous year;
- highlights successes and failures, both from a policy and an industry perspective;
- and outlines the REA's proposals to support the UK moving towards its Net Zero targets.
- Written in accordance with the REA Strategy, it will provide a key reference point for the renewable energy and clean technology in the UK.



REA activities: REview (The REA annual industry report) @reassociation

Made in Britain 2035 Renewable Energy & Clean Tech Jobs Forecast

Employment projections to 2035

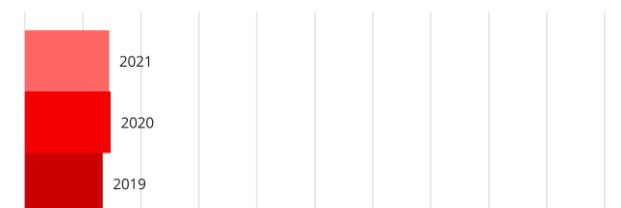


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REview22 - Finance: Region by Region

RENEWABLE ENERGY DEPLOYMENT BY REA PILLAR

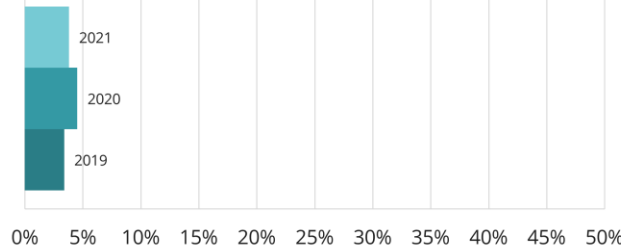
RENEWABLE ENERGY AS A PERCENTAGE OF
TOTAL HEAT GENERATED:



RENEWABLE ENERGY AS A PERCENTAGE OF
TOTAL ELECTRICITY GENERATED:



RENEWABLE ENERGY AS A PERCENTAGE OF
TOTAL TRANSPORT ENERGY
CONSUMPTION:



REA activities: Energy Transition Readiness Index

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Background

ETRI reports have been published in 2019, 2021 and 2022.

They assessed the readiness of 13 European electricity markets for the energy transition, from the perspective of investors in decentralised flexibility services that support the deployment of renewable power and decarbonisation.

Performance

ETRI 2022 was covered by over 100 trade media from 17 different countries, especially popular in the UK, Germany and Ireland. The report has also been used at the party conference season for both the UK and EU parliaments, and COP 27 in Egypt.

5	Finland
4	Denmark, France, Netherlands, Norway, Sweden
3	Germany, Ireland, Italy, Poland, Spain, Switzerland, UK



Proposals for 2023 ETRI report

- We aim to publish this year's ETRI in early November ready for COP 28
- Deeper dive into the 13 countries with support from DBT offices.
- Potential interests in understanding the US IRA and its effect on their market.
- The report will present (where available) additional market data for each country, addressing (for the 2022 calendar year):
 - The flexibility gap to 2030 and progress to date
 - Growth trends for distributed flexibility resources e.g., EVs, data centres,
 - Flexibility of market volumes/value
- The survey questions will mostly stay the same but we will be seeking further information in the policy section to address the effect of public funding.
- A comparison with prior years will be provided and where possible, we will seek to identify monetary benefits from flexibility market developments
- Narrow down the cost of flexibility





COP28
UAE

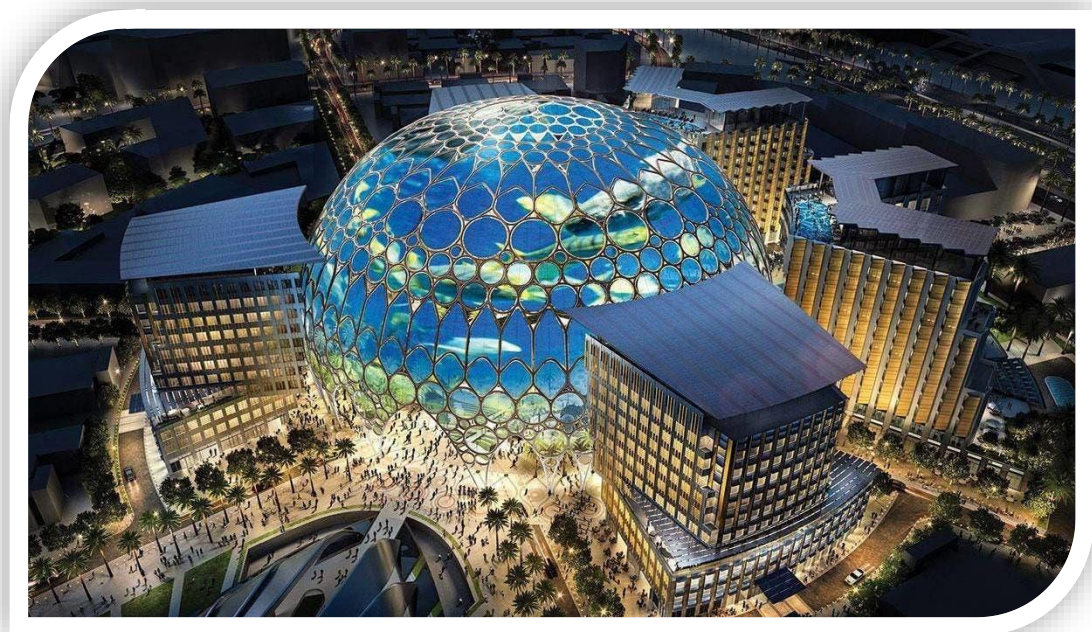


THE ASSOCIATION
FOR RENEWABLE ENERGY
& CLEAN TECHNOLOGY

COP28 will be held
at **Dubai Expo City**
from 30/11 to 12/12
2023

REA has been invited to apply for
a pavilion in the Blue Zone which
is open to Heads of State,
Country Delegations and Official
Observers only

REA are currently looking for
Sponsors to help deliver the
**Renewable Energy Action
Pavilion**



Renewable Energy Action Pavilion

Accelerating the Net-Zero Transition

As the largest pan-technology trade association from the UK net-zero sector, the REA's **Renewable Energy Action Pavilion** will showcase the best solutions our members offer to transfer a fossil fuel-based centralised system to a renewable-based decentralised network. We will focus on two main areas:

- Solutions able to be deployed immediately that have high decarbonisation capability and target some of the key challenges such as electricity flexibility and energy storage, net-zero hydrogen, international connectivity and greenhouse gas management.
- Finance that enables transitional investment in the short term, encouraging patient capital to support the development of low-carbon infrastructure and helping the decarbonization of today's global economy.

Renewable Energy Action Pavilion

Must Know

Blue zone pass: We will submit your two participants with the REA delegation but there is no guarantee the UN will approve every name we put forward. We are also working with the Department for Business and Trade to secure more passes but **if you do not need to have blue zone passes from us, we will offer you a 15K discount off your sponsorship package.**

Timetable: The deadline for submission is **15th June 2023**, and the final decision will be made at the **beginning of August.**

Payment and cancellation policy: We require sponsors to sign a sponsorship contract by the 14th of June, with 50% of the sponsorship fee due within 30 days, the other 50% will be payable in August. Should the UN reject REA's application for a Pavilion (decision due August) **REA will refund in full the sponsorship fee.**

Additional charges: The price includes the interior decoration (including screens) with the requested branding from the sponsors and a small office for our staff's private use. If we need more furniture, screens, hospitality space in our pavilion and a larger presentation space there will be an extra charge from the event organisers.

- Chair Elections
- Gathering evidence on the current state of UK green investment markets
- Developing key asks ahead of the autumn statement
- Other areas within the REA that Finance Forum members would be interested in hearing more updates on.



General Discussion



Closing Remarks

Thank you to all for coming, and to MHA LLP for hosting us.

