



REA Finance Forum Meeting,
Thursday 7th March 2024, 14.00-16.30
Hybrid meeting at REA offices with Microsoft Teams

Attendees

Chris Tanner, Foresight Group (CT)
David Casey, HMT (DC)
David Maxwell, Future Biogas (DM)
Mary Czulowski, Bio Capital (MCZ)
Katerina Martincova, Macquarie (KM)
Jason Woods, 5barg8 (JW)
Duncan Valentine, Almax Partners (DV)
Gavin Anderson, Veolia (GA)
Ian Waller, In Perpetuum (IW)
Jon Crouch, Aggreko (JC)
Mark Constable, Trojan Energy (MC)
Martin Peters, Fuuse (MP)
Michelle Davies, EY (MD)
Mary Sweere, Fluid Ice (MAS)
Ian Bhuller, UK Finance (IB)

Attendees (cont'd)

Michael Meakin-Blackwell, MHA (MMB)
Martin Sweeney, MHA (MSW)
Jemma Wyman, MHA (JWY)
Nathan Sutcliffe, MHA (NS)
Chris Harris, University of Bath (CH)
Rory Tait, Home Eco Earner (RT)

REA Staff:

Frank Gordon, REA (FG)
Mark Sommerfeld, REA (MS)
Nina Skorupska, REA (NMS)
Francesca Cullaney, REA (FC)
Samuel Adekanle, REA (SA)
Lindsay Barnett, REA (LB)
Matthew Adams, REA (MA)
Kat McManus, REA (KM)
Rollo Maschietto, REA (RM)
Priscilla Aroean, REA (PA)

14.00 – 14.11	1. Welcome & Introduction	MS/FG/NMS/FC/CT
14.11–14.41	2. Review of Spring Statement from HM Treasury	DC
14.41 – 15.04	3. Review of Capital Allowances and Full Expensing	MMB/NS
15.04 – 15.48	4. General Policy Updates: <ul style="list-style-type: none"> REMA update Recent Consultations (inc. Long Duration Storage and Repowering, CfDs AR 7) 	MS/FG/NMS/FC
15.48 – 15.50	5. Forum Business: <ul style="list-style-type: none"> Terms of Reference and future workstreams, new Steering Group members 	FG/MS
15.50 – 16:03	6. REA Messaging: <ul style="list-style-type: none"> Strategy Review Update REA Manifesto 	FG/MS/RM/FC/NMS

	<ul style="list-style-type: none"> • General Election preparation • REAccelerate: Investment Showcase • Upcoming Events (inc. British Renewable Energy Awards 2024) 	
16:03	7. Meeting close	MS/FG/NMS

Minutes:

1. Welcome and general catch up

Welcome by MS. Introductions from each attendee.

2. Review of Spring Statement from HM Treasury, presented by David Casey, Senior Policy Advisor, Renewables

DC introduces the Spring Statement, mentions it is a slightly lighter document for the renewable industry than the Autumn Statement last year but worth mentioning headlines:

- Parameters for Contracts for Difference Allocation Round 6 – largest ever budget for a single round, [£1.025 billion]. Made up of 800 million for offshore wind [Pot 3], 120 million for Pot 1 technologies [established technologies] such as onshore wind and solar, and 105 million for developing technologies in Pot 2 (10 million minimum allocation for tidal).
 - Allocation Round 6 application window opens 27th March 2024 with the auction and results running over the summer.
- An uplift of up to £120 million to the Green Industry's Growth Accelerator (GIGA) fund from the original 960 million announced in the Autumn Statement, taking the total to over a billion. This is to support supply chains.
 - Five industries where analysis identified a strategic advantage for the UK: Carbon and storage, hydrogen, offshore wind, networks and nuclear.
 - Split: 390 million for offshore wind and networks, 390 million for CCS and hydrogen and 300 million for nuclear.
 - Funding will flow from 2025/2026-2030: more information to come.
- Work to accelerate grid connections and planning processes.
 - Three documents on planning published at Spring Statement: Consultation on the new accelerated planning service for major commercial applications, Response to the Consultation on operational reforms to the Nationally Significant Infrastructure Project Regime and published an updated National Networks National Policy Statement.
- Gov. announced that DESNZ is going to consult on moving to full cost recovery for planning applications which should help to boost capacity in the system.
- Gov. is going to establish the National Energy System operator later this year in 2024.
- Restated Gov.'s commitment to implement new connections process from January 2025 so projects are offered a specific connection date.
- Restated Gov.'s commitment to publish guidance on community benefits for network infrastructure by June 2024.

3. Review of Capital Allowances and Full Expensing, presented by Michael Meakin-Blackwell, Director, MHA

MMB/ NS introduces the Capital Allowances system, and Full Expensing which was brought in in the Spring Budget 2023. MMB discusses these key points:

- Evolution of Capital Allowances:
 - 2008, AIA was introduced, fluctuated over time, and then rested at £1 million.
 - 2018 the Structures and Buildings allowance was introduced.
 - Spring Budget 2021, we had the temporary 130% Super Deduction (during Covid, aim of boosting investment).
 - Spring Budget 2023, headline rate of CT increased to 25% for profits over £250k and Full Expensing was announced for 3 years.
 - Autumn Budget 2023, Full Expensing made permanent.
- Full Expensing gives a first-year tax deduction of 100% (50% upfront deduction for long-life assets) of the cost of qualifying plant and machinery all in one go. Examples include warehousing equipment, tools, commercial vehicles, construction equipment, renewables, and energy efficiency technology.
- Aims of introducing Full Expensing included ensuring that the UK's Capital Allowances regime is world-leading, to encourage UK investment, to build on the benefits seen from the Super Deduction, simple for industry (not necessarily for everyone else).
- The key questions our team had, covering impacts so far and what more could be done:
 - Impacts are hard to measure as market condition change: war, interest rates, inflation, global supply chain changes.
 - EFO estimates boost in business investment of 3.5% anticipated 2024-2025, anticipated 0.5% increase in long-term investment.
 - Highlights importance of timing and planning projects as it is only a first-year allowance.
 - Companies should consider a full Capital Allowance review at the development stage to ensure modelling is accurate.
- Covers the Business Investment Forecast, graph showing impact of making Full Expensing permanent and changes due to Super Deduction.
- Gives an example of Capital Allowances examples which qualify (for a Solar PV project):
 - Solar PV panels, battery storage, converters, connection costs to grid, ICP costs, etc.
 - Some civil costs may not qualify, this is an example of where you may want to get advice.
 - Shows the impact of Full Expensing (FE) with and without: Year 1 Relief is just over 3 million without FE, with the Year 1 Relief is 12.75 million.
- This changes the Net Present Value (NPV) of Capital Allowances (Time Value of Money: Relief is gained far earlier in the project). Discussion with CT around NVP.
 - Capital Allowances NPV comparison with other countries: UK at the top with USA and Canada.
 - AIA at 1 million, the investment must be sizeable for this to take effect: only for the biggest firms.
- Highlights the more niche areas of the Spring Statement 2024 that have yet not been mentioned in the meeting:
 - R&D Tax Relief: Expert Advisory Panel to be formed to support admin of R&D tax reliefs. No mention as to when this will be formed.
 - Full Expensing to extend to assets used for leasing when fiscal conditions allow. More to come. Criticism: directs towards certain types of investments, not all expenditure is eligible.

MC, MMB and NS discuss expert panel.

MS and MMB discuss lead-time for projects.

MAS, MMB and NS discuss the one-year requirement.

MS highlights the importance of FE and Capital Allowances as it is economy-wide, low carbon and renewable industry don't always know of it or use it.

4. General Policy Updates: REMA, Recent Consultations (inc. Long Duration Energy Storage and Repowering, CfDs AR 7), by Mark Sommerfeld, Head of Power and Flexibility Policy at the REA.

a) REMA:

- Background on REMA discussed:
 - We have produced a report on this last year.
 - Second instalment was due to come out end of 2023, now expected in Spring 2024.
 - Part of the delay can be based on the shift around REMA: first introduced in April 2022 to deal with the energy crisis. Then-Prime Minister, Boris Johnson wanted a statement to show the Gov. was looking at how our electricity markets operate, recognising that the marginal price of energy and gas was high.
 - Secondly, had four different ministers heading up REMA.
 - Thirdly, prices are now more stable, not like pre-energy crisis/ pre-invasion of Ukraine. Therefore, the immediate
 - Immediate concerns around marginal pricing seem to have drifted away.
- Next steps with REMA:
 - Still expecting second stage of the consultation, DESNZ indicating Spring 2024.
 - Expecting a move-away from some of the more radical elements of REMA: Split Market, or Green Power Pool due to the delays that implementing these would cause.
 - The possibility of a deemed CfD is discussed (paid on potential: based on their capacity and how the market is linked). CT/MS discussion on whether this would favour dispatch. CH highlights two aspects: the technical availability of the plant, and secondly, the variable renewable energy inflow (from the source e.g. the sun). For solar, the inflow is very easy to find, unlike wind as there are too many variables. As an example: easy to deem inflow to PV, multiply this by the true availability of the plant.
 - MD highlights lack of certainty around the idea of the inefficiency point for operators.
 - Gov. might move away from nodal locational marginal pricing, but still exploring how this could develop, could be zonal. MS highlights the importance of the physical barriers to locational pricing, not market price barriers. CH explains the aim of flattening prices for everyone and having a levelling scheme, could be done outside of REMA.
 - CH discusses potential outcomes including potentially moving away from nodal locational margining pricing and focusing more on zonal (preferred by the EU).
 - MMB/MS/CH discuss timeframes/ 2-3 years minimum.
 - NMS highlights the pragmatism, importance of understanding what is investible for FF members.
- MS highlights box in green, Gov. work streams which are underway and may shape REMA. This includes:

- Capacity Market Reforms, CfD AR7, Fixed Price Certificates, Transitional Arrangements, Reforms to UK ETS, GGR, Power BECCS, Low Carbon Hydrogen, LDES support mechanism, Grid reforms.
- MS highlights how in all the REA consultation responses, we have highlighted the importance of working with the REMA team so that any policy changes do not disrupt other important workstreams.

MC/MS/CH discuss questions surrounding whether REMA will decouple gas from electricity.

b) CfDs – introduced by Frank Gordon:

- Reiterates what David Casey mentioned earlier regarding budget and the allocation within the Pots.
- Highlights how for the first-time offshore wind has been split off into its own Pot (3).
- Opening date is 27th March, but stresses that you need to be pre-registered on the National Grid's system before that date.
- Delivery years: Pot 1 2026/7, 2027/8, 2028/9, Pot 2 and 3 2027/8 and 2028/9.
- Maxima and Minima:
 - Mentions legacy projects and new projects will be bidding in for Pot 3 (Offshore wind)
 - Positive that there is a minimum of £10 million allocated for Tidal in Pot 2. Positive that this is set in financial terms and not gross capacity.
- MS highlights the administrative strike prices now include inflationary pressures.

MS highlights how many of our members are highlighting that certain assets will be coming to the end of their renewable obligation (RO), with the first coming to an end in 2027. Questions surrounding the future of current and existing capacity (CfDs AR7, Transitional Arrangements for Biomass, Fixed Price Certificates).

c) Long Duration Energy Storage – introduced by Mark Sommerfeld:

- REA submitted a detailed response to the consultation which closed last week.
- In general, supportive but have noticed criticisms e.g. not including thermal technology, questions surrounding how you set the cap and the floor, REA pushing for a soft cap (not a cliff edge- still get to keep some of the money above that point), questions around the length of hours (e.g. potential push beyond 6 hours).
- CH highlights the importance for this forum of striking the floor at the debt. REA has had mixed responses regarding this, some members want the addition of a minimum return to be built into the floor as well.

d) Other current consultations to be aware of, introduced by Mark Sommerfeld:

- Future Homes and Building Standards: requirements around Solar PVs on new builds, low carbon heat requirements.
- Scotland Heat in Buildings consultation: different definitions of heat.
- DESNZ Hydrogen to Power.
- Heat Network Zoning Consultation: powers to local authorities to mandate connections both in terms of demand and supply onto heat networks.
- Energy Security and Net Zero Commons Select Committee.
- GGR and Power BECCS Business Model Discussions.
- Call for Evidence on Future Biomethane Framework- following on from the Green Gas Support Scheme (REA supportive).

5. Forum Business: Terms of Reference and Future Workstreams, new Steering Group members, introduced by Frank Gordon.

- Transport side: REA have various planning movements from DfT and others to help charge point installation, awaiting updates on SAF mandates and the low carbon fuel strategy.
- Circular bioresources side: Regulatory work with the Environment Agency, engaging with the Office of Environmental Protection about how to fund the regulators to remove bottlenecks in their market.
- Can provide further information on these if anyone is interested.
- Terms of Reference: these have been revised, sent round, and signed off by Chris Tanner.
- New Steering Group Members: welcome.

6. REA Messaging: Strategy Review, REA Manifesto, General Election preparation, REAccelerate: Investment Showcase, Upcoming Events (inc. British Renewable Energy Awards 2024). First introduced by Frank Gordon:

- Strategy Review: signed off by REA Board and REA Policy Board. Reporting back on progress regarding the list of activities. Please ask for more information if needed.
- REA Manifesto: Use this to engage with parliamentarians and media to make the case for the sector: finance underpins the broader transition. Concentrates on route to market, removing regulatory bottlenecks, resourcing, planning, grid and skills which run across different technologies. Ask for more information if needed.

Rollo Maschietto introduces General Election Preparation:

- Public Affairs team are in manifesto and General Election preparation. Working assumption is that it could be as soon as May, or as late as January 2025.
- Team has a proactive programme- strategy work, allows us to engage in a meaningful manner with decision makers on both sides of the dispatch box.
- Also tracking sector wide manifesto asks to see how they align with REA's, to see what kind of coalitions we can build in the lead up to a General Election.
- Identifying and engaging with prospective parliamentary now, best time to engage with them is before a GE. External Affairs team are identifying who are the top candidates from a Tory, Labour, and Lib Dem perspective- who are most likely to win and who are the most likely candidates to be sympathetic to the REA's objectives in Parliament.
- Also setting out a programme for the Government's first 100 days whenever that will be.
- Focus on building the REA's reputation in Westminster- maintaining physical presence there, engaging with ministers, peers, and civil servants.
- If anyone wants to discuss more about the External Affairs team and what we do, please get in touch.

MC mentions a political briefing earlier in the week with Steve Richards, political journalist, and commentator. He has heard that working date for a GE is 14th November. RM discusses this as a possibility. MS highlights how this is still uncertain.

IB introduces himself, head of sustainability policy team at UK Finance. Discusses their work on advocating for decarbonisation of the economy across the board.

NMS discusses bridging knowledge with UK Finance, coordinated and important story to influence Gov. to go further and faster.

Francesca Cullaney introduces REAccelerate: Investment Showcase:

- First showcase will be held online via webinar, with the aim of in-person meetings to follow.
- Deadline of Friday 8th March is a soft deadline.
- More details to come including fixed date.
- MS highlights how the REA is not promoting investment within these projects, we are just showing interesting things that are happening within the market.

Mark Sommerfeld introduces upcoming events:

- British Renewable Energy Awards, 13th June 2024- applications are still open for nominations.
- NMS mentions Andrew Bowie, Minister for Nuclear and Renewables at DESNZ, is due to speak at the awards.
- Opportunity to sponsor Awards still.
- Renewable Transport Fuels Forum March 12, 2024, 11-12:30
- Two conferences coming up: RECHARGE UK- London April 18, 2024, 10:30-17:00 and Organics 2024 conference- Warwick March 21, 2024, 09:30-17:00. Two very interesting conferences to attend.

Nina Skorupska and Mark Sommerfeld ask if anyone has any questions regarding topics discussed. Thank members for attending.

7. Meeting Closed.