



PRE-BUDGET REPORT ENERGY BRIEFING

Notwithstanding the grim numbers and statistics surrounding our National Debt crisis and the short term need for cuts in public sector expenditure, it was encouraging to see in the Pre-Budget Report ("PBR") that the Government is still committed to developing a low carbon economy in the UK. Indeed the PBR contains a number of new initiatives and, more particularly, enhancements to certain previously announced measures in this arena.

The key pronouncements made in the PBR in relation to the 'green' economy are summarised below together with some commentary on the efficacy of the proposed measures.

The Low Carbon Economy

- ||| There will be additional support for offshore wind projects which are accredited between April 2010 and April 2014 by extending their entitlement to 2 ROCs per MWh of export for this period. This extension is particularly good news as previously the window of opportunity for such projects to qualify for double ROCs was regarded as being too short.
- ||| The Government is introducing the clean energy cash back feed-in tariff scheme for small scale electricity generation in April 2010 enabling in particular households to install renewable generation in their homes; one of the uncertainties which surrounded this Scheme centred on whether any income received by the householders for producing electricity under the Scheme would be taxed as income. The Government has confirmed that this income will be tax free and this should provide a further stimulus to the small-scale generation sector.
- ||| The Government also announced that it was establishing a new body to be called "Infrastructure UK" which it is intended will work with Government and the private sector to ensure that the energy market framework supports investment by the private sector particularly in relation to low carbon energy projects. One of the important roles of Infrastructure UK will be to oversee the Government's investment (alongside EIB) into the European Fund for Energy, Climate Change and Infrastructure. This is a key development as this Fund should enable equity to be provided for low carbon infrastructure schemes in the UK which will be essential to deliver the Low Carbon Economy espoused by the Government.
- ||| There will be a further £50m investment for the development of the offshore wind sector in the UK and £40m of support for the low carbon energy and advanced green manufacturing sectors in the UK. This is particularly important if the UK is to establish itself as a world leader in offshore wind technology against stiff competition from, in particular, Denmark and Germany, as well as providing support for the potentially crucial small-scale and community-sized low carbon generation projects.

Other important measures

- The Government has promised to double to four the carbon capture and storage demonstration projects which they will fund- their previous position was that there would be "up to four" such projects. The extra financial contribution will be funded by the licensed electricity suppliers under a mechanism set out in the recent Energy Bill.
- There will be a new scheme introduced to enable households to replace older domestic boilers with the latest energy-efficient boilers which will reduce household energy bills by c £230 a year. Up to 125,000 households will be helped in this way by payment of an incentive of £400 to effect replacement of their old boilers. This is particularly good news not just for households but also for the boiler manufacturing industry in the UK who have welcomed this initiative as it will have the potential to create new jobs in this sector.
- The Government has decided to increase the reduced rate of Climate Change Levy ("CCL") for sectors in the Climate Change Agreement (CCA) scheme from 20 to 35 % across all sectors which have entered into CCAs. This could result in a significant increase in energy costs for affected businesses although the Government claim that this will provide significant CO2 savings over the next 5 years and will contribute to the achievement of the EUETS cap.

Conclusions

- The proposals certainly demonstrate that the Government is keen to keep on track with its commitments to turn the UK into a Low Carbon Economy and the measures announced move this clearly-stated aim forwards. This is particularly heartening given the current state of the UK and indeed the global economy.
- However, as with so many proposals the devil will be in the detail. As Andrew Whitehead, Senior Partner and Head of Energy and Utilities said in the press "The tax free status of income received by householders under the new Feed In Tariff Scheme is most welcome but the bigger issue is the size of the cash back on offer. We now need to wait until the New Year to find out whether Government is minded to cave in to pressure from the industry to up the payments".



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