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Summer Budget 2015: Implications for Power and Utilities

While the headlines will be about the introduction of a Living Wage and other attention grabbing measures like the reduction in headline Corporation Tax rates to 18%, the Chancellor signalled a change in direction on environmental taxation with the first step being the immediate abolition of the exemption from the Climate Change Levy (CCL) for renewable energy generation.

Given the UK energy market relies on highly mobile international capital, investors will need greater certainty soon about the tax and funding frameworks for UK energy investments, or that capital may be diverted to opportunities elsewhere.

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Reduction in corporation tax rate

The Chancellor announced today that the headline corporation tax rate in the UK will reduce from 20% to 19% from 1 April 2017 and 18% from 1 April 2020.

Business tax roadmap

A Corporate tax road map was published in 2010 and was widely welcomed by UK business. It clearly set out the Coalition Government's plans for the current Parliament and gave a very clear message that competitiveness was a priority. The key changes planned for the corporate tax system were signposted, providing the certainty business wants, and there was also a commitment to consult widely and openly before new measures were introduced.

The Government today have announced that they will publish a Business tax roadmap by April 2016, setting out its plans for business taxes over the rest of the Parliament.

Environmental taxation

The Budget confirmed that the Government has abandoned the commitment made under the previous Coalition Government to increase the share of environmental taxes in the total tax take. Carbon taxes are now very unlikely to rise to the levels previously envisaged by the Department of Energy & Climate Change (DECC) in their projections, implying slower progress towards decarbonisation in the power sector and elsewhere. There will also be a review of energy efficiency taxes affecting business including the Carbon Reduction Commitment (CRC) and the CCL.

Removal of exemption from CCL for renewable generators

The Chancellor announced removal of the exemption for renewable generators from paying the CCL from 1 August 2015. In the costings published today the measure is expected to raise £900 million per annum in extra tax receipts by 2020-21 and just under £4 billion of net receipts over the six year forecast period.

Capital Allowances

Other than the increase in the Annual Investment Allowance, the Chancellor made no announcement on any changes to capital allowance qualifying expenditure or the rate of allowances.

There was however confirmation that the role of the Office of Tax Simplification shall be made permanent and therefore we will need to wait to see if the proposed reforms to the capital allowances system will re-emerge.

Levy Control Framework (LCF)

There was no mention of the Government's overall strategy on energy in the Chancellor's speech. However, included in the annex tables from the Office of Budget Responsibility (OBR) are the latest projections for the LCF.

They show a **significant overspend** being projected by 2020/21: £11.5 billion per annum in nominal terms by 2020-21, which equates to more than £9 billion per annum in 2012 prices, against the previously agreed LCF limit (in 2012 prices) of £7.6 billion per annum on a 'business-as-usual' scenario. There are three main reasons for this:

- Lower wholesale prices (which means higher support levels are needed to reach fixed 'strike prices');
- A surge in solar PV deployment and faster than expected deployment of onshore wind; and
- Upward revisions to the load factors used by DECC.

The Government will therefore now face some hard choices about which subsidy budgets to cut in order to bring the LCF budget back under control. The Government has already indicated its commitment to new nuclear power and promoting gas-fired generation (which presumably will have to be done through amending the Capacity Market rules.) They have said they will not support new subsidies for onshore wind, which could mean no new allocations in any future Contract for Difference (CfD) auctions for onshore wind. That leaves question marks over the future for offshore wind, solar, biomass, Carbon Capture and Storage (CCS)and marine technologies (including tidal), which will have to be considered as part of this review. The review of small scale Feed in Tariffs (FITs), which is already underway, will need to be taken into account.

No firm indications have been given yet by the Government about how long this review of the LCF Budget will take. The current Government line is that further announcements will be made 'in due course'.

Decisions about the timing of the next CfD auction are also in abeyance pending the outcome of this work, although it seems increasingly likely that we will see some delay from the previously published timetable of a second round starting this autumn. The CMA recommendations also increase the pressure on DECC not to award bilateral CfDs, outside of an auction process, without very strong reasons for doing so.

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