Autumn Budget 2017

Implications for Power & Utilities

22 November 2017

Budget confirms continuation of carbon price into 2020s at similar level to today; no new low carbon levies until after 2025; and new funding for Electric Vehicles (EVs) and EV charging.

Carbon Price

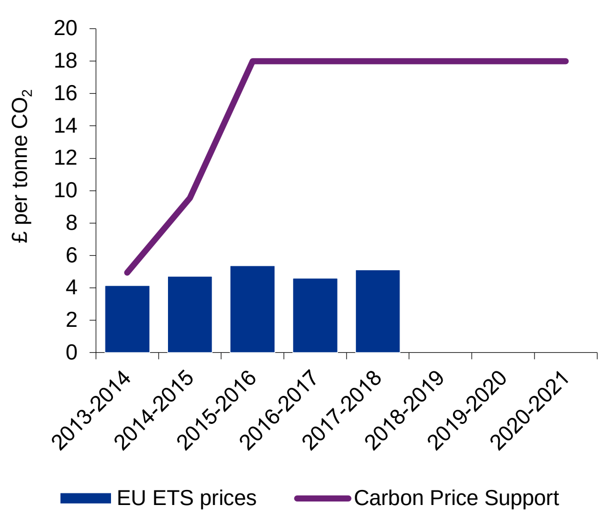
The Clean Growth Strategy, published in October, committed the Government to providing further details in the Budget on carbon prices in the 2020s.

In today's Budget, the Government said it was confident that the 'total carbon price' (i.e. the UK Carbon Price Support plus the price of carbon in the EU Emissions Trading Scheme) "is set at the right level". The Government also said that it would "continue to target a similar total carbon price until unabated coal is no longer used".

Previously, the Government has indicated that it wants to see the end of unabated coal by 2025. This implies a continuation of the Carbon Price Support at £18/t into the early 2020s and a total carbon price of around £25/t.

This will provide some guidance for investors as they consider their bids into the forthcoming T-4 Capacity Market auction for 2021-22. However, considerable uncertainty over long-term carbon prices remains for those bidding for 15-year new build contracts.

UK Carbon Price Support and EU ETS price



Source: HM Treasury

EU Emissions Trading Scheme

However, much still depends on progress in the Brexit negotiations on Britain's future involvement in the European Emissions Trading Scheme (EU ETS).

The Government has indicated that it wants to stay in the EU ETS to the end of the 'Third Phase' in 2021, which would be consistent with the 'implementation period' for the UK exiting the EU. However, it remains unclear at this stage whether the UK will be part of the 'Fourth Phase' covering the period 2021-30.

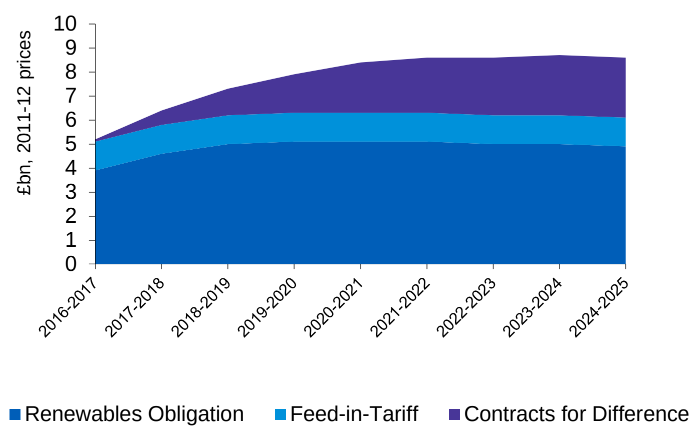
Levy Control Framework

The Budget re-confirmed the £557m of allocated funding for further Contract for Difference (CfD) auctions for renewables, with the next auction expected to take place in the Spring of 2019. The Budget also states that all existing commitments will be respected.

The Budget also introduced a new framework (called "Control for Low Carbon Levies") for controlling total spend on subsidies for low carbon technologies. This will replace the existing Levy Control Framework.

This new framework makes clear that no new levies will be issued until the total burden of existing levies is falling in real terms. This effectively means no new CfDs before 2025 beyond the 'up to' £557m already allocated.

Low Carbon Levies Forecast



Source: Control for Low Carbon Levies, HM Treasury

This does, though, leave open the option of new CfDs post-2025 (by which time the cost of subsidies under the Renewables Obligation and Feed-in-Tariffs should be falling in real terms), which could cover other new nuclear projects beyond Hinkley Point C, tidal lagoons (if the Government wants to proceed with Swansea Bay) and 'zero-subsidy' CfDs for wind and solar.

Industrial Strategy

The Government's long awaited Industrial Strategy White Paper is now expected to be published next week.

It will set out four 'Grand Challenges' where the Government believes the UK has an edge: artificial intelligence and the data economy, clean growth, healthy ageing and the future of mobility.

Two of these 'Grand Challenges' impact directly on the future of the Power & Utilities Sector. It confirms the positioning we have seen in the Clean Growth Strategy that the Government sees decarbonisation as an *economic* opportunity for the UK; and that electric and autonomous vehicles are seen as a big part of the solution to Britain's energy, environmental and transport needs.

Support for Electric Vehicle (EV) charging

Consistent with this direction of travel, the Government announced today £400m of funding to support the roll out of electric charging infrastructure.

The Government is also investing an extra £100m for plug-in car grants to help subsidise the cost of battery-electric vehicles; and £40m into research and development for EV charging.

The Chancellor also backed autonomous vehicles saying that "our future vehicles will be driverless…but electric first".

Fuel duty and vehicle taxation

Despite the commitment to clean growth, improving air quality and accelerating the take-up of EVs, the Government announced a further freeze in fuel duty on both petrol and diesel from April 2018. The freeze in fuel duty since 2011 has cost the Government nearly £50bn in revenues, compared to previous plans. Revenues from fuel duty will be hit further as EV take up increases.

However, the first-year rate for new diesel vehicles will be charged as if they were in the Vehicle Excise Duty (VED) band above. This may make no difference to VED charged for lower emission vehicles, but at higher emission levels this could cost around an extra £250.

In addition, the diesel supplement will increase from 3% to 4%. The diesel supplement is used to calculate company car tax and car fuel benefit charge.

Corporation Tax rate and chargeable gains

The Chancellor announced there was no intention to change the Corporation Tax rates and so the main rate is still expected to be 17% from 2020.

Indexation allowance given on corporate chargeable gains disposals is frozen from 1 January 2018. This measure is costed to increase tax revenues by £0.5bn by 2022-23.

Research & Development (R&D) tax credits

The Chancellor announced an increase in the R&D credit from 11% to 12% with effect from 1 January 2018.

It was also announced that an Advance Clearance Service will be introduced to provide comfort that expenditure will qualify for the credit.

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