Autumn Statement 2012

DeHavilland Autumn Statement Briefing: Energy and Environment

Summary

The Chancellor George Osborne announced the publication of the Gas Generation Strategy, alongside the Autumn Statement, "to ensure we make the best use of lower cost gas power, including new sources of gas under the land."

He said the Government was consulting on new tax incentives for shale gas. A single Office for Unconventional Gas will be created to ensure that regulation is "safe but simple." He wanted consumers and businesses in the UK to benefit in lower energy prices that have been experienced in the US as a result of shale gas extraction.

The Government will cancel the 3p fuel duty increase that was planned for 1 January 2013. In addition, the Government will defer the 2013-14 increase from 1 April 2013 to 1 September 2013.

An additional £120 million will be allocated over the current spending review period to building new flood defences.

On Commodity prices, The Government warned that "energy and fuel prices remain a source of potential risk over the coming years."

In detail

Energy

Gas Generation Strategy
The Government published a Gas Generation Strategy, setting its view of the expected role for gas in power generation up to 2030. As part of this, the Government will set up an Office for Unconventional Gas which will provide a single point of contact for investors and streamline the regulatory process. The Government will also consult on the tax regime for shale gas. (1.83) (2.124)

The Government expects up to 26GW of new gas capacity could be required by 2030 on current carbon budgets. If the fourth carbon budget (2023-2027) is revised upwards and emissions reductions are more gradual, then up to 37 GW of new plant could be required. Please see the DeHavilland summary for further detail. (1.82)

Energy Bill
The Energy Bill, published in November 2012, aims to bring forward up to £110 billion of investment in new infrastructure to meet the UK's future energy needs.

Support available for low carbon electricity investment through the Levy Control Framework up to 2020 will be capped at up to £7.6 billion per year (in 2012 prices) in 2020-21 – more than triple the £2.35 billion available in 2012-13. The Government claims that this will allow generators from both renewables and gas to invest with confidence and provide protection for consumers. (1.82)

North Sea oil and gas
As announced in July 2012, the Government will introduce a new £500 million field allowance for large shallow-water gas fields. (2.77)

Industry partnerships – Offshore wind, oil and gas and civil nuclear
The Government will work with individual sectors to develop approaches that best suit the needs of each industry. Over the next year the Government will set out the details of the approach for industries including oil and gas, offshore wind and the civil nuclear industry.

This will bring together all relevant parts of government in partnership with business to set a long-term vision for the sector, and to provide confidence for business investment. (2.159)

Energy Intensive Industries
The Government has announced an intention to exempt Energy Intensive Industries from the cost of Contracts for Difference under Electricity Market Reform, subject to state aids clearance and further consultation. (2.125)

Carbon Taxes

Carbon price floor
The Government intends to introduce an exemption for electricity generators in Northern Ireland from the carbon price floor, subject to discussion with the European Commission. (2.86)

Carbon Reduction Commitment (CRC): simplification
The Government will simplify the CRC energy efficiency scheme from 2013 and the Performance League Table will be abolished. The Department of Energy and Climate Change will publish details of these simplifications. The Government will review the effectiveness of the CRC in 2016. This review will consider whether the CRC remains the appropriate policy to meet industrial energy efficiency and carbon reduction objectives, and will consider alternative approaches that could achieve the same objectives. The tax element of the CRC introduced at Spending Review 2010 will be a high priority for removal when the public finances allow. (2.87)

Carbon Reduction Commitment: allowance price
The forecast allowance price remains unchanged at £12 per tonne of carbon dioxide in 2013-14 and £16 per tonne of carbon dioxide in 2014-15. From 2015-16 onwards, the allowance price will increase in line with the RPI. (2.88)

Downstream

Fuel Duty
The Government will cancel the 3.02 ppl fuel duty increase that was planned for 1 January 2013. In addition, the Government will defer the 2013-14 increase from 1 April 2013 to 1 September 2013. This will mean that fuel duty will have been frozen for nearly two and a half years. For the remainder of the Parliament, subsequent increases will take effect on 1 September each year, instead of 1 April. (1.146)

Global commodity prices
Having risen sharply in late 2010 and early 2011, oil prices have remained high in 2012 but have not risen further. Partly as a result, inflation in the UK has eased from a peak of 5.2 per cent in September 2011 to a latest rate of 2.7 per cent, easing pressure on households' real incomes. Real household disposable income is forecast to rise by 2.1 per cent in 2012. Energy and fuel prices remain a source of potential risk over the coming years. (1.21)

Environment

Flooding
The Government will do more to protect homes and businesses from flooding and unlock sites for development. The Government will allocate an additional £120 million over the current spending review period to building new flood defences. Half of this funding will be awarded to the strongest bids from growth-enabling schemes such as

those being developed in Sheffield, Ipswich, Leeds, Exeter and Derby. The remainder will be used to accelerate planned
schemes within the wider Environment Agency programme. (1.87)

Red Tape Challenge: water regulation
Following public consultation through the Red Tape Challenge, the Government will:

- Scrap or improve 63 per cent of the 168 water regulations in scope;
- Assess whether competition can be extended by allowing self-lay operators to undertake the connection between the development and the live water supply network;
- Explore simplifying flood consents and moving them onto one easy to use website; and
- Review the trade effluents permitting regime. (2.135)

MP Responses to the Statement

Energy

Green MP Caroline Lucas said there was “lots of bad news about the dash for gas” and the CBI and Deutsche Bank had both predicted that gas prices would rise. She asked the Chancellor why he would not “look at the evidence.” Responding, **Chancellor George Osborne** said the Government was increasing investment in renewable energy and it was fair that Britain had a mix of energy sources, including gas.

Conservative MP Mark Menzies welcomed the announcement of a shale gas regulator, but asked for environmental assurances. In reply, **Chancellor George Osborne** said any development of shale gas would be done in an environmentally safe way. Regulation should be simple but rigorous, he added.

Labour MP Dame Joan Ruddock said investment in renewable energy had fallen by a half since the Coalition came to power. She called for a 2030 decarbonisation target to be adopted. In reply, **Chancellor George Osborne** said the Government had introduced the Green Investment Bank and a Carbon Price Floor. On the target, he said a decision could be made after the next Carbon Budget.

Environment

Conservative MP Andrew Percy asked if rural areas would benefit from the £120m funding for flood defences. Responding, **Chancellor George Osborne** said the Government would ensure that funding for infrastructure growth would benefit all areas of the UK.

Twitter

Kerry McCarthy MP@KerryMP
“Consulting on new tax incentives for shale gas…” that’s the fracking bit. **#AutumnStatement**

Caroline Flint@CarolineFlintMP
Gas has role in future energy mix but Osborne dash 4 gas cld hit CO2 targets, undermine clean energy & leave households facing price shocks

Alan Whitehead MP@alanwhiteheadmp
Well it's crazy stuff in Gas strategy. Plan: ditch the 4th carbon budget go to 37gw new gas 4x CCC rec emission level in 2030. **#whatplanet**?

Jeremy Lefroy@JeremyLefroyMP
Jeremy Lefroy welcomes Government help to keep the poorest warm this winter http://bit.ly/Xqu8Ff

Stakeholder Reaction

Energy

Angela Knight CBE, Chief Executive of Energy UK, said: "Energy UK welcomes the clarity that the Gas Generation Strategy will bring. Government has now made it clear that it sees gas as having an important role today and in the future and alongside the investment in new nuclear and renewables, gas will form part of the diverse and balanced energy mix that the UK needs to keep the lights on. This greater certainty on energy policy should also be a real confidence booster for establishing supply chains for all types of electricity generation.

There was a mixed response from RenewableUK's Chief Executive **Maria McCaffery.**

Neil Clitheroe, ScottishPower's CEO of Retail and Generation, said: "We welcome the Government's recognition in the Gas Strategy that gas will play a crucial role in our generation mix for many years to come and that uncertainty for investors should be reduced. Importantly, the strategy reiterates the Government's proposal to introduce the Capacity Mechanism quickly, with first auctions planned for 2014. Getting started in 2014 is essential to incentivise investment in existing and new thermal plant to maintain security of supply.

"We have plans for potential new gas build, and the capacity mechanism will be a key enabler. We look forward to considering the details of the Gas Strategy alongside the Energy Bill - it is inevitably a complex system and we all need to work together with the Government on designing a workable approach and delivering it on time."

Francis Egan, CEO of Cuadrilla welcomed the announcement. "Exploration is necessary to have a better understanding about how shale gas can be developed safely and sensibly from the Bowland Basin," he said. "Costs in a technology industry such as ours will be higher at the outset, but will reduce over time as the industry grows."

EEF Head of Business Environment, Roger Salomone said: "This is a decisive move towards a more balanced energy policy and further switching from coal to gas can deliver substantial emission cuts. Whilst developing the nation's shale gas resources could enhance our energy security and help contain energy prices rises. However, the government needs to be mindful that some of its policies, like the carbon price floor, do not unintentionally destroy the economics of gas-fired generation. "

Corin Taylor, Senior Economic Adviser at the IoD and co-author of the "Britain's Shale Gas Potential" report published in September, said: "George Osborne is absolutely right to open the door for UK shale gas. The US shale revolution has led to some of the lowest energy prices in the world, an industrial renaissance and a fall in carbon emissions.

"Britain's economy and environment could benefit from a similar approach. Building new gas plants and developing the UK's shale resources in a responsible way will be needed until renewable energy sources can be made more reliable and affordable. Shale gas can be extracted safely with proper controls and could supply a tenth of Britain's gas needs for a century, cut imports and create 35,000 jobs. The quicker we get started, the better."

John Cridland, CBI Director-General, said: "The Government's gas strategy will improve confidence for investors in the UK's energy sector. It makes sense to consult on the tax regime for shale gas so we maximise the amount of energy we can produce at home at reasonable cost.

"But we cannot become dependent on any one source of energy - gas will have an important role to play as part of a secure, low-carbon power mix alongside renewables, nuclear and carbon capture and storage.

"Today's announcement on simplifying and reviewing the Carbon Reduction Commitment does not go far enough. We need a firm commitment now to scrap the scheme when public finances allow, and to replace it with a more coherent approach to business energy efficiency."

Renewable Energy Association Chairman Martin Wright commented: "The Chancellor must understand that gas is not cheap, nor does it offer stable pricing in the future. It has been by far the major driver of energy bill increases in recent years, and there is no evidence for the presumption that shale gas will have the same impact on prices here as it has in the USA. Moreover, increasing demand from other economies will undoubtedly drive prices and volatility.

Gary Smith, GMB National Secretary for Energy, stated: "It is madness to burn more gas to produce electricity when wholesale prices are on an upward trajectory. Gas prices could go up 30% in the next few years - probably five years or so. Burning gas for electricity will only force up prices further."

Friends of the Earth's Executive Director Andy Atkins said: "MPs must stop this reckless, headlong dash for gas and insist on an energy strategy that puts the long-term interests of the nation first - by investing in energy efficiency and the huge potential of the wind, waves and sun.

Nick Molho, head of energy policy at WWF-UK, stated: "The UK's overreliance on gas is, environmentally and economically, highly risky. Gas price rises have driven people's bills up in recent years so committing the UK to more gas seems to show a reckless disregard for both billpayers and the environmental impact of burning yet more fossil fuels.

Energy Intensive Industries

Commenting on the Energy Intensive package**, Gareth Stace, EEF Head of Climate & Environment** said: "EEF welcomed the announcement of the package last year to ensure a level playing field for electro-intensive industries in European and global markets and the confirmation of the exemption from the costs for contracts for difference today is welcome.

"However we are now seriously concerned that about the level of relief. The package must deliver on its core aim which is to ensure a level playing field for electro-intensive industries and not be limited due to constraints on the fund."

Carbon Reduction Commitment

Commenting on the Carbon Reduction Commitment, **EEF Head of Climate & Environment, Gareth Stace** said: "Simplifying the CRC Energy Efficiency Scheme including removing the Performance League table is a good move but ultimately this hugely inefficient and unpopular tax needs to go. We therefore welcome the Chancellor's decision to prioritise its removal as part of the next Spending Review.