

Whilst the Budget was naturally focused on addressing the coronavirus situation in the UK, with a £12 billion stimulus package to support economy through the COVID-19 outbreak, it also included a range of policies to reduce emissions, ensure our environment is protected and resilient to climate change, and generate green economic opportunities across the nations and regions of the UK. These announcements, in particular, hailed significant developments for low carbon heat. Associate Rob Broom and legal director Henry Davey from our Energy & Natural Resources Practice explore the key takeaways for the energy industry in this update.

1. Carbon Capture and Storage (CCS) and Green Gas Levy

- Carbon Capture and Storage Infrastructure Fund** – The government will establish CCS in at least two UK sites, one by the mid-2020s, a second by 2030. This will be supported by the creation of a new CCS Infrastructure Fund of at least £800 million, with budgets to be finalised at the Comprehensive Spending Review (CSR). Net Zero Teesside, a world-first clean energy project – creating and safeguarding up to 6,000 Teesside jobs – was announced last month (the project could be up and running by the mid-2020s) and the Budget announcement yesterday appeared to suggest Teesside will receive a share of the £800 million.
- Support for at least one CCS power station by 2030** – In addition, the Budget stipulates that, using consumer subsidies, the government will support the construction of the UK's first privately financed gas CCS power station by 2030.
- Green Gas Levy** – To encourage more environmentally friendly ways of heating homes and other buildings, the government will also introduce a Green Gas Levy to provide support for biomethane production to increase the proportion of green gas in the grid. This is expected to be implemented in autumn 2021. Government expects these costs to be passed onto gas bill payers. The expected impact is relatively small – around £1 a year on the average household energy bill, rising to around £5 by 2025¹.

2. Low Carbon Heat

- Heat Networks** – The Budget confirms £96 million for the final year of the Heat Networks Investment Project, which ends in March 2022 (previously announced funding). After this, the government will invest a further £270 million in a new Green Heat Networks Scheme, enabling new and existing heat networks to be low carbon and connect to waste heat that would otherwise be released into the atmosphere.
- The Renewable Heat Incentive (RHI)** – The government will extend the Domestic RHI in Great Britain until 31 March 2022. It will also introduce a new allocation of flexible tariff guarantees to the Non-Domestic RHI in Great Britain in March 2021, helping to provide investment certainty for the larger and more cost-effective renewable heat projects.
- Low Carbon Heat Support** – The government will consult on introducing a new grant Low Carbon Heat Support scheme from April 2022 to help households and small businesses invest in heat pumps and biomass boilers to replace fossil fuel heating, backed by £100 million of new Exchequer funding.

3. Carbon Price Support (CPS) and Climate Change Levy (CCL)

- CPS** – The government will freeze the rate of the CPS at £18t/CO₂e in 2021 – 2022. Alongside wider carbon pricing policies, the government stated that the freeze will continue to encourage decarbonisation of the power sector. Whilst the freezing of CPS is welcome, it leaves considerable uncertainty for those contracting beyond 2022 and postpones the broader question of the future of the CPS.
- Gas rates under the CCL increased for years 2022 – 2023 and 2023 – 2024** – The government is raising the rate on gas to £0.00568/kWh in 2022 – 2023 and to £0.00672/kWh in 2023 – 2024 whilst freezing the rates on electricity. To ensure the tax system treats fuels that are used off the gas grid more equitably, the government will freeze LPG at 2019 – 2020 levels until April 2024.

¹ ADE Member Briefing: 2020 Budget 11 March 2020

4. Electric Vehicles and Charging Infrastructure

- **Electric vehicle charging infrastructure investment and review** – The government will provide £500 million over the next five years for electric vehicle charging infrastructure, ensuring that drivers will never be further than 30 miles from a rapid charging station. This will include a Rapid Charging Fund to help businesses with the costs of connecting high-powered charge points to the electricity grid, where those costs would prevent private sector investment. The government's Office for Low Emission Vehicles said that it would complete a review intended to identify blackspots in the charging network.
- **Customer incentives for the purchase of ultra-low emission vehicles** – The government will provide £403 million to extend the plug-in car grant to 2022 – 2023 (the grant had been due to expire at the end of March 2020). However, the Department for Transport said that the grant for individual vehicle owners would be cut from £3,500 to £3,000. It also said that cars costing £50,000 or more would be ineligible for a grant². The government will also provide £129.5 million to extend the Plug-in Van Grant, Plug-in Taxi Grant and Plug-in Motorcycle Grant to 2022 – 2023. The government will also remove the entitlement to use red diesel from April 2022, except in agriculture, fish farming, rail and for non-commercial heating (including domestic heating). By removing this tax relief on pollution, the government will encourage businesses and industry to improve the energy efficiency of their vehicles and machinery or look for greener alternatives.

5. Net Zero and innovation broadly

- **Net zero policy development** – The government is allocating an additional £10 million in 2020 – 2021 to support the design and delivery of net zero policies and programmes.
- **Energy Innovation Programme** – The government will at least double the size of the Energy Innovation Programme, with exact budgets to be decided at the CSR – initial budgetary commentary suggests this will come to around £1 million.

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² Gov.uk website, "Update on plug-in vehicle grants following today's budget" 11 March 2020, available at: <https://www.gov.uk/government/news/plug-in-vehicle-grants-update-following-todays-budget>, accessed 12 March 2020.