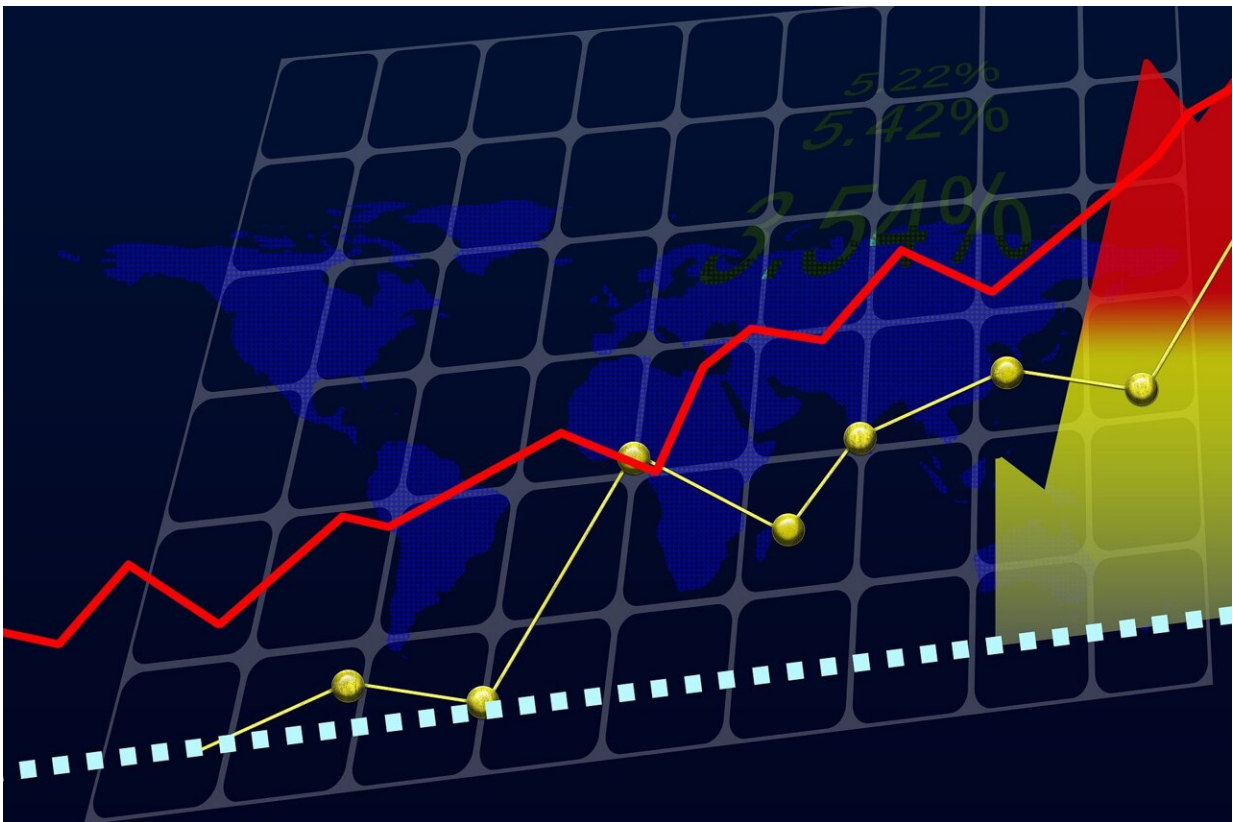


# Levies on renewable energy profits could serve as a barrier to achieving net zero targets in the UK

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Placing levies on the profits made in the renewable energy industry could hinder the UK's ability to meet its 2050 net zero carbon reduction

targets, an expert has said.

Despite the extensive development of low carbon technologies on a global scale, gas remains the dominant force in the industry when it comes to pricing. The price of electricity is linked to the price of gas, so when the price of gas increases, so does the price of electricity. This means that certain renewable [energy](#) generators will have recently benefited from a significant increase in profits during the cost-of-living crisis, even though the cost of producing low carbon energy will not have significantly increased.

This anomaly has prompted reaction from the UK [government](#) in the form of introducing the "cost-plus revenue limit," which is a revenue cap on specified low carbon generators in the Energy Prices Act 2022, which has then subsequently been replaced with a 45% levy.

Dr. Catherine Caine from the University of Exeter Law School has analyzed the impact of the recent Energy Prices Act and levy on specified low carbon electricity generators. The study is published in the *Environmental Law Review*.

One of the most controversial features of the Energy Prices Act was the introduction of the cost-plus-revenue limit on specified low carbon generators. This was intended to provide the secretary of state with the necessary power to set a cap on the revenue raised by specified low carbon generators who were not already subject to a [contract](#) for difference. However, shortly after the Act was introduced, the government announced an alternative plan to apply a 45% levy to specified low carbon generators instead. This proposal has proven unpopular with industry leaders.

Through the 45% levy, the government intends to cap the revenues made by low carbon energy generators and encourage energy generators which

are not currently subject to a contract for difference—a long-term agreement designed to provide the low carbon energy [generator](#) with price certainty over the lifetime of the contract—to enter into one.

This levy applies to those who generate "extraordinary profits" from electricity generated from nuclear, renewable and biomass sources and is argued by the government to be a more proportionate measure that will leave generators with a greater proportion of their returns to invest in growing the UK's renewable energy capacity.

In addition to the 45% levy, low carbon energy generators will also be offered the opportunity to enter into a voluntary contract for difference if they are not already bound by one.

Dr. Caine said, "This new voluntary contract for difference offering will allow renewable energy generators who were not able to obtain a contract for difference initially to sign up to one from 2023. However, the success of the scheme will largely depend upon the strike price that the government is willing to offer on the new voluntary contracts.

"There is now a real fear that the introduction of the 45% levy could undermine investor confidence and could potentially lower the number of low carbon generators who choose to develop in the UK, thus potentially hindering the UK's ability to meet its 2050 emission targets. Whilst the Government has been very keen to stress that the levy is temporary and proportionate it will inevitably cause a change in existing contracts for low carbon generators who are not currently subject to a contract for difference.

"It seems, for now at least, that [fossil fuels](#) remain to be the driving force when it comes to energy prices, and that whilst the recently introduced measures aimed at tackling the prices of electricity generated from low [carbon](#) sources will provide some comfort to consumers, more work is

needed in the long term to reform electricity markets to sever the price link."

**More information:** Catherine Ann Caine, The Energy Prices Act 2022: A barrier to net zero?, *Environmental Law Review* (2023). [DOI: 10.1177/14614529221146633](https://doi.org/10.1177/14614529221146633)

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