Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
1 Horseguards Road
London, SW1H 0ET
Delivered by email

2 February 2023

Dear Chancellor,

We are writing to you as the trade bodies representing the energy sector, **with over 750 members from a range of clean generation technologies** including offshore and onshore wind, nuclear, hydrogen, biomass and solar, as well as associated supply chains.

Our members are committed to delivering the clean energy transition by investing billions of pounds into the UK economy and building the energy infrastructure of the future. Low carbon generators are bringing the Levelling Up agenda to life and supporting tens of thousands of skilled jobs in the communities that need them the most. **The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors.** The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources. It also supports 700,000 jobs in every corner of the country.

Despite our industry's commitment to the low carbon energy transition, we are concerned that there is no clear government plan to deliver green economic growth and continue attracting clean energy investment into the UK. At present, inflation, unfavourable exchange rates, and rising costs of raw materials and labour are pushing up prices across all sectors of the economy. Clean energy is no exception. According to the International Energy Agency (IEA), the levelised cost of energy has increased by 20% globally in the past year and is still rising. Many developers and supply chain companies were seeing very small margins before, which will now disappear completely without a **more sustainable approach to pricing clean energy solutions, and a reformed capital allowances regime**. This is a significant threat to the opportunities the UK can derive from the clean energy transition, and puts at risk our ability to meet our bold Net Zero target.

In addition, the UK can no longer take its competitive advantage as a mature market for granted. The passage of the Inflation Reduction Act (IRA) in the US, the REPowerEU package and further interventions on state aid rules expected in the EU offer an attractive proposition for clean energy investors. **The IRA alone offers $216bn worth of tax credits to companies investing in clean energy and transport.** By contrast, the UK has created an Energy Profits Levy with 91% investment relief for oil and gas, but an Electricity Generators Levy with 0% relief for clean power generators. If the UK is to stay ahead in the global race for clean energy, it needs to adopt bold measures to retain and boost private investment in the energy transition.

Government can start addressing these concerns through the Spring Budget, by including **an investment allowance in the Electricity Generators Levy to level the playing field with fossil fuels**, and **a wider reform of our capital allowances regime**. Offering a more competitive capital allowance regime than is currently available for clean energy infrastructure is the only way to preserve our international competitiveness. These changes will ensure that the investment case for low carbon energy projects in the UK remains strong enough to meet our ambitious Net Zero and energy security targets.

Whilst more generous capital allowances will need to form part of a more comprehensive package to grow the UK economy and enable it to compete with other markets, **Government should not underestimate the importance of delivering a clear signal to investors in the short term**. With many clean energy projects already delaying Final Investment Decision (FID) and supply chain companies squeezed by the energy crisis and inflationary pressures, a tangible step like enhanced capital allowances announced in the Spring Budget will do more to persuade investors than the promises of a future plan for economic growth.

The Skidmore Review identified the huge economic opportunity represented by the transition to clean energy. However, with global competition to attract investment in clean energy increasing, it is the US which has set the bar with the IRA and the EU is following suit with similar reforms. It is therefore imperative that the Spring Budget is used to secure the UK's position as a leader in this race by introducing an ambitious package of capital allowances. Any delay or shortfall in ambition will mean that our climate targets, and the economic opportunities they offer, will be increasingly hard to realise.

Time is against us and we cannot afford to get this wrong.

Kind regards,

Daniel McGrail, CEO, RenewableUK

Emma Pinchbeck, CEO, EnergyUK

Tom Greatrex, CEO, Nuclear Industry Association

Claire Mack, CEO, Scottish Renewables

Claire Mack

Chris Hewett, CEO, Solar Energy UK