Department for
Energy Security
& Net Zero

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Philip Dunne MP
Chair
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House of Commons
London
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Our ref:
Your ref:

11 April 2023

Dear Philip,

I am writing to you following my appearance before your Committee on 15 March, concerning the work of the department. I committed to providing you with further details on a number of matters.

Announcement at the Budget: Capital Allowances

You asked whether investment in renewables is expensable beyond the year in which it is incurred, such that you can carry forward capital expenditure to offset against future profits:

In the Spring Budget 2023, the Chancellor announced:

- Full expensing – which offers 100% first-year relief to companies for qualifying expenditure on main rate plant and machinery assets from 1 April 2023 until 31 March 2026
- A 50% first-year allowance (FYA) for qualifying expenditure by companies on special rate (including long-life) plant and machinery assets from 1 April 2023 until 31 March 2026

Full expensing is available to companies investing in qualifying main rate plant and machinery, with 100% of the relief delivered in the year of investment. For investment in special rate plant and machinery, a 50% allowance is available in the first year, after which relief reverts to the default writing down allowances of 6% per annum on a reducing balance basis.

Tax relief for the investment is offset as a deduction against the company's taxable profits. In addition to reducing profits, a claim could also create or increase a taxable loss which can be carried forward to set off against future profits in the normal way.

Alternatively, a company could opt not to claim full expensing or the 50% first-year allowance and instead claim writing down allowances over time in the normal way.

Whether companies can claim full expensing or the 50% FYA will depend on the types of technology they are investing in. Full expensing is only available for main rate plant and machinery. Generally, the 50% FYA is available for longer-life assets, that are classified as special rate.

We expect the significant majority of renewable investment in plant and machinery will be eligible for either full expensing or the 50% first year allowance.

Nuclear Waste Management

Barry Gardiner MP asked about the capital spend will be allocated to nuclear waste management. The decommissioning of all new nuclear reactors will be the responsibility of operators. The Energy Act 2008 ('the Act') legally requires all new nuclear operators to have a Secretary of State-approved Funded Decommissioning Programme (FDP) in place before nuclear-related construction can begin on site. The purpose of this is to ensure Operators meet their full costs of decommissioning and waste management. This includes a robust review process whereby technical experts, such as the Nuclear Decommissioning Authority (NDA), will review the costs and steps for decommissioning against the requirements set out in the Act and the supplementary 2011 FDP Guidance to help inform a Secretary of State decision. Every FDP will be assessed independently and, once an FDP is approved, the costs of decommissioning will be reassessed at regular intervals throughout the project's lifecycle to ensure that they reflect best practise, technological developments and lessons learned from other projects around the world.

The NDA is responsible for dealing with the UK's nuclear legacy, with the latest estimate for the total cost being £149bn undiscounted (£237bn in present value terms) and will take over 120 years. In terms of current capital investment funded by the Department's overall capital allocation we anticipate that the NDA will spend £2,164m of CDEL in 22/23, £2,229m in 23/24 and £2,433m in 24/25. NDA CDEL expenditure in 19/20 was £1,798m. The NDA mission is highly complex and the challenges it is dealing with relating to the production of material for the UK's nuclear deterrent and the decommissioning of reactors built in the 1960s and 70s should not be regarded as comparable to the decommissioning of modern reactors built with decommissioning in mind.

Biomass Strategy

Mr Gardiner also asked about the Biomass Strategy, which is due to be published in June 2023. He suggested loopholes in the sustainability criteria will be recognised and closed off. Under the UK's existing biomass sustainability criteria, a minimum of 70% (by volume or weight) of forest-derived biomass must be from a legal and sustainable source with the balance from a legal source. The sustainable forest management criteria for woody biomass are based on the UK Timber Procurement Policy (UK-TPP), which was developed for central government and public bodies for use when purchasing timber and wood products, including woody biomass. Sustainability criteria

also have protections in place for primary forests, specifically sourcing is not allowed from primary forests.

As part of the Biomass Strategy, officials are reviewing the UK's existing biomass sustainability criteria. The strategy will set out a series of recommendations for enhancing the criteria to ensure these are in line with up-to-date scientific evidence and remain globally leading. This includes a recommendation to develop a common framework for biomass sustainability which would cover all biomass uses and could be applied in future subsidy schemes as well as in areas outside of subsidy schemes. We are engaging with stakeholders, including from the agriculture and forestry sector, trade associations, NGOs, and subject matter experts from academia to understand the opportunities and barriers to increasing the 70% threshold and those associated with the introduction of a common, cross-sectoral biomass sustainability framework. Alongside the recommendations, the strategy will also set out next steps to implement these recommendations on enhancing the criteria, and detail potential routes for implementation.

Siting of Solar on Agricultural Land

You asked a question on whether there is, or is not, a prohibition on installing solar farms on grade 3A land. I undertook to clarify the planning processes for solar sited on agricultural land. Planning applications for solar projects up to 50 megawatts capacity in England are determined by local planning authorities in accordance with National Planning Policy Framework and associated Planning Policy Guidance on Renewable and Low Carbon Energy. Solar projects above 50MW capacity are decided by me, as the Secretary of State for Energy Security and Net Zero, through the Nationally Significant Infrastructure Project (NSIP) regime supported by the energy National Policy Statements (NPSs).

Planning policy and associated guidance encourages the deployment of large-scale projects on previously developed, or lower value land. Where a solar project proposal involves greenfield land, lower quality land should be used in preference to higher quality land. If it is proposed to use any land falling under Natural England's 'best and most versatile agricultural land' classification this will need to be justified and projects should be designed to avoid, mitigate and where necessary, compensate for impacts. The weight given to these issues will depend on the individual project application. Factors, such as whether the project proposal allows for continued agricultural use where applicable and/or encourages biodiversity improvements around the proposed solar arrays may be taken into account by decision makers.

As defined in the National Planning Policy Framework, 'best and most versatile' (BMV) agricultural land constitutes land in grades 1, 2 and 3a of the Agricultural Land Classification. Planning decisions should continue to be made based on the current definition.

Since my appearance before the committee, the government has published the Energy Security Plan[1], which promotes increased deployment of ground mounted

[1] https://www.gov.uk/government/publications/powering-up-britain

and rooftop solar with a view to achieving 70 gigawatts of capacity by 2035. The strategy is clear that government is seeking large scale ground-mount solar deployment across the UK, looking for development mainly on brownfield, industrial and low and medium grade agricultural land and that energy security and net zero can be achieved together with food security.

Clive Lewis asked about the community acceptance of ground mount solar projects, I agree that it is important that communities can participate in and benefit from the deployment of new low carbon energy technologies in their local areas. There are established routes in the planning system at both local and national levels to consider the impacts of solar projects and to enable communities to raise concerns about developments in their area. The level and quality of community engagement undertaken by developers, amongst other factors, will be taken into account by decision-makers. The government does not have a formal role with regards to community benefits for solar – these are best agreed at a local level between the renewable operator and the local community, and cannot be taken into account and are not relevant ("material") to planning decisions. We are, however, aware that solar and other renewable developers currently offer a range of community benefit schemes on a voluntary basis, including providing funding for environmental enhancements, job schemes, energy discounts, and investment in local infrastructure such as faster broadband, EV charging points or energy efficiency measures.

I would like to take the opportunity to clarify the figures that I quoted in my response about the growth in rooftop installations in recent years. I stated that the number of new installations last year was more than in 2019, 2020, and 2021 put together. There were around 138,000 new installations in 2022 which is greater than the number of new installations in 2020 and 2021 put together.

Energy Efficiency

Caroline Lucas asked about to domestic energy efficiency and the Conservative Manifesto commitments. The manifesto committed to the following:

- Delivering the Public Sector Decarbonisation Scheme worth £2.9 billion over 5 years,
- Delivering Home Upgrade Grant scheme worth £2.5 billion over 5 years; and
- Launching the Social Housing Decarbonisation Fund worth £3.8 billion over a 10-year period.

The manifesto spend profile figures were published up until Financial Year 23/24 only, but please note commitments extend beyond the end of this parliament.

In this parliament, the government is investing £6.6 billion on clean heat and improving energy efficiency in buildings, reducing our reliance on fossil fuel heating. This has included £2.5 billion for public sector buildings, £1.1 billion for the Home Upgrade Grant and £1 billion for the Social Housing Decarbonisation Fund. In addition, the £6.6 billion includes the following schemes:

- £787 million in grants which will be delivered through the Local Authorities Delivery Scheme until 2023

- The £320 million Green Homes Grant Scheme in 2021-22
- £450 million committed across 2022-2025 for the Boiler Upgrade Scheme
- £288 million has been allocated to the Green Heat Network fund
- £250 million has been and Heat Networks Investment Project

In addition to the £6.6 billion committed over this Parliament, funding is also provided via an obligation on Energy Suppliers. To accelerate our efforts to improve homes to meet fuel poverty targets, the government committed to a four-year, £4 billion extension and expansion of ECO with ECO4. ECO4 will provide support to low income and vulnerable households, with around 800,000 measures to be installed in around 450,000 homes.

The government also intends to launch the Great British Insulation scheme to deliver £1 billion additional investment by March 2026. Based on proposals announced last year as ECO+, this will cover energy efficiency upgrades, such as loft and cavity wall insulation. It will extend help to a wider group of households in the least efficient homes in the lower Council tax bands as well as boosting help for those on the lowest incomes. We plan to lay legislation by the summer to take it forward.

A further £6 billion of new government funding for energy efficiency and buildings decarbonisation will be made available from 2025 to 2028. Further details on allocation of this additional funding from 2025-2028 will follow in due course.

In response to when we can expect the publication of the Energy Efficiency Taskforce workplan (EETF), the EETF action plan will be published later this year as detailed in 'Powering up Britain, the Net Zero Growth Plan'.

With regards to requirements on homes to fit solar panels, some homes may not be suitable for solar panels. For instance, due to shading, building orientation, roof shape/size, or visual amenity. In December 2021, the government introduced an uplift in energy efficiency standards, which came into force in June 2022. The uplift delivers a meaningful reduction in carbon emissions, with new homes now expected to produce around 30% less CO2 emissions compared to those built to the previous standards.

Our approach to achieving higher standards remains technology-neutral, to provide developers with the flexibility to choose the most appropriate and cost-effective solutions for their site. We expect, however, that in order to comply with the uplift, most developers will choose to install solar panels on new homes or use other low-carbon technology such as a heat pump.

As well as improving the energy efficiency of new buildings in the short term, the uplift will act as a stepping-stone to the Future Homes Standard, which will be implemented in 2025. We expect heat pumps will become the primary heating technology for new homes under the Future Homes Standard. There will also be a role, where appropriate, for other low-carbon technologies and renewable electricity generation, such as solar panels.

Caroline Lucas MP asked questions on the technical specification for the future homes standard, and the decision to scrap the previous zero-carbon homes standard. While the Zero Carbon Homes policy proposed changes to the energy performance standards of new homes, it also included a carbon off-setting scheme – 'allowable

solutions' – to enable homes to become zero carbon. Consumers may not have benefitted from the zero carbon homes policy therefore, as it would not necessarily have increased the energy efficiency of their homes or reduced energy bills.

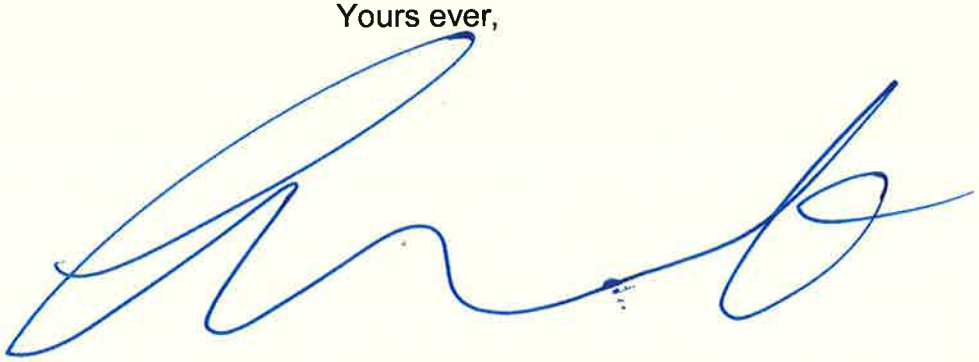
The Future Homes Standard is a major improvement on this policy because it will deliver homes that are genuinely zero carbon ready. The Future Homes Standard will deliver carbon reductions through the fabric and building services in a home rather than relying on wider carbon offsetting. This footprint will continue to reduce over time as the electricity grid decarbonises.

Buildings constructed under the Future Homes Standard will not immediately be zero carbon because the electricity grid will not yet be fully decarbonised. However, we describe them as being 'zero carbon ready' because they will be future-proofed with low carbon heating (most likely a heat pump) and high levels of energy efficiency. This means that the CO_2 emissions from these buildings will automatically decrease over time as the electricity grid becomes fully decarbonised. At this point they would become zero carbon buildings without the need for any retrofit work.

The government has also listened to calls for a swifter and more certain pathway to 2025 and our work on a full technical specification for the Future Homes Standard has been accelerated. We therefore intend to consult on this in 2023 and introduce the necessary legislation in 2024, ahead of full implementation of the Future Homes Standard in 2025. In the meantime, to provide greater certainty for all stakeholders, we have already published a draft notional building specification for the Future Homes Standard. The specification was published in January 2021. It is not final but it provides a basis on which we can begin to engage with all parts of industry on the indicative technical detail of the Future Homes Standard.

I hope you will find this reply helpful.

Yours ever,



RT HON GRANT SHAPPS MP
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