

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
1 Horse Guards Road
Westminster
London
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Delivered by email

25 May 2022

RE: Urgent response; detrimental implications of a windfall tax on electricity generators

Dear Chancellor,

We are writing to you as the leading trade associations representing the UK's energy generators, to express our concerns at recent reports that electricity generation producers are being considered for inclusion in a potential windfall tax. A windfall tax would have a detrimental impact on investors in clean energy and it is a mechanism which fails to recognise the complexity of the generation market.

At a time when the UK needs to increase at an unprecedented rate the amount of clean, home-grown electricity it generates to boost our energy security, we are concerned that a windfall tax could damage the country's attractiveness to international investors, and increase cost of capital of these projects. Generation is a long-term industry, with investment horizons which span decades. The stable policy and regulatory framework in the UK has encouraged private investment and delivered a world-leading clean energy sector.

In wind energy alone, the UK must unlock up to £175 billion of private investment by 2030 to meet the policy goals set out in last month's Energy Security Strategy. The nuclear industry must also mobilise tens of billions in private investment to have eight reactors built or under construction by 2030. Renewables and nuclear are our largest source of secure, domestic power and it is crucial that we preserve and promote a predictable and attractive investment environment.

Given the variety of generation types and commercial arrangements which exist in the UK, there is not a uniform picture across generators in terms of how high gas prices have impacted financial positions. Recent renewable CfD projects have driven down costs through investment and innovation, and in these times of high prices have paid back over £240 million to energy suppliers since October - with a similar amount expected to be paid back this summer. While the majority of renewable electricity projects in the UK were built under the Renewables Obligation scheme, and these projects generally hedge their power price months or even years in advance, so have received very little or no additional income from recent increases in wholesale prices. Similarly, the vast majority of the UK nuclear fleet's output has already been sold ahead to the market, preventing the operator from benefitting from short-term market volatility, while also providing a vital and cost-efficient source of grid stability.

Finally, I would like to take this opportunity to briefly set out some of the benefits to consumers of renewable and nuclear electricity generation during the current cost of living crisis. Every kilowatt of clean power which is used means burning less gas – good for the environment and good for consumers' pockets. In 2021, renewables and nuclear generated 168TWh of electricity, displacing

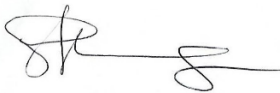
the equivalent of over £23 billion worth of gas generation at current prices, or over £800per household.

We would be happy to discuss this further and explore how our industries can further support the Government's aim to boost our energy security and cut bills through a rapid transition to low-cost, clean electricity, and urge you to think of the investor signals and longer term impacts a windfall tax could have

Yours sincerely,



Dan McGrail
CEO, RenewableUK



Siobhan Kenny
Interim CEO, EnergyUK



Claire Mack
CEO, Scottish Renewables



Tom Greatrex
CEO, Nuclear Industries Association

CC:

- Rt Hon Kwasi Kwarteng MP, Secretary of State for BEIS
- Rt Hon Greg Hands MP, Minister for Energy, Clean Growth and Climate Change
- Rt Hon Simon Clarke MP, Chief Secretary to the Treasury