



BRIEFING PAPER

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Control for low carbon levies

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Summary

Government policy has been to finance a number of its energy and climate change policies through levies on energy companies, rather than funding the schemes directly through general taxation. Energy companies then in effect recover the cost of these levy-funded schemes from consumers through bills. In the 2017 Autumn Budget, HM Treasury introduced a new Control for Low Carbon Levies to replace the Levy Control Framework (LCF) which had previously capped the cost of these levy-funded schemes.

Levy Control Framework (LCF)

The Levy Control Framework (LCF) was introduced in 2011 to cap the cost of low-carbon levy-funded schemes. It set absolute (not cumulative) annual limits on the overall costs of all low carbon electricity levy-funded policies until 2020/21, rising to £7.6 billion in 2020/21 (2011/12 prices).

In November 2015, the Office for Budgetary Responsibility (OBR) forecast spending under the LCF would exceed the £7.6 billion cap by 2020/21, and in the 2017 Spring Budget HM Treasury announced that the LCF would be replaced by a new set of controls.

Control for Low Carbon Levies

In the Autumn 2017 Budget the Chancellor announced a moratorium on new low carbon subsidies through a new Control for Low Carbon Levies. The Control applies only to new levies, and specifically excludes existing money committed under the Contracts for Difference (CfD) auctions, Renewables Obligation, Feed-in Tariffs and £557 million allocated for future CfD auctions.

The Treasury says the Control will apply until the total of costs from low carbon levies is falling, which it has calculated will not happen until 2025. Before which it expects spending on low carbon levies (in 2011/12 prices) to reach £8.6 billion up from £5.2 billion in 2016/17. The Control does not affect projects that are not due to become fully operational until after 2025.

Views on the Control

There were mixed views over the introduction of the new Control on low carbon levies.

The renewable industry expressed their concern that the level of support the control imposed could hinder the progress towards cutting the costs of low-carbon technologies, and could mean new technologies (such as marine and tidal energy) are not able to become cost-competitive.

Others praised the clarity the policy provided for investors and noted that the existing commitments should still be able to support significantly more low carbon energy than previously envisaged owing to the falling costs of technologies, such as offshore wind.

Subsidy free renewables

The Control does not rule out new subsidies which would have a net reduction effect on bills. This has led some to speculate further about a subsidy-free future for renewable energy, but this is only a possibility for certain mature technologies. A report commissioned by Scottish Renewables indicated an onshore wind farm could deliver 1 GW of capacity in an auction that could result in a net return to the taxpayer of £18 million over the lifetime of the project.

1. Controlling the costs of low-carbon policies

Government policy has been to finance a number of energy and climate change policies (see box 1) through levies on energy companies, rather than funding the schemes directly through general taxation. Energy companies then in effect recover the cost of these levy-funded schemes from consumers through bills.

Box 1: Low carbon electricity levy-funded schemes

Renewables Obligation (RO): Established in 2002, the Renewables Obligation requires energy suppliers to present Renewables Obligation Certificates (ROCs) to Ofgem for each megawatt hour (MWh) of electricity they supply to customers, or make up any shortfall through buy-out payments. Renewable electricity generators receive ROCs in proportion to the electricity they generate from accredited plant. The additional income they gain from selling ROCs offsets the costs of establishing and operating a renewable plant, encouraging investment in renewable generation. The scheme closed to new participants on 31 March 2017.¹

Feed-in Tariffs (FiTs): Established in 2010, the scheme is designed to promote the uptake of renewable and low-carbon electricity generation technologies. It requires electricity suppliers to pay people with small-scale renewable generation equipment, such as solar panels or small-scale wind turbines, for the electricity they generate. These generators are paid a fixed price per MWh for all the electricity they generate, and an additional premium for any electricity they do not use themselves and export to the Grid.²

Warm Homes Discount: Established in 2011, this scheme requires participating domestic energy suppliers to provide support to those who are in or at risk of fuel poverty in Great Britain through rebates or discounts on their electricity bills. Suppliers must provide discounts to a 'core group' of electricity account holders, those in receipt of specified pension benefits.³

Contracts for Difference (CfD): Introduced through the *Energy Act 2013* to replace the Renewables Obligation, CfDs operate through a system of reverse auctions intended to give investors in renewable energy generation the confidence and certainty they need to invest in low carbon electricity generation. A generator party to a CfD is paid the difference between the 'strike price' – a price for electricity reflecting the cost of investing in a particular low carbon technology – and the 'reference price' – a measure of the average market price for electricity in the GB market. The costs of the CfD scheme are funded by a statutory levy on all UK-based licensed electricity suppliers (known as the 'Supplier Obligation').⁴

The Levy Control Framework (LCF) was established by the Department of Energy and Climate Change (DECC) and HM Treasury in 2011 to cap the cost of levy-funded schemes and ensure that DECC "achieves its fuel poverty, energy and climate change goals in a way that is consistent with economic recovery and minimising the impact on consumer bills."⁵ The policy was transferred to the Department for

¹ Ofgem, [About the RO](#), [accessed: 20 December 2017]

² Ofgem, [About the FiT scheme](#), [accessed: 20 December 2017]

³ Ofgem, [FAQs for the Warm Home Discount scheme](#), 21 February 2017

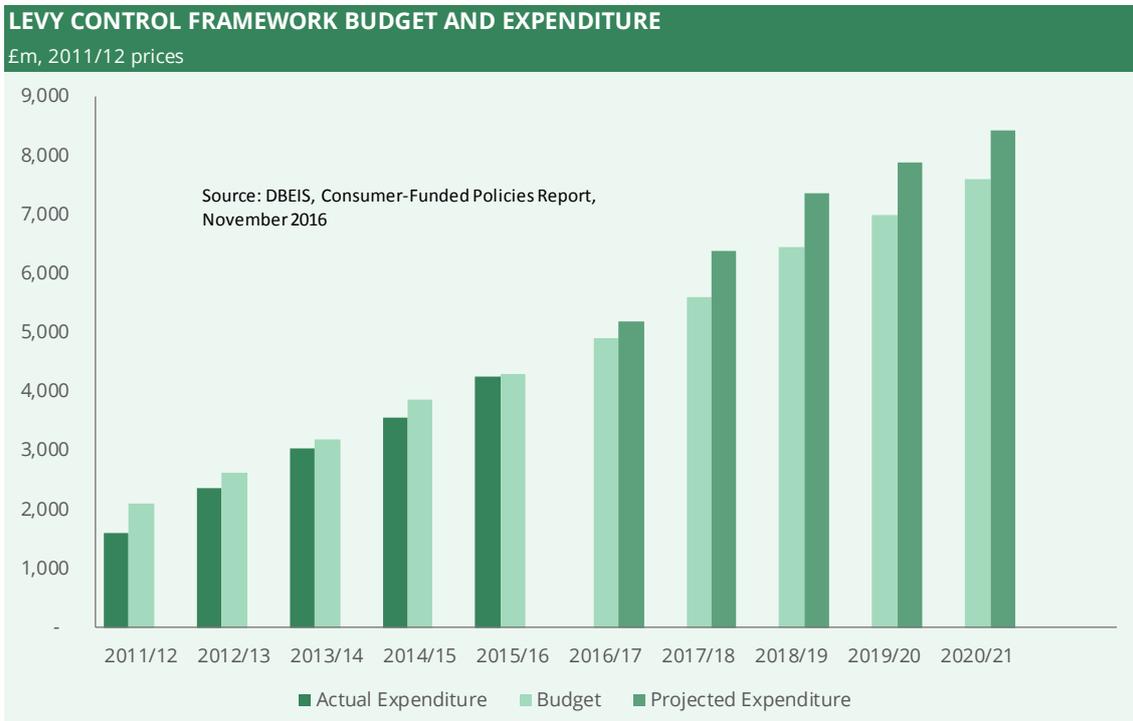
⁴ EMR Settlement limited, [Contracts for Difference](#), [accessed: 20 December 2017]

⁵ HM Treasury, [Control framework for DECC levy-funded spending](#), March 2011, p. 3

Business, Energy and Industrial Strategy (BEIS) when DECC was disbanded in 2016.

The LCF set absolute (not cumulative) annual limits on the overall costs of all low carbon electricity levy-funded policies until 2020/21, rising to £7.6 billion in 2020/21 (2011/12 prices) – see chart below for the LCF budget, actual expenditure and forecast overspend.⁶ In July 2015 the Office of Budgetary Responsibility (OBR) published forecasts showing that spending on renewable energy subsidy schemes through the LCF was set to be higher than expected (£9.1 billion).⁷ This was due to accelerated developments in technological efficiency, higher than expected uptake of demand-led schemes and changes in wholesale prices.

Although the overspend was revised down in subsequent OBR forecasts (all in 2011/12 prices) in [November 2015](#)⁸ (£9 billion), [March 2016](#)⁹ (£8.7 billion) and [November 2016](#)¹⁰ (£8.4 billion), the Government announced in the [Spring 2017 Budget](#) that the LCF would be replaced by a new set of controls later in the year.¹¹ In the [Autumn 2017 Budget](#) the Chancellor announced that the Government would introduce a new Control for Low Carbon Levies (“The Control”), which introduced a moratorium on new low carbon subsidies until the total of such costs is falling, which the Treasury has calculated will not happen until 2025.¹²



⁶ BEIS, [Levy Control Framework \(LCF\)](#), 25 November 2016
⁷ OBR, [Economic and fiscal outlook – July 2015](#), July 2015
⁸ OBR, [Economic and fiscal outlook – November 2015](#), November 2015
⁹ OBR, [Economic and fiscal outlook – March 2016](#), March 2016
¹⁰ OBR, [Economic and fiscal outlook – November 2016](#), November 2016
¹¹ HM Treasury, [Spring Budget 2017](#), HC 1025, March 2017, para 3.28
¹² HM Treasury, [Autumn Budget 2017](#), HC 587, November 2017, para 4.51

6 Control for low carbon levies

This briefing paper details plans for the new Control for Low Carbon Levies, outlines reactions to the announcement, and provides an overview of the LCF policy.

2. Control for Low Carbon Levies

The Control for Low Carbon Levies was introduced in the 2017 Autumn Budget as a successor to the LCF. Plans for “The Control” are detailed in the HM Treasury budget document: [Control for Low Carbon Levies](#).¹³

2.1 No *new* low carbon levies until 2025

The control puts a moratorium on new low carbon subsidies until the total of such costs is falling, which the Treasury has forecast will not happen until 2025. The Treasury explains that once the aggregate of existing levies is forecast to have a “sustained and significant fall in real terms” new levies for low carbon power projects may be considered.¹⁴ On 8 December 2017, BEIS Minister Richard Harrington confirmed that projects that are not due to become fully operational until after 2025 are not affected by the commitment to no new levies up until this date.¹⁵

The Treasury also states new levies could be considered for low carbon electricity projects “where they have a net reduction effect on bills and are consistent with the government’s energy strategy.”¹⁶ (See [section 3.3](#) below on the potential for ‘subsidy-free’ renewable energy).

Unlike the LCF, the Control does not seek to cap or set a budget for low carbon electricity levies and it does not affect existing financial support, including:

- existing Contracts for Difference (CfDs) (including Hinkley Point C);
- existing commitments under regulatory schemes such as the Renewables Obligation and Feed-in Tariffs (FITs); and
- the £557 million allocated for future CfD auctions (timings and details are still to be confirmed).¹⁷

The Treasury document does however appear to confirm the closure of the FITs scheme in April 2019.¹⁸ This means there will be no capacity-related increases in scheme costs beyond this point – as seen in the chart below.

2.2 Forecast spending on low carbon levies

The Treasury forecasts spending (in 2011/12 prices) on low carbon levies to increase from £5.2 billion in 2016/17 to £8.7 billion in 2023/24, after which it forecasts a small fall in spending to £8.6 billion in 2024/25.

¹³ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, para 1.1

¹⁴ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, para 1.8

¹⁵ [PQ 116834](#) [Nuclear Power: Prices] 8 Dec 2017

¹⁶ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, para 1.9

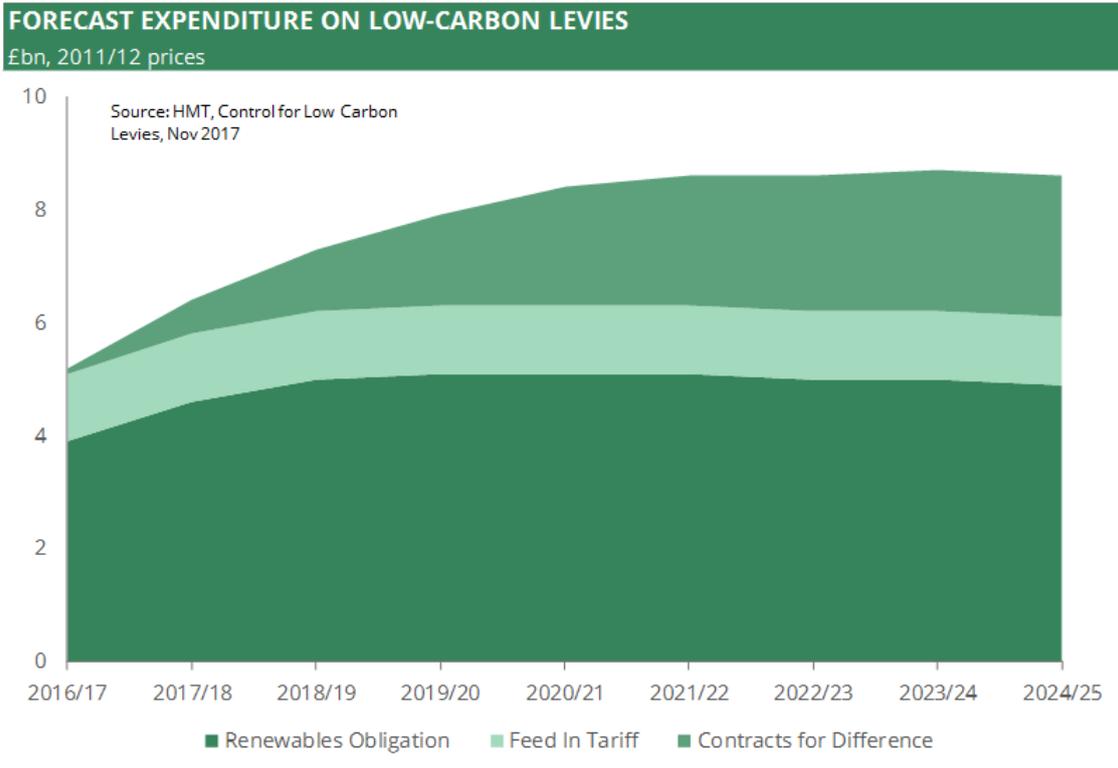
¹⁷ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, para 1.6

¹⁸ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, Table 1.D

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These forecasts do not include the up to £557 million for additional CfDs, as decisions on future auctions and commissioning windows has not been taken. Tim Lord, Director of Clean Growth at BEIS, told the BEIS committee on 28 November that:

“...as decisions are taken on how to utilise that funding [£557 million under future CfD auctions] and which groups of renewable technologies it goes to, we will update our projections in terms of how much of those technologies we will deploy and at what time.”¹⁹



As the chart above demonstrates, the bulk of the costs out to 2024/25 are the costs committed under the Renewables Obligation, which closed to new entrants in 2016. The spending on FITs remains stable (following its planned closure in April 2019)²⁰ whilst the spending on CfDs increases as more projects come on line in later delivery years.

¹⁹ Q58: [BEIS committee session on Clean Growth Strategy](#), 28 November 2017, HC 596/597

²⁰ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, Table 1.D

3. Views on the low carbon levies control

There were mixed views over the introduction of the new control on low carbon levies. Some praised the clarity the policy provided for investors going forward and the savings that should accrue to domestic and business customers. Others said the level of support the control imposed could hinder the progress towards cutting the costs of low-carbon technologies, in particular less-mature technologies such as marine and tidal energy.

Shadow Business Energy and Industrial Strategy (BEIS) Secretary of State Rebecca Long Bailey said there was a gap between the Government's stated ambition and the policies in the Budget:

...last week's Budget essentially closed down support for much low-carbon development in the UK. There will be no new low-carbon electricity levies until 2025, with no alternative funding outlined. Nor was there any support for, or indeed any mention of, specific renewable projects such as the Swansea tidal lagoon. There is a huge contradiction between the Government's rhetoric on clean growth and the reality of their policies.²¹

However, Climate Change Minister Claire Perry told the BEIS Committee on 28 November 2017, that the cost reductions of various renewable energy technologies showed that the Government's policies were working:

What has been delivered is the policy that we all wanted, which was to invest upfront, to set up auction frameworks and to drive down the costs to the point where they did not need subsidy. We should all be really proud of that job.²²

3.1 Controlling costs

One of the key reasons the Government decided to introduce the "Control" was to rein in consumer costs. Introducing the Control, the Government stated it was "committed to keeping energy costs as low as possible", and "to supporting low carbon electricity."²³ The Committee on Climate Change (CCC) has estimated that low-carbon policies will add £190-225 in total to the average annual bill in 2030.²⁴ In his [Government-commissioned review on the cost of energy](#), Professor Dieter Helm recommended (among other things) that the legacy

²¹ [HC Deb 28 Nov 2017 c208](#)

²² Q66: [BEIS committee session on Clean Growth Strategy](#), 28 November 2017, HC 596/597

²³ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017

²⁴ CCC, [Energy Prices and Bills Report 2017](#), 16 March 2017, p. 7

renewables subsidy costs be separated out, ring-fenced, and placed in a 'legacy bank':

The legacy costs from the Renewables Obligation Certificates (ROCs), the feed-in tariffs (FiTs) and low-carbon contracts for difference (CfDs) are a major contributor to rising final prices, and should be separated out, ring-fenced, and placed in a 'legacy bank'. They should be charged separately and explicitly on customer bills. Industrial customers should be exempt. Once taken out of the market, the underlying prices should then be falling.²⁵

As of December 2017, no analysis of the policy's impact on domestic and business customer's bills had been published.

3.2 Where next for low carbon energy?

In the wake of the announcement, the renewable industry raised concerns that by restricting subsidies through the new control, the Government risks impeding progress towards cutting the costs of low-carbon technologies. The Renewable Energy Association (REA) specifically highlighted the problems it anticipated for newer technologies:

While the renewable energy industry welcomes the movement to a subsidy-free future, the industry now urgently needs clarity around how the Government intends to bring new projects forward, including less developed technologies such as tidal and advanced waste-to-energy. Many new solar PV projects, for example, will in the future be able to go ahead without subsidy but investors still require a route to market supported by Government, even if it is set at such a level that there is no net payment from the Government to generators.²⁶

Energy UK chief executive Lawrence Slade said the Government's decision showed a lack of ambition to build on the progress made in reducing the costs of low carbon generation:

"Given the great advances the industry has made in delivering cleaner energy at the lowest cost to consumers, the lack of ambition from the government to build on this progress is disappointing and, coupled with the need to decarbonise heat, seems at odds with the plans set out in the recent Clean Growth Strategy.

"Over half of generation now comes from low carbon sources and the recent CfD auction showed how far the cost of offshore wind has fallen - thanks to providing the necessary certainty for investment which drives down the cost of decarbonisation, benefits customers and the wider economy.

²⁵ Dieter Helm, [Cost of Energy Review](#), *Gov.uk*, 25 October 2017, para. 4

²⁶ REA, [Deep concern in renewable energy industry about proposals in Autumn Budget](#), 22 November 2017

“Postponing further support for renewables until 2025 denies the opportunity for other technologies and projects to follow suit and prevents taxpayers from reaping the benefits of the cost reductions their funding has made possible.”²⁷

[Bob Ward](#), policy and communications director at the Grantham Research Institute on Climate Change and the Environment, said the new policy “should provide some reassurance to investors.”²⁸

Less mature low carbon technology

Different forms of energy generation can have very different costs (see box 2) and thus need different kinds of Government support at different times in the development of the technology.

Box 2: Levelised cost of electricity

The Levelised Cost of Electricity Generation is the discounted lifetime cost of ownership and use of a generation asset, converted into an equivalent unit of cost of generation in £/MWh. The levelised cost of electricity generation reflects the cost of building, operating and decommissioning a generic plant for each technology. Over time the costs of one form of energy can increase or decrease, depending on factors such as Government policies and the development of technology. This is seen in the way the costs of certain forms of renewable energy (such as solar PV) have fallen rapidly in recent years as the technology has matured.²⁹ In contrast, less mature generation methods (such as tidal lagoons) can be more expensive to deliver as the technologies needed to deliver projects are still developing; Tidal Lagoon Power (the company behind the Swansea Bay Tidal Lagoon project) for instance expects that cost of tidal lagoons that follow the Swansea Bay ‘pathfinder’ to be less expensive.³⁰

In the wake of the Budget, [Carbon Brief \(an energy and climate policy news site\) argued](#) that the Control meant decisions over new nuclear schemes beyond Hinkley Point C, the Swansea Bay tidal lagoon and onshore wind or solar projects would all be on hold unless they can find a way to proceed without government support.³¹ However, when questioned about the prospects of future marine and tidal projects by the BEIS committee on 28 November 2017, Tim Lord, Director for Clean Growth at BEIS said:

- no decisions on how to spend the already committed £557 million for future CfD auctions had been made;
- the new Control did not mean tidal, wave and geothermal technology would not get ahead; and

²⁷ [Energy UK responds to the 2017 Autumn Budget](#), *Energy UK*, 22 November 2017

²⁸ [Treasury freeze of Carbon Price Support Rate could ‘endanger’ UK 2030 emissions targets – response to Autumn Budget announcement](#), LSE Grantham institute, 22 November 2017

²⁹ [Solar power breakthrough as subsidy-free farm opens](#), *Financial Times*, 26 September 2017

³⁰ [An iconic, world-first infrastructure project in South West Wales](#), Tidal Lagoon Power [1 December 2017]

³¹ [Autumn Budget 2017: Key climate and energy announcements](#), *Carbon Brief*, 22 November 2017

- that in some cases “technologies will come forward after 2025.”³²

The Climate Change Minister Claire Perry also went on to tell the committee that the Government was considering how best to spend the up to £557 million in future CfD auctions:

What we now need to do is deploy that further subsidy, which is other people’s money that we are spending on their behalf, in the technologies that bring forward the maximum benefit in terms of low cost, carbon reduction and technological-export advantage.³³

Claire Perry identified reducing cost pathways for less mature technologies as one area where this money could potentially be spent.³⁴

Stretching existing support further

The Treasury sounded an optimistic note over the falling costs of low carbon electricity, stating: “The significant cost reductions that were achieved in the last CfD auction indicate that this support could secure far more low carbon electricity than originally anticipated.”³⁵ [BEIS Minister Richard Harrington](#) reemphasised this point in answer to a PQ on 6 December 2017 stating:

We are committed to the plans we set out in the Clean Growth Strategy and to continuing to meet our climate commitments.

The next Contract for Difference auction round for less established technologies, including offshore wind, is planned for spring 2019. We will set out details of future rounds beyond that in due course.

While no decisions have yet been made on future CfD allocation rounds for established technologies, it is right that support should be focused on those technologies where it is most needed.

The cost reductions demonstrated in the recent Contract for Difference auction round mean that the £557 million could buy a large amount of low carbon electricity, sustaining growth in the sector.³⁶

Business Green (an online energy news source) reported that some industry experts were similarly confident that the sector could deliver rapid cost reductions which would mean the existing budget could be stretched to deliver significantly more capacity without increasing customer bills:

“The fact we still have commitment to the £557m budget is really good,” they said. “In an ideal world there would have been more,

³² Q56: [BEIS committee session on Clean Growth Strategy](#), 28 November 2017, HC 596/597

³³ Q66: [BEIS committee session on Clean Growth Strategy](#), 28 November 2017, HC 596/597

³⁴ Q57: [BEIS committee session on Clean Growth Strategy](#), 28 November 2017, HC 596/597

³⁵ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, para 1.4

³⁶ [PQ 116831](#) [Energy: Prices] 6 December 2017

but there was also a risk it could have been diluted in some way and that hasn't happened."³⁷

3.3 Subsidy-free renewables?

The costs of various renewable energy sources are falling, for example:

- The second CfD auctions in September 2017 delivered strike prices for offshore wind for delivery in 2022/23 at half the cost of the strike prices agreed in the first CfD auctions in 2015.³⁸
- In September 2017 Climate Change Minister Claire Perry opened the [UK's first subsidy-free solar farm](#).³⁹

In this context, the Treasury's statement that new levies *could* be considered "where they have a net reduction effect on bills and are consistent with the government's energy strategy"⁴⁰ has prompted some to consider further the potential for 'subsidy-free' renewables.⁴¹

There are two different classes of subsidy-free renewable: those technologies that require no subsidy at all (such as the [UK's first subsidy-free solar farm](#) in Clayhall Park); and those technologies that can provide power at below market prices, but still need some form of support or guarantee to develop the installation in the first place. On the whole, commentators discussing subsidy-free renewables are concerned with the latter.

Certain mature technologies, such as solar and onshore wind, may soon not require any form of subsidy. However, for the majority of low-carbon generators entirely subsidy-free generation is not possible, as this would imply that new projects would receive income only from selling power into the wholesale market. Instead, renewable energy industry groups are looking at subsidy-free CfDs.

Subsidy-free CfDs

The Treasury's confirmation that the Control "does not rule out future support for any technology" has prompted some to look more closely at how onshore wind projects – currently not eligible for any subsidy – could be brought forward without subsidy.

Subsidy-free CfDs for mature renewables technologies, such as onshore wind, could reduce the risk for developers and thus lower the cost of financing. To make the CfD subsidy-free, the guaranteed strike price would be agreed at a price below the wholesale electricity market price. It could thus save domestic and business consumers, and provide a guaranteed return to investors. This is currently only option for a select

³⁷ [Budget 2017: Clean energy boost or opportunity missed?](#), *Business Green*, 22 November 2017

³⁸ BEIS, [New clean energy projects set to power 3.6 million homes](#), 11 September 2017

³⁹ BEIS, [Subsidy free solar comes to the UK](#), 26 September 2017

⁴⁰ HM Treasury, [Control for Low Carbon Levies](#), 22 November 2017, para 1.9

⁴¹ [Budget 2017: Clean energy boost or opportunity missed?](#), *Business Green*, 22 November 2017

few renewable energy technologies. Subsidy-free CfDs are still a hypothetical proposition, and any Government support would necessarily be contingent on confidence in forecast wholesale electricity prices. One of the reasons the LCF was abandoned in favour of the Control, was inaccurate price forecasts resulting in the projected overspending.

Box 3: Contracts for Difference (CfD)

Contracts for Difference (CfD) were introduced by the 2010 Coalition Government to replace the Renewables Obligation. They are a system of reverse auctions intended to give investors the confidence and certainty they need to invest in low carbon electricity generation.

CfDs work by fixing the prices received by low carbon generation, reducing the risks they face, and ensuring that eligible technology receives a price for generated power that supports investment. CfDs also reduce costs by fixing the price consumers pay for low carbon electricity (known as the strike price). This requires generators to pay money back when electricity prices are higher than the strike price, and provides financial support when the wholesale electricity prices are lower.

The first CfD auction by the Government opened in October 2014. The second CfD auction took place in September 2017.

The Contracts relate to specific delivery years i.e. the year in which the generator will begin to generate electricity. For instance, all of the agreed strike prices under the second CfD auction are for delivery starting in either 2021/22 or 2022/23.⁴²

In a report commissioned by Scottish Renewables, [Baringa Partners examined](#) the costs of deploying an additional 1 GW of 'Pot 1' (onshore wind and ground-mounted solar PV >5MW) renewable capacity through an auction for CfDs in Great Britain.⁴³ This report states that up to 1GW of onshore wind power could be brought forward in the UK without the need for any direct subsidy. Their analysis indicated that subsidy would be required for the first five years (around £8m per annum), but would result in the taxpayer ultimately receiving a net payback of £18m over the full CfD period.⁴⁴

Similarly, a report from engineering firm ARUP found that onshore wind technology had seen such dramatic price reductions that it could now be delivered near subsidy free and much more cheaply than some alternatives.⁴⁵ The firm found that a "Market Stabilisation CfD" at between £47.0/MWh and £52.5MWh could facilitate deployment of additional and necessary low carbon generation in a competitive and cost effective manner.⁴⁶

⁴² BEIS, [Contracts for Difference \(CFD\) Second Allocation Round Results](#), 11 September 2017

⁴³ Baringa Partners, [An analysis of the potential outcome of a further 'Pot 1' CfD auction in GB](#), April 2017

⁴⁴ Baringa Partners, [An analysis of the potential outcome of a further 'Pot 1' CfD auction in GB](#), April 2017

⁴⁵ Adam Vaughan, [Drop in wind energy costs adds pressure for government rethink](#), The Guardian, 23 July 2017

⁴⁶ Arup, [Enabling Investment in Established Low Carbon Electricity Generation](#), July 2017

The Government have not said whether they would consider the lifecycle costs of a project like this, which would be likely to increase subsidy costs in the near-term with a promise of lower costs overall.

The idea of subsidy-free CfDs have been criticised by certain organisations. Moreover, some critics argue that even entirely subsidy-free intermittent renewable energy would still receive an indirect subsidy through mechanisms providing guaranteed capacity (such as the Capacity Market).

4. Levy Control Framework (LCF)

The Levy Control Framework (LCF) was established by DECC and HM Treasury in 2011 (the policy was transferred to DBEIS when DECC was disbanded in 2016).

The LCF set an annual cap on the cost of levy-funded schemes, rising from £2.1 billion in 2011/12 to £7.6 billion in 2020/21 (in 2011-12 prices) and required the Department to set policy such that the forecast costs of the scheme remain below these annual limits.⁴⁷

The LCF also allowed a 20% buffer (or 'headroom') each year which the Department could use to take account of temporary factors that increased spend, such as fluctuations in wholesale prices. The Department was also required to monitor forecast costs, and to develop plans urgently if these forecasts showed that costs would exceed the 20% 'headroom', or face a financial penalty.

LEVY CONTROL FRAMEWORK FINANCES

£m, 2011/12 prices

	Actual Expenditure	Budget	Budget inc. 20% Headroom	Total forecast cost
2011/12	1,610	2,094	2,513	-
2012/13	2,375	2,627	3,152	-
2013/14	3,030	3,184	3,821	-
2014/15	3,565	3,870	4,644	-
2015/16	4,260	4,300	5,160	-
2016/17	-	4,900	5,880	5,185
2017/18	-	5,600	6,720	6,380
2018/19	-	6,450	7,740	7,355
2019/20	-	7,000	8,400	7,880
2020/21	-	7,600	9,120	8,435

Source: DBEIS, Consumer-Funded Policies Report, November 2016

As the table above details, the LCF cap was due to increase from just over £2 billion in 2011/12 to £7.6 billion in 2020/21 – with the 20% budget headroom taking the cap up to a possible £9.1 billion. Actual expenditure under the LCF cap up to 2015/16 (for which end-of-year receipts are available) has been less than the budget cap.

In July 2015 the Office of Budgetary Responsibility (OBR) published forecasts showing that spending on renewable energy subsidy schemes through the LCF was set to be higher than expected.⁴⁸ The forecast

⁴⁷ HM Treasury, [Control framework for DECC levy-funded spending](#), March 2011, p. 3

⁴⁸ OBR, [Economic and fiscal outlook – July 2015](#), July 2015

overspend was revised down in subsequent OBR forecasts due to certain Government actions, including for example, controlling costs through the FiTs scheme. In November 2016, the [OBR forecast](#) that spending under the LCF would be (£8.4 billion) 0.8 billion above the cap for that year, but under the 'headroom'.⁴⁹

4.1 Reviews

The forecast overspend prompted a number of reviews of the LCF detailed below.

Lessons learned review, 2015

In June 2015, Tom Kelly, one of the former DECC's Non-Executive Directors, carried out a lessons learned review of the management of the LCF. The report was published in November 2016.⁵⁰ This report identified that the forecast overspend under the LCF was due, largely, to three factors:

- The impact of the unexpected drop in the wholesale price of electricity resulting from the global fall in fossil fuel prices;
- A larger than anticipated surge in demand for both the RO and FIT schemes; and
- A rapid and substantial increase in the load factors raising both the output of offshore wind turbines and the guaranteed financial support they receive.⁵¹

This report made a number of recommendations about how spending forecasts were monitored and communicated to the Department and said the Department should reconsider whether it is possible to devise a mechanism which would incentivise the industry to innovate whilst also returning a share of the benefits of that innovation to consumers.⁵²

The [Government's response to the report](#) stated that since it had identified the forecast overspend under the LCF, the Government had taken action to control costs under the LCF by curtailing subsidies for high-spend and fast-deploying technologies (e.g. solar, wind and biomass) under the Renewables Obligation, whilst reducing tariffs and introducing a cap under the Feed-in Tariff scheme. The Government said these measures were expected to save around £500m of LCF expenditure in 2020/21.⁵³

⁴⁹ OBR, [Economic and fiscal outlook – November 2016](#), November 2016

⁵⁰ BEIS, [Management of the Levy Control Framework: Lessons Learned Report](#), November 2016

⁵¹ BEIS, [Management of the Levy Control Framework: Lessons Learned Report](#), November 2016, p. 5

⁵² BEIS, [Management of the Levy Control Framework: Lessons Learned Report](#), November 2016, pp. 8-9

⁵³ BEIS, [Response to the Levy Control Framework Lessons Learned Report](#), November 2016, p. 2

National Audit Office, 2016

In a review of the LCF in 2016, the National Audit Office (NAO) said “the introduction of the Framework in 2011 was a valuable step forward in government’s approach to controlling the costs of consumer-funded energy policies.”⁵⁴ However, the NAO criticised the delay in identifying that spending was on course to exceed the LCF cap. For instance, the NAO found that

Between 2013 and 2015, there was a two-year break between substantive exercises to gather data on technology costs. This was despite the fact that during this time the Department entered into £615 million of new commitments under the Framework by auctioning off Contracts for Difference.⁵⁵

Public Accounts Committee, 2017

On 8 February 2017, the Public Accounts Committee (PAC) published their report examining consumer-funded energy policies, namely the LCF.⁵⁶ The committee criticised the Government’s management of the LCF, and said that the expected overspend under the LCF budget was likely to add around £110 to the typical household’s yearly energy bill in 2020, £17 more than budgeted for.⁵⁷

The Committee specifically recommended that

The Department and HM Treasury should assess the uncertainty surrounding forecasts of energy schemes, and put in place proportionate backup plans for controlling scheme costs and outcomes in the event that central forecasts prove incorrect.⁵⁸

⁵⁴ NAO, [Controlling the consumer-funded costs of energy policies: The Levy Control Framework](#), Session 2016-17, HC 725, para 8

⁵⁵ NAO, [Controlling the consumer-funded costs of energy policies: The Levy Control Framework](#), Session 2016-17, HC 725, para 11

⁵⁶ PAC, [Consumer-funded energy policies](#), Thirty-ninth Report of Session 2016–17, HC 773, 8 February 2017

⁵⁷ PAC, [Consumer-funded energy policies](#), Thirty-ninth Report of Session 2016–17, HC 773, 8 February 2017

⁵⁸ PAC, [Consumer-funded energy policies](#), Thirty-ninth Report of Session 2016–17, HC 773, 8 February 2017, p. 5

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