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Planning for Progress: How will the 2024 budget Impact energy?

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Part of Thought Leadership

Planning for Progress: How Will the 2024 Budget Impact Energy?

Rachel Reeves' Budget on 30 October is one of the most eagerly awaited by a Chancellor of the Exchequer in many years, especially following the extensive commentary regarding the apparent £22bn shortfall in the country's public finances. While most of the energy discussion has focused on the loss of the Winter Fuel Payment for millions of households – what else we can expect from an energy perspective?

The Standing Charge Debate

The Labour Party manifesto, pledged to work with Ofgem to reduce standing charges. For non-domestic customers, these are subject to banding and are dependent on the size and nature of the customer's demand, in addition to varying based on location.

For domestic customers however, there is a single domestic standing charge per region, regardless of how much energy they consumer.

Should the new Government choose to move away from the current structure, potential reforms include:

- **Banded approach to domestic standing charges.** Would bring domestic customers in line with their non-domestic counterparts.
- **Move some or all of the domestic standing charge cost to the unit rate**. Broader consequences for high energy households or those with energy inefficient properties would need be considered.
- **Move some or all of the domestic standing charge cost to taxation**. Would have to be managed in the context of other pressures on the public finances.
- **Move some or all of the domestic standing charge cost to non-domestic customers.** Could risk being seen as compromising any pro-business stance.
- **Keep standing charges the same but provide direct Government financial support.**

The broader consequences of any such move for the energy industry will have to be carefully considered. Network companies' business plans have long been based on this method, and with the well-documented pressures on the grid and grid connections, anything which could compromise investment in this regard would bring its own challenges.

Energy support

The decision to remove the universal right to the Winter Fuel Payment is expected to reduce the 10.8mn current claimants to around 1.5mn, this has resulted in a well-documented backlash.

While the Government has shown no indication that it intends to reverse the move, should they wish to provide some other form of support to wholly or partially replace the Payment – and potentially benefit a greater proportion of the consumer base – there are several options available:

- **Reform the default tariff cap**.
- **Introduce social tariffs.** Bringing energy pricing in line with other essential services like water and telecommunications.
- **Expanding existing support schemes:** Increasing the scope of schemes like Pension Credit or the Household Support Fund.
- **Direct universal financial support** A model similar to the Energy Price Guarantee, however, future support would need to be more focused.

Energy Investment

Throughout the election campaign, Labour highlighted the role that Great British Energy would play in the low carbon transition and in reducing bills through enabling private sector investment. GB Energy forms part of the Government's new industrial strategy, with an initial £8.3bn earmarked for the "potential to leverage up to £60bn of private investment into the UK's drive for energy independence".

A Race to the Finish

At the Labour Party conference in September 2024, Secretary of State for Energy Ed Miliband highlighted his vision for the UK energy sector as one that was innovative, promoting low carbon investment and providing lower bills to households. However, these goals don't always align, echoing the "Energy Trilemma" concerns of the past.

Household and business energy bills alike are forecast to remain above pre-energy crisis levels for the remainder of the decade, due largely to wholesale prices. At the same time, while legacy low carbon support levies such as the Renewables Obligation (RO) and Feed in Tariff (FiT) will trend to zero by the late 2030s, their successors – the Contracts for Difference (CfD) and Capacity Market (CM) – are forecast to grow, in addition to new levies such as the Nuclear Regulated Asset Base (RAB) charge.

The government needs to clarify its fiscal policy and confirm its stance on issues such as wholesale market reform and other key issues which have slowed investment. Progress on the Review of Electricity Market Arrangements (REMA) is crucial.

Other things being equal, this is a government that will take the country on the next steps to net zero as well as the pursuit of the 2030 target of a zero-carbon electricity system. The Chancellor's budget therefore represents the first stage of a re-imagining of the net zero agenda under Labour – and businesses and households alike will be keen to see what shape that will take.

This is an extract from the Perspective, featured in the 15 October edition of Energy Spectrum, part of our Industry Essentials package.

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