

UK Budget 2013 - Implications for the Energy Sector

Breaking news from the UK Parliament: The Chancellor, George Osborne delivered his fourth Budget speech in the House of Commons this afternoon indicating an intention to introduce a package of support measures designed to encourage production of low carbon fuels for a low carbon economy.

Contrary to controversy surrounding shale gas exploration in European countries, Mr Osborne announced the introduction of a new tax regime designed to promote investment into the industry.

Support measures include the introduction of a shale gas field allowance and an extension of the Ring Fence Expenditure Supplement (RFES) from six to ten years for shale gas projects. Consultation on these measures, including consideration of whether they should be extended to other forms of onshore unconventional gas, is expected in 2014.

In addition, the Chancellor noted the Government's commitment to produce technical planning guidance on shale gas by July 2013. The aim of this is to clarify the planning process during exploration phases and ensure that the planning system is properly aligned with health and safety and environmental protection regimes. Proposals will also be developed by summer 2013 to ensure that local communities will benefit from shale gas projects in their area.

Shale gas exploration is at an early stage in the UK. The extraction process, known as 'fracking', is controversial and environmental risks have led to protests and calls across Europe for its prohibition. A ban on shale gas fracking in the UK was only recently lifted in December 2012. Numerous reports have highlighted the benefits to the economy and estimated vast amounts of shale gas reserves that can be commercially exploited in the UK, suggesting that the potential of shale gas is worth investigating. One of the largest UK shale gas explorers, Cuadrilla Resources Ltd, recently announced that it was delaying its plans to begin fracking under the permits it holds until 2014 whilst it conducts an environmental impact assessment. This has been viewed by some commentators as a setback for UK government ambitions as corporates are clearly concerned about the

potential environmental impact and risks of shale gas exploration. In October 2012, Mr Osborne threw his weight behind shale gas, saying he wanted to "open up the newly discovered shale gas reserves" and his announcement today provides a clear indication that the Government sees the exploitation of shale gas as potentially having significant benefits for British customers in providing new employment, benefiting the economy and providing a clean and low-carbon alternative to conventional gas and oil, thereby increasing the UK's energy independence.

Other items of interest covered by the Chancellor include:

- the introduction of exemptions from the climate change levy from 1 April 2014 for energy used in metallurgical and mineralogical processes, including the ceramics industry;
- the introduction of Electricity Market Reform through the Energy Bill providing the framework for new energy investment including the provision of support available for low carbon electricity investment through the Levy Control Framework up to 2020 which will rise to £7.6 billion a year;
- the progression of two Carbon Capture and Storage projects to the detailed planning and design stage of the competition, following commercial negotiations with bidders.

The message from Government is that "creating a low-carbon economy should be done in a way that creates jobs - not costs them". Attention will now focus on how successful this will prove to be.

If you have any questions on the green elements of the Budget, please contact:

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