

HM Treasury
The Correspondence and Enquiry Unit
1 Horse Guards Road
London
SW1A 2HQ

Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
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21 December 2020

Dear the Rt Hon Rishi Sunak MP, Chancellor of the Exchequer; the Rt Hon Alok Sharma MP, Secretary of State for Business, Energy and Industrial Strategy; the Rt Hon Jesse Norman MP, Financial Secretary to the Treasury; and the Rt Hon Kwasi Kwarteng MP, Minister of State for Business, Energy and Clean Growth,

Supporting Green Jobs and Net Zero with fair tax treatment and temporary support for Home Energy Storage

We welcome Government measures boosting clean heat, transport, electricity and energy efficiency, but we believe further steps around flexibility will be required to achieve our Net Zero target. The energy storage industry has been hard hit by the current pandemic, as with others. Still, unlike other sectors of the market, the energy storage sector has not been able to benefit from stimulus support such as the Green Homes Grant (GHG).

Our recommendations, as employers building, and organisations representing, the UK energy storage market, are for BEIS and HMT to introduce:

1. **Low rate VAT on home energy storage** to level the playing field in recognition of the energy system and carbon benefits the technology provides, which is now possible post Brexit.
2. **A temporary financial incentive for home energy storage** such as the recently extended Green Homes Grants or an EV/EVSE grant equivalent, developed in consultation with industry with suitable standards, and which is appropriate until the market improvements noted below, come forward.¹

The Government's *Smart Systems and Flexibility Plan* recognises the critical role home energy storage (including heat batteries) can play in achieving Net Zero by 2050 cost-optimally. This is supported by a large body of expert evidence that

¹ We consider that electrically-charged heat batteries should be included within both of the aforementioned possible measures. Any incentive should be created in consultation with industry to avoid market distortions.

deploying enough renewable energy and keeping the costs of electrification, and network reinforcement down are not possible without substantially more storage². We will need more flexibility on the grid if we are to avoid rising curtailment and balancing costs. Energy storage also helps to maximise the benefits of solar panels for users by ensuring that excess energy generated at sunny times can be saved for use in the evenings or during cloudy days.

Further, the best fiscal recovery measures are in clean energy infrastructure, which create twice as many jobs as investments in fossil fuels³. Accelerated growth in battery storage has potential to provide 66-86,000 high-skilled jobs as part of a Green Recovery from Covid-19⁴. The UK can play a globally leading role in this technology, and the Green Recovery package is a unique opportunity to do so. However, a strong market and consumer pull is needed. Without action, recent reports find that demand for home energy storage is taking a hit due to Covid-19.⁵

To help ensure this green vision becomes a reality, levelling the VAT burden of home energy storage on par with that of domestic-use electricity from coal and gas-powered sources and oil and gas for heat (all taxed at 5%) would be a significant help.⁶ In response to an EU ruling, in October last year Government increased VAT to 20% for home energy storage despite its carbon and energy benefits. Consequently, those wishing to contribute to a cleaner energy future pay an un-duly high price.

The 'double whammy' combination of the VAT rise and the economic fallout from the pandemic risk setting this new technology back by several years.⁷

Home energy storage has never received direct support through an incentive scheme. Classifying it as an Energy Savings Material (ESM) would enable some customers to pay a lower VAT rate, on a par with energy from fossil fuel sources. This is already the case for several green technologies including solar PV, low-carbon heat and insulation, which are all classified as ESM.⁸ However, many installations of technologies classified as ESM still carry a higher rate of VAT than fossil fuels, and we would ask that the Government consider a wider VAT cut on ESM too, to bring VAT policy in line with our Net Zero commitments.

We believe it is also important to recognise the benefits home energy storage users provide to the grid, potentially eliminating evening peak demand in winter for

² Committee on Climate Change, National Grid ESO, National Infrastructure Commission, BNEF, Aurora, Imperial.

³ Smith School (2020) [Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?](#)

⁴ Faraday Institute (2020) [UK EV and Battery Production Potential to 2040](#) ; REA (2020) [Green Recovery](#)

⁵ Solar Power Europe (2020) [European Market Outlook for Residential Battery Storage 2020 - 2024](#)

⁶ HM Revenue and Customs (2016) [Fuel and power \(VAT Notice 701/19\)](#)

⁷ IHS Markit graphs on p.6, REA (2020) Fair Treatment for Home Energy Storage.

⁸ HM Revenue and Customs (2019) [Energy-saving materials and heating equipment \(VAT Notice 708/6\)](#)

example⁹, which will be of increasing importance as we shift to a cleaner power system. Storage shifts demand from peak times when the market price of electricity (and carbon intensity) is highest, to periods of low cost (and low carbon) electricity, utilising network capacity more efficiently. However, most domestic electricity consumers are still settled on a profile and have a flat rate tariff, which means they do not benefit from this load shifting at market rates. This distortion is expected to remain until the full roll-out of smart meters and market-wide Half Hourly Settlement in 2024/25+. The market has good potential for rapid growth in the medium term, but risks being significantly weakened by the dual impacts of Covid-19 and the VAT rise. This threatens to reduce its capacity for growth when the modernisation of the system begins to accelerate.

Government leadership has provided positive milestones in the journey to a renewable future. Further action will help secure our Green Recovery and journey to Net Zero, by levelling the tax playing field and providing support for this key technology during this critical period of market adaptation.

Signed by,

*Dr Nina Skorupska, CEO, **REA***

*Mark Thompson, Managing Director, **AceOn Group***

Active Building Centre

*Gareth Davies, Managing Director, **Aquatera***

*Howard Porter, CEO, **BEAMA***

*Gareth Williams, Managing Director, **Caplor Energy***

*Charlie Trousdell, Director, **Charlie Trousdell Associates***

*Emma Bridge, Chief Executive, **Community Energy England***

*Mark Hull, Head of Innovation, **Community Energy Scotland***

*Siobahn Meikle, Zone Leader – Country Manager UK & Ireland, **Eaton***

*Paul Reeve, Director of CSR, **Electrical Contractors Association (ECA)***

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*Neil Kermode, Managing Director, **European Marine Energy Centre***

*Keith Bastian, CEO, **Fischer Future Heat***

*Giles Gibbons, Founder, **Good Business***

⁹ Solar Trade Association (2020) [Smart Solar Homes – the journey to net zero](#)

Juliet Davenport, Founder & CEO, **Good Energy**

Aidan McGeary, Managing Director, **Green Power Sys**

Brendan O'Brien, Director, **JBM Solar**

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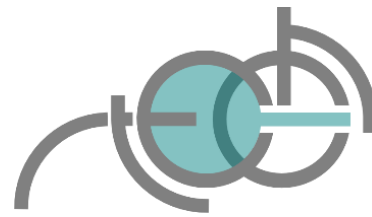
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