



HARDMAN & CO.

UK ENERGY POLICY – UP FOR GRABS?

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MARCH 2025



Table of contents

Executive summary	3
Background	4
Fossil fuels	6
Nuclear	6
Renewables.....	7
REIFs	8
Corporate developments.....	9
Conclusion	9
Disclaimer	11
Status of Hardman & Co's research under MiFID II.....	11

Executive summary

UK energy policy has changed of late, following the election of a Labour government last summer. The quest for Net Zero by 2030 – a hardly realistic target – is now a priority. Rightly or wrongly, the issues of security of supply, electricity prices and generation investment have all been superseded by this overarching aim.

In recent months, the government has withheld licensing approvals for various oil and gas projects – the latter, in particular, is much needed. Irrespective of the ca.£40bn Hinkley Point C nuclear power plant, the commissioning of which is now unlikely before 2030, other nuclear new-build projects are also being discussed. Financing them will be a significant challenge, especially given the very high level of UK public sector net debt.

However, there is an ongoing competition to decide the appropriate technology for a series of Small Module Reactors (SMRs). Further decisions are expected during 2025, which could lead to some SMRs becoming operational by the mid-2030s.

Recent figures show that output from wind plants accounted for 30% of GB's generation output in 2024. While other renewables investment remains quite modest, it is the offshore segment of the UK wind sector that is expected to expand aggressively – assuming sufficient funding is available and the recent major rises in turbine and associated costs can be curtailed. Furthermore, the issue of grid constraints and the substantial capital expenditure programme expected of National Grid should not be disregarded.

Of the 20 quoted Renewable Energy Infrastructure Funds (REIFs), some are progressing while others are now in Managed Wind-Down (MWD). However, the shares of virtually all 20 are trading at a substantial discount to their net asset value (NAV). Cutting these discounts is best achieved by lower interest rates, which – with inflation now back up to 3% – is less likely than previously. Not surprisingly, prospective yields for several leading REIFs exceed 7%.

On the domestic energy supply front, Ofgem has recently announced the new price cap figure of £1,849 for a typical household's annual use of gas and electricity; this figure represents an increase of 6.4% over the January-March 2025 price cap.

More details about recent activities affecting the REIFs' subsector are set out in the latest sector publication by Hardman & Co Research, [2024 – a Year of Trials and Tribulations](#), which covers the past calendar year.

Background

Net Zero and Ukraine are sector drivers

Over the past nine months, UK energy policy has assumed a high profile for two specific reasons: i) the entry of the Labour Party into government following the decisive General Election in July 2024; and ii) the changing situation in Ukraine, with the peace negotiations that are now quietly under way.

Net Zero by 2030 is desperately ambitious

The Labour government has been clear in its determination to achieve Net Zero; it has pledged that 2030 is the target date – a highly ambitious aspiration. Consequently, many electricity generation decisions, such as approvals for new gas production licences and new renewable energy projects, have been heavily influenced by such considerations.

Known unknowns

And, of course, the outcome of negotiations to end the war in Ukraine is unknown. Nevertheless, whatever is agreed – if anything – will have major implications for future gas prices, which soared in 2022 and 2023 and then fell back sharply. More recently, though, wholesale gas prices have risen from this lower base.

Generation

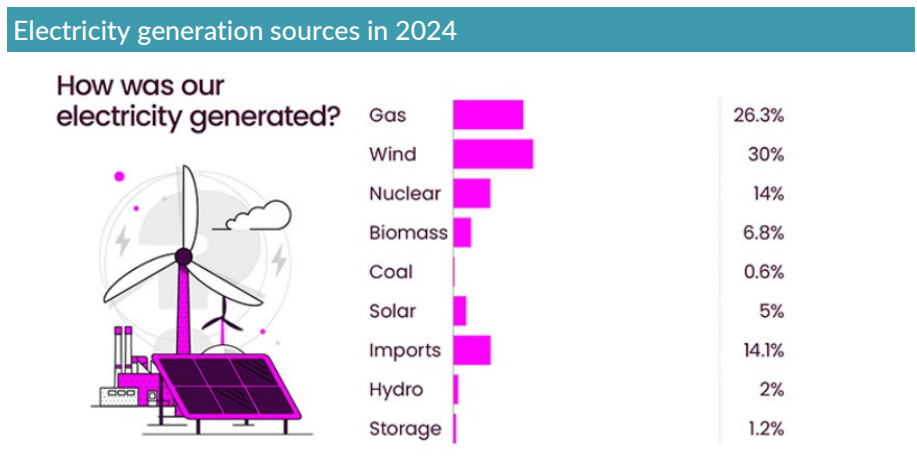
The shift to renewables

Most of the major changes involving the UK electricity supply industry have centred on the generation element. More specifically, over the past two decades, the UK has moved increasingly to renewables generation, supported by output from gas-fired plants and from the remaining nuclear plants, now mostly owned by the French-based EDF.

Wind is now GB's leading generation source

The National Energy System Operator (NESO), which – following its transfer from National Grid – is now publicly owned, has published GB generation data for 2024. It confirmed that wind accounted for the largest element of total output, at 30%; the figures for gas and nuclear were 26% and 14%, respectively.

The relevant chart is set out below.



Source: NESO

Looking forward, the gas supply contribution element will be very dependent on future gas prices, which will be heavily influenced by the ongoing peace talks that seek to end the three-year war in Ukraine, and the extent to which future gas supplies from Russia will be allowed to be sold within western Europe.

UK energy policy - up for grabs?

Challenges facing offshore wind projects

On the renewables front, onshore wind generation will be key. Offshore, substantial investment is anticipated, but the sharp price increases of late, especially of turbines, have undoubtedly deterred investment as projected returns have been cut. Furthermore, solar power in the UK has stuttered following the end of subsidies of new solar plant in 2017 – its contribution remains marginal rather than pivotal, unlike its wind counterpart.

Fossil fuels

King Coal is dead

In 20th century Britain, fossil fuels were crucial in terms of energy generation, as the bitter miners' strikes of 1972 and 1974 demonstrated. However, coal's relevance has almost evaporated following the "dash for gas" in the early 1990s. Indeed, the last UK coal-fired plant at Ratcliffe in Nottinghamshire closed in September 2024.

As such, Combined Cycle Gas Turbine (CCGT) plants assumed the role of base-load generators, along with the UK's remaining nuclear stations. Moreover, CCGTs produce markedly fewer emissions per unit of power generated when compared with coal-fired output.

Gas input costs are key financial driver

Given that gas input costs are the key financial determinant within a CCGT's profit and loss account, it was no surprise that the impact of Russia's invasion of Ukraine, in February 2022, had a major impact on gas-generated output, as Russian exports to western Europe were substantially reduced. As such, many CCGTs became uneconomic on the basis of higher gas input costs.

Subsequently, the fall in gas costs, certainly when compared with 2022 and 2023, has markedly improved the competitiveness of CCGTs against other non-gas fuelled plants. However, the recovery in gas prices in recent months is putting some strain on CCGT finances.

Nuclear

The UK's first nuclear power plant was commissioned at Calder Hall in 1956. Thereafter, various nuclear power plants were constructed between 1960 and the early 1990s – the last UK nuclear power plant at Sizewell B was completed in 1994.

The ca.£40bn Hinkley Point C nuclear fiasco

Subsequently, the only UK nuclear new-build project has been at Hinkley Point C. Completion of this massive ca.£40bn project is now not expected until the early 2030s. Other such plants, of more than 3,000MW nameplate capacity, are on the drawing board, but securing finance for such investment is immensely challenging as the promoters of the Sizewell C nuclear project have found. In reality, some form of public financing – in part or wholly – and project guarantees seem inevitable, along with vendor financing.

SMRs, the new "thing" in matters nuclear – and have been for decades

Instead, successive governments have sought to commission smaller-sized nuclear plants – Small Modular Reactors (SMRs). A competition is currently under way to identify the most appropriate technology, or technologies.

Four runners and riders – with Holtec the clear outsider...

Four such models are now being assessed, with further announcements due in coming months; they are:

- ▶ The Westinghouse AP 300;
- ▶ The GE-Hitachi Boiling Water Reactor (BWR);
- ▶ The Rolls Royce 470MW SMR; and
- ▶ The Holtec Britain Design.

Given the high reputation of Westinghouse's nuclear technology for well over 60 years, its model must be a prime candidate. Similarly, General Electric (GE), although no longer the behemoth of the past, has vast experience – dating back to the era of the legendary Thomas Edison – of power generation investment.

...but Rolls Royce expects UK backing

The domestically produced Rolls Royce model would expect to be avidly supported by the UK government – its SMR design has been developed over several decades. Furthermore, following an agreement with CEZ, construction of an SMR is due to be undertaken at Temelin, in the Czech Republic. Hence, of the quartet highlighted above, Holtec Britain seems to be very much the outsider.

Renewables

In recent years, renewable generation has taken off in the UK, to the benefit of the UK's level of emissions – and certainly compared with the dark days of the 1950s, when emissions from coal-fired plant polluted many cities, most notably London.

The downsides to renewable generation

However, this progress should be set against the various downsides of the UK's recent renewables investment, not only the prevalence of generous public subsidies but also the serious challenges that have been posed to the transmission system. After all, the backbone grid was designed to take power from large inland coal-fired plants rather than from much smaller dispersed renewable generation sites.

The Labour government is committed to a major expansion of renewable generation – at the expense of fossil fuel plants, effectively CCGTs. Indeed, in recent months, it has refused to approve several oil and gas projects: the latter is key given the lack of available gas supplies within Europe, Norway excepted.

I'm all right Drax

And, given the constraints applying to public expenditure, heavy subsidies to renewable generation plants are unlikely: the highly controversial – and anomalous – billion-pound biomass subsidies to the Drax Power plant in Yorkshire being a notable exception.

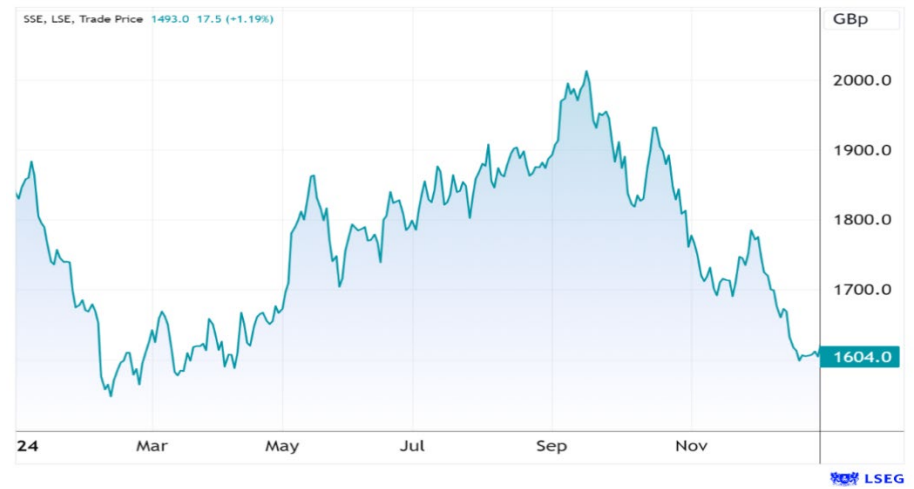
More generally, with ca.29GW of wind plant in operation in the UK – split almost equally between onshore and offshore – this subsector, undoubtedly, has achieved critical mass, unlike solar (at least in the UK), biomass (Drax excepted), wave and tidal power.

SSE's renewable generation portfolio

Major energy players, such as FTSE-100 stock SSE, are heavy investors in UK renewable energy projects. While SSE inherited a valuable portfolio of hydro-electric plants at flotation in 1991, it has invested aggressively in renewable energy in subsequent years. SSE now boasts of ca.2,500MW of onshore wind capacity as well as 1,000MW of offshore wind capacity, in addition to its 1,500MW of hydro-electric assets.

Although 2024 was not a good year for SSE – its shares fell by ca.13% – it was a far better performance than most other energy stocks, including all 20 REIFs, as discussed below.

SSE share price performance, 1/1/2024 to 31/12/2024



Source: LSEG, 2025

REIFs

High real interest rates have been the sector killer

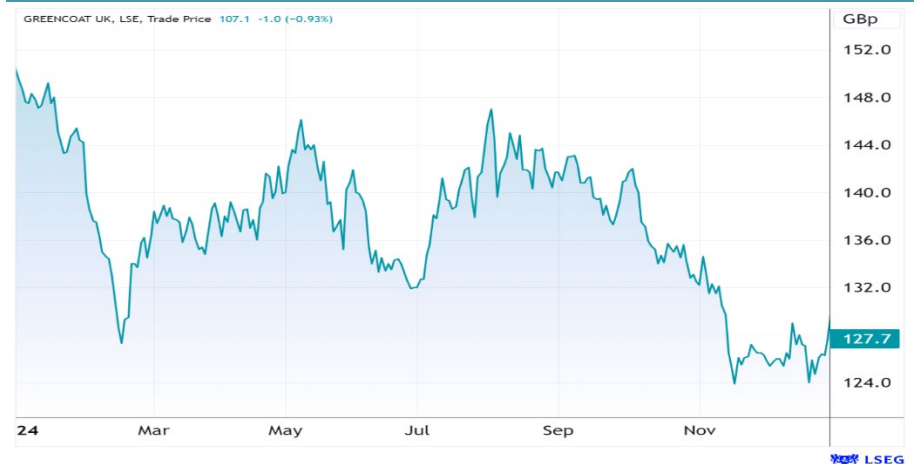
High interest rates, which have come down of late – but may move back upwards – have had a major impact on the valuation of the 20 quoted REIFs. Back in the early 2020s, many were trading at a decent premium to their NAV – but no longer. Instead, several are trading at discounts of close to 40%; and, in the case of the seriously struggling HydrogenOne Growth, its current discount to NAV is 75%.

Even Greencoat UK Wind's share price succumbed – despite its laudable dividend record

Even Greencoat UK Wind, the sector's bellwether, with more than 2,000MW of renewable generation capacity, has seen its share price rating fall – despite a near 30% dividend increase since 2022.

Greencoat UK Wind's share price graph below shows its performance during calendar 2024. At the year-end, the trading discount to its NAV was 19% – a figure that was considerably more favourable than those of most of its comparators.

Greencoat UK Wind share price performance, 1/1/2024 to 31/12/2024



Source: LSEG, 2025

UK energy policy - up for grabs?

Analysing the 2024 challenges

In February 2025, we published an analysis of key movements in the REIF sector during calendar 2024, along with those of the Infrastructure Investment Companies (IICs) – a total of 29 funds. Access to this Report [*2024 – A Year of Trials and Tribulations*](#) is provided by the accompanying link.

Surviving a “Continuation Vote” – losing one is effectively “game over”

Many REIFs have acted, notably through share buyback schemes, to close the NAV trading gap. Others have faced a “Continuation Vote”, which – if lost – is the death knell of the quoted investment trust. And, of course, all REIFs recognise that, for most of them, the equity fund-raising market is effectively closed – at least for the moment.

Sector recovery in 2025 is urgently needed

Both 2023 and 2024 saw major falls in most REIF valuations. For the sector’s survival, it is important that 2025 produces improved share price performances. After all, its contribution to financing new investment in renewable energy is important, especially given the government’s firm commitment – unlike gas – to this energy source.

Corporate developments

The gallows impact of a lost “Continuation Vote”

While weak ratings for virtually all REIFs are causing concerns, especially with the blunt instrument of a “Continuation Vote” hanging over them, an outbreak of corporate activity would certainly benefit the sector share prices.

The BBGI takeout – and how its discount to NAV has been eliminated

Interestingly, a development in the neighbouring IIC subsector merits comment. BBGI, now capitalised at just over £1bn, has accepted a bid that eliminates its substantial discount to NAV, at which it was trading prior to the announcement. Indeed, at current prices, there is a modest premium to BBGI’s estimated NAV at December 2024. This premium – unique currently within the IIC/REIF sector – may not equate to the ca.25% premium at which BBGI was trading during the halcyon days of mid-2022, but many IICs and REIFs would welcome any initiatives that could sharply cut the large discounts to NAV at which their shares are trading currently.

Aquila European Renewables spurned ORIT’s approach

Some months ago, in the REIF subsector, Octopus Renewables Infrastructure (ORIT) sought a deal with the struggling Aquila European Renewables (AER), but its many overtures were spurned. Instead, AER is now entering Managed Wind-Down (MWD).

Shareholders eagerly await positive sector news

Whether any similar initiatives in the REIF sector take place during 2025 remains to be seen.

Conclusion

UK energy policy is still subject to instability, whether of tight generation margins, volatile gas prices or of the status of renewable generation: financial issues, during a period of very high public debt, are also, of course crucial.

Better times in 2025?

Also, having survived a very challenging 2023 and 2024, the remaining 20 REIFs will hope for better times during 2025; after all, many are currently offering attractive prospective yields. And, for those in MWD, decent sale prices for their assets – in line or at least close to recent NAV data – will be expected.

About the author

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Nigel is responsible for analysing the UK Utilities, including those privatised in the 1980s and 1990s, as well as newer arrivals in the sector. He has been involved in the Utilities sector since the late 1980s, as a feature writer at Utility Week magazine and as an analyst at Libertas Capital, which specialised in the renewable energy sector. Prior to that, he was the Telecoms analyst at Williams de Broë. Between 1989 and 1995, he worked at Hoare Govett as the Water and Electricity sector analyst.

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