Energy and Climate Change Committee

Oral evidence: DECC Annual Report and Accounts, HC 898

Tuesday 3 December 2013

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Watch the meeting

Members present: Mr Tim Yeo (Chair); Ian Lavery; Dr Philip Lee; Mr Peter Lilley; Albert Owen; Christopher Pincher; John Robertson; Sir Robert Smith; Graham Stringer; Dr Alan Whitehead

Questions 1-150

Witnesses: **Rt Hon Edward Davey** MP, Secretary of State for the Department of Energy and Climate Change, **Stephen Speed**, Director General of Consumers and Households, DECC, **Stephen Lovegrove**, Permanent Secretary, and **Simon Virley**, Director General, Energy Markets and Infrastructure Group, gave evidence.

Q1 Chair: Good afternoon and a warm welcome, Secretary of State and your team.

We have a very crowded agenda. I wonder if you just give us a bit of clarity, first of all, about what is guiding your Department's policies. Is it the desire to get rid of the green crap or the views of some of the more climate-sceptic tabloids or the Treasury? Which is the dominant influence at the moment?

> ***Mr Davey:*** Our guiding objectives have not changed since I last came to the Committee or indeed I think for a number of years. As you know, we have the energy and climate change trilemma to tackle, the need to ensure the lights stay on, energy security, the need to ensure we tackle climate change by decarbonising the energy sector and to make sure we do meet those two key challenges in a way that is affordable for consumers and for business. I believe we remain on track to meet all three objectives.

Q2 Chair: I am glad to hear your confidence about that. Nevertheless, I think a neutral observer might say that in the last few weeks there seems to have been a focus on a particular issue, which was the cost of the so-called green levies. Do you think what feels a bit like negative rhetoric from some Ministers on the green agenda is damaging investor confidence?

Mr Davey: I like to think that if you look at the investments that have been made in the last two or three years, the announcements we made this year already—£20 billion of low carbon investment consented—and indeed announcements we are very shortly to make, it will show that the run rate of investment, if you like, is where we needed to be, both to keep the lights on and to move to low carbon. In terms of actual projects—firms making final investment decisions, companies going ahead with construction—the investment climate continues to be very positive in energy, probably more positive in energy infrastructure than anywhere else.

To go on the facts rather than newspaper headlines, I think things are good. It also backs up the approach we have taken in the Energy Bill with electricity market reform and contracts for difference because they are long-term contracts and when people sign them they know that they can rely on the price that they achieve.

Q3 Chair: You dismiss the concerns of Lord Brown when he said, "Actions or rhetoric that create risk and instability will make decarbonisation a more distant goal."

Mr Davey: I think it is true that when there is uncertainty in politics, that can be a hindrance to companies and investors wanting to make long-term decisions. In energy and climate change everything is pretty long term, as you will be aware, Chairman. I am not suggesting that some of the noises you hear are helpful. But the fact that we have a very strong legal framework that has been put in place—backed by a very strong financial framework with everything from the Levy Control Framework to the contracts for difference, to ROCs, to Feed-in-Tariffs and so on, backed by the targets, whether it's in the Climate Change Act, in the carbon budgets, whether it is the 2020 Acts or indeed the discussion we are having at EU level on the 2030 framework—that does give investors confidence, plus the very strong record of this country of not doing anything retrospectively.

We have seen with other countries when they have been in trouble that their Governments have acted retrospectively and that has worried investors and companies. We have a very strong record of not doing that. I hear Mr Owen suggesting solar; we didn't act retrospectively on solar, we acted looking forward on the solar PV and the microgeneration point. That does offset some of the noise. I would also point to the majorities achieved under the last Government, the Climate Change Act and the majorities achieved under this Government for the Energy Bill but the Third Reading of the Energy Bill in the House of Commons, fewer than 10 members voted against. All Front Benchers, all three main parties and, indeed, people from all political parties in the House, bar one, all voted to support the Energy Bill at Third Reading. I think it is those very clear practical demonstrations of consensus that help and they help offset what you might call noises off.

Q4 Chair: I should have drawn attention to my interests in the Register of Members' Interests at the start.

National Grid have been sounding off recently about the direction of energy policy and the fact that there are now, in their view—and they are quite well placed to form a judgment—significant delays to new power generation. Do you think investors are getting a clear enough signal to invest in energy infrastructure here?

Mr Davey: I would reiterate the point that we have seen £35 billion investment in electricity infrastructure since 2010. This year consented £20 billion of investment. We will have some very big announcements to make very, very shortly on renewable investments and, indeed, I believe we can look forward to some good news on carbon capture and storage in due course. All these things are the investments that we have been talking about for some time and that are happening. Of course, the biggest announcement I guess this year was the commercial agreement with EDF on Hinkley Point C. Again, something that people have been waiting for, for many years, we are delivering.

Q5 Chair: Why did your department rule out supporting gas storage when the modelling commissioned by the Government shows that would reduce gas prices?

Mr Davey: We did an awful lot of analysis on that and the concern that I have and other Ministers had in the Department was that it would be an intervention in the market that wasn't justified in terms of the interest of consumers. It would have added to bills—and maybe Simon Virley wants to come in on the actual amounts—and we were concerned that this was an intervention that was unjustified. Sometimes, of course, we intervene in the market. The interventions in the Energy Bill are very big interventions. It is not that we are afraid of intervening in the market, but those interventions have to be justified and in this case they were not.

Q6 Christopher Pincher: In 2006 National Grid was forecasting that we would need more gas storage capacity. It said by 2012 that gas storage capacity would double, but in fact we have seen virtually no change in the new and material capacity available, according to this note. We had George Grant, the Managing Director of Stag, in front of us just a few days ago and he made it very clear that because of the Government's decision—a right decision or a wrong decision, whatever it may be—his company is not now proposing to invest in storage capacity in the Irish Sea. It would appear that the decisions that you have made have had a material impact upon business planning and he would contend have a material impact on the cost of gas in the wintertime.

Mr Davey: I am sure there are one or two companies who wish we had made a different decision but during our work analysis there are many other companies who said we shouldn't go ahead with intervention in the gas storage market, they thought it was inappropriate. I don't recognise your analysis that there has been no investment in gas storage. There has been quite a significant investment, particularly in fast-cycle gas storage that enables the gas to be delivered to the network more quickly. I don't have, off the top of my head, the names of the particular gas storage facilities, maybe Simon would be able to help with the particular names. But I had been impressed by the amount of gas storage that is coming on without intervention in the market.

Simon Virley: If I could just add, we have had two gas storage facilities completed in the last year at Holford and at Aldbrough and two more under construction at Stublach and Hill Top Farm. The general point is that the UK has got an extremely liquid gas market and gets its gas from a number of different sources obviously, including LNG and pipeline, so gas storage is just but one part of our gas security.

Q7 Christopher Pincher: What is the gas storage capacity now in terms of Bcf?

Simon Virley: In terms of storage it is about 10% of total gas needs.

Q8 Christopher Pincher: The note I have suggests that it should be around 10 Bcf by 2012, this was based on 2006 figures. Is it anywhere near that?

Simon Virley: It won't be as high as that, but just to reiterate the point, the supply capacity from all our various sources is about 700 million cubic metres of gas from all our different sources. Peak demand last winter was 395 million cubic metres and the record we have seen in the UK was 465.

Q9 Dr Lee: Per what?

Simon Virley: Million cubic metres of gas.

Dr Lee: Per what time period?

Simon Virley: At any particular point.

Dr Lee: But it must be over a time period.

Simon Virley: The instantaneous peak demand in the UK recorded has been 465.

Q10 Dr Lee: Instantaneous, per hour, per minute, per day?

Simon Virley: In a day.

Dr Lee: A day, right.

Q11 Christopher Pincher: The National Grid was wrong in its estimation?

Simon Virley: National Grid have been fully involved in the analysis and have helped support the decision taken by Ministers on gas storage.

Mr Davey: If I can add, obviously I have met with the National Grid's Chief Executive and Chairman and we talked about security of supply, both on the electricity supply side and on the gas side. We obviously had discussions not just with them but with Ofgem and officials. In terms of the resilience and robustness of gas supply, now and in the future, we have a very robust system in the UK because it is so liquid.

It is often reported in the media that because storage is more limited here than in some other countries, we somehow have a problem. As Simon was suggesting, that is absolutely not the case, because we have gas coming from the North Sea and from the continental shelf, we have gas supply and gas pipelines both to Norway and to the continent, and also we have seen a very big increase in LNG terminals. That diversity means that we don't need as much storage as some other countries do.

Q12 Dr Whitehead: On the question of interconnection in the capacity market arrangements, you have indicated in the latest EMR implementation document, "We have been unable to find a solution that the Government believes offers a practical solution for the first capacity auction in November 2014" as far as interconnection is concerned. Yet we have heard evidence recently from a number of potential bodies interested in interconnection that they consider that having interconnectors involved in capacity auctions at the earliest possible stage is essential to getting those under way over the next period. Why have you not put interconnectors into the first capacity auction?

Mr Davey: I was very keen to and we spent quite a long time seeing if we could make a model work that was acceptable with single energy market principles in the EU. We did come up with what we thought was an ingenious package, which would have enabled that and, indeed, officials in the Commission thought it was an ingenious package. But it didn't work as well as we hoped technically with the target system of the single energy market and, therefore, we felt and the Commission felt we could not proceed with it, but we are still engaging with that.

The capacity market auctions are going to be run, as you know, not just for one year but for a number of years, and although our design for enabling interconnectors to bid into the capacity market is not going to be ready for next year, we hope and believe and want it to be ready for the second capacity market auction. I don't know, Simon, if you want to add to any of the technicalities around the model we had and how it relates to the target system.

Simon Virley: That is exactly right, it just is a case of making the policy consistent with the rules of the single energy market and that is quite a complicated issue. The policy intention absolutely remains to have interconnection to be able to play its full part in the capacity market as soon as possible.

Q13 Dr Whitehead: Is it not the case though that the 2014 auction will pretty much set the standard for auctions in general and will be, as it were, the big one?

Mr Davey: It will be an important first one but I would imagine we will learn from that experience. I would imagine that the next capacity market auction in 2015 will be different, having learnt from the capacity market auction in 2014. I think this Committee will expect us to do that, plus we are on the record, both in the document you have said and here again today, that we would like to make a change definitely for 2015 if we can make the technicalities work, dealing with the issues we have explained, to enable interconnection supply to feed into the capacity market.

Q14 Dr Whitehead: Bearing in mind what you have already suggested as, effectively, sub-auctions for things such as demand-side management, would you have any intention of creating any sort of special auction arrangement to bring interconnection on once it is in the auction process?

Mr Davey: That is not our thinking at the moment because they are quite different things and interconnection is more of a standard capacity because at the other end of the pipe there is a power station of some sort, if it was in Norway, maybe a hydro power station or a wind farm, say, that was in Denmark. It is more of a similar technology, just a different connection coming from a different jurisdiction. On the first sight of it the idea of a sub-auction is not immediately attractive, so it is not what we are looking at at the moment. It is worth saying that I hope in the first quarter of next year we may be able to publish, and very happy to share with this Committee, our approach to interconnection more broadly.

We are doing quite a lot of work in the Department because we are not as interconnected to the continent or indeed to our other neighbouring countries as I would like and it is sensible for pushing down on prices and improving energy security more generally. That is, I think, an issue not just for the UK, but for Europe as a whole. The lack of interconnectedness in Europe, the lack of some essential grid infrastructure for making the market a practical reality is an issue that should have been dealt with before. I am keen that both the UK and the EU, as a whole, deals with it.

Q15 Dr Whitehead: By next spring you might have some sort of target as to how we get back from the present—about 3%—position to even say the European—

Mr Davey: I think it is about 5%. There was a target some time ago set up under the last Government of 10% and we got nowhere near that. Whether we will do it in the form of a target, that would be prejudging the outcome of the work that is already ongoing and indeed potential discussions in this area at the European level. We may have discussed it at a previous outing but working with my Danish counterpart, Martin Lidegaard, I took initiative last year to set up something called the Northern European Energy Dialogue and we had the second meeting here in London in October.

The purpose of that dialogue is to get countries in northern Europe to discuss the barriers to investment in grid infrastructure, exchange thoughts about what it is with not just individual countries' energy policies but European policies getting in the way of building this essential infrastructure that will be the reality of an energy market.

Q16 Dr Lee: Secretary of State, a lot of big figures are bandied around in this sector and I just wonder, are you confident that your Department has a thorough understanding of the economics of the energy industry?

Mr Davey: Yes, 100% confident. If you are saying that we have absolute grip of every single aspect of economics and finances and we could not improve and, therefore, we are perfect, I am not going to say that. There is always room for improvement.

Q17 Dr Lee: Right, okay. Recently Centrica and RWE have expressed concerns about the economics of the energy industry and it is rather perverse because last week the economics did not stack up for the £4 billion Atlantic Array and yet in the media you get that the profits in the big six have gone five times higher now than they were in 2009. These two things do not seem to make sense to me. If you are making big profits, how come you are not investing in the energy industry?

Mr Davey: There are two or three things going on there in what you have said, Dr Lee.

Dr Lee: No, there is not.

Mr Davey: I think there is.

Q18 Dr Lee: If companies are profitable and making significant profits, why would they not want to be investing in our market?

Mr Davey: Let me explain why I think there are one or two things going on in your question. The first is that you used Atlantic Array to suggest investment wasn't going forward. If you look at the decision that RWE took on Atlantic Array, we are pretty clear, and they have been clear to us, that it wasn't to do with economics. It was to do with technical issues, particularly the geology of the sea bed in that area off the Devon coast.

Q19 Dr Lee: The quote is, "Economics do not stack up."

Mr Davey: Yes, but why would that be? It is because they found that the geology of the sea bed makes it far more expensive to invest than they had expected. I would hope this Committee wouldn't expect either the Government or a company to invest in something that has turned out to be far more expensive than they originally thought.

Q20 Dr Lee: Okay. Do you think the big six companies are profitable? Do you think they make profits?

Mr Davey: They are reported to make profits and Ofgem did a recent analysis that showed that they were making profits.

Q21 Dr Lee: I ask this as it depends, I guess, on how you look at it. The gross profit reported of £65.8 billion and yet if you look at it in terms of total shareholder return or economic profit the cumulative economic loss of the big six since 2007 is £59 billion and more than 50% of that £59 billion is EDF, the people who were expecting to help build Hinkley Point. Who is right? I do not quite follow.

Mr Davey: Obviously different profit levels and profit analysis may depend on the years you choose. If you choose a base year—

Q22 Dr Lee: I have chosen a six-year period and I have been given this graph, which is the only companies in a six-year period on a measure of economic profit that have made profits, and it is modest, are Centrica and SSE. Iberdrola, RWE and EDF all make significant losses, most of which have occurred over the last three years. In view of the fact that the Government is an investor in these companies by giving them subsidy, are we confident they are going to be around in the next five years?

Their shareholder value, most of them are going south, a couple are going north but most of them are going south. Is this a banking-crisis equivalent and it is about to happen? What they are relying upon is the State is going to have to step in to keep the lights on.

Mr Davey: I think you are making a very interesting point because quite a lot of the political debate suggests that these companies are making huge profits and you are pointing out that—

Dr Lee: But they are not making any, according to this analysis. With the exception possibly of these two they are making significant losses.

Mr Davey: I am saying you are making an interesting point because some of the debate is assuming that they are making massive profits and it may be that I am asked questions later on by other members of the Committee suggesting that they are making massive profits. You are making an argument that I am saying is an interesting one that some of them are making losses. It does depend on the timeframe. I have figures in front of me that show for the last four years from all segments—that is generation and supply—the average profits for the big six were all positive.

Q23 Dr Lee: But this is the point and it leads into the next question, it depends how you assess profit. If, on the other hand, you say net-operating profit after tax is X, have you taken into account the charge for the capital? Most of these accounts, if not all of them, they do not take in the charge for capital into it. If you minus that from the net-operating profit you get that, which is the economic profit, which is, i.e. an economic loss. What is an appropriate return on capital because Ofgem told me last week that—to be honest with you he did not know—4% to 6% return on capital was acceptable?

I am being told that most of these energy companies are charging in excess of 8% to 9% for their capital. There is a gap of 4% to 5% between the two, just like that. They are just operating losses, immediately they are just losing money. It is why I asked the initial question, are you confident about your Department and its understanding of the situation because that is not being reported in the press? The press is all about these big energy companies. John Major is talking about windfall taxes, on what? Where does the windfall tax appear on that and they are losing money?

Mr Davey: I am making the point to you that it does depend on which period you are talking about.

Dr Lee: Six years.

Mr Davey: I would also make two points, I was quoting the last four years in my figures. Obviously if you take different base lines you can get different figures, which I am sure you appreciate.

Dr Lee: Yes, of course, sure.

Mr Davey: Also—and it would be interesting to share a different analysis—it depends on which parts of their business you are talking about. I am not just talking here about the difference between supply and generation but also which part of their companies are in which countries. You will know, because we are a very open economy, that we have a French company, two German companies, a Spanish company owning four of the big six. Therefore, in terms of the profit analysis, are those profits on their whole global—

Q24 Dr Lee: Yes, yes, this is all declared accounts in the public sphere in all countries.

Mr Davey: Okay.

Dr Lee: It is generation, trading and supply.

Mr Davey: That is relevant because clearly if you are on the board of one of those companies and you think it is easy to make a profit on investment in a particular jurisdiction, for example the UK, than it is, say, for example, in Spain you may decide, "Well, you have to in invest in the UK because they have a sensible investment framework, one that we can back and we are not going to invest elsewhere". So it does not automatically follow from the analysis you are putting forward that people would not invest.

It is also worth making the point that a lot of the investment that we are going to see in the UK over the next few years, which is essential investment, you will agree, won't be coming from the big six themselves. Clearly, they have very strained balance sheets, some of them particularly strained, and our economists in DECC have not been expecting that they would be self financing or even going to debt markets themselves to fund the projects but they will be partnering up with finance houses, banks, other investors from Europe and elsewhere. It is simply not true to say that we expect the lion's share of the investment simply to come from the utility companies; it is going to come from other sources of capital.

Q25 Dr Lee: Final question. If this is an accurate analysis, presumably you must have some lifeboat options in the Department, if, say, EDF ceases to exist, if E.ON just withdraw totally. Presumably you have people working on worse case scenarios because my concern is, and it was a pretty sobering meeting with the people who presented this to me, we are sleepwalking into a similar banking crisis equivalent where everybody makes decisions, some of them I did not agree with, to intervene in the market in a panicky way because they are worrying about Armageddon and collapse and everything else. Do you think there is possibly a case here for the Department to be working on worst case scenarios because the impression I get from this is that we are potentially cruising to lights out, managed power cuts in different regions type scenarios here? I would not want us to find ourselves as a country not being able to function properly because we had not anticipated the possibility that these companies would cease to exist.

Mr Davey: Let me try to reassure you because I do not think the Armageddon scenario you described is at all likely and it is not going to happen frankly.

Dr Lee: I will keep you to that, Secretary of State, because if a company like EDF has lost this amount of money in this short period of time it strikes me it is more than possible.

Mr Davey: I don't think it is going to happen. If you look at our strategy for electricity security supply, just take that to start with. We have published detailed documents last month on our strategy and where we believe we are at. We have three interlinked strategies. First in the short-term, National Grid and Ofgem are using the balancing powers they had in the 1989 Electricity Act to make sure that they will be able to meet any peak demand. We believe that the margins are fine for this winter and for next winter. They are tighter from where they were but we believe they are fine and having the supplemental balance in reserve options, which National Grid and Ofgem are currently consulting on, will give us that extra reassurance that I think the public and industry require.

Going beyond that towards the back end of this decade one of the reasons why we are doing the capacity market auctions, we were discussing before, is to ensure that we are incentivising that backup capacity to come both on the demand side and the supply side. Of course the longer term issue with security to supply is the whole of the Energy Bill. So I think we have some extremely well thought through developed strategies. I do not see the problems that you are suggesting, not least because when I am talking to investors in all forms of the energy infrastructure, from all around the world, they think the UK is a very attractive proposition because we have our act together.

Q26 Albert Owen: Before I bring us back to annual report and accounts, can I mention two things? Following on from what Dr Lee said, I thought you and I, Secretary of State, are now big fans of nuclear power. I have been a fan a bit longer but we are both now fans of nuclear power. Are you not disappointed that four of the big six companies in the United Kingdom decided not to invest in nuclear and one of them, Centrica, for instance, which has recently pulled out of Hinkley, is investing in tar sands in Alberta. What sort of message does that send? Aren't you disappointed that four of those big six companies pulled out of the nuclear programme and we had to rely on the Chinese because they thought it was too long term?

Mr Davey: I don't think it is for me to say I am disappointed a particular company has not invested in a particular technology.

Albert Owen: Okay, in general four British companies decide not to invest in Britain and we have to rely on the Chinese and they are prepared to invest in cheaper sources overseas.

Mr Davey: Well, EDF is not British for a starter. We did, at one stage, have three of the big six going to invest in nuclear. The two German utilities, because of issues back in Germany, decided to pull out, as you are aware.

Albert Owen: Centrica was going to—

Mr Davey: Indeed Centrica was and they pulled out, so we are left with one of the big six. Nevertheless if you look at the interest in Britain's nuclear market you see a huge interest. You see Japanese companies, particularly Hitachi of course, working with GE and indeed—

Albert Owen: Absolutely. Very welcome.

Mr Davey: —British companies, because the British nuclear supply chain is building up fast and we have seen interest from around the world from many global companies. It is worth saying that because of the lack of decisions in this area over a protracted period the British nuclear supply chain has contracted. While we do have some very—

Albert Owen: With respect I was not talking about the supply chain. What I was talking about was direct investment in these capital projects.

Mr Davey: If things had not gone as they have over the last 20 to 30 years we might have had a UK company with a nuclear reactor design but we do not. So, inevitably, because we do not have a British owned company with a nuclear reactor design we are going to have to go to companies that have their HQs in other countries.

I would just go back to your initial remark, Mr Owen, I may be a relatively late convert—

Albert Owen: You are a welcome addition.

Mr Davey: —to nuclear but I should say for the record, firstly the two reasons I have changed are because of the threat of climate change, and secondly because I believe we can do this in a value for money way. Thirdly, I am quite proud that I persuaded my party to change its position—

Albert Owen: So did I a long time ago.

Mr Davey: So there we have yet another thing in common, Mr Owen.

Q27 Albert Owen: Absolutely. The other one I am interested in is to follow what Mr Pincher had said with regard to gas storage. Again, we had a cold snap this year, we have just taken evidence, and in that evidence session we raised the point that it was Centrica's CEO who said that we were a few days short of running out, this year, of gas. You talked about four projects coming online. If we have a cold snap now, how dangerous is it that we will run out of gas because we cannot just turn tankers around that are heading east from Dubai and the Middle East?

Mr Davey: I know the CEO of Centrica has a particular position on this. He has lobbied very hard that we should intervene in the gas storage market, very hard indeed, but I have to say I disagree with Centrica's position based on the analysis that we received. So we rejected his advice—

Albert Owen: We did run pretty low and my point is—

Mr Davey: I beg your pardon?

Albert Owen: We did run pretty low on gas in the cold snap. That is generally accepted.

Mr Davey: I am not sure if it is generally accepted. There were some newspaper headlines and some people, who had a particular interest to pursue, who wished to make that argument but I make my argument back to you that one of the reasons why we are more confident that people can be reassured about the security of gas supplies is because we have such diversity. One thing we saw when there was a little bit more time, this is because of a whole range of other measures that came together, we saw the gas market working. We saw prices gradually lifting up. We saw LNG ships that we were bound for other countries coming to the UK as the market worked. Therefore, it backs up our position, our analysis that there was no need for an expensive intervention that would have put up consumer bills—

Albert Owen: It did.

Mr Davey: —to offset that.

Albert Owen: It did.

Mr Davey: I beg your pardon?

Albert Owen: It did put up consumer bills quite considerably, which is why you made the statement yesterday.

Mr Davey: No, I think we are—

Albert Owen: We are not mixing it up. One of the reasons—

Mr Davey: With respect, you are mixing things up totally.

Albert Owen: One of the reasons the big six said that the prices went up, one of the big reasons, and you say we cannot control it, was because of high gas prices. Six of them cannot be wrong.

Mr Davey: Okay. Well, Mr Owen, you are right to say that high wholesale gas prices have been the main reason why energy bills have gone up in this country over a period of years, for the last 10 years frankly, but it is not because of the lack of security of supply of gas. It is true that when we have a tighter supply of gas we can see some peaks for very short periods but that is not the main driver of higher gas prices. That is much more an international market phenomenon.

Albert Owen: Okay. That is not what they told us. You need to check the—

Mr Davey: I would be surprised if they suggested that it was a security of supply issue and not the international gas market.

Albert Owen: One of the reason the bills have gone up this year, and all of them have announced it bar one, was to do with the gas prices and the fact that we had a very cold spell and that is the point I was making. Whether you can look into the economics and the modelling of that, that is the reason they gave us.

Q28 Albert Owen: I do want to move on to annual report and in particular personnel matters. According to your annual report there is still, for the second consecutive year, a high level of turnover of staff and you have an underspend of some £650 million. This does not sound like a department that is controlling either its staff or its budget correctly.

Mr Davey: I will let my Permanent Secretary come in in a second. We certainly have seen some changes in the Department but if you look at our staff surveys, which is one way of deciding whether or not staff are happy there, we do have a score that is higher than the civil service average. One thing I am very proud of for DECC is the commitment and motivation of the officials and I would like—

Q29 Albert Owen: So why are so many staff leaving if morale is so good?

Mr Davey: There is one reason but I am going to hand over to the Permanent Secretary who may know a bit more of the granular detail of what is in the staff survey. The

Department was formed about four and half years ago and it is not unusual for officials to stay in a particular department for four to six years before they move on. That is something that is quite common in the civil service so it just happened there has been a little bit of a bulge. What is very interesting, we have been not only having relatively good staff satisfaction scores but we have been able to recruit and recruit at a very high quality level. At this point I turn to—

Q30 Albert Owen: You must have done it cheaply if you have an underspend of £650 million.

Mr Davey: We manage our resources very well.

Stephen Lovegrove: I think there are a few reasons why we have a reasonably high turnover of staff. One of them is certainly the one stated by the Secretary of State, which is that we are four to five years through, there is a four-year churn, so there is, inevitably, a sense where some of our staff is coming to the end of that conveyor belt.

One of the other things about our staffing at the moment is that if you look back at our capability review there was a very clear message there that we needed to upskill some of our, particularly, commercial capability within the Department. We have been thinking about that hard and that inevitably means that there is a degree of change and churn in the Department. Certainly we have seen a lot of new people coming in and inevitably some of the other people have been displaced.

I think also the Department has a more than usually low average age, which means that the portability of people and in the way that they think about careers means that they can move in and out quite a bit. In general the Department is in a good place in terms of morale. The very recent staff survey has made that absolutely abundantly clear. On nearly all measures, in fact pretty much all measures apart from one on the front page of it, we are up; 79% of staff in the Department are very happy about their work, 87% understand the organisational objectives and purpose, 81% enjoy working with their team. So these are very confident—

Q31 Albert Owen: These are people that are currently in the Department.

Stephen Lovegrove: They are people that—

Q32 Albert Owen: Did you survey those people when they were leaving? That might be a good idea.

Stephen Lovegrove: Yes, it would be a good idea and we will look into that. We don’t normally do exit interviews and we should, maybe, do more of those.

Q33 Albert Owen: Can I ask as well, you mentioned, Secretary of State, a couple of bulges, I think that was your term, did you use that term?

Mr Davey: I am making the point—

Albert Owen: I am trying to find a link so say yes or no.

Mr Davey: I was using the term, I think, on the context of people having come up to sort of a four year period in the Department.

Q34 Albert Owen: Okay. I want to ask a direct question. There were two bonuses paid, which were quite large bulges, between £20,000 and £30,000 to board members. Do you think that should be the case? Do you think you should be paying bonuses?

Mr Davey: We abide by the very strict rules, you expect them to be strict, within Whitehall and we would not go beyond those.

Q35 Albert Owen: Yes, okay. You say morale is not low, but that is not what we believe to be the case. I don't accept fully your argument, by the way, that this is a new department and that people want to leave after four years. I would have thought a new company, an innovative Secretary of State moving them forward and all these things that people might want to stay so I don't fully accept what has been said there.

Mr Davey: It is hard to believe that sometimes they get even better offers.

Albert Owen: They even get better offers than you. Okay. We will move on.

Q36 Albert Owen: You mentioned, Mr Lovegrove, about having new staff. Are you confident with what has been going on in energy, which we have been scrutinising in the Department that you have the necessary skills to plug the gap?

Stephen Lovegrove: I am confident that we know what the capability gap is and I am confident that we are plugging it, but am I confident that we are at the end of that process? No, I am not in fact. I definitely know that we are not at the end of that process. I think we are probably slightly more than half way through in terms of upskilling some of the people in the Department.

Q37 Albert Owen: Specifically on those that you are recruiting, or are about to recruit, how many of those have the necessary project management or commercial and technical skills that are needed in a changing department?

Stephen Lovegrove: Most of the people that we are recruiting at the moment have commercial skills, either from the industry or from the financial services industry plus we are recruiting quite a lot of lawyers and accountants. In a department of, at the moment, about 1,600 people, 200 of them have formal project management qualifications. There is always more that we can do and that does not mean that even the people who do have formal qualifications cannot improve but I think we are definitely moving in the right direction. We certainly have a very clear understanding of the challenges ahead of us.

Q38 Albert Owen: Can I ask the Secretary of State a question that I have asked him before and he has not answered it directly? I am serious about this. You have one half Minister less than you had previously. Have you lobbied the Prime Minister to have two full-time or three full-time Ministers in your Department?

Mr Davey: No.

Q39 Albert Owen: Why?

Mr Davey: Because I observe that Mr Fallon, who is, I think, the Minister you are referring to, is a very hard working and very talented individual. Moreover, the fact that he is linked into the Department for Business is extraordinarily helpful for my Department. A lot of the work that we are doing, for example, the—

Q40 Albert Owen: Was it your idea then?

Mr Davey: It wasn't my idea. It is not my idea to appoint Conservative Ministers.

Albert Owen: No, okay. We have done with the politics of it then, but my point is not personalities, Secretary of State, it is the fact that you had a permanent Minister of State and now you have a part-time Minister of State replacing him at a time when energy is very high on the agenda. I think the British public want to know why and you have just said you are quite happy with having a part-time Minister of State.

Mr Davey: I think it is very easy to bandy about the term "part-time".

Albert Owen: He works in two departments.

Mr Davey: I see someone who is very diligent. When I see the way he works with industry, the way he works with officials, the way he works with other Ministers, he is completely on top of his brief and—

Albert Owen: Listen, I am not getting involved in personalities. I am asking a very specific question. I think I have exhausted that.

Mr Davey: I can only go on what—

Albert Owen: I do not think I have anything else on personnel to ask.

Q41 Chair: Is there anything the Secretary of State wants to add to this line of questions from Mr Owen?

Mr Davey: No.

Q42 Mr Lilley: With reference to that I thought Mr Owen was also going to ask about fracking but given that the Department is making lamentably slow progress on getting any fracking done could that be because even with a Minister of Mr Fallon's talent, which I do not underestimate at all because I think he is extremely good, if he is not full-time driving that forward nothing is going to happen?

Mr Davey: First, I make the point that my Department does not frack. My Department creates the regulatory framework for fracking and, therefore, we do not take the commercial decisions to frack. As you would expect, Mr Lilley, that is something done by individual companies. When we speak to the number of companies who are engaged in the fracking opportunity they tell us that we have the best opportunity in Europe, we believe we are leading the pack in Europe despite the fact that some other countries, we are told by the experts, have potentially a better shale gas opportunity. So I do not recognise your analysis.

Q43 Mr Lilley: I talked to the companies and they say they are not going to be able to drill a well for 18 months.

Mr Davey: That is not what they tell us.

Mr Lilley: I cannot believe it.

Mr Davey: Let me give you one example. I may want to bring in Stephen here who is looking after, in a very senior capacity, the Office of Unconventional Gas and Oil, which is in our unit, which is driving this forward. The last time we talked about this Cuadrilla were looking to drill again for shale gas in Lancashire but they were looking for planning permissions at the county council level before they come back to us having got all the other permits. I believe that is the case. Although I cannot speak for Cuadrilla about when they are going to have that completed I think the idea is that it is 18 months away is simply not the case.

Q44 Mr Lilley: When do you expect them to drill?

Stephen Speed: I do not have specific details for specific companies but there are—

Q45 Mr Lilley: Is it rather suggesting you are not on the board. This is a national priority and you do not even know when the next well is going to be drilled.

Stephen Speed: No. There are four companies that we know about who have plans to drill in four counties in England.

Mr Lilley: But you do not know when?

Stephen Speed: The "when" is answered by when they get planning permission, when they get their environment permits from the Environment Agency, when they get the safety case approved by the HSE and when we give them the final sign off in terms of their licence to put the drill in the ground.

Mr Lilley: They tell me that will take 18 months.

Stephen Speed: It can take 18 months in an extreme situation but a lot of these companies are not at the start of the process.

Q46 Graham Stringer: Where have you made demonstrable progress against your four stated priorities over the last year?

Mr Davey: I think we have made a lot of progress. If you look, for example, at the progress in investment we have made big progress there. I can particularly point to the commercial agreement with EDF on Hinkley Point C. I think that is very important.

In terms of thinking about consumers, which is one of the things I am most focused on, not just with the announcement that we made yesterday but in terms of competition and energy efficiency. In terms of climate change we are doing a lot of work at the European level. I set up the Green Growth Group at the European level to argue for the EU having ambitious 2030 targets and recently attended the climate change talks in Warsaw, which ended up in a very reasonable and satisfactory place.

In terms of the legacy, what the NDA in particular is doing, the decision to give another contractual period to NMP with the stronger performance measures that are in that shows we are making progress there.

Q47 Graham Stringer: Obviously from your point of view the key objectives are to deal with climate change and progress to a low carbon future, which is what—

Mr Davey: And affordability and energy security. The three objectives that I started off—

Graham Stringer: Four objectives.

Mr Davey: Sorry, we have departmental four things and we have the three objectives so I was, maybe, getting confused that you were talking about the four core departmental things, which save energy with the Green Deal: support vulnerable consumers; deliver secure energy, which is all about investment; talking about ambitious action on climate change, which I talked about, and the management of energy legacy. I thought you were talking about those, which are in the report.

If you are talking about the three overarching objectives, which I started my presentation with; they are in a separate box.

Q48 Graham Stringer: I am grateful. We are clear on that. It is a question I have asked in less detail on the floor of the House, in terms of those objectives at the moment this country's and Europe's carbon footprint is increasing and people are paying higher bills because of the renewables obligation. In real terms, although emissions are down, in hitting those objectives you are going backwards, are you not? When is the carbon footprint of this country and of Europe going to reduce?

Mr Davey: If you are looking at the carbon footprint, since the Government came to power we have reduced carbon emissions. It is true to say that in the last 12 months we have seen a small increase. The main reason for that has been that we have been burning less gas than expected and been burning more coal than expected, so carbon emissions in the last 12 months are indeed up. That justifies what we have been talking about in terms of moving to lower carbon and the reform to the electricity market, which will move away from coal and move to cleaner fuels like gas, particularly with the capacity market, and move to low carbon so that will deliver our carbon objectives.

As to your point on higher bills, you were blaming higher bills simply on the renewable obligation, which is simply not the case.

Q49 Graham Stringer: No, I think you are missing the point. I am not talking about emissions, emissions are up. I am talking about the total carbon footprint of the amount of carbon that this country is responsible for because what seems to be happening is that although emissions before this year are down, because we are importing goods that are produced less efficiently and have to be transported here, our overall carbon footprint is up, which I think you have accepted.

> ***Mr Davey***: I am not sure if it was in answer to you, Mr Stringer, but I think it was the last time I came to this Committee I made the point that when one looks at embedded carbon in the goods and services that people consume and do an analysis on that basis, it is true that the carbon footprint of different countries changes from an analysis that is based simply on emissions. I think that is clearly stating a fact. At the moment the Climate Change Act and the carbon agreements internationally, whether it is at EU level or the UNFCCC are based on emissions and on an emissions basis, bar the last 12 months, we have seen them on a downward trajectory.

Q50 Graham Stringer: I accept that the Climate Change Act is based on emissions. What I want to know is, are you not concerned that, if you are concerned about the future of the planet, we are responsible as a country now for more carbon going into the atmosphere than we were previously. I am not just talking about emissions I am talking about our whole carbon footprint from importing manufactured goods and at the same time—not the total reason bills are going up—for that change in the carbon footprint people are paying higher bills for a worse product. When is our carbon footprint going to go down?

> ***Mr Davey***: You make the case for an international agreement because—

Graham Stringer: No, I do not make the case for an international agreement—

> ***Mr Davey***: I think you do—

Graham Stringer: Just let me say what I mean if you are misunderstanding it. I am making the case that the policy that the Government is pursuing is counterproductive at the present time. I am asking you, following these policies, when is the country's carbon footprint going to reduce?

> ***Mr Davey***: We expect it to reduce in terms of emissions. By 2050 our target is to reduce them by 80% on the 1990 baseline. You are changing the measure of success on climate change for this country and I understand why you are doing that. I understand that there is a debate about how one measures, overall, the carbon performance of any one country, but given that we live in a very interdependent world economy, where we are buying and selling goods all over the world, it makes the case for having a global agreement and attacking climate change internationally. I strongly agree with it.
>
> If Britain simply did all the right things on climate change and did not worry about anyone else it would not get us very far, which is why working at the European Union level and working at the UNFCCC is so important and critical to our climate change action.

Q51 Graham Stringer: I will ask the question again in a different way if I may because the fact is that the Government's policies are producing the opposite effect. What you are saying to the Committee, I think, is that without international agreement rather than reducing this country's contribution of carbon into the atmosphere we are going to increase it without an international agreement following the policies we are following. Is that an accurate assessment of what you have said?

Mr Davey: No, it is not.

Graham Stringer: Why not?

Mr Davey: Because the policies we are pursuing in the energy and climate change space are indeed going to reduce our carbon emissions and our carbon footprint. It is true to say that there are bigger international economic industrial trends that are completely outside this space, which have seen some countries—particularly China, but not only China—take up more of the manufacturing goods share of the global market than they did in the past. That is why it seems to me sensible, not only that we should take action to move to low carbon, we should work with our friends and partners around the world to help them take action.

Q52 Graham Stringer: What is the point of pursuing a policy that increases carbon contributions to the atmosphere by subsidising Chinese imports into this country?

Mr Davey: I do not believe we do subsidise Chinese imports into this country.

Q53 Graham Stringer: We are effectively putting the costs of our energy production up, which makes our goods less competitive against Chinese goods, which help those goods, which increases the amount of carbon going into the atmosphere.

Mr Davey: I do not accept that analysis. To try to give you as helpful an answer as I can, it was very interesting that there was a report by the International Energy Agency recently that was looking at competitiveness in energy prices across the world. It particularly focused in the competitiveness of the EU versus North America, where that is the largest differential. It is a more significant differential with respect to energy prices than the EU and China. So I am trying to help you make your case. However, when you look at how the Chief Economist analyses the difference in energy prices and the impact on competitiveness between Europe and North America, they find that climate change policies explain almost no part of that difference. By far the greatest part of that difference is explained by shale gas, and I can give you a quote from Fatih Birol, who is the IEA chief economist. The report I have here suggests that, "The analysis found that even if Europe had no price on carbon, the 10% decline in international market share would be reduced only to a 9% decline. The difference is minimal, if not negligible". He goes on to say and to be reported that he suggests that Europe continues with our green measures to tackle low carbon but understands the competitive impact of shale gas, and shale gas production in North America. Essentially what they are saying is, if Europe got rid of all our climate change policies it would not help the energy competitiveness problem between the EU and North America, because that is really being affected by a recent change in the terms of trade because of the shale gas phenomenon in North America.

Graham Stringer: I agree with that, but it is all essentially about the price of energy. Thank you.

Q54 Chair: For the avoidance of doubt, there are some members of the Committee who very warmly welcome the Chinese investment in the British nuclear industry, and I hope it is the start of a series of future investments along the same lines.

Mr Davey: As you know the Prime Minister is currently in China encouraging even more investment.

Q55 Chair: Yes. So we can clarify the point, have we closed the deal at Hinkley Point? Is the money now on its way?

Mr Davey: No, no, no. What was agreed and was announced, after which I made the statement to the House, is a commercial agreement on the key heads of terms. We shared the headlines with the House. What is now happening is still continuing negotiation, particularly with EDF and its investor partners, and we expect and hope to sign a final investment contract with EDF and their co-investors towards the middle of next year. That is the current timetable. Do you want to add to that, Simon? No.

Stephen Lovegrove: There are also the terms of the UK Government guarantee, the Treasury guarantee, which are yet to be negotiated as well. So there is some hard pounding yet to go.

Q56 Ian Lavery: Every opportunity you get you absolutely hammer coal. Every speech you make you hammer coal. Yet at the same time it is producing probably up to 50% of the electricity generated in the UK at this point in time. If we were successful in getting the coal altogether and replacing it with gas, which is not as dirty but it is a fossil fuel, if we could replace all the coal generation, the coal burn, with gas and perhaps shale gas as well, would we be in a position to meet our climate change objectives in terms of emission level targets?

Mr Davey: It would certainly help to meet our—

Ian Lavery: But would we meet the targets?

Mr Davey: Well, I was going to say that it is certainly going to help us in the shorter term some of our early carbon budget, it would make a contribution and in fact that is what we are going to see. I think a lot of the replacement for the coal power stations that are closing will come from gas as well as actual low carbon. Longer term, by the time we get to 2050, we are going to have to see gas power plants that are abated that have carbon capture and storage.

Simon Virley: If I could just add to that, a new gas fire power station might have emissions of about 350 to 400 grams per kWh. The Committee on Climate Change recommended that to be on track for our long-term targets you would have to be down at 100 or south of 100 grams per kWh by 2030. That is what their advice to the Government is. So just relying on that measure would not get you towards those targets.

Q57 Ian Lavery: Secretary of State, why do you continue to say that we need to get rid of the coal burn, we need to get gas in because it is not as dirty, and it does not pollute the atmosphere as much as coal and that is the way forward? In reality it is not the way forward because, as Mr Virley has just said, the result would be that we would not meet our objectives come 2030, and perhaps not even 2050.

Mr Davey: I do not think that is what Mr Virley said. What he said—

Q58 Ian Lavery: I am not thinking what he is saying; I am just listening to what he said.

Mr Davey: Simon may want to clarify what he said, but let me—

Ian Lavery: It is him that is wrong not me.

Mr Davey: No. I think what Simon said—and you confirm, Simon, whether this is right—is that by 2030 our overall energy mix has to have about 100 grams per kWh of carbon. That will mean in that overall energy mix there will be some forms of electricity generation that have less than that 100 grams per kWh and some that have more. Overall, it will be an average of 100. Is that about right, Simon?

Simon Virley: That is correct. What I was saying was, if you just wanted to rely on coal to gas switching it would not get you to the kind of low carbon trajectory. You would have to have low carbon generation, which is why we are investing obviously in trying to make nuclear happen, renewables and carbon capture, to make sure that we have an overall mix that is consistent with our 2050 target.

Q59 Ian Lavery: Is carbon capture integral to the emissions target?

Simon Virley: In the long run, yes.

Mr Davey: By the way—and this hopefully will cheer you up a little bit, Mr Lavery—if we get carbon capture and storage there is a future for coal plants.

Q60 Dr Whitehead: As you move forward over the next period, the departmental budget is effectively going to be dwarfed by what is in the Levy Control Framework, is it not?

Mr Davey: That is true. I am not exactly sure what the Department's budget will be—

Dr Whitehead: Yes, tiny I should imagine.

Mr Davey: —but the Levy Control Framework will be up to a maximum of £7.5 billion and I very much doubt the Department budget will be that high.

Q61 Dr Whitehead: So how over the next period are you going to be able make decisions as to what you and the Department put funding into to support, and what it is you are indirectly supporting through effectively another department's limiting of a budget through a Levy Control Framework as a putative tax and spend?

Mr Davey: Sorry, Mr Whitehead, I am not sure if I have the nub of your question. Do you remind repeating it?

Dr Whitehead: On the number of issues that are centrally important to the Department in terms of its investment in its own targets, the Levy Control Framework will be the place where that funding will be determined through the putative tax and spend theory that is behind how the Levy Control Framework works. But presumably you will want to have some measure of control within the Department over what you put departmental resources into in terms of your own targets. Will you be adding what you do in the Department to the Levy Control Framework, or will you be saying, "The Levy Control Framework will take over from our own departmental priorities for our future spending"?

Mr Davey: We will still have departmental priorities and we will still have a budget to do many, many other things, whether it is nuclear decommissioning with a legacy, whether it is climate change negotiations, whether it is energy efficiency programmes, smart meters and all the other aspects of what we are doing now. But I am not alarmed to think that the Levy Control Framework is going to be larger than the budget. Indeed I fought very hard to have a large Levy Control Framework because that is important for the investment in low carbon electricity, which is important both for security of supply—keeping the lights on—as well as decarbonisation.

The Levy Control Framework, while it is a different sort of animal from the Departmental budget, for the reasons you are well aware, we still have degrees of control on how that is allocated. Indeed, in the agreements we have across the Government it is DECC who decide how that money is allocated. Increasingly, as we move to the market the allocation will be determined by the market but, as you are aware, over this period we are not just investing in plant to bring on low carbon technology, but we are trying to support immature technologies and develop them because we know where they will be needed in the 2020s and 2030s. So it is important, as we allocate that Levy Control Framework, to both get really good value for money in the short term but also to get value for money in the long term.

Q62 Dr Whitehead: So we have Treasury in the bed as far as the overall shape of the Levy Control Framework is concerned. We have DECC in the bed as far as being able to control to some extent what goes where. We have a third bedfellow, have we not, in the shape of the Office for National Statistics who may well define particular efforts of the Department as inside or outside the Levy Control Framework over the next period. We hear that, contrary to what I think some of us understood about ECO being outside the Levy Control Framework, it is the case that ONS has simply not determined whether it is putative tax and spend. If those definitions of what is in the Levy Control Framework and what is not change over the next period, how will you as a department be able to ensure that the total amount in the Levy Control Framework reflects those changes, or do you think that will perhaps be taken out of what is in the existing framework total and thereby perhaps lead to some problems in terms of investor certainty for the future?

Mr Davey: It is an interesting question. It is not one that we have turned our minds to. Certainly I have not turned my mind to it because it is not an imminent proposition. I would expect and would believe the right outcome would be to ensure that, were ECO to have to go into the Levy Control Framework that we would just go in pound for pound as an addition on to the Levy Control Framework. That would be the obvious thing to do.

Q63 Dr Whitehead: Do you have that in writing from the Chancellor?

Mr Davey: Because the issue is not a live issue, we are certainly not discussing it either with the Chancellor or even internally. No, I have not discussed it with him.

Q64 Dr Whitehead: But you hope that that is what might happen?

Mr Davey: I would expect that to happen. It is vital that we continue the investment in low carbon electricity and it is very important that we continue our efforts to tackle fuel poverty and support energy efficiency.

Q65 Dr Whitehead: We talked to—as I am sure you are aware—your departmental officials about the Levy Control Framework just recently. One of the issues that they appeared a little uncertain about was what might be the level of funding available within the Levy Control Framework for new entrants in each year. Obviously that is a key part of, I would imagine, departmental strategy in terms of wanting to make sure that the targets that the Department has for the total amount of deployment, say, for example, of offshore wind by 2020, is matched with the ability of those new entrants to actually get into ROCs or Contracts for Difference up to 2020. The funding that looks like it is available for new entrants up to 2015 is about £670 million a year. According to recent parliamentary answers that goes up by a little bit in the year after to about £1 billion, but by any sort of reasonable marrying up of the figures up to 2020 that goes down to about £600 million up to 2020. So how is it that the Department stands by its target of a doubling of deployment of offshore wind up to 2020 when there appears to be a reduction in year on year money available for new entrants, even over what is presently available?

Mr Davey: I am going to ask Mr Virley to give you a more detailed answer but before I bring him in, I do not quite recognise the analysis that you are making. When I look at the deployment of particular renewable technologies that we are expecting, whether it is from the go early CFDs, the final investment decision enabling CFDs that will have some announcement to make shortly, or the enduring CFDs, I do see a real progress both in terms of individual technologies that need to mature and in terms of total renewable electricity generation to meet our 2020 targets.

Simon Virley: If I could just add to that? We think that the £7.6 billion is entirely compatible with getting to the more than 30% of electricity coming from renewable sources by 2020, as well as the funding for other low carbon projects. Given that the ROCs expenditure will not increase over that period, once we have closed the RO essentially, there will be a growing wedge under the LCF that is available for new entrants. So I do not recognise the figures that you quote there to suggest that the wedge will actually decrease.

Q66 Dr Whitehead: If you are a new entrant in 2015 you will then cost for each year after that whatever it is that you have taken out as a CFD, and if you are new entrant in the year after that, your costs will then start trailing in the year after and so on. So any money that is available up to 2020 must take account of the cumulative costs for those new entrants that have come in each year before 2020 is arrived at, so it is not an increasing amount of availability it is a decreasing amount of availability, isn't it?

Simon Virley: But if we are spending just over £3 billion on RO and small scale FiTs we have a rising trajectory under the LCF that rises to £7.6 billion, then that wedge that is available—so in excess of £4 billion by 2020—is available for new contracts. I accept what you say that as contracts fill up then of course there is less levy for the rest, but if we start from a position—

Q67 Dr Whitehead: It amounts to about £600 million per year. That is what it works out at.

Mr Davey: But the profile is increasing so although it is getting filled up each year, there is still more year on year. So that is where there is room for new entrants.

Simon Virley: We are entirely confident that the trajectory that we have of the £7.6 billion is entirely compatible with our targets for renewables and low carbon.

Q68 Dr Whitehead: Would it be a good idea for the Department perhaps to produce the evidence as to why it is confident?

Mr Davey: I think you will be seeing very shortly the final EMR delivery plan with the final strike prices, and also you will be seeing those projects that have made it through to phase two of the FiT enabling the go early CFD round. I think that will give you an awful lot more information. If you have questions on that information when we have published it—because I cannot tell you what is in those documents, we have not yet published them but we are about to publish them—I am very happy to answer them.

Q69 Ian Lavery: Going back to the coal industry, UK Coal, the UK's biggest coal producer went into liquidation earlier this year. This was predominantly suggested because the fire at Daw Mill that had catastrophic consequences for the coal industry, but with regards to that it gave them a great opportunity of offloading huge financial historic liabilities, including pensions, concessionary fuel, and so on. It started up afresh the next day as a new entity. Would you like to say what sort of financial implications the fire at Daw Mill and the collapse of UK Coal has had for your department?

Mr Davey: I will bring Stephen in in a second. I would say that the fire at Daw Mill was real tragedy that we had to help both the company and its employees with. My Minister, who is described by Mr Owen as part-time, Mr Fallon, spent a huge amount of time working with all the parties involved to try to rescue a business and that was successful. It was not an easy task and I want to pay tribute to him and to all the people who worked—literally at times it was night and day—to ensure that those coalmines were able to stay open and people were to be employed in them. So I know you want to suggest that the companies involved somehow managed to get rid of liabilities and escape responsibilities.

That is not how it was seen by them, I have to tell you, and they wanted to make sure they had a business that could employ people. It was not some sort of get-rich-quick on the back of taking away employees' rights or conditions. I really hope you do not think that because that is not how it was when we were working to help that important part of the coal industry. Stephen, I do not know if you want to add detail?

Stephen Speed: Yes. A few thoughts on that. In the end the pension liability has been separated from the operations in the final settlement and the remaining business carries on without that. It is essentially now the economic interest belongs with the Pension Protection Fund. In relation to Daw Mill, the Coal Authority have been incredibly helpful. They stepped in and have given material assistance in a number of different ways. That is a DECC body.

I would not say the financial implications have been particularly severe for the Department, but what I would say is that during the crisis, which began in February with the Daw Mill fire, the Department worked incredibly closely with partners right across Whitehall. We had meetings with Whitehall colleagues every working day at 8 o'clock in the morning and then met with the company themselves, UK Coal, to check on their position and their status, again on an almost daily basis. Mr Fallon was taking part in a lot of that, again on an almost daily basis, and being asked for briefing pretty regularly. It would be hard to imagine a scenario in which we could have done a whole lot more than we did.

Again, the fire was a real tragedy but I think for all of us involved in that process it was a great relief that there is a business and 2,500 jobs there that might not have survived.

Q70 Ian Lavery: I think the Department did a really good job, by the way, just for the avoidance of doubt. But the point I make is that UK Coal took a great opportunity here to offload some of the historic liabilities, including the pensions that have just been mentioned. These are huge liabilities that a private company then having been in liquidation started up afresh the following day. It left a lot of problems for a lot of people who worked for UK Coal in the past. They were simply cast aside. The Government could not have done much more than what they did, by the way, and I welcome the fact that they saved 2,000 jobs, but we have to remember what happened to the rest of the people. The question is, what sort of liability did that place upon DECC?

Stephen Speed: The answer to that is the Coal Authority now carries the task of any physical remediation that is needed in the longer term at Daw Mill, which has now passed effectively to the Coal Authority. So to the extent that the Coal Authority is responsible for any environmental or physical effects from any former coalmine that has closed, that is now added to the portfolio.

Q71 Ian Lavery: So that is it. There is no additional finance, any additional burden on the Government?

Stephen Speed: No. The deal that was done in the end, which involved restructuring UK Coal through administration, did not involve any taxpayers' money that I am aware of, other than the liability in relation to Daw Mill itself passing to the Coal Authority, which is essentially what would have happened in any event when a mine closed. If I may say so, the consequences are extremely unfortunate but they are exactly what would have happened in any other business administration that led to a liquidation in any other sector of the economy.

Mr Davey: It is worth pointing out for the record, I used to be the Minister for the Insolvency Service and Stephen used to be the Chief Executive for the Insolvency Service. It meant that in Stephen working with the team of DECC officials we had people who were able to really help out. Thank you for your words, Mr Lavery, about the work of the Department and I will pass it on to the officials through Stephen who did a very, very good job.

Q72 Sir Robert Smith: I should remind the Committee of my interest in the Register of Members' Interests, particularly to do with oil and gas and a shareholding in Shell. Also relevant to today's evidence sessions, a non-financial interest as honorary Vice-President of Energy Action Scotland, a fuel poverty charity.

One of the big chunks of the Department's budget is the Nuclear Decommissioning Authority. The liability has gone up £6 billion this year. How does DECC ensure it has the expertise to challenge and gauge with the NDA on facts affecting its long-term performance?

Mr Davey: You are right to say that the NDA has the prime responsibility for making the contracts, not just at Sellafield but across the nuclear estate. They are accountable to the Department, and indeed they come to see me and, of course, particularly Baroness Verma who is the Minister in day to day charge with the team of officials. The officials in DECC have a very deep knowledge of the NDA and the overall costs of decommissioning, but they also work with experts in other parts of Government, not least the shareholder executive, which indeed Stephen used to be the chief executive of.

Stephen Lovegrove: Would you like me to carry on? We definitely fully recognise our responsibility for that very large sum of public money that is going into the NDA. The NDA is obviously a creature of statute and is specifically set up, because I think it was recognised that dealing with the nuclear legacy and the lack of investment over such a long period of time required a specialist body with specialist expertise to do it on a full-time basis. There is a whole panoply of different government mechanisms, which I would be happy to provide you with a note on if you would like. There are monthly meetings all the time, there are specific delegations that the NDA cannot go above without getting specific permission from the Department and I meet regularly with the chief executive of the NDA and the chairman of the NDA. So there is a great deal of governance around this that, as I say, I would be very happy to provide you with a note on.

Q73 Sir Robert Smith: That would be helpful. Another area where the Government acts through agencies is obviously National Grid, the Environment Agency and Ofgem. You have signed some memorandum of understanding with these three organisations. How do you expect these memoranda to help with your relationship and oversight?

Mr Davey: Are you talking about specific individual memoranda of understanding we have with each of those organisations?

Sir Robert Smith: The overall concept as well.

Mr Davey: We work very well with those organisations. Clearly the Environment Agency we have less to do with because it is directly responsible to Defra, but National Grid and Ofgem are organisations that both I and other Ministers and officials are engaging with on an extremely regular basis. Very recently I met the chair of Ofgem, David Gray, to talk about a number of important issues on his agenda and on mine. I am trying to remember the last time I met the chief executive for National Grid but it was within the last month or two. It is not just about me; the officials are meeting and engaging with those organisations all the time.

Q74 Sir Robert Smith: How have the memoranda improved or affected the relationship?

Mr Davey: I am very happy to hand over to Simon.

Simon Virley: What the memoranda of understanding do is essentially set out the respective roles of the different organisations and how we are going to engage together. In the case of Ofgem often they are setting out, for example, budget limits and what we are expecting in terms of the Ofgem E-Serve functions in respect of taxpayers' money that is going in to support the delivery of those. In the case of the National Grid, it also sets out where we try to avoid any potential conflicts of interest in terms of the parts of National Grid that are helping the Government deliver EMR and the commercial interests more widely for the company. Those are the kind of issues that are covered in the respective memoranda of understanding.

Q75 Sir Robert Smith: For the Ofgem one, that was a high-level one and then you are going to do more detailed ones. Have you embarked on any more detailed ones?

Simon Virley: We have overview memoranda for the Ofgem E-Serve functions. Indeed, we are now working on specific memoranda for each of the main delivery schemes that Ofgem E-Serve delivers for us with service level agreements underpinning them with targets and performance data that we can then monitor progress against.

Q76 Sir Robert Smith: Do you have a timetable for their finalisation?

Simon Virley: They are under production at the moment, so over the coming months I hope we will have all of those in place.

Q77 Sir Robert Smith: One of the other areas of major activity in the Department is the oil and gas division and there is a boom of investment on at the moment. How are you coping with the resource requirement and the need for skilled staff? The staff that work there are very highly-praised, but I think there is a sense that maybe it could be more resourced.

Mr Davey: You are right, Sir Robert, to say that the oil and gas sector is doing extraordinarily well. We have had record levels of investment in the North Sea and that is a cause for a degree of celebration. It means that the staff in the oil and gas sector in the Department are working incredibly hard, and all the feedback I get from the industry is that they are very valued, and the praise you mentioned I hear all the time. However, earlier this year I was concerned that despite this record investment we needed to look more strategically at the North Sea Basin and indeed the offshore oil and gas industry for the UK. The reason I did that was we had been looking at both our capacities internally, but also the key driver was the fall in exploration rates in the North Sea, the fall in production, the fall in productive efficiency of individual wells, and despite the investment, I was worried that we were not achieving as much from the North Sea as we could do. Discussions that I had had with people in the industry on PILOT, which is this Government industry partnership body, and discussions I have had with officials, Stephen and his team, suggested that we needed to take a more strategic approach.

I asked Sir Ian Wood to do a review. He was just retiring from a distinguished career heading Wood Group, his company, but also more widely being a recognised expert in the industry. I asked him to undertake the review to look at these issues on exploration, production, productive efficiency and so on to see how we could maximise the economic recovery from the North Sea. He published an interim report recently, which has been widely welcomed in the industry. It proposes some very significant changes and he is going to produce his final report, we believe, towards the end of January and clearly Government will respond to his recommendations.

I am glad you asked the question, because it is worth me signalling to the Committee that I consider Sir Ian Wood's review to be a very significant moment for the North Sea. His interim report I think commanded a great deal of consensus and was suggesting that at the moment, there is more that both my Department can do and industry can do to maximise the potential from the North Sea.

Q78 Albert Owen: You mentioned, Secretary of State, two or three times "record investment". How do you measure that against what period? The 1970s was booming, the 1980s was booming. You said yourself you carried out the review, production is down and many of the things are down, so where is the extra investment?

Mr Davey: I will turn to the expert in a second, but as I understand it, that was not in just exploration but was in the overall exploitation of the North Sea.

Q79 Albert Owen: Record in terms of cash being invested in the North Sea? I worked in the 1970s and it was booming.

Mr Davey: Yes, it was, but it has not been booming for a while, so if I finally answer the question—sorry, I know you have the floor, Sir Robert—if colleagues will remember, there was a degree of criticism of some of the fiscal changes that were brought in when the Government came into power and there was a number of criticisms, not least from Sir Robert and Sir Malcolm Bruce, and no doubt this Committee, about that particular change. A number of changes have been made since then that have found greater favour. Indeed, one of my first visits to Aberdeen to meet UK Oil & Gas, I asked about the fiscal regime and they firstly felt that it needed reforming to ensure that it was more fit for purpose for the maturity of the Basin and that we needed to have a more stable fiscal regime. The Treasury has responded well to those requests, whether it is on the brown field allowances or small field allowances, the decommissioning regime and I think that has given great confidence to investors in the North Sea and therefore we are seeing this response. I do not know, Stephen, if you want to add anything to that?

Stephen Speed: If I may, it is worth putting some numbers on this. Throughout most of the last decade, we were seeing capital investment in the North Sea at around about £5 billion. That was pretty steady. Last year it was about £13 billion and we are expecting a similar number this year, possibly more. That has certainly been driven by some of the incentives that now exist in the tax system, that the companies have responded very—

Q80 Albert Owen: It is not at its peak level, is it?

Stephen Speed: It is certainly the largest nominal number. I would not necessarily say it was the largest real terms number, but it is the largest nominal number, yes, and of course it has been driven, certainly the last four or five years, by the world oil price itself, because it makes a lot of fields in the North Sea that would otherwise be of marginal economic attractiveness pretty attractive.

Q81 Sir Robert Smith: One of the challenges that we have come across though, while there is record cash going in because of cost inflation, it is not necessarily producing record production levels. One of the challenges of managing the whole regime is to maximise the return on that capital.

Mr Davey: There is a number of challenges for investing in the North Sea at the moment, skill shortages—which I think is driving some of the costs inflation you talked about—is one. The fact that there is such a lot of activity means some of the kit that companies hire on a daily rate because it is so expensive, those rates no doubt have been inflated as well. But there is a danger of talking down something that is a huge success.

Albert Owen: No, you said "record" and I just wanted to challenge you on what "record" meant.

Mr Davey: I hope we have clarified that, but going back to Sir Robert's point about this cost inflation, we need to increase the skills and we are working with the industry. One of the reasons why myself and the Secretary of State for Business, Innovation and Skills published an industrial strategy for the oil and gas industry, I think in March this year, was in order to try to make sure that we were seeing UK companies and UK skilled employees being able to meet the demand that we are seeing in the North Sea.

Q82 Sir Robert Smith: The interim findings of the Wood review was an independent regulator, more resourced. Would that be a simple way of summing up?

Mr Davey: It was one of about four main recommendations in quite a detailed interim report. I cannot fully comment on an interim report; we have to see the final report. The Government, I assure you, will be swift in responding to that report and the recommendations that we believe Sir Ian is going to produce. He was very clear though, both in the report and in the meetings I have had with him, which I have had several, in recommending that we have an independent arm's-length regulator, that was in no way a criticism of the way DECC had performed. He has spoken to nearly 100 companies, groups and individuals for his work for the report and they were full of praise for DECC staff.

Sir Robert Smith: Yes. So you will update the Committee when the report finally comes.

Mr Davey: I am very keen to. Let me put it on the record, one of the reasons why I think it is so important that we have commissioned the Wood review—no one asked me to do it, no one else in Government, in this Committee, no one in Parliament was asking me to do it—based on the facts as I saw them, I felt we needed to take a much more strategic look at the North Sea. I know that it is fracking and shale gas that is in vogue, but we have a very successful oil and gas industry in the North Sea and I believe there is an awful lot more economic activity and prosperity from there.

I am concerned not just in terms of the need to diversify energy mix, but the need to make sure that we are not reliant for our energy security and energy supplies so much on imports. We are seeing an increasing reliance and dependency on imported oil and gas. That is one of the reasons why I think we should embrace the low carbon agenda, but it is also why we need to do whatever we can, whether it is on shale gas or on North Sea oil and gas. It is important for our energy security and that we are not as vulnerable as we otherwise might be if we had to keep seeing imports increase. While I want to go low carbon in as cheap and quick a way as possible, no one believes that we will be able to do that at such a pace that we will not be consuming an awful lot of oil and gas over the next period of years. Indeed, I have seen some estimates that by 2050 we will still be consuming an awful lot of oil and gas, consistent with our decarbonisation objectives, so it is my job as Secretary of State for Energy and Climate Change, yes, to ensure we are tackling the decarbonisation agenda, but for energy security to make sure we have all the fuel supplies that we need to function as an economy both now and in the future. I see Sir Ian's review, alongside the work we are doing on fracking, to deliver on that.

Sir Robert Smith: Thanks very much.

Q83 Mr Lilley: On the control levy, that means that by the end of this decade, we could be spending up to £7.6 billion a year on the cost of decarbonising our economy, is that right?

Mr Davey: Yes, and energy security. I think both the two go together.

Q84 Mr Lilley: There are 25 million households in this country, so that means that the average household will be bearing a cost on its energy bills, its household bills and taxes of just over £300 a household.

Mr Davey: It is true that the support for low carbon will go on to bills of both consumers and business. I do not know if your calculation takes into account the—

Mr Lilley: I have just divided £7.6 billion by 25.

Mr Davey: Right. That would not be the case then. I know you have discussed the impact on business before, so I therefore thought you had taken it into account in your calculation, but that cost will be spread over the whole economy.

Q85 Mr Lilley: The whole economy consists of households. Households are the only people that bear costs at the end of the day, are they not?

Mr Davey: We had a very interesting exchange on this, I think it was two—

Mr Lilley: I wondered whether you had had time to reflect.

Mr Davey: I made the point in our previous reflection that you are right to say that the incidents for taxation or costs ultimately go to individuals, but in this case those individuals either might be a very small number of people who are big shareholders or they indeed may not be UK residents.

Q86 Mr Lilley: Have you made any estimate of how much of this £7.6 billion will be borne by foreigners?

Mr Davey: No.

Q87 Mr Lilley: Do you think it is a significant amount?

Simon Virley: If I can answer your question in a different way, we have an estimate for the gross impact of the levy control framework on household electricity bills, which is about £85 by 2020, but that is more than offset by all the other policies in terms of things that are taking money off bills over that period.

Mr Davey: Can I just add to that, it is very important that—

Q88 Mr Lilley: Just to make clear for the record, you were there saying household energy bills and excluding all the other impacts that they will bear unless it is borne by foreigners?

Simon Virley: I was making the point in answer to your question about what will the spend under the levy control framework add to energy bills, the estimate is about £85 by 2020.

Q89 Mr Lilley: No, my question was not to energy bills, it was to household energy, other household bills and taxes, and by definition, £7.6 billion divided by 25 million is £304 per household, unless it has been, as the Secretary of State suggests, borne by foreign investors who we are subsidising to invest here, rather than penalising, I thought. It is simple arithmetic. We can agree on it. Agreed?

Mr Davey: But let us also agree that not every individual household has an equal share in ownership of the UK companies. I note when I look at the shareholdings of UK companies from domestic residents that it is rather concentrated, and I am sure many of the constituents of Mr Lavery and Mr Stringer and Mr Owen, and possibly even your own constituents, do not have as large a shareholding in these companies as a number of rather wealthy individuals.

Q90 Mr Lilley: It will only, of course, be borne by the shareholders if the companies do not pass it on in higher costs, which would be the normal expectation.

Moving on from that, you began by saying that you had resolved somehow the trilemma of objectives that you face. Within that is a simple dilemma between the costs of decarbonising the economy, which will raise the burdens on households, and the desire to reduce burdens on households by making things affordable or reducing the consumption that people have. Those two go in opposite directions, do they not? There is old proverb, "Even though a horse has four legs, it can't walk in two directions at once."

Mr Davey: What we try to do to assist debate every year is produce the bills and prices report. In that, we look at the impact of our different energy and climate change policies on the average household, because some of our policies do put up bills and some of them put down bills; some of them put bills up in the short term; some put them up in the long term; some of our policies push bills down in the short and down in the long term. To do an analysis of the impact of our policies, you have to look at both sides of the ledger. That seems to me a sensible thing if you are looking at the dilemma, to put energy security aside—which I would not want to do, but you did—and if you look at it in that context, the net impact of our policies by 2020 on the average household bill is to cut it by £166.

Q91 Mr Lilley: But if we did not raise the costs by these additional burdens of £300 per family, £200 of that you ignore because it goes through other costs than their household bills, the cost of energy bills would go down, which would be extremely welcome, would it not?

Mr Davey: I said the net impact of our policies is to push bills down. The point that I would like to make to you, Mr Lilley, is that these policies that are pushing costs up, we are not doing it because we want to push costs up, we are doing it because we believe—and indeed, the vast majority of scientists believe—that if we do not take action to decarbonise our energy system, the costs will be far greater for individuals, economies and the world. Therefore, I genuinely wish climate change was not happening, I genuinely wish we did not have to pursue these measures that, taken in isolation, are having some upward pressures on bills, but the science shows that climate change is happening. If we do not act now, it is going to be very dangerous, and indeed the costs will escalate. I would argue that if you look at this in the round and you did a proper analysis of the costs of climate change action, it is going to be cheaper in the round because the costs of not taking action are so horrendous.

Chair: We ought to move on from this point.

Mr Lilley: Could I clarify, Chairman?

Chair: Briefly.

Q92 Mr Lilley: When the Secretary of State says energy bills will come down by £166, is that down to what they are now, or down to what they would be if your projections of rising gas prices and an increased carbon tax applied?

Mr Davey: We put out all the workings in the bills and prices report every year. This is a transparent process.

Mr Lilley: I was hoping you could answer, rather than sending me off to look up your report.

Mr Davey: No, I am about to tell you. What I am saying is we do not hide things, but we have to make assumptions about what the gas prices are and so on and we have to make assumptions about the impact of different measures, whether they are things like building regulations or product standards or CFDs or whatever. It is bringing those together and I believe we are the most transparent Government in this regard to—

Q93 Mr Lilley: Could you be transparent now rather than in writing in obscure books that we do not have in front of us? Does your statement that bills will come down £160 per household mean they will be £160 lower than they are now or £160 lower than they would be if gas prices rose?

Mr Davey: No, it will be £166 lower than they otherwise would have been if Government did not have any policies at all.

Mr Lilley: So it does not assume any rise in the gas prices?

Mr Davey: There will be assumptions about wholesale gas prices and wholesale market prices. We have to assume they are going to be somewhere and therefore we have to make assumptions based on the best available evidence, so those things are baked into the analysis.

Q94 Chair: In the interests of covering some more subjects, perhaps one of your officials would like to send Peter Lilley a note about the assumptions.

Could I just ask you whether you would agree it would be quite eccentric for Britain to slow down its efforts to reduce carbon emissions from electricity generation at the very moment when the two largest economies in the world are speeding theirs up?

Mr Davey: It would indeed. I completely agree with that, Chairman.

Q95 Christopher Pincher: I will try to be brief and perhaps you gentlemen will also try to be brief.

Mr Davey: I will try.

Christopher Pincher: On the issue of major projects, at the Committee last July, DECC said that with respect to the MPA's ratings for projects in flight, you would publish the ratings when you deem it to be no longer commercially prejudicial to the taxpayers' interests, which is a reasonable position to take, but thus far you have only disclosed one of the ratings of the 11 projects in flight. How do you square the circle of allowing Parliament to decide indeed whether these projects may be prejudicial to the taxpayers' interests when you will not disclose the ratings?

Mr Davey: We are in so many projects involved in very sensitive commercial discussions that if we were to breach the terms of those discussions, the project would come to a juddering halt and we would be exposing ourselves to legal challenge. So by the very nature of having a liberalised, privatised energy sector where we are not building things and controlling things and owning things, it means that so many of our projects are done through contracts. Therefore, I regret to say, it means that we cannot be as transparent until those contracts are concluded. We try to be when we can. For example, when we had the commercial agreement with EDF for HPC, having discussed it with HPC and with EDF, clearly, we made an awful lot of parts of those commercial agreements public, but we could not make everything public. When we sign the final investment contract, we have committed to Parliament, through the passage of the Energy Bill, that we will go a lot further. We have never said we will be able to publish absolutely everything, but I think we will be able to publish a huge amount. I do not want you to take away from this that we are not keen to be able to put things in the public domain when they are ready to be put in the public domain, but by the very nature of the business that we are engaged in at the Department, which is quite unusual for many Government Departments, it means that we cannot publish as much as early as I think you and others would like.

Q96 Christopher Pincher: I accept you have commercial and contractual considerations to apply, but can you give us an indication then of when you would expect the remaining 10—or some of the remaining 10—MPA ratings to be released in the next 12 months, say?

Mr Davey: I am going to ask my colleagues to see if they can give you detail on that and see what analysis we have done to be clear when something can go into the public domain, but we are at a point with a lot of our projects where they are coming to quite successful conclusions. Part of those projects, a successful conclusion means the framework is being put in place still and then contracts come after that, so giving a precise date per contract in a theoretical basis is difficult. But I do not know whether Stephen or Simon can give specific timetables.

Stephen Lovegrove: It is difficult to give specific timetables for individual projects. I had a meeting with the new chief executive of the Major Projects Authority on this subject quite recently, because we are very well aware of the fact that there is an appetite to see in a more transparent way how these projects are going. We agreed that the designation of some of the projects was not particularly helpful. For example, one of the projects is new nuclear, and new nuclear as a project will probably last from here for another 12 years, so that is quite a difficult project to assess: what degree of success are you looking for there? Likewise, it is quite difficult to decide what the status of success is on something like the Geological Disposal Facility. Again, these are not things that are particularly susceptible to the kind of project disciplines that the MPA wanted to put on. We are scrubbing that list and as and when we find ourselves with a position where we can put forward assessments of the projects, slightly redefined, which are not prejudicial to taxpayer interests, we will certainly do that.

Q97 Christopher Pincher: At the outset, you have to decide what criteria you are going to apply to judge the success or otherwise of a project, and if you are not doing that, then no one can assess the success or failure, not least Parliament.

Stephen Lovegrove: Many of these projects are negotiations, that is the difficulty. In a commercial situation, you would not typically publish for the benefit of your counterparties in the negotiation the level of confidence that you ascribe to getting to a successful conclusion, because you will just weaken your negotiating position. That is unfortunately the position we find ourselves in with a lot of these kinds of projects.

Q98 Christopher Pincher: But if a private company enters into a negotiation with another, then the shareholders of that company would want to know whether the negotiation is going to be successful and the outcome be beneficial to the company in which they have shares, which the public are shareholders in UK PLC and we are their representatives in Parliament.

Stephen Lovegrove: With respect, I do not think they would, as a matter of fact. I think that they would expect to be asked to approve a transaction of sufficient materiality once the executive had negotiated the deal in question. There would not be a running commentary on the deal, because it would be prejudicial to the negotiating position of the company.

Christopher Pincher: But they would want to know whether that deal had been successful. They would certainly find out if it crashed apart and the shareholders were left—

Stephen Lovegrove: After the deal had been concluded and they had voted on whether or not they were prepared for the deal to go through, not during the course of the deal.

Q99 Christopher Pincher: So you are scrubbing, as you put it, down these projects so that you can apply some criteria that then can be weighted?

Stephen Lovegrove: Yes, and I will give you absolutely the assurance that as soon as any of these projects or negotiations are in a position where we think that we are not compromising value for money considerations for the taxpayer, then we will certainly be publishing.

Q100 Christopher Pincher: Without naming any of them, can you give a figure on how many may be publishable by this time next year?

Stephen Lovegrove: Difficult, but I would certainly hope that some of them would be.

Q101 Albert Owen: Can I just ask, there is an announcement due on the National Infrastructure Plan tomorrow, I believe?

Mr Davey: There is.

Albert Owen: Is that the same? Is it the same measure?

Mr Davey: The National Infrastructure Plan looks at the Government's and the country's national infrastructure needs and how we are doing on meeting them as a whole. Energy is a very, very important part of that, and on some definitions, depending on how you do the base years, is about 50% of the infrastructure challenge for the UK, so energy will be a part of that.

Q102 Albert Owen: How will that be released tomorrow, a written statement?

Mr Davey: I believe the Chief Secretary of the Treasury is going to make a statement looking at all the aspects of infrastructure, including energy.

Q103 Chair: Returning to Hinkley C, you said if this goes ahead, it is going to be value for money. How does that reconcile with Liberum Capital's statement that the return on equity for EDF will be well over 20%, it could even be as high as 35%?

Mr Davey: I certainly do not recognise those figures at all and none of the very detailed paperwork that I saw, and Stephen and Simon were very much involved in that negotiation, would come anywhere close to that.

Stephen Lovegrove: I would just echo that I do not recognise those rates of return at all, I am afraid.

Q104 Chair: Nevertheless we are going to pay £89.50 for a mega watt hour from Hinkley. The current wholesale price is about £55. Is that not going to push bills up a bit?

Mr Davey: First of all, the consumer and industry were only paying bills as a result of the price that we negotiated with Hinkley from 2023. Until a nuclear reactor at Hinkley Point C generates there is no cost to the consumer. That is unusual in these deals because normally the taxpayer is paying as something is built but because of this rather innovative approach we have taken with Contracts for Difference, the payments will only come when it generates and for the power that it generates over its lifetime, which may be up to 60 years. That is the first point to make.

On our analysis of value for money, some headlines which we published at the time we made the announcement on the commercial agreement, we showed that our expectation of carbon costs and in terms of wholesale costs would compare very favourably with both Gas Plus meeting its carbon price, and indeed the cheapest large scale renewable, which was onshore wind.

Q105 Chair: Do you have, I am not sure if I missed it in the earlier exchanges, a published assumption for the future wholesale price of electricity?

Mr Davey: I think we do that relatively regularly in our publications. Simon, do you know?

Simon Virley: Yes, we do publish an annual estimate. It basically shows a gradually rising trend, which is consistent with what most independent forecasts have shown.

Q106 Chair: On the question of the strike price that is of course index linked, is it not? It is £89.50 in real terms in 2023 that the EDF will receive.

Mr Davey: The £89 is in 2012/2013 prices.

Stephen Lovegrove: 2012 prices, yes.

Mr Davey: It is a real term figure, yes, you are correct.

Q107 Chair: How are you doing getting State Aid approval for all this?

Mr Davey: We have obviously sent off our notification and the Commission led obviously by Commissioner Almunia is looking at this. I have spoken to Commissioner Almunia and officials have been over to discuss with his team. I had a conversation with the Commissioner of Energy, Herr Günther Oettinger, only this morning and that engagement therefore is active and comprehensive. Indeed I am hoping to meet Commissioners on this over the next few weeks. That begins I hope to answer your question, Chairman, that it is a very active engagement on the State Aid investigation. I hope and believe we will have a decision towards the end of the first half of next year and I am confident that we can show that this is totally compliant with the State Aid rules.

Q108 Chair: The Government has announced that Hinkley would be eligible for a UK guaranteed underwrite of borrowings but discussions on the terms of the guarantee including how much debt it could underpin are continuing. What risks will the taxpayer be facing if that goes ahead?

Mr Davey: I will bring in Stephen because he is very much involved in those discussions, but let us be clear that these infrastructure guarantees are a family of guarantees that the Treasury is producing not just for Hinkley Point C but for other infrastructure projects. They go into the transport sector, the energy sector and other sectors. The shape of those infrastructure guarantees is therefore dictated by the Treasury. Anyone who gets one has to pay a commercial rate for that guarantee so this could be an earner for Her Majesty's Government. Of course it would only be called in if the financing situation required it but we are taking a very, as you would expect, prudent, cautious approach to that.

Stephen Lovegrove: Yes, I think it is definitely worth reiterating that the guarantee package that IUK and the Treasury is offering at the moment has been cleared by Brussels in toto as being not State Aid. The taxpayer will be receiving a fair return for the risks that any financing going in will bear. I think it is probably also worth saying that the reason that it is there is not really driven by risk, it is driven by an ability to facilitate the access to the debt markets that a project of this scale could at the moment find very difficult. It used to be the case that there were monoline insurers which would be capable of wrapping this kind of debt. Those companies do not really exist any more after the financial crisis so the Government plays its part in stepping into that particular role.

The exact terms of the guarantee are very much yet to be landed on because, of course, you do not know what the financing package is likely to be while EDF is still in negotiations with its partners. There is quite a long way to go.

Q109 Dr Whitehead: I just wanted to get clear, the recent press reports that the Competition Commission appears to be about to put at least a very yellow light on State Aid approval, particularly in terms of the issue of the guarantee, are completely false, are they?

Mr Davey: The report reflects the reality that they were always going to make a thorough analysis of our notification. I surmise the newspaper reports are publishing a factual situation, which was completely expected and planned for, as if it is some sort of shock, horror revelation, I am afraid that that is inaccurate. What is accurate is that there is analysis that we expected.

Stephen Lovegrove: Indeed. Some of the timing issues that we came across as we were leading up to the announcement of the heads of terms were in fact driven by the need to notify the European Commission so that they could complete their work to take a view on this package. It was an entirely expected, totally predictable, part of the process that we had to go through to get to a final close.

Dr Whitehead: So completely false.

Stephen Lovegrove: It is not false that they are looking at it, it is false to say that this was either new news or something that we look upon as particularly damaging or unexpected, far from it.

Mr Davey: If you had asked me a question three or four months before that report I would have told you what was in that report.

Stephen Lovegrove: Yes, exactly.

Q110 Ian Lavery: Touching on the very important issue of fuel poverty that is probably top of the political agenda at the moment.

Mr Davey: Yes, absolutely.

Ian Lavery: It is almost acceptable that 30,000 plus people are estimated to die this winter because of fuel poverty, because of a lack of warmth, which is an absolute disgrace for a civilised society in 2013. It is a real problem where people cannot afford energy to heat their homes. What proportion of the 3.2 million fuel poor households will the Government be reaching through the current schemes you have in place?

Mr Davey: The vast majority, I believe. If you take for example the Warm Home discount, that goes to over 2 million people, something the Coalition Government introduced. It takes £135 directly off people's bills. If someone who is in fuel poverty is also a pensioner they will obviously get the Winter Fuel payment, and in particular a cold snap there is the Cold Weather payments, which for the long term we have tripled. If you then look at our other programmes, for example the Energy Company Obligation which has been much talked about at the moment, we expect to do 230,000 households every year. People have been misunderstanding what we announced yesterday in relation to fuel poverty and ECO.

The fuel poverty programmes of ECO, which are the Affordable Warmth, the Carbon Savings Community Obligation, they have not been cut back at all. Moreover they stay at their current funded rate and we announced that they were going to do two more years at that same rate. It was a boost to fuel poverty that was announced yesterday. We are trying to reach out to many of the fuel poor, Mr Lavery.

One thing I would say though on your statement when you introduced your question. There is a distinction between excess winter deaths and the fuel poor. As you say the different measures of the fuel poverty, there are several million of our people in fuel poverty. Excess winter death is a very different concept and it changes in different years.

We have no prediction for the number of people who will die who should not be dying this winter. Any death is completely unacceptable and we need to do everything we can but last year the figure, which I think has been in the paper, was slightly over 31,000 but it varies from year to year. If you went back to 2004/2005 there was a larger number who died in that winter, and even a higher number in 2008/2009 because excess winter deaths fluctuate both by the temperatures and also things like bouts of influenza that vary in their severity from year to year.

This points to the fact that whether you are tackling excess winter death or fuel poverty it is not just energy prices, it is the condition of the housing stock and indeed how you deliver public health. When we produce our fuel poverty strategy in the spring next year, it will be the first time we have a fuel poverty strategy for over 12 years. It will be cross Government, looking at all these issues because we take them extremely seriously.

Q111 Ian Lavery: But do you not agree that 30,000 or 31,000, you have corrected my figures, is unacceptable in this day and age?

Mr Davey: It is. It is a disgrace but we need to understand why that has been caused because it is not just this Government. I have 10 years of data and as I say 2004/2005, 2008/2009 there were a higher number and you have to understand the reasons for that. Last winter there were two big issues that saw a big increase in the numbers of people dying in the category of excess winter deaths. The first was there was a much longer and more severe bout of influenza, which did not just affect this country but affected some other northern European countries. On top of that you had a very late cold spell and that unfortunately turned out to be a very dangerous combination.

In trying to ensure we get on top of this issue, yes we have to insulate people's homes more, yes we have to help them with their bills but we also have to work with others, particularly the Department of Health to ensure we have, for example, a much better record on ensuring people get flu jabs.

Q112 Ian Lavery: Just on that, the fact is that energy prices are higher now than they have ever been. They are unaffordable to some people out there in the communities. That is a big difference compared to the 10 year statistics we may have but with the consumer energy prices rising—and that is not in dispute—faster than incomes, will there be an increase in the number of people in fuel poverty and what would your plans be to address this?

Mr Davey: On the current definition we have seen the numbers in fuel poverty falling in the last two or three years. That is partly as a result of successful energy efficiency programmes and it flies in the face of some increases in fuel costs. I think that shows that you can't simply look at the costs of energy bills and say therefore fuel poverty is going to increase. It is a more complicated concept than that. However fuel poverty is far too high under the old definition, and under the new definition we are bringing in, and I am determined to do everything we can to tackle it. It is one of the reasons when we were looking at the review of the so-called green levies that I made it clear that we were not going to reduce the fuel levies that were assisting people in fuel poverty. Indeed, not only did we not do that but we announced an extension of the fuel poverty programmes for two more years.

Q113 Ian Lavery: Does the new definition not simply wipe tens of thousands of people off the statistics for fuel poverty? It seems like a bit of a cure for fuel poverty without actually doing anything. Is that the case?

Mr Davey: No, it is not. I am very happy to discuss that because I think it was a very ill-informed report from the EAC Committee on this. We have been working on the definition of fuel poverty for nearly three years. My predecessor commissioned Professor John Hills to do a detailed independent study on what was fuel poverty and what was the best way to measure it. He came up with a proposal for a low income/high cost measure to replace the previous 10% of income on fuel on an energy cost measure. The reason he did that, and it was very detailed in the report, but the problem with the old measure, the current measure, is that it means that some people who clearly are not in fuel poverty as normal people would assess it are counted.

Let me give you an example. People who have very large houses with many rooms to heat but whose income may be quite good could be potentially in fuel poverty because they have such a large home they are spending a lot of their income on heating of that home. There was one year, I believe, when Her Majesty the Queen was caught in the fuel poverty definition we had before. Therefore I think there was a very good case for reforming that definition of fuel poverty. It is really important because we need to make sure we are targeting our resources, our scarce resources, on the people who are genuinely fuel poor.

What the proposal of low income/high cost that Professor John Hills came up with does, after a huge amount of consultation with a lot of support from the fuel poverty lobby groups, is it will better inform our policy, feed into our strategy we are going to publish next year and critically helps us tackle the people in deep fuel poverty. We have never had that data before. It is something I feel passionately about—and I am sorry I am going on a little bit over time about this, Chairman, but I think it is really important—all poverty statistics are a snapshot and you find people move in and out of poverty sometimes. If you look at income poverty you find students and self employed move in and out of poverty but there are people who are in poverty year in, year out, grinding poverty. Deep fuel poverty, which I call grinding fuel poverty, which really affects the health of many people, their children and does real harm to people that is what we should be targeting.

These new measures are not some way of moving the goalposts. I reject that criticism completely. What they are is about helping us target the real fuel poor and target people who are in grinding fuel poverty and I am pleased that our Government is measuring for the first time fuel poverty properly. That will enable us to address it in a far more effective way.

Chair: It is impressive that a policy introduced on your watch is the one that lifted the Queen out of fuel poverty. That is something of which you can be extremely proud. I am so sorry I have to leave, I do apologise, but Sir Robert will take over the Chair.

Mr Yeo leaves and Sir Robert Smith takes over the Chair

Q114 Albert Owen: Secretary of State, I agree with you that the 10% measure was very crude but I think why you are inviting criticism by changing it is that, and I am not sure whether you are going to do this but I would recommend that you do, for the first few years you have a transitional period that you show the actual figures like for like before moving just to the new measure. Do you have any intention of doing that so that people can see comparators in the years?

Mr Davey: I think it is a fair point. What we have been doing in introducing this new measure, we have also been looking backwards to see what the new measure would have measured to make sure that there is a time series. We are not just bringing in a new measure and saying, "Look, there was no fuel poverty before we introduced this measure".

Albert Owen: No, no.

Mr Davey: We are running the new measure backwards.

Albert Owen: But if those figures are available in this year, 2013, in 2014 people will say, "How does that compare with 2013?" That is a fair assumption going forward, do you agree that could be available and should be available?

Mr Davey: I believe it is the intention to do that but I will write and confirm that is our intention.

Q115 Albert Owen: That would be useful. You have said about misunderstanding in your statement yesterday but there is not any misunderstanding, is there, that the Government is saying that people will pay £50 less? I am assuming that they using a £120 increases and will only be paying £50 less had your statement not being made. The maths does follow that they will still paying £70 more and the households that my colleague, Ian Lavery, was referring to will be paying more this winter for their fuel, £70 more.

Mr Davey: We did not invent a magic wand in our review.

Albert Owen: It is a very straightforward question.

Mr Davey: It is true that people, some people depending on which supplier they are with will still see their fuel bills go up despite our £50 reduction in the average energy bill. The reason I am not only very candid about that but I think it is important people hear it, is we are not capable of controlling international gas markets.

Albert Owen: No, no, we have heard that but I am just saying you said very candidly that it is going to come down £50 and I am saying that for some people on the average figures you are using it is going to go up £70. You never said that yesterday but I am giving you the opportunity today.

Mr Davey: I certainly did not deny it yesterday because it is clearly arithmetically true.

Albert Owen: Thank you.

Mr Davey: But I would also say in lots of the policies we are putting forward we are giving people the opportunity to cut their bills not just through things like the energy efficiency measures we have but also through making it easier to switch. If you look at the uSwitch data we have seen people who have been switching from some of the big six to some more competitive offers who have been saving nearly £250 according to the uSwitch average data. The policies we are putting in on competition are delivering lower bills, and lower bills looking across the piece.

Albert Owen: Lower increases.

Mr Davey: Just for clarity and to be candid, Mr Owen, there are offers out there but if people move from some of these large companies who have put their prices up even after the £50 reduction they can reduce their fuel bills this year compared to what they were last year because there are some very attractive offers in the market.

Q116 Christopher Pincher: I do not want to prejudice the questions on energy efficiency that I know that are coming but you did mention the ECO, which is a laudable objective with the aspiration of reaching 230,000 households. If my maths is right because ECO documentation, as I understand it, generates 250 separate pieces of information that have to be submitted by the installer per measure that means you will be generating something like 57.5 million pieces of information to reach that objective of 230,000 rollouts. That, as I understand it, from SSE who have given me these figures means that the ECO admin cost is something like 10 times that of the cost of CERT on a per measure basis. As a result of that, whereas previously they had 36 installers and 6 administrators in an installer business, now there are 6 installers and 30 administrators. Are we creating this leviathan of a bureaucratic machine that is going to make installers' jobs more difficult and is also going to cost everybody that much more because those costs will be passed on?

Mr Davey: Let me comment on some of the detail. I do not recognise those figures. They have certainly not been presented to me but I am very happy to engage with them. What we did agree in talking to the big six and the First Utility, who are also obligated under the ECO, is that we would simplify the process to reduce the administration costs. What we do not want is an equivalent of IPSA, which is what you are describing there.

Q117 Christopher Pincher: You will look at that, those figures?

Mr Davey: I know we are already looking at it because it is part of our discussion. I do not know if you want to add anything, Stephen?

Stephen Speed: As a result of the changes announced yesterday, we will have to change the regulations and that will require a consultation so I do not see any reason why we could not address that question in that consultation. I have not seen that particular analysis myself. Can I just clarify the numbers, 240,000 is the number of houses in fuel poverty? ECO itself will probably address about 400,000 households a year.

Christopher Pincher: All right, in that case you are talking in excess of 80 million pieces of information.

Mr Davey: Some of this may be done electronically.

Christopher Pincher: Let us hope so.

Q118 Dr Whitehead: DECC's annual report, which is what we are supposed to be talking about, shows that energy use is falling more slowly than in recent years and that indeed domestic energy consumption increased in 2012. Would you conclude from that in terms of the figures in the annual report that DECC's efforts on energy efficiency have, shall we say, at least reached something of a plateau?

Mr Davey: I am not sure if I can accept that conclusion. One or two of my colleagues may know the details. I remember looking at those figures and the footnotes to the statistical release pointed out that last year was a particularly cold winter and therefore there was an awful lot more energy consumed because of those seasonal effects.

Q119 Dr Whitehead: The rebates that you announced yesterday to domestic energy customers, you indicated that they might increase their consumption through a so-called rebound effect as a result of anticipation of cheaper prices. That will presumably exacerbate that trend, will it not?

Mr Davey: The trend I talked about, I do not think it is a trend, it may be more point data was the fact that last year we had some very cold weather so consumption of energy went up. It is also worth pointing out that consumption of energy may go up a little bit as the economy picks up. One of the reasons we did see a decline in the usage was because the economy was in recession. You can cut your carbon emissions and you can cut your energy usage by going through a recession. That is not the Government's policy, let me be absolutely clear.

Helping people with their energy bills is something that I would have thought people would welcome. The best way of reducing in a sustainable way energy usage is through energy efficiency. Let me say this absolutely for the record, it is not an objective to push up energy prices to get people to consume less. The only policy we are using to encourage people to consume less is energy efficiency through its many guises whether it is product standards, whether it is smart meters, whether it is the Green Deal, whether it is ECO.

Dr Whitehead: ECO, which you have just cut.

Mr Davey: Part of ECO has been cut. The Affordable Warmth has not been cut at all. The carbon saving community obligation has not been cut at all. The element of ECO that has been trimmed back is the carbon emission reduction obligation.

Dr Whitehead: Indeed.

Mr Davey: That has been cut back by 33% but in order to ensure that we were maintaining our efforts on energy efficiency and reducing carbon, we had a package alongside it where we announced new money of £540 million over the next three years. We are focusing on helping people in the owner/occupier sector, in the private rental sector and indeed in public buildings, to do everything we can to help people use less energy and save money.

Q120 Dr Whitehead: Indeed. I think you have said as far as your statement yesterday was concerned that Government's overall approach will cut just as much carbon as planned.

> ***Mr Davey***: Yes, there were three things that I was clear we had to consider in the levy review. First of all, our efforts on fuel poverty were maintained—indeed it improved—and that was achieved. The support for renewable energy was maintained and that was achieved. The third thing was that the overall package was carbon neutral and that has been achieved.

Q121 Dr Whitehead: Yes, because I imagine you would have been able to ascertain by looking at the impact assessment that you will have published alongside the measures. You would have been able to be certain that what you said was true yesterday by looking at that.

> ***Mr Davey***: I am certain what I said was true, and I think when you see the autumn statement, which will be published shortly before the impact assessment, you will know that is true. We will publish an impact assessment, Mr Whitehead, and we are going to do that alongside the consultation paper because the ECO changes are subject to consultation and we expect to publish those in the New Year and there will be an impact assessment.

Q122 Dr Whitehead: Presumably in terms of making your statement yesterday you would have had sight of an impact assessment in order to be clear that what you were saying not wide of the mark.

> ***Mr Davey:*** There was quite a lot of analysis done on carbon numbers, I can assure you, during the review. The changes to ECO we believe will have an increased carbon, just by themselves taken in isolation, by between 2.7 and 2.9 megatons of carbon, but our energy-saving package, the £450 million that will be the stamp duty rebate and the help for the private rental sector, will save 1.8 megatons of carbon. The energy efficiency programme in the public sector will save 0.6 megatons of carbon. There is an announcement in the autumn statement, which I cannot yet share with you, for obvious reasons, which will save a further amount of carbon.
>
> When we looked at the package for the particular issue of carbon neutrality, we were absolutely clear that to ensure that we met the third carbon budget and future carbon budgets, reductions in carbon, we had offsetting measures for the 33% cut in the CERO part of ECO.

Q123 Dr Whitehead: Are you able to share those very helpful figures with the Committee in more detail?

> ***Mr Davey:*** I have just shared them.

Dr Whitehead: They are presumably taken from an impact assessment, I should imagine.

> ***Mr Davey:*** I am reading from the press notice, which is on our website.

Q124 Dr Whitehead: Is that a pre-impact assessment or is it the impact assessment itself?

Mr Davey: Impact assessments go through a particular process. It is a recognised process in Government. I have had to sign off impact assessments. Sometimes they are very long, detailed documents that the Cabinet Office and various other departments insist on in a particular format. That was not done for yesterday's announcement, but we did publish that carbon announcement.

Q125 Dr Whitehead: I am just wondering where the figures in that press release came from. Do they come from an impact assessment?

Mr Davey: They came from analysis within the Department.

Dr Whitehead: Is that not an impact assessment?

Stephen Lovegrove: It would be the same analysis that would be done for an impact assessment.

Mr Davey: I would expect the analysis that I have just read out to you, which is in the press notice, to feed into the formal impact assessment, but that impact assessment will go wider, because that is the very nature of the process that is used for designing and drawing up impact assessments.

Q126 Dr Whitehead: You have not signed that off yet?

Mr Davey: It has not been written.

Dr Whitehead: So it does not exist?

Mr Davey: No, because we have not drawn up the consultation paper, which we are going to do, because we are under a legal duty, quite rightly, to consult on the ECO proposals we announced yesterday. Alongside that consultation paper there will be a formal impact assessment, which will include looking at the carbon impact.

Q127 Dr Whitehead: It will be an impact assessment of your announcements yesterday?

Stephen Speed: The announcements yesterday were that we would consult on changes to ECO.

Q128 Dr Whitehead: Which will be informed by the figures that you have there that will feed into an impact assessment that may well be written in the not-to-distant future and that you will sign off in the New Year?

Mr Davey: The DECC analysts who produced this material, published in the press notice yesterday, will be the same analysts who produced that material for the impact assessment.

Dr Whitehead: That is fortunate, isn't it?

Mr Davey: I hope you are not wanting to employ a surplus of analysts.

Q129 Dr Whitehead: I was just wondering how on earth it is possible for anyone to get any handle on the statements that are being made, in the absence of any impact assessment alongside the statements. Obviously what you are telling us is, I am sure, exactly on the nail, but it is rather difficult to find out whether that is the case if there is not an impact assessment.

Mr Davey: There will be an impact assessment. You will have full sight of that, as will all members of the public. We will no doubt get quizzed and asked questions about that and I am delighted to come to this Committee to answer questions on the impact assessment on that consultation.

Q130 Dr Whitehead: I just wondered whether the more traditional method of producing an impact assessment and then announcing policy on the back of it might be a better way of doing it.

Mr Davey: If you looked at every Government announcement by all types of Government, all shades and flavours of Government, whether when they made an announcement there was always an impact assessment. I don't think you would find that was the case.

Dr Whitehead: Certainly not on this occasion.

Mr Davey: We did not need to publish an impact assessment. The rules about impact assessments are when you do consultation papers, and we are going to meet those rules.

Q131 Albert Owen: You were panicked into the announcement.

Mr Davey: Not at all. Some of the things that we announced yesterday we have been working on for months.

Albert Owen: You never said that.

Mr Davey: Because we were not ready to announce them. You only announce them when they were ready. There were parts of what we announced yesterday which we had only been working on for a few weeks. I absolutely accept that; I do not accept it was a panic. I, as Secretary of State, from day one have been focused on consumer bills, partly because of the fuel-poverty concerns, which I think are extremely serious, but more widely for the wider economy and not just households but for businesses.

I know people like to characterise anyone who cares about climate change as not caring about bills. That is not true. I care about climate change and I care about bills and we have been doing a whole range of policies to try to help people on the affordability part of the trilemma and yesterday's announcement was part of a whole series of things. They were not triggered by a speech by the Leader of the Opposition, because I have to say his record in Government was not very impressive.

Q132 Albert Owen: I think it was, and that is the difficulty. You used to be against him when he talked about nuclear at one time, so you are not in a very strong position on consistency. I put it to you one of the reasons we had the statement yesterday is because the big six came before us a few weeks ago and said that they wanted to move some of these levies and move some of the ECOs to general taxation. You have delivered for them.

Mr Davey: We have delivered for the consumers.

Albert Owen: No, you delivered for them. That is what they asked. Consumers wanted a pay freeze. You did not deliver for them.

Mr Davey: Let me just make an interesting point to you, Mr Owen. When the Leader of the Labour Party, the Leader of the Opposition, makes it clear that he was responsible for higher rises in gas and electricity than under this Coalition Government, I will admit—I have already admitted—I have changed my position on nuclear power.

Q133 Albert Owen: I do not speak for the Leader of the Opposition, with respect. I do speak for my constituents, and they have followed the engagement we had with the big six. The big six asked that ECO be cut and put on general taxation. That is what you delivered yesterday. You delivered 100% for them.

Mr Davey: No, we delivered 100% for consumers.

Albert Owen: That is not what they think. You are out of touch.

Mr Davey: There were a number of the big six who wanted a completely different package from the ones we proposed. The package proposed yesterday was—

Albert Owen: They proposed it to us.

Mr Davey: I very much doubt it.

Albert Owen: They did. Look at the record.

Mr Davey: The package we proposed was designed in Government by Government.

Albert Owen: As a compromise.

Mr Davey: When it was designed, we discussed elements of it with the energy companies. Why? Because they are the delivery arm, effectively. It is called an energy company obligation, the name is on the tin and you cannot deliver an energy company obligation except through energy companies.

Albert Owen: Read the transcript of the evidence.

Mr Davey: If you are making a change to the energy company obligation, you need, when you have decided what you want to do, to talk to the energy companies. One of the reasons I was so determined to make sure that they were talked to—indeed, the Prime Minister instructed the Cabinet Secretary working with DECC officials and the Permanent Secretary to have those conversations—is we wanted to make sure that these changes are indeed passed on to consumers. That is absolutely critical that the consumers benefit, on average, with a £50 reduction.

Q134 Mr Lilley: Before the Chairman came to your rescue last time, I was about to ask you a simple question, which needs only yes or no answers. That is will this £166 cut in the average household budget that you are dangling before them contain an element calculated on the assumption, firstly, that gas prices rise and, secondly, that the carbon tax rises?

Mr Davey: I think the answer to that is yes, because I think it will assume and take into account our forecast for wholesale gas prices, because you would need to do that otherwise it would be a false analysis, and you would have to make an assumption about what is happening with policies like the EU ETS and the carbon price floor. I cannot imagine that the answer to your question can be anything other than yes. If I am wrong, we will write to you.

Q135 Mr Lilley: So even though shale gas technology has, in the space of six or seven years, reduced gas prices in the United States by two-thirds, you are assuming that technology will not spread around the world even though shale gas resources are amply spread around the world?

Mr Davey: It is not about the technology, it is about the geology, it is about the volume of shale gas and the markets that the shale gas supplies will go into. If you talk to the shale gas industry, as I do, and gas market analysts, they are making no assumption that shale gas is suddenly going to change the wholesale price of gas in Europe, because by and large they say that the North American phenomenon cannot be repeated on a like-for-like basis in Europe.

Q136 Mr Lilley: There is another question on the subject and that is in the light of the IPCC report, which you have endorsed. Is there any evidence you could conceive of that would convince you that the impact of increasing CO_2 in the atmosphere will be much less than previously anticipated and not something we should worry about too much in the short term?

Mr Davey: I would love to be convinced of that.

Mr Lilley: I did not ask that. I asked what evidence would you need to persuade you of that?

Mr Davey: The answer to your question is could I be persuaded.

Q137 Mr Lilley: No, it was not that. My question is what evidence would you require to be persuaded.

Mr Davey: I would require that the evidence that we have before us changed. The evidence we have before us is in a multiple dimension.

Mr Lilley: I know about the evidence we have.

Chair: Could we return to climate change? We have the Secretary of State coming again.

Mr Lilley: I have given you full warning of my question so you will not have to evade it, you can answer it.

Mr Davey: It is not a surprise question at all and I am very happy to answer it now.

Chair: No, time is marching on and there are still some other topics on the departmental report, the Green Deal, I think.

Q138 Dr Whitehead: I want to ask the obvious question about the number of Green Deal plans that are in the system. Why do you think, in terms of the departmental forecast and the departmental report, your forecast during the year on consumer take-up so completely wrong?

Mr Davey: I think our forecast on the take-up of assessments was not completely wrong, because that is a very important part of the Green Deal. By the end of October we have seen over 100,000 Green Deal assessments. That is slightly below what we were expecting but not very much below. The bit that was a lot lower than we had expected was Green Deal finance plans. There are a number of reasons why I think that is lower than we had expected. First of all, a lot of people when they get their Green Deal assessments are using other ways of paying for implementing those Green Deal assessments. Some are using their own money, some are using ECO, some are doing it themselves, DIY. They are going to the local DIY shop, buying the kit and doing it themselves. There is a whole range of ways that people are responding to their Green Deal assessments, and fewer than we had expected are opting for the Green Deal finance package.

But the explanation goes further than that. First of all, the Green Deal finance part of the Green Deal started a lot later than the other aspect of the Green Deal. There were a number of reasons for that. There were some legal reasons. I think I have said on a number of occasions that the lawyers' delay was a lot longer than we expected. It is not that I dislike lawyers. My wife is a lawyer, my brother is a lawyer, my father was a lawyer and my father-in-law was a lawyer, so I have no problems with lawyers but they did get in the way of the launch of the Green Deal financial plan process. Then we had a few IT problems. As a result of that, for most of this year the number of Green Deal providers who were offering Green Deal finance plans has been tiny. It has now increased significantly and I think we will begin, therefore, to see more Green Deal finance plans happening.

There are two other reasons that I point to—because I am trying to give you as full an answer as possible, Mr Whitehead— as why I think our assumptions on the take-up of Green Deal finance plans were wrong. One is that the big six have not played in this market as much as we had expected. We expected they would try to reduce the costs if implementing ECO by blending ECO with Green Deal, and we have been disappointed that so few have done that. In fact, I am not sure if any have done that yet. I might be wrong; there may be a few. We had assumed from all our discussions with them that more would have done that.

The final reason—and I will end there and Stephen can say if there are any other reasons he would like to add—is the Green Deal activity in the private rental sector. When I came into office and looked at the Green Deal and wanted a few changes to it, one of the areas I thought I would be most suited for was the private rental sector because of the principal agent be the tenant and the landlord. Indeed, that is still my view, but the problem was that the legal analysis of where the Green Deal finance debt would lie, which we had assumed would be the case and we have confirmed would be the case with various landlords' solicitors during the passage of the 2011 Act, that turned out not to be the understanding or the advice of the lawyers of larger private sector landlords when the Green Deal was launched.

Although the understanding had been that the Green Deal debt would be a liability for the tenant, some of the lawyers of some of the larger private sector landlords had said that was not clear and that it might be a debt of the landlord. Therefore, they were unwilling to advise their clients to proceed with activity on the Green Deal. We are now taking action. Once we learned about that, we looked at all the different ways. We had discussions about whether we could agree that our original expectation had been the case, but because we could not do that, we are now putting beyond doubt, with changes, the fact that that liability will be for the tenant. I don't know, Stephen, if you want to add to that, but I do think those sorts of changes that we are making will both help the Green Deal as a whole and help the take-up of the Green Deal finance plans.

Stephen Speed: All I would add, Secretary of State, is we announced yesterday an increased funding for Green Deal communities. We have a lot of good bids already in and we should be able to move ahead very quickly with those through local authorities. The Department, under the Secretary of State's guidance, have been looking quite hard at some of the complexities that are in the system around the consumer journey but also around the experience of some of the people who have tried to become providers. We can see ways, and we will talk about those early next year, how we can simply that, including, for example, putting something online. At the moment the Green Deal assessment process is a telephone of face-to-face process.

We now have a very significant opportunity presented by the package announced yesterday, the £540 million, a very significant slug of that money is available both for the private rented sector, as the Secretary of State was saying, but also for the wider population, particularly at the point when they are moving home, when many incur stamp duty. Also that is the point at which many people want to and are prepared to undertake intrusive works on their homes. It is about capturing the moment when people want to act.

Q139 Dr Whitehead: I assumed that £540 million is from the departmental underspend or is it separate?

Stephen Speed: That was new money that was announced yesterday.

Q140 Dr Whitehead: The budget of £125 million on Green Deal Cashback, which I think has been raided to the extent of £2.8 million so far, meaning that there is £122 million left in the box, is that going to be distributed next year or is that being transferred to the local authority fund?

Stephen Speed: That is the pot of money that is being used for the Green Deal communities.

Q141 Dr Whitehead: You have taken the cashback and put it into the Green Deal communities?

Stephen Speed: There will still be some cashback funding for individuals that will be there, but we decided we would allocate—because we can't see it all being used by the end of this financial year—a bit slug of it to the Green Deal communities because we want that money to be spent on energy efficiency, helping people reduce their bills.

Q142 Dr Whitehead: So the cashback advert, "Hurry, get your cash back before it runs out" turns out to be rather truer than we thought?

Mr Davey: I think it is fair to say, Mr Whitehead, that the cashback money has not flown out of the door.

Stephen Speed: The cashback money under the scheme that we will work up after yesterday's announcement will be substantially supplemented by money made available to people who are moving home, to undertake those sorts of interventions alongside the Green Deal finance. There will be the opportunities to use Green Deal finance as well as have a cash top-up. The cash top-up may be bigger for more expensive measures such as solid-wall insulation.

Mr Davey: It is fair to say we have learned an awful lot from the cashback experience. It is partly because some of the systems have not been working as we had wanted to, which is why, although we announced a very welcome boost to the Green Deal yesterday in terms of money, we also announced a number of reforms, some of which Stephen was outlining.

We have to, in my view, look at the Green Deal and not just deal with things like the private rental sector that I was talking about. We have to deal with the consumer journey and I think we have to ensure that the providers can reduce their costs. Just as Mr Pincher was talking about in respect of ECO, we have to ensure that companies can make profits by doing the Green Deal.

Q143 Dr Whitehead: Most of the customer journey so far has been all the way to a new replacement boiler, hasn't it, as far as cashback is concerned? 95% of the vouchers have been for new replacement boilers.

Mr Davey: I believe that is the case.

Q144 Dr Whitehead: Yes, which have a negligible carbon effect over the period. Is the remaining cashback going to be for more boilers or are there other plans?

Mr Davey: Let's be clear: boilers were always part of the cashback plan. It is not suddenly that it was going on something that we did not expect. We were very happy for that because, particularly if you are replacing a very inefficient boiler, that can save people a lot of money and be very good for carbon emissions. It is when people are scrapping boilers that did not need to be scrapped or they were just about to scrap them anyway that there is a big deadweight cost.

Q145 Dr Whitehead: You really did think that 95% of the vouchers would go to boilers?

Mr Davey: No, I did not say that, I just said at least some of them would. It is fair to say, Mr Whitehead, that more of a cash back, or a portion of the cash back, has gone on boilers than we had expect to start off with. But you have to look at the underlying reasons for that, and I think it is partly because some of the other things that cashbacks could provide have not been going at the rate we had expected as well.

Dr Whitehead: Or at all.

Mr Davey: No, you have seen activity in all aspects of the Green Deal, you have just not seen it at the level that we had expected.

Q146 Dr Whitehead: Has the remainder of the cashback been remodelled? After you put £80 million in the communities fund, then you will have £40 million left.

Mr Davey: We will have some announcements to make in addition to the ones we made yesterday. I think I am going to have to leave you in anticipation.

Q147 Dr Whitehead: The answer is maybe yes?

Mr Davey: We have been looking at the Green Deal across the piece for some time. In fact, we have been monitoring it from day one. I hope from the exposition I gave earlier you can see that while some of my officials may know it in much greater detail than I do, we are determined to analyse all aspects of it to make this work.

This is a world first and therefore it is not surprising when one is being innovative that when you plan something in the design stage not everything is right when you come to implement it. I would suggest that is not unusual in Government programmes, both of this Government and its predecessors. What we are determined to do, though, is to learn lessons and get it right, because the overall Green Deal proposition I think makes huge sense for particular people and particular sectors. It is not the answer for everybody but for a large number of people who currently cannot afford to make these investments it will be a boom. In the private rental sector in particular I think it is particularly appropriate.

Q148 Albert Owen: Now that Peter Lilley is not here I might get a chance to put this question on shale gas that I was trying to do some time ago but he overrode it. It is a serious question and you might have answered it and I genuinely did not hear you if you did. Do you think the incentives are working on shale gas? There is slow progress and there is not much gas exploration happening. Do you think the incentives that the Government has put in place are sufficient?

Mr Davey: This is always a case to look at how they are working, but I have not had any feedback—I am not sure that Stephen and the team have at the offices in connection with gas and oil—that it is the incentive that is delaying things. I would argue that we are not delaying things. As you heard, I took issue with what Mr Lilley said about that. It is right and sensible that when you are seeing a new technology used on a densely populated island, that you go about that in a prudent way to show to people whose communities this is being done in that you have not rushed at this, that you have looked at everything from water sustainability to methane emissions to all the other issues that people are concerned about.

Q149 Albert Owen: That is a fair point and I totally agree with you, but then should you not have engaged with communities or educated communities before announcing in incentives in Parliament that with national gas there is going to be a revolution?

Mr Davey: I think there is quite a lot of work being done on that. If you talk to the Member of Parliament for Lancashire, I think there has been a huge public debate at that local level.

Q150 Albert Owen: There is a lot of localised protest, though, isn't there? There are not many communities welcoming it with open arms.

Mr Davey: I think that is true and we do need to do more on communicating issues, not just on shale gas but on onshore wind or on nuclear. It is very important in a democracy that you engage with people about things like energy, which can have a big impact both on the local economy, the local landscape and so on. I think we have a duty to do that and I hope you will see the Department over the next year stepping up its efforts in this regard. We have a duty to do that.

I would say, though, that if you look at those opinion polls, and we all know about opinion polls, of how they have polled a public opinion about shale gas, including those areas where there is shale gas exploration either planned or has happened, the more people are informed about it and understand the technology and understand what is planned, the more they support it. Engaging with communities I think will be an effective way of taking forward this opportunity.

Chair: Thank you very much. You seem to have exhausted the Committee's questions for now. Can I thank the Secretary of State and your officials for giving the evidence you have today? It has been most helpful. We look forward to seeing you again on Tuesday morning.