



Energy and Climate Change Committee

Oral evidence: [DECC Annual Report and Accounts 2013-14](#),
HC 931, Wednesday 21 January 2015

Ordered by the House of Commons to be published on 21 January 2015.

[Watch the meeting](#)

Members present: ; Tim Yeo (Chair); Sir Robert Smith; Ian Lavery; Dr Phillip Lee; Albert Owen; John Robertson; Graham Stringer; Dr Alan Whitehead

Questions 1-89

Witnesses: **Rt Hon Edward Davey MP**, Secretary of State, Department of Energy and Climate Change, **Stephen Lovegrove**, Permanent Secretary and Account Officer, Department for Energy and Climate Change, and **Angie Ridgwell**, Director General, Finance and Corporate services, gave evidence.

Examination of Witnesses

Witnesses: **Rt Hon Edward Davey MP**, Secretary of State, Department of Energy and Climate Change, **Stephen Lovegrove**, Permanent Secretary and Account Officer, Department for Energy and Climate Change, and **Angie Ridgwell**, Director General, Finance and Corporate services, gave evidence.

Q1 Chair: Good morning, welcome; we are very glad to see you here and are much looking forward to what I hope will be quite a wide-ranging session.

I would like to start on a specific relating to EMR. The Minister of State told us last week that your department will review the capacity market auction and the contracts for difference allocation process this summer. When do you expect to be able to release information on the timing and the budget for future CfD allocation rounds?

Mr Davey: On the CfD allocation rounds, we hope we will be able to make some announcements on strike prices in July. Clearly that will be for whoever is the next Secretary of State but we have set in train the work to enable that to be done. It would make sense to do it in July, ahead of the auction in the October. In terms of the final decision on the budget, that would follow from that, logically, and obviously be announced ahead of the auction.

Q2 Chair: Clearly, given where we are in the electoral cycle a lot of what we talk about today will have that same factor in mind, that there is about to be an election and we do not know

who is going to be in your job after 7 May. However, I think we are all very conscious of the huge premium on as much continuity and stability of policy as possible.

Mr Davey: Absolutely.

Chair: I hope it would be unthinkable for any incoming Secretary of State to want to overturn the sort of timetable you have just outlined. I think it would be very damaging to the investment market.

Mr Davey: Chairman, I strongly agree with that. What I was reassuring, was when the Energy Act 2013 was put to the vote at first reading, only nine Members of Parliament voted against it and it had cross-party support. What we are doing is implementing that Act. We have seen the first round of final investment decisions enabling CfDs, which were announced last year, with eight major projects stimulating £12 billion of private sector investment and we already have state aid clearance for the offshore wind projects within that. That has been positive. Underway we have the first enduring CfD allocation round and I hope to be able to make announcements on the awards of those first CfDs shortly. It is important for the industry, both for people making the investments in particular projects and also the supply chain, that we have a smooth rollout of these auctions at regular intervals. It would be a big mistake, and I do not think it will happen, by the way, if we were not to go ahead with the auction next autumn and it logically follows that you will need a budget and prices announced prior to that.

Q3 Chair: On the capacity market auction, we have heard that, as a result of this auction, a disappointingly large amount of capacity will be potentially supplied by coal plant, with all that that implies for emissions. Do you have any concerns that, in meeting what is clearly a necessary short-term goal to make sure that there is enough capacity there, what the capacity market auction has done is given a bit of a boost to coal?

Mr Davey: I do not accept that. In running the capacity market we were not going to exclude any generator that was not already being supported. You could not have renewables in it because they were getting support from CfD. You would not expect us to doubly support a particular technology. Any technology that was not getting support elsewhere ought to be able to bid into this.

I think what people miss when they comment on this is the fact that the vast majority of contracts have been one-year contracts. You have seen some commentary suggesting the capacity market is extending the life of coal-powered stations much, much longer. These are one-year contracts, so I think that is quite a sensible use of our existing capacity. It in no way undermines the work we are doing to decarbonise. If you add together the environmental legislation from Brussels, the carbon price floor, and so on, we estimate that coal, as part of our electricity generating capacity, is going to fall very sharply to almost nothing by the middle of the next decade. Having the capacity market there for one-year contracts seems to be sensible in terms of our energy security objectives and in no way undermines our decarbonisation objectives.

Q4 Chair: Do you think that the clearing price of £19.40 per kilowatt hour provided good value for consumers?

Mr Davey: In our impact assessment we had estimated that the clearing price was going to be around £40 per kilowatt hour and we had done all our estimates of the impact on consumer bills on a clearing price of £40 per kilowatt hour. The fact that it cleared at a price less than half that is something that you can imagine was quite pleasing and consumers should obviously welcome.

Q5 Chair: As long as your original estimate was not on the high side.

Mr Davey: It was not challenged. I can't remember being asked by this Committee, saying that our impact assessment was wrong.

Q6 Chair: Fair enough. I am not sure that the Committee looked at that very carefully in advance, but anyway, I am perfectly satisfied by the answer.

One remaining concern for us on the capacity market, which you will be aware of, is that we still fear, as I think the outcome showed, that it has so far stimulated a much bigger response from generators than from demand-side responders. We believe, and I think there is evidence from the United States that already shows this, that the potential contribution from genuine demand-side responders where consumers are incentivised to reduce consumption at peak times, as opposed to just switching on some diesel generator, could provide a significant element and is, of course, very attractive in terms of cost and savings. Will you consider modifying the arrangements for future capacity market auctions to try to facilitate greater participation by demand-side responders?

Mr Davey: First of all, I agree with you. I think demand-side response has a really important role to play in tackling this issue and it is something I have been keen to see. When we looked at the fact that 174 megawatts of demand-side response gained one-year agreements in this year's auction, which was significantly less than we probably hoped for, and we asked the question, "Why?" when we talked to the UK Demand Response Association they told us that their members did not want to bid four years ahead. For them, with their technologies, it was better to bid in the T-1 auctions, which we will see, and they preferred that. So we can accept that.

I would also point out that I think the overall figure of 174 megawatts of DSR underestimates the demand-side response we have achieved. Part of the generation is a bit like demand-side because it is on-site generation the industry has. They are generators that can be turned on, which are very common in the United States, and they came in on the generator side of the equation. Around 1.4 gigawatts of small embedded generation were successful in the 2014 capacity market auction. You could say there is more demand-side response there if you added that. Of course, that is existing capacity because it is in the National Grid's short-term operating reserve, but that is on the demand side.

Despite all that, trying to make the point that it was not all that unsuccessful on the demand side, because I would like to see more, we are looking at trying to see if we can help the demand-side benefit in learning from this year's capacity market auction and whether there are things we can put in place. For example, we will be looking at and have already put in place a de minimis threshold to assist the choice to participate in either the four-year or the one-year; participation in the auction's price makers and the choice of three metering options. We are trying to be flexible, but if there is more that we can do that makes sense and is good value for money for the consumer we will do it.

Q7 Chair: Just as you can't obviously speak on behalf of your successor, I can't speak on behalf of my successor either, but I would be surprised if this Committee in the next Parliament does not use progress with demand-side response as one of the benchmarks.

Mr Davey: I hope it does.

Q8 Dr Whitehead: As I understand, quite a lot of the coal got three-year refurbishing contracts, not one-year contracts. That is a bit longer than one year, is it not?

Mr Davey: Yes, that is true, but the vast majority of contracts, as I said, were one-year. There were some three-year but they were quite small. Quite a lot of coal got one-year and some coal

got three-year, but I still think you have made the point for me that these were not the long-term contracts. The long-term contracts for the new investment were the 15-year contracts. Are we still on track for our decarbonisation target? That is the key. That is the objective. Answer: yes.

Dr Whitehead: That is what I was particularly going to ask you about. In the definition of the capacity market it is stated that the capacity market will encourage the investment and the need to replace older power stations. How many brand new power stations bid into the capacity market on this occasion and how many got a 15-year contract other than Trafford, which was already underway?

Mr Davey: To be frank with the Committee, we were not sure whether we would get any new capacity at all in this first year of the capacity market auction. We were hoping we would but we always knew, in designing it, that in the first year you would expect the existing capacity to have an advantage. We obviously created different contract lengths to try to level the playing field, but there is a quite commonsense view that using existing capacity and allowing that to stay up a little bit longer is better value for money, which is one thing I have to consider because the other objective is affordability. There was discussion in the department whether or not the design would allow any new investment to come forward in the first year, though we were very confident that in future auctions it would.

I would turn the question back round on you. I was delighted to see the Trafford CCGT, 1.6 megawatts, win a contract and the fact that we had in total 2.4 gigawatts of new capacity win contracts in this first market, even though the clearing price was less than half of what we had expected. I am afraid you are not going to be able to undermine my quiet pleasure at the results because we got a much lower price and we still got new capacity in the first year of running capacity market auctions.

Q9 Dr Whitehead: Forgive me. Wasn't the original purpose of the capacity market to secure long-term new contracts so that the long-term future of capacity could be secured?

Mr Davey: I think you are not giving the full objective of the capacity market. The capacity market very clearly is to make sure there is capacity when we need it at the end of this decade. It is part of our three-pronged strategy for energy security. As you will be aware, we have the short term with the supplemental balancing reserve and the demand-side balancing reserve that is in place for this winter and next winter. We have the medium-term approach, which is the capacity market, that has two objectives: to incentivise existing capacity to stay on a little longer and to incentivise new capacity. Of course, we also have our long-term investment programme, which has already seen more than £45 investment in electricity generation and network; a massive leap in the rate of investment in electricity.

We have the short, medium and long term. The medium term of the capacity market is about both ensuring that existing capacity is not mothballed, is not closed, is better maintained and repaired in order to sweat those assets for a little bit longer—that has always been the objective—but it is also to bring in new investment. As I said, we did not expect a huge amount of new investment in the first one and I was delighted that we did see Trafford come forward.

Q10 Dr Whitehead: Would you not agree perhaps that 7.8 gigawatts of nuclear clearing, which arguably is not exactly going to switch itself off if the capacity payment is not provided, at the

expense of several plants that exited because nuclear cleared, and coal cleared too as a matter of interest, is perhaps not a wholly smooth start to the capacity payments arrangements?

Mr Davey: Under rules of competition, you can't start interfering in the market in a way that would deliberately, by design, favour one technology against another. I think you might have found that our state aid approval for the capacity market would have failed.

Chair: Alan, I might encourage you to move on to the question about renewables.

Dr Whitehead: I am so sorry, yes.

Mr Davey: My point to you, Dr Whitehead, we would not have had a capacity market if we had done what you had said and stopped state aid clearance, in my view; pretty simple.

Q11 Dr Whitehead: That is the reason for the structure?

Mr Davey: I am very happy to send more details if you want me to, but it seems to me a fairly open and shut case. You had to design it in a way. I made the point right at the beginning of my remarks that renewables could not get in because they were already getting support through CfDs. Any technology getting support through CfDs could not be doubly supported. That would not have received state aid approval either, but creating a system that deliberately differentiates against one technology, first, I think the owners of such power stations would have reviewed the Government decision and, secondly, I do not think Brussels would have given state aid clearance because it would have been seen to be anticompetitive.

Q12 Dr Whitehead: Thank you. What would be your estimate of the level of investment in renewables that is going to get us to this 15% target by 2020 that we are committed to?

Mr Davey: The renewable energy target?

Dr Whitehead: Yes.

Mr Davey: As you know, it breaks down into three parts: electricity, heat and transport. I am responsible overall but particularly for electricity and heat. In terms of how we are doing on each of them, first on renewable electricity, already the progress we have made with I think over £30 billion-worth of investment now in this Parliament alone and, with the levy control framework going forward, as a rule of thumb we had looked at getting 30% of our electricity from renewable sources. I think we are going to beat that on current trends. It is difficult to be absolutely sure about it but the trend looks very positive, so that part is going well.

Renewable heat is going less well. As this Committee has already commented on previous occasions, the renewable heat incentive was delayed coming out. There were lots of issues in designing it. It may be the world's first but that is probably why it was a little bit delayed. Although we are seeing take-up both on the non-domestic and domestic side, we are going to have to do better in the next Parliament to hit our renewable heat target. I have already put in place quite a lot of work through the heat strategy to try to make sure that the next government has strategies being developed so that it can hit the renewable heat target. For example, in the heating strategy we have sectorial strategies trying to get some of the lower-hanging fruit and help us to be even more competitive through our energy policies by helping particular industries and particular firms get benefit from renewable heat and save money. We have some sectorial strategies that will be very warmly welcomed by industry.

We also have strategies on the domestic side. I have been particularly keen on seed-funding feasibility studies for district heating networks. I set up nearly two years ago, I think, the Heat Networks Delivery Unit; the HNDU. The HNDU has been awarding grants to many local authorities, I think it is 72¹, for 120-odd² projects that have been looked at around the country. If those feasibility studies can bring some of those heat-network ideas to fruition they will then be able to go the Green Investment Bank. We have been putting in place some of the policies that the next Parliament can then see invested in so we have a chance of hitting the renewable-heat part of the target.

On the renewable transport side, again we have had a few issues, not least because of some of the original decisions were taken quite a long time ago—I think in the early part of this century—about which biofuels should be invested in. It turned out that the first generation of biofuels were not as environmentally-friendly as they could be and we have been arguing at the Commission to change that. My colleagues in the Department for Transport, and indeed I when I was in the chair for the UK Government at various energy councils, have tried to get a greening of that approach. We had to have a compromise. It was not our preferred option, but it has been improved. I hope we will see a lot more advanced biofuels, a new generation of biofuels, coming through that will assist in those targets. On the transport side, we do need to make more progress not just with biofuels but with electric vehicles and so on.

What I am saying to you, is we have made some real progress, but I think we have to do better in the next Parliament to be sure we will hit there particularly on heat and transport.

Q13 Dr Whitehead: Bearing in mind those points, the tracking forward of renewables is clearly going to have to do the heavy lifting in terms of reaching that target. Are you confident that the levy control framework provides the funding to reach that target as far as renewables is concerned, because obviously the levy control framework effectively caps what funding can be provided, and, therefore, what renewables can go forward up to 2020? It is very germane to that progress towards the target. Are you happy that the money is there to do that?

Mr Davey: The levy control framework is there to support renewable electricity and indeed low-carbon electricity because CCS and UK can bid into it, although in this levy control framework it is almost going to be entirely renewable.

The levy control framework is for renewable electricity and as I have said, I think that is going pretty well. It is capped, to use your term, but that is because we are trying to make sure we do this in an affordable way. I am quite proud of the system we have worked together with Treasury on because it increases competitive pressure, puts downward pressure on prices and protects consumers. Other countries have not had that discipline. We are trying to meet a whole lot of the objectives as well and the cap assists that, but the LCF does not address the issues that I have raised to this Committee, I hope very openly, that we have challenges in heat and transport. We have begun to address those by putting in place the policies that can come to fruition, particularly on the heating side that I am responsible for, but we may need to do more.

Q14 Dr Whitehead: Forgive me; that is interesting but not the question, is it? The question I asked was: are you confident that within the capped arrangements for the LCF, whether in principle

¹ Correct number is 91

² Correct number is 122

the capping is a good idea or not, the funds are available in the LCF to underwrite the reaching of the renewable electricity element of the target by 2020.

Mr Davey: Yes. On the renewable electricity side, absolutely; as sure as I can be. Looking five years ahead all our projections suggest we are going to hit the renewable electricity target but, of course, the legal target is renewable energy, which is at 15%, and renewable electricity is a component of that.

As you will know, in the Renewable Energy Directive there are sub-targets that you have to hit as well, on transport in particular. You can do very well in renewable electricity, but if you do not hit your sub-target you have not met your legal obligation. It is a little bit more complicated than just saying one can take up the slack. I am just checking with my Permanent Secretary. That is right isn't it?

Stephen Lovegrove: That is absolutely correct, yes.

Mr Davey: It is a little while since I looked at this

Q15 Dr Whitehead: Certainly this Committee has looked at the trajectory forward of what appears to be cumulating as a cost to existing projects of the levy control framework and particularly the effect over the next period of the likely widening of the gap between strike price and reference price as a result of changes in energy prices and, therefore, the taking up of elements of that framework by accumulation. Does that alter your view about the availability of overall funds in any way?

Mr Davey: I think I know where you are coming from. When we set the levy control framework to work out how much we could buy, and we had to do various estimates of what the costs of technologies would be when we brought in auctions if was done earlier than we expected and how much that competitive pressure would bear down on costs, we did a lot of sensitive analysis on the different things that would make up what that budget could buy. One of the sensitivities we analysed was how sensitive the budget was to gas prices. Wholesale gas prices have fallen and that can have particular impacts. Although electricity prices have not fallen, which is the main comparator, there is obviously an interrelationship. When we set the LCF we put in contingency; we put in headroom to take account of changes in wholesale prices and we are well within that headroom. We could easily see that this could be an issue and we planned for it and, therefore, I can reassure you that we still have the budget that we need.

Stephen Lovegrove: There are couple of other very big variables obviously in that relatively complicated modelling process. A very big one is the rate of cost digression among the renewable technologies, which I think we can begin to see. While the fossil fuel prices are going down, cost curves are also coming down and becoming steeper as well. There are a number of different variables there and certainly our move to auctions seems to be paying dividends in terms of putting competitive pressure on the costs in these various technologies.

Q16 Dr Whitehead: Arguably, in terms of the costs curves coming down, part of the issue relates to the extent to which developers are able to reduce costs by volume and certainty over a period of implementation. Of course, we also have a complete cliff after 2020, for instance there is no information about what a levy control framework might look like or whether there is going to be one or whether it is funded past 2020 in the way that the present one is. Do you have any intentions to do anything about that before the election or is that something down to your successor?

Mr Davey: I think that would not be wise. Given that we had quite a lot of discussion and analysis about the current LCF, I think trying to do this between now and the election would be challenging.

Q17 Dr Whitehead: Even a small indication?

Mr Davey: In addition to that, let me make the following comment, which I hope will be helpful. First, although there is what you describe as a cliff edge after 2020/21, I should point out that investors in the UK have greater long-term visibility on this issue than they do in any other country in the world, to my knowledge. We could be criticised that we do not go even further but, compared to others, we are doing pretty well.

Secondly, in terms of visibility, the key thing is the legal agreements this House has entered into through the Climate Change Act, the Energy Act 2013, the Renewable Energy Directive and the October European Council agreement. In other words, we have agreed the number of ways that we need to decarbonise and it is impossible to imagine you can do that if you do not decarbonise electricity, our power sector, throughout the 2020s. The levy control framework is the support system for low carbon, whether it is renewables, carbon capture storage or nuclear. The next government is going to have to have another levy control framework to support those legally binding targets on us both from the Climate Change Act and from European agreements.

You are right that that does not give the visibility for 2021/22 yet, because that needs to be set and the levy control framework needs to be set early in the next Parliament, but investors, whether in the supply chain or elsewhere can take quite a lot of confidence that this Government and this country sets long-term frameworks and has long-term targets, probably more so than almost any other country. That should give them some confidence.

Q18 Dr Whitehead: The investors going on about the fact that there is apparently a cliff edge is simply bleating.

Mr Davey: Well, they would say that, wouldn't they? They would say that.

Q19 Dr Whitehead: It is all okay with investors, is it?

Mr Davey: I want to give investors as much certainty as possible. When I meet them, for example we had an investors' breakfast recently at No. 10 with the Prime Minister, they are not saying, "You know what, this is an awful place to come and invest. You haven't given us visibility for 2021/22". They say, "You have the best policies in the world". Would they like them to be even better? Yes, they probably would, but we have put together quite a stack of policies and, to the extent that investors prefer other countries, it is probably because other countries are paying them more money. We are trying both to make our country very attractive to invest in and driving a hard bargain on behalf of consumers. Sometimes investors might criticise us, but that is because we are not here to look after the investors. We are here to look after the environment and after consumers. We are trying to put in place a framework that will bring this investment forward but doing that at the least cost.

Q20 Dr Whitehead: Finally, very briefly, 90% of RHI support at the moment goes to support biomass. Is that a worry to you in terms of perception of a level playing field in terms of RHI support?

Mr Davey: Just for the record, I think it is 90% of non-domestic RHI going to biomass.

Dr Whitehead: Sorry. Non-domestic, yes.

Mr Davey: It is a high share of domestic but not quite as high, from memory. We can give you the exact figure.

Dr Whitehead: It is non-domestic.

Mr Davey: But your question still is germane. Does that worry me? Not in the short term, no.

I think biomass is a very good technology for low carbon heating. I do want to ensure that we have the whole gamut of low-carbon heating technology come forward. As you know, through this Parliament we reviewed this, whether it is air-source heat pumps, ground-source heat pumps, water-source heat pumps, solar thermal and so on, to try to bring on these other technologies. With respect to renewable electricity, we have to try to find ways to bring on these technologies but at good value for money for the consumer. While I am sure the tariffs we offer on the renewable heat incentive, both domestic and non-domestic, will be kept under review and to see, if they are not bringing forward things, maybe there is a case for further reviewing them. We have done that already and we are not about to suddenly review them again in the near future.

We are beginning to see greater take-up of other technologies, too. We are dependent on the market. If the market is offering biomass and there are biomass-trained installers, you are likely to get more of those. We put some money into helping train installers for the whole range of renewable heat technologies and I hope we will gradually see a wider take-up.

Chair: I should have drawn attention to my entry in the register of members' interests, which includes interests in various aspects of the energy industry.

Q21 Graham Stringer: Just a couple of follow-up questions to the Secretary of State. You mentioned biofuels. Do you not worry ethically about changing land use from growing food to growing fuel?

Mr Davey: Yes.

Q22 Graham Stringer: It is part of the decarbonisation plan. How do you justify it if you worry about it ethically?

Mr Davey: I don't just worry about it; I take action on it. When I look at the biofuels issues there are number of things that we can do about it. First of all, within the UK we can bring in sustainability criteria. I am sure the Committee is aware of a lot of the sustainability criteria that we have brought in. I believe they are some of the strictest in the world, but we also have to act within the European Union's regime on this. As I mentioned, I think in answer to Dr Whitehead, transport ministers and I have been part of a big debate at the Energy Council over a protracted period to try to reform the support systems in Europe for biofuels because the first generation of biofuels had the problems that you rightly say. We have argued at the European Council that it should take what are called ILUC factors, indirect land use change factors, into account to make sure that support regimes for biofuels were properly sustainable, because I share your concern that what we do not want to do is have an incentive regime that promotes unsustainable biofuels. That is completely idiotic. We have seen changes. They have not gone as far as the UK and other countries like Denmark wanted, but we have reformed them and I hope we will gradually win the argument for even greater reforms in this area.

Q23 Graham Stringer: That is a very interesting answer. How far along the road do you think we are to producing biofuels that are not taking land away from growing food?

Mr Davey: I am not an expert, but my understanding is that we do have new generations of advanced biofuels coming through that do not have these damaging side effects. I am very happy to share with the Committee because, although Department for Transport Ministers have led on this at the European Council, once or twice I have been the chair and used very helpful briefs from officials of the Department for Transport and led Her Majesty's Government on this, so I am a bit aware of it. At one meeting I frankly got pretty cross at the Council because what I was hearing from some ministers was their industries lobbying.

When the system was incorrectly designed, I think around the early part of this century, it created an industry on the back of those support-systems' incentives. Now that industry has grown up and is lobbying to say, "If you change those support regimes we will close down". One has some sympathy with that because, once you have helped develop an industry but you made a mistake and you have to phase that out, there are investments people have made and there are jobs. I am not unresponsive to those concerns but, ultimately, our concern is to make sure that our incentives create low-carbon fuels.

I was making it clear to other ministers that they needed to look at the science; look at the evidence. The evidence I was arguing was, first, if we change the biofuel support regimes in the way that the UK was arguing, to take into account indirect land-use factors, we would have a much better climate outcome but also that Europe could be a leader in developing these advanced biofuels that did not have such damaging side effects. My fear is that, if it stays in some of these older polluting biofuels, we will be behind the innovation curve and we need to be leading that.

Whether it is an economic argument or a climate argument, the case for being more front-foot in advanced biofuels that do not have these damaging side effects is a very strong case and I was quite disappointed that some other countries were not as forward-leading as countries like ourselves, Denmark and one or two others.

Stephen Lovegrove: If I may just add to that, Mr Stringer. We have in a more narrow way sought to address, with our colleagues in the Department for International Development, the issues around deforestation across the globe. We have spent or committed a lot of money from the International Climate Fund, over 500 million between 2011 and 2014, to programmes addressing deforestation in Colombia and also multilateral forest funds like the BioCarbon Fund. I think we are well aware of the issues that you raise.

Q24 Graham Stringer: On a similar issue, you talked to Alan about biomass and it being 90% of the non-domestic renewable heat initiative. There has been a lot of criticism about ripping up forests in North America to produce the wood that is burnt in this country. Are you satisfied that, by your definitions, that it is completely renewable and is not leading to extra carbon getting into the atmosphere? There has been a great deal of both written and broadcast criticism saying, "Virgin forests are being destroyed and the sums do not add up and that by the way, the Department knew this from the beginning".

Mr Davey: I am satisfied. I have spent quite a bit of time on that. I was just looking at my brief to give you the exact name of the scientific work we have done because I think we have undertaken, both within the Department and by commissioning support outside, some of the most detailed

work that has been done in this area, probably ever, to look at different forms of biomass, because there are good forms of biomass and bad forms.

It is not a simple issue. There are forms of biomass that absolutely do save carbon when compared with coal, for example, but there are some forms of biomass that our science suggests could be almost as damaging, or in some cases as damaging, as coal. We have been at pains to try to ensure that our regime has high sustainability criteria and that has been a theme throughout the work I have done as Secretary of State, increasing the sustainability criteria and making sure our research in this deals with what is sometimes called the life cycle of biomass.

Q25 Graham Stringer: I understand that and you say you are satisfied. Does that mean that you are sending officials or other representatives out to check where the wood is coming from when it is logged or taken from forests in North America? Again, the television programmes have said that it is, in your terms, the bad kind of biomass that is coming to be burnt in Drax.

Mr Davey: We do not have a range of officials scouring the forests of the world to check on the logging processes but we do, through our sustainability criteria, talk to the companies to get the assurances that we need and they are left in no doubt that the biomass has to be sustainable.

Stephen Lovegrove: We liaise with the American environmental agencies to make sure we understand the regulations they are imposing on the forests.

Q26 Graham Stringer: There is a difference between a contract and people watching the trees being chopped down, isn't there? The logging industry is a brutal industry and it is full of scallies and rogues round the world, isn't it? That is why a lot of our rainforests are disappearing. I am just interested how you check beyond the contracts.

Mr Davey: We have policies and we have very clear criteria. If people breach those then they obviously have to face the music, so they know and understand the rules. That is what you do in most markets. You set rules and if someone turns out then to breach those rules, they have to face the consequences.

Q27 Graham Stringer: What I am interested in is the monitoring and inspection of that. You have to know the rules are being broken. I understand you to say you are not checking on that.

Mr Davey: Let's remember we have very good relations with the countries that are supplying this wood. The main source at the moment is North America and we work with our American colleagues. The Committee may be interested to know that I have had a letter, which got a lot of publicity, from a number of North American scientists concerned at this and we have obviously responded to that explaining to them the measures we have taken and the modelling we have done and that we take this matter very seriously. I have also had a letter from another set of American scientists from the industry saying they agree with us; the work we have been doing ensures that you can use biomass in a sustainable way. Not surprisingly, that letter has not had quite as much publicity.

Could and should we ensure we are doing more on this? Yes. As we develop this, I do think we need to be reassured by American colleagues and industry that they are meeting our sustainability criteria, but I think we have gone a long way and longer, to my knowledge, than any other country to ensure that biomass is genuinely renewable.

Q28 Sir Robert Smith: I should remind the Committee of my entries in the Register of Members' Interests, in particular to do with the oil and gas industry and a shareholding in Shell. Obviously, with a constituency just outside Aberdeen and very much in mind of the redundancies that are being announced across the industry in the wake of the low price, I wondered what your department's assessment of the impact of the low oil price was and what actions we have taken to tackle the job consequences.

Mr Davey: First of all, Sir Robert, I take this issue very seriously. We have been working across Government ever since these changes were made and, as you know, the scale of the collapse in the oil price has taken everyone by surprise. For the UK economy as a whole, there is no doubt that is beneficial but for particular sectors there are challenges, shall we say.

We have been in close contact with the industry. Last week I went up to Aberdeen to meet Oil & Gas UK and a whole set of senior managers from both large majors and smaller companies and had a long time talking to the new chief executive of the new Oil and Gas Authority, Andy Samuel, about what needs to be done. I have commissioned him to look at the work they are doing anyway on the strategic support they are going to give the industry following the Wood Review and following the establishment of the Oil and Gas Authority but, more urgently, to see what needed to change within that work to deal with this current challenge and to see whether or not other work is required.

I think we have been pretty swift to engage and work out what we can do to help. The fact that we undertook the Wood Review some time ago to look at the issues in the North Sea, because the costs in that basin are considered to be in danger of making it uncompetitive, and we established the Oil and Gas Authority has proved to be timely, even though we did not foresee the recent cut in oil prices. That puts us in a good place to work with the industry in much greater partnership with the laws being put into place through the Infrastructure Bill and beyond.

Of course, it is no secret what the oil industry is seeking from Government and that is some tax changes. The Chancellor, in the autumn statement when he cut the supplementary charge by 2%, and the Chief Secretary to the Treasury, Daniel Alexander, when set out longer-term reform proposals, have both made it clear that they would expect this budget to come forward with some more reforms. Clearly there is an awful lot of work going in the Treasury and we are supporting that work to see what those changes might be.

My answer to you is we take it seriously. I hope the work we are doing on the regulatory side through the OGA will help and I hope the work that Treasury is doing on the tax side will help, too.

Q29 Sir Robert Smith: Certainly the tax does seem to be the crux of sending a signal to investors. We have been through downturns before but, of course, it was not so mature and the assets were not so at the end of life and people were keen to hang on to them. They need an incentive to see them through the trough this time and, as you say, you took the initiative with the Wood Review, because obviously some of these problems were coming whether the price fell or not.

Mr Davey: Indeed. I think that is an important point. A lot of the challenges in the North Sea have been around for some time. When I reviewed the data with some of my officials, although we were not having any pressure from anybody to do it, I was getting quite worried by what that data was saying; particularly three pieces of data, one showing a reduction in production overall but, even more worrying, the reduction in productive efficiency of any individual well and the reduction in exploration rates, which obviously is critical to the long-term future. It was on the basis of that data and my engagement with the industry through PILOT that I decided we needed

to review the way we regulate and organise the North Sea and then asked Sir Ian Wood to do the review. That was in very different times to what we are now, but I hope it will help address both the strategic concerns that have been there for a long time and these shorter-term issues.

Q30 Sir Robert Smith: You mentioned obviously the Oil and Gas Authority came out the Wood Review and Andy Samuels being appointed. Are you on target to get it fully operational by April?

Mr Davey: I spoke to Andy about that in Aberdeen last week. He believes we are. I have made it clear to him that we will give him any support that is needed to meet that. Clearly it is about getting staff. We have some staff already available, of course, but the whole purpose is bringing in some new experts because some of the tasks will be new. In setting that up, as with this commission I asked him last week to look at and report to me next month, I want to make sure that, in doing that, we are responding to the short-term needs as well. I personally think the strategic and short-term needs come together, because one of the issues that you see in Sir Ian's report is that the ability for us to save costs in the North Sea by greater collaboration, by improving logistics that could maintain employment levels but reduce genuine inefficiency and genuine waste there, those opportunities exist quite widely.

Just to give more concrete examples, when it comes to the exploration there is quite a lot of data held by individual companies and by Government about the floor of the North Sea and what is beneath the floor of the North Sea. Bringing that together in a more coherent way is something that I am keen to see and would follow through a lot of what Wood was about. That would save significant costs in exploration. The point I am trying to make to the Committee is I hope a lot of the change we are going to see, which should have happened anyway, will help address the immediate problem.

Q31 Sir Robert Smith: In the wider energy market, how is your modelling of low-carbon investment in this new price paradigm?

Mr Davey: First of all, we have to remember that oil does not impact, except right at the margins, heating and electricity. There are three energy markets, and oil affects the third one, transport. The drop in oil price is affecting issues around transport and issues around how we plan to move to low-carbon transport, though I personally believe the sorts of investments that are needed to go to low-carbon transport are so long term that no one is going to pull them, because we all know the oil price can go up as well as down. While it is a challenge in the transport sector for the decarbonise agenda, I do not think in any way it fundamentally undermines it. Because oil prices do not substitute for electricity and gas in heating and power, it is going to have relatively little impact at all.

Of course, the fall in the gas price has an impact, but the gas price has fallen much less steeply and indeed has been far more volatile. Because gas has completely different pressures, it fell sharply in the first half of last year, then rose quite sharply again and has come off again a little bit. It is reacting to very different pressures, with probably the most significant pressure being a warmer than expected autumn and winter. Do I think the lower wholesale gas price is going to change our decarbonisation strategies in heating and electricity? No, partly because of the answer I gave to Mr Whitehead previously. When we developed the levy control framework, we had done a sensitivity analysis to lower wholesale gas prices and we are well within the headroom that we applied when we designed the levy control framework.

More broadly, I think that, frankly, in the short and medium term, a lower gas price will help our decarbonisation targets because it will freeze out coal and the substitution of gas to coal that is needed in the short to medium term to help meet our carbon objectives will be encouraged and stimulated.

Q32 Graham Stringer: On a related issue, what are the realistic prospects and timescale for any significant impact of shale gas in production?

Mr Davey: The impact of these changes on shale gas?

Graham Stringer: No. When does the department think we will see a realistic production of shale gas within the UK?

Mr Davey: As people know, shale gas is very much in the exploratory phases. We are still seeing different companies go for exploratory wells and they need to then analyse their results to see whether the shale gas can be extracted and whether it can be extracted in a commercially viable way. Because we put in such strong environmental protections, whether it is for water or emissions and so on, I believe we are in a position where, if those exploratory wells are positive, we could see production of shale gas onshore. Of course, the timing of that is unclear because we are still at the early stages, but most people in the industry do not expect, if they are successful at the exploratory stage, for production to get going until the end of this decade and probably the next decade.

When it comes to price effects from shale gas, the vast majority of experts do not believe that UK shale gas production, even if it is quite large amounts, will affect the European price of gas. When North Sea gas production was at its height, I am told there was almost no impact from that production on the European price of gas. I think you would have to see massive shale gas production across the whole of Europe and North Africa and so on for it to change gas prices here for us in the way you have seen in North America. I just put that on the record and give that slightly long answer to that question, because there has been an awful lot of hype about shale gas; that it is going to solve everything the next week.

I have always been in favour of trying to see if we can get at this resource. I think we should do with the proper environmental regulations that we put in place. It could be helpful to the UK, because we are going to need a lot of gas for a long time to come. The question is where that gas is going to come from. I would rather it came from the North Sea or onshore in the UK than from Russia or on ships from the other side of the world. That is the question, but I am afraid some commentators on shale gas have just not looked at the facts.

Q33 Chair: Accepting the merits of import substitution, which I entirely endorse, in the short term the fall in fossil fuel prices is not helpful to the rapid deployment of shale gas development in the UK, is it?

Mr Davey: I do not think we are at the point of rapid deployment of shale gas in the UK. We are at the exploratory stage and one that the Government has been supporting. Before the House we have the Infrastructure Bill. My department has put measures into that to enable both shale gas developers and indeed geothermal developers to avoid the charge of trespass if they are going beneath someone's property at a depth of at least 300 metres. We were asked by both industries to pass that legislation because it would be facilitative for investment at both the exploratory stage and the production stage.

We have been doing what we can, but ultimately we do not have a nationalised shale gas industry. It is up to private investors to decide how they want to roll out their production and they will do that in terms of whether they think there is a commercial return and what the opportunities are. I hope and believe we will see more exploration and I would like to see that. I hope and believe that will then result in production, but I think some of the hype about the speed and scale at which it is going to happen and the impact on price is for the birds.

Q34 Albert Owen: Just on the oil and gas in the North Sea, are you as concerned as many of us are about the impact the drop in price will have on investment in the North Sea? I think the last time you came before us for the annual report you were saying there has been record investment there and I am hearing and reading and talking to workers who have been made redundant in this area. I know you cannot control that, but are you as concerned as I am for energy security and also that we see feast and famine and we do not have that long-term strategy that you were talking about with other forms of energy sources? What worries me is that the skills base will go as well and we are going to have to retrain people for the next phase when prices do go in a more attractive direction for the investors.

Mr Davey: First of all, there have been job losses announced last year and this year and, for the individuals concerned and their families and their communities, of course that is a real worry. However, on the other side, there have been some job creation announcements. It is not all doom and gloom in the North Sea. We have seen BP with the Kinnoull field start production.

Q35 Albert Owen: I am not suggesting there is and I am agreeing with a lot of what you said in your reply, but are you as concerned as I am for the Government to have continuity and a long-term strategy that the oil and gas in the North Sea is not feast or famine and that does not fit into the long-term goals of this country?

Mr Davey: I agree that we need to try to give as much stability as we are able to give. It is one of the reasons I asked the Wood Review to occur and we have set up the new Oil and Gas Authority.

Q36 Albert Owen: But it does not seem to be working, because it is controlled by international prices.

Mr Davey: You anticipate what I am going to say. There are things that we can do such as trying to get the regulatory approach to be far more long-term and far more collaborative in the way that we have done. We can reform the tax system and give clear signals to investors both here and abroad into the North Sea that this will be an attractive basin to invest in, and that we have understood that it is maturing and, therefore, different types of tax issues need to be dealt with, whether it is decommissioning, small fields, brown fields, high temperature or high volume. There is a whole range of different things that you need to look at in the tax regime because it is a mature basin. We need to show that, but what we cannot do is control the world oil price.

Albert Owen: Or gas.

Mr Davey: That is unfortunately, or fortunately depending on your view, something we have to try to live with. The oil industry is extremely—

Q37 Albert Owen: But can't you encourage contingency plans from any of the companies, I note what you said about tax then, so that there is not this switch on, switch off sort of period? I

know nobody predicted what the price is today, but we have been living in an era where there have been cycles and we do not seem to be adjusting into those cycles very well.

Mr Davey: What I am not going to do is sit here and say that I believe a Secretary of State from the UK can tackle oil price cycles in the world, because I do not think they can. One of the issues you have to be clear about with energy policies is huge uncertainty. There is a lot that we do not control. We do not control these wholesale gas and oil prices and I think the debates in the House of Commons would benefit from that reality. We do not control those.

Q38 Albert Owen: But you are guilty as anybody because, when it is on the upturn, you are boasting about how the UK and the Government is doing so well when there is an upturn.

Mr Davey: No, to be fair—

Albert Owen: When there is a downturn, you blame the external factors. You are as guilty as anybody when it comes to debating this, Secretary of State.

Mr Davey: No. I have never said that we can control oil—

Albert Owen: You have never said that, but you do take credit when it has gone in the opposite direction.

Mr Davey: I will get a word in edgeways in the second.

Albert Owen: You do a lot of that in debates.

Mr Davey: I was pointing out the fact that we have record investment in the North Sea and that is a very good thing and that does suggest that people want to come here and, given the previous history, that we have seen a turnaround. Was that related to the high price of oil? Yes. One of the reasons the price of oil has gone down globally is because when it was high lots of people said, “We are going to invest”, and they did not just invest in the North Sea. They invested around the world. I accept that. Then, as everyone invests and the supply comes on, the price goes down because there is over-supply. This is what happens in cycles and we cannot do anything about that.

What we can do and what we have done, and what the last Government did not do if you want to get into that regime, is look at how we manage the North Sea as the Crown, if you like, in our licensing and in our tax regime. I think this Government has a proud record of responding to that. I am pretty proud of the fact we, with no pressure from the industry, no pressure from anywhere else in Government, no pressure from this Committee or anywhere else, set up the Wood Review to ask the questions that we had not been asked but we felt needed to be asked. We came up with a set of recommendations that we are now implementing rapidly with the new Oil and Gas Authority, which is, despite all these things we do not control, designed to try to get a grip on what we can control. I accept that, like King Canute, we cannot deal with the tides that—

Q39 Albert Owen: You are doing a better job than the SMP and I will leave it at that.

Mr Davey: That we can agree on.

Q40 Graham Stringer: One very quick question, just for clarification. You talked about the Infrastructure Bill and clarifying the issue on trespass. It has never been the case, has it, that people

tunnelling under houses previously have been guilty of trespass, otherwise most of our coalmines would not have existed?

Mr Davey: It depends on the sector. You are right to say that in coal and one or two other areas this does not affect because of previous legislation. It is quite complicated, but previous legislation has been quite liberal for coal, for example. It is one of the reasons why people who are objecting to these rules are in a pretty poor place, because we are only giving to oil and gas and geothermal what other industries have had before. They are in a pretty bad place on that, but there was a court case recently—we will get the name of the court case³—that made it clear that for oil and gas you had to go to the courts to get permission with respect to every person's home and land that you were going under for oil and gas, and it was different from coal. We have had to take these measures because the legislative framework is not there for oil and gas or geothermal in the way it is there for other energy sources.

Graham Stringer: That is very helpful in answering the hundreds of emails I have had on that issue.

Mr Davey: I always like to help you out, Mr Stringer.

Q41 Graham Stringer: On a bigger issue, one of your predecessors, a Secretary of State, famously said that the time of low hydrocarbon prices had gone for good. I will not say which one it was. The whole of the energy policy is predicated on high hydrocarbon prices. It will make this country's energy very expensive compared to our competitors if oil and gas stay low and we are heavily invested in renewables, won't it? Doesn't it make you want to think about our policy? That original prediction has just been proved to be dramatically wrong.

Mr Davey: First of all, as I gave in answer to one of your colleagues, we have to distinguish very significantly between oil and gas. Oil prices have more than halved. Gas prices have gone down—depending when you measured it, what timescale, which wholesale price, because it is quite complicated—probably around about 20% plus. They have gone down less and over a longer timeframe and have been arguably more volatile in the last 12 months. Plus I said to one of your colleagues that they affect different markets. The oil price only affects the electricity market at the very margins. There are not very many oil power plants now and I cannot think of any significant ones. Gas is competing with coal, renewables and nuclear. It is not competing with oil when it comes to electricity.

The biggest push that we have had on decarbonisation has been on electricity, so the fossil fuel price that is relevant to the electricity debate is gas. Gas has fallen, but we produced our policies on the basis that we knew that could happen. We designed the levy control framework, which is at the heart of this, taking into account sensitivity analysis that had lower wholesale gas prices and we put headroom and contingency in for that and we are still within that. Does it undermine what we have done? Absolutely not.

Moreover, I would come back to you and say not only have we tried to put the economics in the right place and the fiscal framework in the right place, but we have tried to help consumers by all the work we are doing on energy efficiency, which people like to separate, but goes together. They are part of the whole policy and energy efficiency is helping people overall, as a total because of our policies, to have lower bills. I am grateful you have given me the opportunity to say and I want to repeat that the net impact of our policies is for lower bills when you add both the support for low carbon and the energy efficiency together.

³ *Bocardo SA v Star Energy UK Onshore Ltd*. The judgment was made on 28.07.10

My final point is, having hopefully made the economic argument that we have put our policies on a sustainable footing, even in the context of the lower gas price we have seen, is the fact you still cannot get away from the scientific evidence. The scientific evidence says we have to act on climate change. The Stern review, whether you like it or not, and I know not all members of the Committee are huge supporters of Professor Stern—I happen to be one—in his review, makes it clear that the costs of climate change are so huge that the quicker you act and the faster you act, the cheaper it is going to be. I still very much believe in that analysis.

Stephen Lovegrove: If I may add something, Secretary of State. With respect to energy intensive industries, we have made a clear recognition of the fact that there is an energy price differential possibly opening up between this country and other countries. We are very keen to avoid any sense of carbon leakage or indeed to undermine the competitiveness of those important companies and industries in the UK. We are legislating to exempt those industries from 85% of the CfD costs at the moment and we have capped the carbon price support. There are exemptions from the Climate Change Levy and a variety of other measures that we expect to go to address some of the concerns that you raise.

Q42 Dr Lee: In effect, are we not putting ourselves into the position we are with the CAP where we have to protect food producers in this country by essentially subsidising them, so that the customer is paying twice and, in order to protect those industries because we have chosen to create the circumstances in which that differential has occurred, the tax burden on the individual is just going up in order to try to protect those industries because of a system that Government has created. CAP is in exactly the same position? We are not here to discuss CAP, but it is exactly the same position where we have to intervene again in the market in order to protect, for national security purposes I would say, in terms of production of food, industries that we do not want to lose within Britain. Is it the same scenario?

Mr Davey: I see it as very different. What we are doing in energy policies is a transition to a low-carbon energy system, which I think is going to be global. By making this historic and dramatic transition, we will get to the end of that. Unlike the CAP, which is embedded in the system—and I agree with you, I have huge problems with the CAP and always have had—and that is inbuilt in the system and has been difficult to shift, this is a genuine transition. The other point I would make is if it was—

Q43 Dr Lee: Do you have a timescale on that transition? If you are saying that, presumably you have a known end?

Mr Davey: No, I do not because there are huge amounts of uncertainty here. The other point I was going to make though—

Dr Lee: In that case you cannot guarantee the transition.

Mr Davey: It is not just about the support systems, important though they are to help the energy intensives. It is also about how you change technology. What I have been doing in the EU, in the Energy Council, in arguing and supporting policies that will help energy intensives is I have been focusing in on things like completing the single energy market to enable our overall costs in the EU to come down. In particular, I have been focusing on R&D and innovation because, when you talk to many energy intensives, yes, of course they have concerns, particular vis-à-vis North America, because of the way the shale gas price there has reduced prices, but they believe there are technologies out there with some support that can develop to keep them price competitive.

The example I always quote, because it is probably the best example, is from the European Confederation on Paper and Pulp. They have shown, through a competition that they ran, there is a whole set of technologies that would enable them to take a paradigm shift in their use of energy and their carbon emissions. What they and others are calling for is: can the European Union, possibly through Horizon 2020 or other things, assist energy intensives to make not just a marginal change in energy efficiency but a leap in energy efficiency so we can potentially be very competitive? I strongly support that. I met Commissioner Sefcovic yesterday, who is the vice-president. He has been charged to look over and develop the Energy Union and I was making the point to him again that I strongly think, longer term, we have to look at more low-carbon, low-energy technologies to assist these industries to be able to produce the products that we need.

Q44 Ian Lavery: With regards to the carbon budgets, I think experts have agreed that further carbon-saving policies will be required in order to achieve the fourth carbon budget. That includes the Committee on Climate Change and the NAO. I am just wondering whether DECC has these new policies in line to ensure we achieve this.

Mr Davey: First of all, the good news is we met our first carbon budget and the latest projections show we are on track to achieve our second and third carbon budget. That is based on the projected impact of existing policies that have been announced and are funded. At the moment, based on current planned policies that have been announced, there would be a shortfall on the fourth carbon budget, which is the 2023 to 2027 period, but in many ways, that is not surprising. You set the budgets and then you adjust your policies to take account of that. I can speak for my own party going into the next election. We will be putting forward some very ambitious proposals to support policy development in this area that will enable us to certainly meet our fourth carbon budget requirements.

Q45 Ian Lavery: We do not have in DECC new policies that will ensure that we meet the fourth carbon budget?

Mr Davey: The officials are working on them. There is a whole range of different things that we are working on.

Ian Lavery: What sort of things?

Mr Davey: For example, energy efficiency I think is one area that we—

Q46 Ian Lavery: Is that building on existing policies rather than new policies being developed?

Mr Davey: There are new policies being developed. They are being developed within DECC but, I assume, with all other political parties. I can only speak for my own political party and we have been doing quite a lot of policy development that I am very confident would not just meet the fourth carbon budget but meet the fifth one too.

Q47 Chair: The enthusiasm of my Conservative colleagues for greener policies is, of course, well-known.

Mr Davey: I cannot speak for the Conservative Party.

Chair: That is why I was doing it for you.

Q48 Ian Lavery: You have mentioned obviously a lot will be trying to strengthen existing policies and develop new policies. Will that need much in terms of extra finance?

Mr Davey: Possibly, but not always, not least because I think with some of these technologies, by the time we get to the fourth carbon budget, the prices will be coming down significantly. The reason I mention that is this shows the uncertainty you have when you are planning policies that are ten years hence. You do not quite know what prices are going to be. We have been talking about gas prices, but we do not know what the price is going to be of solar and many people think it is going to be below gas and coal prices by this period. We do not yet know what the price of new nuclear will be as we develop beyond Hinkley Point C. We do not know whether carbon capture and storage will have become cost competitive. We deal with all those uncertainties and you have to plan for them.

One of the reasons I mentioned energy efficiency in response to you as one area that we are looking at is it does seem to me that is going to be one of the most cost-effective ways of meeting the fourth carbon budget. It will help people with their bills. It will reduce people's bills. Let me give you an example of a policy that I hope will be confirmed very soon. We went to consultation on it—people will tell me if I am wrong and if I am wrong I will write to you—but I do not believe it is factored in because it has not been fully announced, and that is regulations in the private rental sector. The 2011 Energy Act gave statutory primary authority to bring forward regulations to require landlords to improve the thermal efficiency of their properties or prevent them from letting them out. We consulted on those. That consultation has been completed and I am hoping to be able to announce the response to that consultation and how we will take that policy forward, but that is an example of work that is already underway, it has not been finally announced, but would have a real benefit on energy efficiency, helping people cut their bills and reduce carbon emissions.

Q49 Ian Lavery: Regarding carbon capture and storage, every meeting we have we discuss carbon capture and storage and I think we all agree how vital a technology it is. Can you explain why, under your watch, Secretary of State, the Government has failed to drive forward carbon capture and storage?

Mr Davey: I completely disagree with your assumption. I think we have driven it forward. I would say back to you, Mr Lavery, that if you could point to any other country in Europe that has two or even one well-developed carbon capture and storage projects I would give you a prize. It has taken a bit longer, I accept. I would like it to have gone quicker, but we have to consider value for money for consumers and we have to make sure we get it right. We have seen previously in this country, under the last Government, attempts at CCS that have not worked; Longannet is the obvious example. We got a lot of learning from that, but it never went to production. Now we have the Peterhead CCS project, the only gas CCS project in the world, and then, of course, we have White Rose in Yorkshire for coal. Given that we are significantly ahead of any other European country, I think the presumption in your question was wrong.

I would also add that we have been spending quite a lot of money in R&D on CCS. I visited a company recently. I probably should not give too many details, but their innovative work I thought was very exciting and, should that come to fruition, you can see CCS taking off much more quickly than some people think. I do not know if it will. I am not a scientist or an engineer, but what I do see under my watch is a huge amount of innovation in CCS, both to reduce costs if we have a coal CCS or gas CCS connected to an existing power plant, or indeed CCS in the more general way.

Q50 Ian Lavery: You are happy with the progress?

Mr Davey: Let me say for the record, I would always like more progress than we have achieved, whether it is on renewable energy efficiency or CCS.

Q51 Ian Lavery: With regard to CCS, are you happy with the progress that the Government have made under your watch?

Mr Davey: I think we have made solid progress. We have two projects that are currently in front-end engineering design, where we have the funds for them if they go to the next stage already in the budget and we have seen a huge amount of innovation. Indeed, I believe we were the only country, though I stand to be corrected, that won money from Brussels for our CCS project.

Q52 Ian Lavery: Why would DECC be handing back the vast majority of its budget for CCS—

Mr Davey: It is not.

Ian Lavery: —in this year to the Treasury?

Mr Davey: When we won the £1 billion in the spending review we did not say we were definitely going to spend it this year and that year and the reason is you only spend it when you need to spend it. You do not spend it for the sake of spending it, and the two projects in Scotland in Yorkshire that are developing very well are not yet at the stage that they need that extra money. We will be negotiating with the two consortia this year about the future of their projects and, ultimately, about whether the terms and strike price for a contract for difference has fallen in addition to the capital support from the £1 billion. We stand ready to support the rollout of CCS and I think the record is a pretty good one.

Q53 Ian Lavery: On the fifth carbon budget, the Prime Minister expressed a view before the Liaison Committee and he said, “Looking ahead to the fifth carbon budget, we should not sign up to new decarbonisation targets before we know whether CCS is a workable and cost-effective technology”. Do you share his view on that?

Mr Davey: The fifth carbon budget is a legal requirement under the 2008 Climate Change Act. The Climate Change Act sets requirements for Government to produce carbon budgets and if you were not to go ahead with the fifth carbon budget, I stand to be corrected but I think you would either have to amend or repeal the Climate Change Act. I know the Prime Minister is a strong supporter of the Climate Change Act.

Q54 Ian Lavery: With regards to carbon capture and storage, how will we meet future carbon budgets if indeed we have not progressed enough and we do not have fully deployed carbon capture and storage?

Mr Davey: All carbon budgets, whether it is one, two, three, four, five or indeed six or seven, I do not think they are going to be dependent on one technology and the whole policy of Her Majesty’s Government has been to be technology neutral. As we plan to decarbonise in the electricity sector, we won the argument in the electricity market reforms that we have gone through for the Energy Act 2013 and we won the argument in Europe for the 2030 deal that we needed a technology-neutral approach. That enables CCS to compete with nuclear and with all the different forms of renewables and I very much stand by that policy.

Q55 Ian Lavery: You do not think that it is essential that we have CCS deployed to meet the carbon budget?

Mr Davey: I am a CCS enthusiast. I am an enthusiast for all low carbon because I think the job of someone in my role is to try to make sure the UK is going to play its part in tackling climate change. Ultimately, the technology that is best to do that will be the most cost-effective one and that is why we have taken a technology-neutral approach. I think now to rule out any technologies is a very bad idea, because you would need to be able to foresee the future and future technological changes and future price changes, which I do not believe anyone can see sitting here now.

I do not think it is right to hang your hat on any particular technology. I say that with some passion because, given that tackling climate change is what I think should drive us, albeit in the most cost-effective way—some of us changed our position that we had held for a long time on things like nuclear and changed my party's position on the nuclear issue because the thing that we have to do as a country, as a world, is tackle climate change—taking a low-carbon technology off the table now, given we are frankly at the beginning of this decades-long struggle with climate change, looks to me reckless and risky and probably very expensive.

Q56 Dr Lee: Hinkley Point C, the state aid case has been approved by the European Commission. Secretary of State, when can you expect a formal contract to be signed?

Mr Davey: I ask that question quite often and I cannot give you a date because there is quite a lot of work to do. The Government and EDF are in very advanced stages to finalise the documentation. It will include the full terms of the contract for difference and UK guarantee. A lot of work has been done there and is well advanced. EDF itself has to progress discussions with potential external investors. As people know, it is not a secret, it has been talking to a number of Chinese companies and it needs to secure that investment to deliver the plant. We are not privy to their daily discussions with their Chinese colleagues, but we are led to believe that that is also very positive. What I am doing in giving you those two narratives is to explain work is underway, it is going well, but I cannot say when that will conclude.

Q57 Dr Lee: The National Audit Office is going to report on the value for money of the project once that contract is signed. If they were to express any concerns, is there scope for those to be addressed prior to the project kicking off?

Mr Davey: I think the signature on the contract here, as we have seen with contracts for other CfDs, is not subject to a National Audit Office veto. Clearly we take into account lots of people's views and—

Q58 Dr Lee: You cannot address any concerns that the NAO raise after the contract is signed, yes or no?

Mr Davey: No, of course you cannot. I am surprised you ask the question, because it is an audit—

Q59 Dr Lee: It just begs the question, what is the point of the NAO doing the report then?

Mr Davey: I do not think it begs the question at all. I think the NAO and audit function is vital for good government and for good scrutiny. I am very happy for our decisions and my decisions to be looked at by others, as long as I have a chance to explain them and to put my side of the argument. I am very happy for the NAO to look at it. What is the purpose of audit? It is first to check that the process we say we have gone through we have gone through, that is fine, and also

to learn lessons. Do I think everything we do is 100% perfect and we get everything right all the time? No, I do not. Of course we can learn lessons. It is not just me learning lessons and the department learning lessons. It is the whole of Government learning lessons.

Q60 Dr Lee: Okay, but they are big figures, Secretary of State, for this project. They commissioned it for £25 billion, which I know was a nominal cost and the prices EDF quote of £15 billion are discounted but that is on the presumption that we do not have deflation in between and we do not have any more quantitative easing. The price of a pound in 2020 is quite clearly unpredictable at the moment. We are dealing with big numbers. We are dealing with a technology that is yet to be delivered on time and on budget anywhere on the face of the earth. It strikes me, and I am sure the average man in the street would want to know why, if the National Audit Office comes up and says, “Look, this really is not value for money as it is currently constituted”, the Government is then putting itself into a position of having to proceed with a project that is unjustifiable before we start talking about oil and gas prices going down. This is pretty ludicrous, is it not?

Mr Davey: The value for money test is the key test for the project and we have spent hours—

Q61 Dr Lee: But how do you qualify value for money?

Mr Davey: We set that out in the public domain. There are a number of ways you do it, one of which is obviously looking at comparators. How would you get that energy using other technologies? Comparators we looked at, for example, have been producing that with gas, with gas paying a carbon price, because you have to compare apples with apples. If you are trying to compare a low carbon technology then you need to make sure that carbon is being properly priced. In our comparator we—

Dr Lee: Sure but the gas price is comparative.

Mr Davey: Indeed. In our comparator we have sensitivity analysis, which is the usual thing you do.

Dr Lee: What, with 20%—

Mr Davey: One of our comparators is gas with carbon price and it is not, of course, the carbon price today because it is a long-term contract. You have to take a view on future carbon prices and future gas prices. It would be very silly if you just looked at this year’s gas prices, given the length of the contract.

Q62 Dr Lee: I tell you what would be silly, Secretary of State, is that the Chinese have just announced the lowest growth in their economy for the last decade. They were up at 14% a year and they have just announced 7.4%. The demand for fossil fuels is very unpredictable when one of the largest consumers of them is approaching lower growth rates and every prediction is suggesting this may continue for some time. I am surprised that we do not have some leg room, some movement to be able to agree some different figures with EDF and whoever they are in partnership in view of the fact that we just cannot at the moment predict what fossil fuel prices are going to be.

Mr Davey: I am surprised you are surprised because we have always argued that fossil fuel prices are volatile. If you look at speeches I have made, fossil fuel prices are volatile. Dr Lee, I am sure you are not suggesting that, over the next 10 to 15 years, gas prices are going to stay where they

are or that you know where they are going to be. China's economy might be slowing down now, but it might increase the next year.

Q63 Dr Lee: I would be a richer man than I am if I could make that prediction and you well know that, Secretary of State.

Mr Davey: Indeed, and that is my point to you and I think it undermines your argument—

Dr Lee: No, it does not.

Mr Davey: —because of the uncertainty about growth, the uncertainty about fossil fuel prices and the uncertainty about lots of things. As I have said to you and the Committee lots of times, you have to have serious policy that deals with uncertainty. We follow our objectives of affordability and decarbonisation security in the knowledge that we do not know everything and we do not know everything about the future. You have to create policies that are flexible, that are not rigid and that give you choices, and you do not hang your hat on one technology. That is what we do.

Dr Lee: I have been consistent, Secretary of State—

Mr Davey: Having a mixed, diverse approach enables you to be on the side of the consumer as you meet your other objectives.

Q64 Dr Lee: If we are going to embark upon a long-term contract paying significantly more than the current strike price for electricity from other sources, I would suggest, and I have been consistent on this for many years, that we might want to approach it from a national security perspective and have the technology and the industrial base sourced in this country and use local government pensions, for example, to fund this project because, as you rightly say, the long-term predictability of fossil fuel prices is not predictable, as we have seen in recent months. I can move neatly onto the national security—

Mr Davey: It is a very interesting model, but I do not think it gets you out of the problem.

Q65 Dr Lee: Certainly, if we are not going to end up spending more money on our nuclear power, Secretary of State, I would rather we were spending excess money on British industry than filling the coffers of the French taxpayer and, indirectly, the Chinese taxpayer. Can I move on?

Mr Davey: I can answer that point because one of the things I have been very keen on is to address some of the problems created over a number of years by a number of Governments where we have lost that nuclear expertise. One thing we are doing, whether it is through the Hinkley Point C contract or the work we do in the other nuclear consortia, is to try to build up that UK expertise and build up the UK nuclear supply chain. I published a document with my Right Honourable friend, the Secretary of State for Business Innovation and Skills, in 2013 analysing what we do in this country, in terms of skills, innovation and so on, in order to try to build that up. I think we have more to do. I do not think we are there yet but I strongly believe, and I think this applies to your fundamental point, that we need to see greater UK expertise and IP in this area.

Q66 Dr Lee: I am conscious of time. Can I just move on to a couple of questions on national security? I have said before that I have been shown some data on the financial health of EDF suggesting that it is not the healthiest of companies. Do you have any concerns about them being

able to fulfil the contract in the medium term as a consequence. If not, do we have any contingency plans for the UK taxpayer to step in?

Mr Davey: I have every confidence that EDF can fulfil this. They have an advantage in that the French state is a majority—

Stephen Lovegrove: 84%.

Mr Davey: —84% shareholder. I would have thought that would give you some encouragement, unless you know something about the French economy that I do not.

Q67 Dr Lee: I would not predict the eurozone future any more than I would predict fossil fuel prices. The other thing that slightly concerns me is you have mentioned the possibility of Chinese backers. Again I have expressed the concern over many years on this Select Committee about Chinese involvement. Do you think nuclear power and nuclear power stations should be viewed as national security assets or not? A supplementary question to that is: has this deal been subjected to discussion on the National Security Council and, if not, why not?

Mr Davey: First of all, I can absolutely say we have taken advice from across Government, including from those who are charged with the security of this country, about everything we have done in this area.

Q68 Dr Lee: Has it been discussed in the Security Council?

Mr Davey: We have followed that advice. Am I at liberty to discuss what we discussed at the NSC or not? Put it like this. I think you would be surprised if something like this was not discussed at the NSC.

Q69 Dr Lee: You have absolutely no national security concerns about this project.

Mr Davey: No, and we have taken measures to ensure that. For example, the UK will have a special share in the consortium.

Q70 Dr Lee: The share being a percentage or—

Stephen Lovegrove: A special share that will allow us, under certain circumstances, to step in and make certain decisions around the project that would be specifically designed to protect national security. There are other protections we have designed in association with other than Government, including the agencies, about the nationality of the people who are capable of working on the site and so on. It has been looked at very carefully.

Q71 Chair: We have had quite a long go on this angle. Can I come back to the progress of the contract? There have been reports recently in *The Financial Times* and elsewhere that the Chinese participation—they seem to be the lead runners in terms of partners for EDF—is dependent on the UK allowing them to deploy their technology at Bradwell in a future development. Can you say whether discussions are taking place now on that point?

Mr Davey: We have always made clear there is no bar to Chinese investment into the UK's nuclear industry. That is hardly news. It has been around for some time. I think it is in the public domain, because EDF owns Bradwell, that they are in discussions with Bradwell about how they will work together in the future, and, indeed, at Sizewell.

Q72 Chair: Has the Government's view about that possibility been canvassed during these negotiations?

Mr Davey: Yes, of course. I have made it clear we have put no bar in the way to Chinese engagement in the nuclear industry. We have made it very clear to them, as we have made to all people who have expressed an interest, whether it is from Japan, Canada, France and a number of other countries who have expressed interest in the UK nuclear industry, that everyone has to go through a very strict regulatory regime. We have the toughest regulatory regime in the world, quite rightly, that looks at safety, security, probity and so on. The regulatory approval process, the so-called generic design assessment process, that the Office of Nuclear Regulation oversees is very tough. EDF's EPR took three years to get through that process, so any proposal has to go through rigorous regulatory regimes. One of the things we say to people is, "If you are interested to come, but bear in mind we have these very tough rules and we will explain them to you".

Stephen Lovegrove: I think it would be fair to say that conversations about Chinese technology being deployed at Bradwell are not active at the moment. It is a project that is quite a way away and we need to get through Hinkley and Sizewell and then we have the ABWR at Wylfa and the AP1000 up at Moorside as well, so there is a pretty full pipeline of nuclear discussions probably before we get to that Bradwell point.

Q73 Chair: Given that, as you say, the GDA process is a very rigorous one and regarded internationally as such, would there be a difficulty about saying to an overseas investor, whether Chinese or otherwise, who have an interest in a particular site that we know is going to become available that, provided they can pass the GDA hurdle, it is open to them if they want to bid for it?

Mr Davey: Stephen may be able to give an update on the progress, but the Office of Nuclear Regulation is pretty busy looking at doing the GDAs for the existing nuclear technologies of existing consortia who have plants and land they bought and have projects in place. The ONR is working at full capacity at the moment and will be for some time. Moreover, it is worth saying that, as we have explained to anyone who has asked about whether they can invest here, all the other issues of regulatory approval, whether it is planning, which of course is absolutely critical, or is our competition policies, and so on, are quite time-consuming issues that have made people think twice, it is fair to say. They realise that we take these things very seriously.

Q74 Chair: Are you concerned about what seem to be fresh delays in getting EDF to sign off on this deal?

Mr Davey: I do not recognise the adjective "fresh".

Chair: Continuing delay.

Mr Davey: There has always been a process. This is not new. I will give you an example. When we announced we had commercial heads of agreement some time ago I was at pains to say there is a lot of work still to do. At that stage we had to do the state aid, for example. When we got state aid clearance last year I was at pains to say there is still a lot of work to do. We are doing that work and, as I said in answer to Dr Lee, the two key things are completing the documentation with EDF and RUK, but also the Chinese to complete their negotiations and discussions with EDF. It is quite obvious we do not control those.

Q75 Chair: Do you think, looking ahead, that developers who have a technology that has been tried and tested in their own market are at an advantage over others in coming forward for a

GDA or is it a new process regardless of whether they have built half a dozen of these and they are working okay somewhere else in the world?

Mr Davey: It is for the Office of Nuclear Regulation to make those decisions. The Energy Act 2013 put them on an independent basis and I think the Committee will be delighted to know I will not ever be telling the ONR how to do their job.

Q76 Chair: Is the origin of the technology also blind as to whether it is American or Korean or Chinese or Russian or whatever it might be? Is it equally blind?

Mr Davey: Essentially, yes.

Stephen Lovegrove: It is essentially blind. In practical terms, clearly some technologies are based on previous technologies and, therefore, the nuclear engineers we have in the ONR may be able to get their arms around new technologies a little bit more quickly than if it is a completely new one, but it is essentially entirely blind. Certainly, there is no reliance placed by the ONR on regulatory approvals given by any other nuclear authority anywhere else in the world.

Chair: I am sure the UK public will be reassured about that.

Q77 John Robertson: Can I just go back on CCS for a second? Saskpower, in Saskatchewan in Canada, on their website it says the UK Government have visited them and looked at their system. They have been up and running since 2 October and it strikes me that, if they have been up and running they are saving a million tonnes of CO₂ and they can cut the SO₂ emissions by 100%, we should be doing a little bit more. I am quite worried that a company called Vattenfall, a Swedish power company, has now gone into partnership with them. The other thing I am even more worried about is they are probably owned by the Swedish Government. Are we missing something here? From what you said about how you are in such a great position on it, everybody else seems to be stealing a pace on us.

Mr Davey: Everybody else? You have given me one example.

John Robertson: But it is working, and we visited them first.

Mr Davey: Let me be absolutely clear. I am delighted that the Canadians have that working model. I have no problem with Vattenfall joining them. One thing I am extremely keen on is to see CCS technology deployed round the world. Would I like Britain to play a major part in that? Absolutely, and that is one of the reasons we have a very developed CCS strategy. I do not want you to conclude, Mr Robertson, as it seems that you may be doing, that in my answers to Mr Lavery in some way I was complacent about what we have achieved. We have to do an awful lot more. I think CCS has a huge role to play alongside the other low carbon technologies. I would like us to have gone further and faster, of course, but we need to go in a way that is going to deliver this time.

The model we have is quite different from the Canadian model, the model financing. We are making sure we get best value for money for the consumer, so you are not quite comparing like for like. I would just say that the reason I gave the answer in the way I did is I was pointing out that, compared to the rest of Europe, we are ahead. I did not say we are ahead compared to the rest of the world.

Stephen Lovegrove: There are some interesting features about the Canadian project that do differentiate it from ours in that they have a very long term CO₂ output agreement, effectively, with the local oil drillers. Effectively, the CO₂ is paid for and it is then used in order to enhance oil

recovery in the onshore fields nearby and those, unfortunately, are not financial and economic arrangements we can replicate in the UK. There is no difference in terms of the technology. That is the reason why that project has moved faster than ours.

Q78 John Robertson: I know, but we did close all of the coal areas and we could have been down this road if we had thought ahead. Anyway, it does not matter. Let us move on to Green Deal. We are running out of time, as they say. Minister, what is your latest assessment of the uptake with Green Deal?

Mr Davey: In terms of assessments, which is part of the Green Deal that is often forgotten about, the last I looked well over 400,000 Green Deal assessments had been made. I hope I can give you an exact figure shortly. I do not have it immediately to hand but, as I say, we have had well over 400,000 assessments made. In terms of the number of Green Deal finance plans, which was only a second and I think less important part of the programme, while there has been a recent increase in the rate we are still round about 8,000.

Q79 John Robertson: They are not quite the figures we got from your department going back to September. You have done very well then since September but, having said that, when you think about the number of homes that we are trying to get to, have you specifically curtailed the kind of homes you are doing your assessments to? Is there a general, "Let us pick off the easy ones and leave the hard ones alone"? Is that what has been happening? It still seems an awfully low figure. If you had said there was a couple of million, I would have said that would have been fairly reasonable.

Mr Davey: Let me go back to the beginning when we launched the Green Deal and ECO, the Energy Company Obligation, which have to be seen together. They were two complementary policies launched at the same time, designed together. Our impact assessments said we wanted to achieve one million homes, by the end of this Parliament, being insulated and made more energy efficient as a result of the combination of the Green Deal and the Energy Company Obligation. When you look at how we are doing, we have passed one million measures in over 800,000 homes and I think we are on track. I cannot say yet because the figures have not come through, but the trend is that we are on track to meet our objective we set out at the beginning, namely one million homes having their energy efficiency improved as a result of a combination of ECO and the Green Deal.

Q80 John Robertson: When are you supposed to reach that figure by?

Mr Davey: By the end of this Parliament.

John Robertson: We have a few months left to double your output, as it were.

Mr Davey: Fortunately not double. I am very happy to write to the Committee if and when we achieve that one million target.

Q81 John Robertson: The impression is with all the effort you have put in, and I am not saying you have not put effort into it and I am not saying you have not done the right thing, at the end of the day do we get value for money?

Mr Davey: Without doubt. I do not have figures to hand, but ECO has been rather more cost effective in terms of measures delivered and the overall cost than some of its predecessor schemes and it and the Green Deal assessments have levered in a lot of private sector money.

Let me just briefly alight on the Green Deal assessments. I said that over 400,000 had been taken out and our survey evidence suggests that over 80%⁴ of those people who have Green Deal assessments go on to implement some or all of the measures or at least are still planning to do so. That suggests to me that, even though a lot of them or most of them have not gone on to use Green Deal finance, they have used other sources of finance to implement those recommendations. I think this shows that Green Deal has been rather more successful than people think. The aim of Green Deal was not to sell consumer credit. The aim of Green Deal was to see more homes become more energy efficient and warmer and cheaper to run and if we hit our target of one million through a combination of Green Deal and ECO we will have delivered on that.

Q82 John Robertson: As laudable as that is we do not appear to be doing much in rural areas where we have less than 4%.

Mr Davey: You are right. The rural component of ECO was not going as well, so in our revision we have significantly improved that. Moreover, when we looked at the fuel poverty statistics that came out of the new way we are measuring fuel poverty with our high-cost low-income measure and with the depth of fuel poverty, those showed that some of the people in the rural areas, particularly off-gas-grid rural areas are in the deepest fuel poverty of anybody. Therefore, we have had to begin to address that and I want to see more done. One of the early things we did was to adjust the ECO component for rural communities, but there are other things we are doing. I am shortly to publish our fuel poverty strategy that will talk a little more about this issue and I think it is an issue we need to do a lot more work on.

Q83 John Robertson: That is why I was asking the question about what kind of homes you are picking or are fortunate enough to get the work done. Rural areas are a problem because they are so wide apart and it is costly and then we have the concrete blocks in my area in the multi-storey buildings where, again, it is very difficult to do anything. These areas seem to be excluded and I do not know how you bring them in, because it is easier to do the rest than it is to do them.

Mr Davey: The concrete blocks, as you describe them, I think are incredibly important to target.

John Robertson: They are to me.

Mr Davey: They are to me as well, Mr Robertson, if I might say. I have been to see quite a lot of blocks of flats that have been done, either because they have had their cavity walls filled or they have had solid wall cladding. One of the great things about tackling some of those areas is that quite often it improves the whole environment. Some of the solid wall cladding I have seen on some large blocks of flats has enhanced the area; so not only have people had lower bills but the area has been spruced up and that is part of regeneration.

Q84 John Robertson: But that is not part of Green Deal, though. Councils are doing that, in a sense.

Mr Davey: It is part of ECO.

⁴ Correct percentage is 76%

Q85 John Robertson: What would be quite useful, though, would be if you had a Green Deal for councils where they could borrow the money to be able to do that kind of work. That would be helpful.

Mr Davey: Quite a lot of councils and social landlords have partnered with obligated companies, who are obligated to deliver ECO, to do regeneration, so ECO has been used in this way. The criticism we have had, and I am going to give you a criticism of the policy and how it has developed, you remember when we took £50 on average off people's bills, part of that was a reduction in ECO and that did result in less solid wall—

Q86 John Robertson: We did argue with that at the time.

Mr Davey: You did.

John Robertson: It was not a £50 reduction. It was £50 off the increase they were getting, which was over £100 at the time.

Mr Davey: Mr Robertson, I am sure you will be pleased to know that three of the big six have cut their gas prices in the last week or so—

John Robertson: There must be an election.

Mr Davey: —and following a lot of good deals that have come about in energy bills thanks to the competition we have engendered.

Q87 John Robertson: To go off on a tangent, the, and particularly talking about those rural homes that are off grid, a lot of them have oil heating. What are you doing to make sure the price of the oil is forwarded on to them, because we are not seeing those up to now?

Mr Davey: Well, we are.

Q88 John Robertson: We are seeing some kind of reduction but not the reduction there should be.

Mr Davey: Heating oil prices have gone down to 2009 levels last time I looked; so there has been quite a reduction in heating oil prices. We are looking at all different sectors, whether it is transport, for buses, petrol pumps, diesel pumps, airplanes or trains.

John Robertson: But you must admit it is not transferring—

Mr Davey: Hold on, let me finish. The Government as a whole is looking at how these changes in oil prices and gas prices are being passed through. We have been looking at that, and so have the regulators, and trying to see whether these markets are working. In some areas we are seeing the pass through and we are doing a lot of analysis on that. On heating oil we are obviously conducting analysis, but the analysis I have seen to date shows that heating oil prices have come down and are now at 2009 levels.

Q89 Chair: I think we are probably out of time. There were some other issues we wanted to raise, but we have covered quite a lot of territory this morning and we much appreciate your answers. This is probably the last full session we have. On behalf of the Committee, I would like to thank you for your collaboration over the last three years. I think we probably have some more things we will probably say to you in rather briefer communications before 30 March.

Mr Davey: Thank you for those words and I thank you personally and all the members of the Committee for the way we have engaged with each other. I hope we have been as helpful to your inquiries. Certainly we read your reports very carefully in the Department, so thank you.

Chair: You have three or four more that are going to drop onto your desk in the next two months.