Energy and Climate Change Committee

Oral evidence: DECC Priorities 2015, HC 287 Tuesday 21 July 2015

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Watch the meeting

Members present: Mr Angus Brendan MacNeil (Chair), Mr Alistair Carmichael, Glyn Davies, Melanie Onn, Matthew Pennycook, Antoinette Sandbach, Julian Sturdy, Dr Alan Whitehead

Questions 1 – 93

Examination of Witnesses

Witnesses: **Rt Hon Amber Rudd MP**, Secretary of State, Department of Energy and Climate Change, and **Stephen Lovegrove**, Permanent Secretary, Department of Energy and Climate Change, gave evidence.

Q1 Chair: Thank you all for coming. It is good to see this level of interest. I hope this continues over the next five years of the Committee. Secretary of State, welcome, and thank you for coming along to this session with the Permanent Secretary. I hope this will be the first of many productive discussions with our Committee. I understand you are here until about 12.45 pm. We have a list of questions we are hoping to cover and if we do not get through them we will write to you, and if we want further information we will write as well.

We do have a lot of ground to cover but I understand you want to make a brief opening statement, Secretary of State, so I will give the floor.

Amber Rudd: Yes, please, if I may, Mr Chairman. Thank you very much. It is a great pleasure and a great honour to be here so early in the Parliament.

Could I start by introducing my Permanent Secretary, Stephen Lovegrove, with whom I am working very closely and who has been at the Department for two and a half years? I am new to the role but not to the Department, having been a junior Minister last year. It is now 10 weeks since I became Secretary of State and I am working on controlling costs and assessing which policies work.

I have three main parts to my strategy. They are: ensuring I keep the lights on, making sure I can reassure people that we have secure energy; secondly, keeping the bills as low as possible, making sure this works for consumers, which means businesses as well as families; and making sure we persist with our carbon reduction policies and at the same time push for international action on climate change.

Just to expand briefly on those three points, if I may. In terms of security of supply, this is mainly the responsibility of National Grid, with whom we work closely. We are assessed as a country to be one of the most secure of all countries but although confident, we are not complacent. It is something I am going to make sure we keep a very careful watch on. This is a very fast moving area in terms of what is supplied and how it is supplied so it is absolutely essential that we concentrate on making sure that energy is secure at all times.

In terms of keeping bills as low as possible, this is very much a theme for me and indeed too for the Government—making sure that families do not get badly impacted by the policies that DECC are taking on, and that all our policies help to make sure that the market delivers as efficiently as possible in order to keep their bills down. So in that respect we will be continuing to promote competition, which we think is the best way to protect consumers, and making sure we also look after our industries to make sure that they continue to power the economy.

In terms of carbon reduction, we have some very challenging but important targets to meet right up to 2050 and we will be focusing on all of those. I personally focus much more on the carbon reduction targets, which I think are more essential than the renewable energy targets. The point is to make sure that we reduce our carbon emissions and how we do it should largely be left up to us. But this is absolutely a priority for me as well. We have a very important year this year. We are trying to get a deal in Paris in order to get 194 other countries to jointly sign with us for a plan to make sure that we limit dangerous climate change to a maximum of 2°C. This is an incredibly ambitious task but it is also very important to give a signal to the private sector that this is the direction that the whole world is going to go in so that we can encourage private sector investment as well.

So, Mr Chairman, those are my three priorities: security of supply, making sure we always have energy to power the economy; making sure we keep bills low; and focusing on our carbon reduction commitments.

Q2 Chair: Thank you very much, Secretary of State. You may have covered most of this but I want to pick up on where you mentioned energy pricing and wondered if there was anything else you might want to add. Think of the five years to this Parliament: what changes do you think we will see in energy policy? Where is the Department for Energy and Climate Change going?

Amber Rudd: That is a very big question, Mr Chairman. I am looking at all different areas of policy to make sure that we can keep bills down. I would say that the difference in terms of approach under a Conservative lead in this Conservative majority Government is that value for money is always going to be at the top of the decisions that I take. So there are policy costs that apply to people's bills, consumers and businesses, and when I look at whether that is essential for us to do, whether it is the right thing to do for our carbon targets or for helping people with fuel poverty, I would always look at where the value for money comes first. We will make sure we look at the whole system in order to deliver that.

Q3 Chair: Thank you. According to Eurostat the average electricity price per household across the European Union—about 30 countries—the UK has about the second highest price, excluding taxes, after the Republic of Ireland and Cyprus being quite close. But, excluding taxes, we are almost a third more than a number of countries and about a quarter more than the euro area EU average. In fairness, taxes are quite low but why is this section, including taxes, so high, do you think?

Amber Rudd: Mr Chairman, I would point out on the other side as well that our gas costs are some of the lowest in Europe. So I will answer your question but I would say it is not the whole picture. The whole picture means that our gas costs are some of the lowest in Europe. In terms of electricity costs, this is something that I will be looking at to try and make sure if we can improve on that. I think part of the answer is that different countries decide to deliver their policies in different ways. So one of the impacts on the electricity bill is the policy we have of decarbonising our electricity and different countries put those costs in different areas—they might put it on general taxation and have different approaches. This is the whole package that our electricity bills are impacted by—the choices we have made in terms of helping the fuel poor, some of the DECC environmental and social policies, and also paying for some of our carbon reduction commitments.

Q4 Chair: Just picking up on the gas, it is true we are better with gas but we are still above the EU average again. With taxes, in fairness, we are among the lowest but the price excluding taxes is still the fourth or the fifth. There is not as big a difference as with electricity according to you, Minister. Is there anything we can do there?

Amber Rudd: I am not sure that is right. I have slightly different figures. Maybe I have used different measuring statistics and perhaps I can write to you on that as well. But there is more that we can do and this is an essential part of what we are trying to do, and that is getting more variety of supply. Interconnectors are a way of reducing the cost of wholesale and also having more competition in the market. So we will continually look at different methods of making sure that we can drive down those prices, but I think that our gas prices are quite competitive in Europe. I will write to you in order to set that out.

Q5 Chair: Thank you. Moving into a slightly different area, the existing carbon reduction policies are due to end by 2021 at the latest. When will you be explaining when and how they will be replaced and is there any suggestion or idea of moving towards a rolling window rather than having a period that is coming up at 2021—we might have a yearly rolling window and a monthly rolling window with a fixed period of five years or 10 years or whatever ahead?

Amber Rudd: I think the carbon budget system of having these windows where you have to plan 15 or 20 years ahead is the right way to do it because a lot of the changes that we are trying to make in order to decarbonise take that period of time. We cannot make changes that are going to really impact on reducing the carbon overnight, monthly, yearly. These take long-term planning. So I think that the target we have with the carbon budgets for the Climate Change Act is the right one to have. In my conversations internationally, and looking at the Paris agreement we are looking at, a lot of other countries are quite impressed by it because it does give this long-term planning. Let’s face it, with general elections every five years sometimes it is difficult to get that long-term planning into the system. But having the Climate Change Act gives us essentially a mandate to do that long-term planning and is the most effective way to decarbonise.

Chair: Thank you. We will call on one of the many talents in our Committee now, Antoinette Sandbach.

Q6 Antoinette Sandbach: Secretary of State, you talked about the importance of bills to families and DECC has a responsibility for making sure that costs and benefits of policies are distributed fairly. How well do you think the Department does this?

Amber Rudd: I think we do it quite well. We can make improvements. There are certain obligations on Department of Energy and Climate Change—decarbonising is one of them—that lead to costs in terms of the cost of electricity. I think it is still the right thing to do. Perhaps we could do more about explaining that to people so it is not just labelled as DECC policies but as part of a bigger enterprise and endeavour to make sure that we have more renewal energy and more low carbon energy as well.

In terms of social and environmental policy, social policies particularly, I know that some people raised this as an issue—everybody gets this on their bill. There is, of course, some return with that, with the warm homes discount of £140, which most poor people get, and, of course, the winter fuel payment, which old age pensioners get. There are ways of trying to offset that, which we do, and this is another area I will be looking at overall to see if it is the most efficient way of delivering the essential funds that we need to deliver on our targets and to help the fuel poor while attaching it to the bills in this way.

Q7 Antoinette Sandbach: I think your answer, in effect, acknowledges that a bigger burden falls on low income families and what you are saying is that you are looking at that system?

Amber Rudd: We are looking at that system but I would say there is the warm home discount, which gives back £140 to try to help people to offset that and also that the social policies that help, particularly through ECO are focused—at least 50% of that—on the people who need it more. So there is a focus as well towards them.

Q8 Antoinette Sandbach: In terms of energy efficiency, obviously if you are using less energy then your bills are lower and your long-term target is to ensure that a reasonably practicable number of homes achieve an energy efficiency rating of B or C. How are you going to achieve that and how are you going to monitor it?

Amber Rudd: You are absolutely right that energy efficiency is the most effective way to reduce carbon and to reduce bills. It is the win/win. We have pledged in the manifesto to deliver at least a million houses with energy efficiency measures and we will be doing that. We currently have ECO until March 2017 and I am looking at the whole suite of policies to see whether it is the best way to deliver it. I hope to be making announcements on that later in the year. In terms of making sure that as many houses as are practicable reach band C by 2030, this was laid in the regulations at the end of the last Parliament and we will be supporting that. I am already having conversations with DCLG to see if there are ways that we can work together to deliver that.

Q9 Antoinette Sandbach: The Committee on Climate Change estimates it is going to cost about £1.2 billion to achieve that. Are you confident that you have the room in your budget to be able to hit that target?

Amber Rudd: No, I do not have that sort of room in the budget. What I am confident of is that we will be reaching as many homes as is practicable by 2030 on band C, which we are going to get from band E and D on the way through. That is why we have these five-year targets. The Committee on Climate Change has rightly highlighted that there is a problem with heat. In order to meet some of our targets, we need to do more on heat. I do not have the answers to that yet but we are going to be looking and reviewing and working with industry to find out how.

Stephen Lovegrove: If I may just add a quick point? ECO as it is currently formed is not as it were a pot of money—it is not like £1.2 billion or whatever the number is—it is an obligation on the energy supplier. So although the ultimate cost of it might be that, it does not translate quite as easily into departmental budgets.

Perhaps I should, if I may, just say a couple of words about the smart meters programme, which is an important part of this. Clearly the smart meters programme at its heart is designed to lower people's bills. It is designed to allow them to use their energy that much more efficiently and we have taken great pains to make sure that the targets for the smart meters programme, which is perhaps the most important structural change that we are making throughout this Parliament, does reach as many of the households in the UK as it possibly can. So we are resisting quite strongly not the temptation but the requests to lower the universality of rollout by 2020. The principle reason for that is clearly the harder to reach homes—the ones that are off the gas grid and the ones that are in less good housing are going to inevitably be the ones towards the tail of the rollout. We want to make sure that that does not happen.

Q10 Melanie Onn: The Competition and Markets Authority have released an interim report earlier this month and I just wondered if I could get your preliminary thoughts on that?

Amber Rudd: Yes. The Competition and Markets Authority has reported, as you say, and it was incredibly important to us that we did get the Competition and Markets Authority involved here because there was a lot of uncertainty about whether the energy market was working efficiently. We have seen the preliminary report and they have now asked the Department and other stakeholders to respond to their suggestions and ideas. The one that I find particularly interesting is how we look after the people who are not switching. This is what hit the news very much. There are opportunities for people to save money on their bills—£200, £300 a year—but people are not taking that opportunity. The Competition and Markets Authority suggested that we had some sort of safety-net type price that would be a default price on a temporary basis for people who were not engaging in the market. Those people who are not engaging in the market, for whatever reason, are basically losing out on the opportunity to save £200 to £300 a year, sometimes more, on their bills. I think it is a very interesting proposal and I will be asking them about more detail on that because I do not want to leave those people who are not engaging in the switching market just to have a more expensive price because they are not able to engage in the market. The market is becoming, as the Competition and Markets Authority report said, increasingly efficient. There are savings out there but for the people who do not engage with that we should perhaps have a temporary safety net for them until smart meters engage them all.

Q11 Melanie Onn: Can I raise two points? Is it the case if you have a smart meter installed in your house that it will be impossible to switch energy providers because smart meters only work with the provider that you are with at the given time?

Amber Rudd: No. In the long term and for the actual huge rollout, that will not be the case. It is temporarily the case for the early adopters now but we expect that to end by the end of next year.

Q12 Melanie Onn: Thank you. A final point from me. The interim report said that it might be necessary to introduce transitional regulated tariffs in the energy market. Ed Miliband was called a Marxist for proposing something very similar. I think I am right in saying that the Conservative manifesto committed to implementing the CMA's final report, and if the final report recommends energy price capping will you implement it?

Amber Rudd: Well, I would not join you in pouring insults on the former Labour leader, but I would say that the suggested temporary regulated price put forward by the CMA is completely different to a price freeze that was proposed by the Labour party formally. The price freeze that they proposed would have cost consumers up to £100 in terms of costs because to their surprise—the Labour Party's surprise—the wholesale prices came down and if there had been a freeze at that time consumers would not have got the benefit of it. This is completely different. This is a regulated temporary safety net to look after people who are not engaged in the market as a transitional phase until smart meters come in. I think it is an interesting idea and I would like to find out more about it.

Stephen Lovegrove: It should be said perhaps that the CMA, of course, have proposed this as one of the potential remedies that they have in mind and they are proposing to consult on it. I think even they have recognised that there are some disadvantages with this if you want to accelerate a competitive market as quickly as possible. But equally, as the Secretary of State said, it may be an important factor. There is quite a lot of discussion and debate, I suspect, about the proposal yet to be had.

Q13 Antoinette Sandbach: The CMA report criticised a lack of robustness and transparency in DECC's early decision making, do you accept that criticism? If so, what steps will you be taking in the Department to increase the transparency?

Amber Rudd: I think their particular concern was about the relationship with Ofgem and certainly we will do more to become as transparent as we can. I will be responding to them, suggesting how we can do that and listen to them with any suggestions they might have.

Q14 Matthew Pennycook: One of the CMA's recommendations was that energy consumers be provided with a one-stop switching and comparison site to be administered by Ofgem. I just wondered what consideration at this early stage might have been given to that proposal.

Amber Rudd: Well, that has been raised before. I have slight concerns about it because there is a switching market out there and it is quite a lively switching market. The idea of Ofgem centralising it all gives me concern about basically market intervention in terms of supporting consumers. So we will keep an open mind to any suggestions but I think that it has consequences to the market, which is increasingly effective in switching, that I am not sure they have thought through.

Q15 Chair: Thank you very much. Just a final point, Secretary of State: do you feel that there is a failure in the market? We know that people are not switching—people stick with the legacy provider—and it has been reckoned by economists and psychologists that there is a bias called the status quo bias. People will stick to what they know. There is surely a failure in the market in that case and tariffs really have to be addressed in light of that.

Amber Rudd: I think that is exactly what the CMA has highlighted—that there is a status quo default where people, even though they know there are switching opportunities, are not doing so. It is entirely in order to reach those that the proposed safety net-type tariff is out there. What I have found, and when I talk to colleagues or go to public meetings and people look slightly anxious about switching, I always advise them just to call up their own supplier and say they are going to switch and you will find, Mr Chairman, that your own supplier will find you a better tariff.

Chair: Thank you for that. I am going to move to an experienced hand of the Committee, Dr Alan Whitehead.

Q16 Dr Whitehead: Good morning, Secretary of State. I believe the Prime Minister, when talking to you about your appointment, said, among other things, "Get us a good deal at Paris." So what would a good deal at Paris look like?

Amber Rudd: A good deal in Paris is everybody signing up. So the first thing we need to make sure is that it is as big an attendance as possible. It is 194 countries. The phraseology, as I am sure you know, Dr Whitehead, is to keep the goal of a maximum of 2° increase in climate within reach. It is unlikely to reach, as we look at the commitments coming in from different countries now, absolute certainty of 2° so what I think a good deal in Paris will look like is 194 countries signed up to this, to keeping it within reach, with viable commitments about how they are going to do it—intended nationally determined contributions—and then on top of that, five-year reviews in which there will be an aggregate look at how we are doing. The UNFCCC will oversee that and see whether we are not meeting it on our trajectory. Who else can do more? On top of that, preferably a long-term goal. These are the things that are being debated at the moment. I was just this weekend at the major economists' forum in Luxembourg. These are the key elements of the Paris agreement that are being debated at the moment. How we get a long-term deal and how we have the five-yearly reviews without too many other countries feeling that their sovereignty is somehow being impinged on, but having it together and having it ambitious I think is what a good deal looks like.

Q17 Dr Whitehead: So the 40% reductions of the 1990 levels that we are committed to going to Paris with as part of the EU basket, is that something you feel comfortable with in terms of outcomes for UK, or is it something you feel is not sufficiently ambitious in terms of what we know at the moment is a likely outcome of the third carbon budget by the middle of the next decade?

Amber Rudd: I think it is not always right to put the maximum effort you can achieve on the table straight away. What we are trying to do in Paris is bring so many other countries with us and some countries who have very little interest in this but are going to have it because they are going to be part of receiving assistance from the developed world. So the fact that the EU has a commitment that is ambitious for the EU but not necessarily for the UK is the right place for us to be now with four months negotiating to go. I still reserve the position to say that perhaps the EU could be more ambitious but I think it is right not to push for that right now.

Q18 Dr Whitehead: That 40% presumably that is embedded into an agreement in Paris.

Amber Rudd: It is. Well, that represents the EU's INDC 40% reduction by 2030. Next year there will then be negotiations within the EU to decide the effort sharing and that will be an interesting series of discussions.

Stephen Lovegrove: As you know, we have met the first carbon budget and we are on track to meet the second and third. I think we are conscious that, with the fourth carbon budget, there is a bit of shortfall as those are the years in the mid-2020s. A lot of the work that is going on in the Department at the moment with the Secretary of State and other Ministers is to develop policies that are going to be able to address that.

Q19 Dr Whitehead: Indeed, that was the thrust of my question. Assuming we go to Paris and put our 40% on the table, and there is a relatively successful outcome inasmuch as most of the indicative commitments are banked, as it were, at Paris. We go away with our commitments banked, but what does that mean in terms of climate policy as far as the UK is concerned subsequent to Paris?

Amber Rudd: I just reiterate that Paris is going to be the start of the international effort. I hope we get a great celebration in Paris for signing up but it is going to be the start of the process to make sure we have the architecture in order to achieve our carbon targets internationally. In terms of the UK, there are so many changes in this area, as you will know, in terms of new technologies, in terms of costs of technologies and we do not know yet what the answer will be for the mid-2020s, the late 2020s and the 2030s in terms of decarbonising but we will continue to support the renewal energy initiatives that we have. We will continue to support innovation, which to me is a particularly important area that I think we can do more in—innovation and scientific commitment—in order to find out where else we can expand the opportunity to improve our carbon reductions. I am particularly keen on exploring more on storage. So we will continue in terms of the UK's commitment after Paris to make sure that we achieve our carbon budgets and we will try to be as focused as we can on the different areas that we think can deliver it, but also making sure we support innovation because we may find that it comes from a completely different source in the end in terms of achieving these targets.

Q20 Dr Whitehead: One of the discussion points at Paris is not just a question of putting those commitments on the table and banking them, as it were, but also what happens after that in terms of contribution reviews.

Amber Rudd: Yes.

Dr Whitehead: There are suggestions; particularly that countries' contributions should be reviewed every five years, for example, rather similar to our carbon budgets.

Amber Rudd: Yes. I have to say our carbon budgets are much admired by other countries in terms of having that structure in place. What is currently being negotiated is that each country will review its own targets annually so there will be some transparency ongoing and then every five years there will be an aggregate look at how we are doing internationally. I would say that that is still controversial. It is not agreed by all countries. Certain countries do not want to feel that they are going to be lectured to by other countries. The whole tone of the global agreement is about trying to bring individual countries with us, for them to volunteer to participate and to see the benefit of it, and to receive—if they are developing countries—financial support along the way, but not to try to dictate or have anything punitive because you will not get a deal in those cases.

Q21 Dr Whitehead: So I imagine that would mean sticking pretty closely to the recommendations that our own Committee on Climate Change is putting forward as far as carbon budgets are concerned in order to make sure that we have our own monitoring process as far as post-Paris is concerned and our own carbon budgets and the effect on—

Amber Rudd: The carbon budgets and our commitments to it remain in place but I would also add, if I may, that nobody raises with the UK internationally concerns about us because we are so far ahead of most other countries in terms of our commitment, our structure, our investment in this area. We are looked at as a model of a country doing well in terms of renewables but also in terms of energy efficiency and reductions. So the international effort is much more focused on trying to make sure that we are a big tent. It is also focused on the money, on making sure that there are sufficient funds mobilised to make sure that developing countries can effectively industrialise but using renewable energy. So the other big area of the debate currently in the Paris negotiations is money—how we demonstrate it, who is going to put how much up, how we get the private sector mobilised and how we reassure developing countries that they can sign up and make this commitment and how we will be helping them.

Q22 Dr Whitehead: Just finally, I wonder whether you have any reflections on the Committee on Climate Change's most recent recommendations concerning how we keep on track on the third carbon budget and particularly how we address the fourth carbon budget. We appear to be doing precisely the opposite of a number of those recommendations very recently.

Amber Rudd: I have been in touch with the Committee on Climate Change and I am going to be working closely with them to get their advice. We are not there yet on the fourth carbon budget. Obviously we are complete on the first and I think we are complete on the second and third, but on the fourth there is more that we need to do, particularly on heat. I will be coming back with more policies on that later on.

Q23 Chair: Thank you, Alan. An area that has been quite contentious, certainly since I have taken over the job as Chair, is onshore wind. Could you first of all explain, Secretary of State, how restricting the deployment of what is about the cheapest form of renewable energy—onshore wind—will save money for the consumers? Secondly, hasn't there been a confusion between planning policy and the support framework for onshore wind as a method of achieving some of your aims?

Amber Rudd: Mr Chairman, I am glad you referred to the consumers in this because, as I have said before, the consumers are the priority and the way that we fund our subsidies for renewal energy is, in fact, through the consumers, through the levy control framework. That goes on people's bills. We had a commitment through the levy control framework put together under the last Parliament that that would not go higher than £7.6 billion between 2020 and 2021. When I entered the Department and took a careful look at what those costs were likely to be, it became apparent that those costs were rising to £9.1 billion by 202021. So one of the things I have had to do is reduce subsidies.

We remain very committed to onshore wind insofar as it is an important part of the mix. We had expected under the EMR to get to 11 to 13 GW of onshore wind by 2020-21 and, in fact, even with the existing pipeline that has got planning permission, that has got land ownership rights and will be going ahead with a subsidy, we will get to just over 12 GW. That is our expectation, in that range, by 2020-21. I would say that onshore wind has deployed faster than people expected and is taking more of the subsidy that is available and is supposed to be capped for 2020-21. So I think it was right for the consumer to make sure that we stepped in and ensured that that did not get any higher by allowing more onshore wind to deploy with subsidy.

Q24 Chair: Thank you, but would you accept that the manner of the announcement, taking this forward a year, has left some uncertainness as to what the Government might do in the future? There is also a feeling within the industry that this is going to cost up to £370 million extra a year to reach your carbon targets by going for other forms of renewables. Investors are uncertain. Would you also accept things as small as farm businesses are very uncertain as to what that might mean for them—having built a business model including a renewable income—in years to come? What considerations have been given particularly for the small end?

Amber Rudd: I would say that I do not believe it came as an enormous surprise to the industry. It was very clearly set out in the manifesto commitment that we would be ending onshore wind subsidies. The Prime Minister spoke about it last year. Former Conservative Ministers spoke of it at the beginning of this year. So I appreciate it was disappointing for developers and for people who were depending on that subsidy for an income, but I do not believe it came as a huge surprise to them.

I would say that having set out the new policy, removing the subsidy on new wind farms can only go ahead with local community support—except of course in Scotland. I have had three separate developers indicate an interest in developing a wind farm without subsidies.

Q25 Chair: You agree with the £370 million a year figure from within the industry. When we are talking about local community support, how easy will it be for a local community to support and have a wind farm if they so choose when the structure and the support mechanisms have gone?

Stephen Lovegrove: In terms of the difference between reaching the carbon budgets with the previous level of assumed deployment of onshore wind as opposed to now, I think the £370 million number needs to be taken with a pinch of salt. One of the things that we have learnt over the last few years is that technology right across the whole energy system moves much more quickly than we had any real conception of. That, indeed, is one of the reasons why the LCF, the levy control framework, has gone out to £9.1 billion.

The £371 million assumes effectively that that onshore wind deployment is going to be replaced by currently much more expensive, different types of renewable generation. There is no particular reason to believe that will be the case. Technology may well accelerate fast enough for that. It may well be, indeed, that energy efficiency measures mean that those carbon targets may be achieved through reducing demand rather than replacing generation. So the £371 million is based, as the economists would say, on a counterfactual that is inherently rather unprovable.

Q26 Chair: So if you want us to take that £371 million with a pinch of salt, how large a pinch of salt do you want to take? A £10 million pinch of salt? A £20 million pinch of salt?

Stephen Lovegrove: Potentially larger than that. Who knows how quickly offshore wind prices are going to come down? They have come down very, very fast, for instance, from north of £150 per MWh down to £120. Who knows how quickly solar development is going to come down in terms of costs? That has become, I think, about 25% of the cost that it was about five or six years ago. As I say, it is reliant on a vision of the future that I think would just be inherently impossible to prove. So I wouldn’t like to put a particular figure on it, we just know that it is related to a vision of the future that is inherently unprovable.

Q27 Chair: Can I follow up on a question that was asked in the Chamber a few weeks ago, where the Department wanted to provide some answers for the industry? We are talking so far about renewable obligations with regard to contracts for difference for onshore wind, the feed-in tariff and of course islands, a point dear to my heart and the heart of the Member for Orkney and Shetland as well.

Amber Rudd: Yes, on the islands, if I may, I am in discussions with Fergus Ewing and I have said that the islands project is outside of this. All that means is that we will look at it constructively and I am going up to co-chair the summit on the islands in September. I will be working closely with Fergus Ewing to see how we can assist.

On the renewable obligations and the feed-in tariffs you asked about, we will be making announcements shortly in order to clear for industry what will be available and what will not. I am absolutely conscious that we need to give more certainty around this but this is taking time to work out exactly what funds are available and how far deployment is continuing—always keeping an eye on consumers’ bills.

Q28 Melanie Onn: Following up on the curtailment of onshore subsidy, because of that curtailment can you just tell us whether or how you are going to promote growth from alternative renewable sources to replace that future onshore capacity?

Amber Rudd: I would say that the onshore wind has already demonstrated great cost reductions. It has also been very effective in deploying more electricity than anticipated from individual wind farms. In fact one of the reasons for the overspend is that onshore wind farms have been more successful at generating an electricity level, getting more subsidy than was originally planned. So onshore wind remains an important part of the mix and it is going to possibly slightly overachieve already on the anticipated range that we were looking for for 2020. As I referred to earlier, the fact is that it seems possible that some onshore wind developers are looking at how they could potentially look at opportunities going forward without a subsidy.

I would just add, if I may take the opportunity, that subsidies are an important part of stimulating this new industry but it is our intention to make sure that subsidies do not remain. We do not want subsidies to be the long-term answer to a low carbon economy. We want subsidies to be the way we get the low carbon economy going and then for the state to step back.

Q29 Melanie Onn: The question was about alternative renewable sources and seeing if you had any plans around those alternative renewable sources to replace potential losses in the onshore production of energy.

Amber Rudd: I would say we do not have a loss in what we were hoping to have delivered from onshore wind by 2020-21. We also have, alongside that, very successful deployment of solar and we also have a very successful deployment of offshore wind. So both those other sources will continue to play an important part in the low carbon combination.

Q30 Julian Sturdy: Just moving on, Secretary of State, from Melanie's question, how important do you see the new technologies in the renewable energy markets to providing these alternatives? What sort of investment and importance would you put on energy storage? Also when we talk about renewables, we talk about renewables that provide consistent energy and energy storage as well. We have seen quite a bit of movement in Germany on energy storage and I just would like to know where the UK stands on that.

Amber Rudd: Yes, we would like to see much more successful energy storage. In terms of our overall strategy, investing, supporting and working with innovation and scientific communities is going to be an essential part going forward. We have Sir Paul Nurse doing a review of the various colleges that are working on scientific projects for energy and for business so that we can try and co-ordinate it better.

The answer to your question is that I would really like to see more effort and more co-ordination. Perhaps DECC can work more closely with BIS in terms of trying to deliver more support for innovation. I think storage is an exciting development. There are fantastic expectations and hopes for storage, particularly with solar. You could have solar during the day and then potentially even getting some of the electricity generated back into the grid to make money for the person who is generating solar in the first place. Storage is a fantastic opportunity in the future. It is not yet a very essential part of delivering electricity and, at the moment, as you have highlighted in your question, we have to make sure that our renewable growth is accompanied by secure baseload so that we can have a constant supply of electricity for consumers and for businesses while we are growing renewables.

Q31 Julian Sturdy: How far on are the conversations with BIS? Are you actively having conversations with BIS and how far are they on?

Amber Rudd: Yes. They are not that far on yet, I regretfully say, but we will be working on them to make sure that we do. This review that Sir Paul Nurse is doing is quite important because then we will have the information about where the research is being done at the moment and who is yielding more success. We are trying to make sure we all know where the different sources of funds are so that we all try and focus it on the same aim, which is making sure we deliver examples like storage for British business. This is a great opportunity not only for making sure that we deliver on our carbon target and stimulate renewals, but also for British business to be ahead in this market, which is very much an international market.

Q32 Matthew Pennycook: I just want to pull us back briefly to the subsidies. We all want to see the cost of renewables continue fall and we all want to see wind and solar operating without subsidy at some point in the future. If your expectations do not come to fruition and these industries are not able to stand on their feet without subsidy—that seems to be the consensus in the industry before at least 2020—what plans are in place if that doesn't happen?

Amber Rudd: I do not agree that is the consensus in the industry. As I highlighted earlier, we are already receiving approaches from people who are interested in wind without a subsidy. You can look around the world and see there are places where solar is already generating without a subsidy. The evidence is that if you put enough money into things, if you put enough support into things, the costs will come down. If people use them enough the costs will finally arrive at a stage where they need much less subsidy and will become less expensive. So I think that we have to have confidence in the strategy and that renewables will continue to deploy in a way that makes them become less and less costly, which is the evidence. You look at solar where the costs have come down by 75% and are continuing to come down. So I think we have to have confidence in our strategy to make sure that we are supported, to see that they come without subsidies eventually.

Stephen Lovegrove: It is probably worth saying that the evidence seems to suggest that cost reductions happen most rapidly when subsidies begin to exit the system because the normal market forces then give precedence to innovation among companies and they realise that relying on subsidy is not necessarily the best way, or indeed the unsustainable way, of making profit.

Matthew Pennycook: Understood.

Q33 Mr Carmichael: You have not identified the alternative technologies that have come into place with the constraints that you are putting on wind.

Amber Rudd: We are going to continue to back a number of technologies that could be the answer. Nobody can see in 15 or 20 years' time what the answer will be. We can make an estimate but Government is never going to be quite as fast as the markets in trying to make that work.

Q34 Mr Carmichael: The retrospective nature of the loan must have an impact on investor confidence, surely, does it not?

Amber Rudd: Well, I would argue that it is not retrospective on onshore wind—

Q35 Mr Carmichael: But, Secretary of State, there are plenty of statements, speeches, written questions and oral questions where Conservative Ministers all spoke of the renewable obligation continuing until 31 March 2017. There was one, in fact, by you on 31 October last year. Surely you must understand that that was the basis on which investment decisions were made? Do you not think this is something that has been to shake investor confidence, especially for the smaller scale developer?

Amber Rudd: I do not, and I will give my answer in two parts to that. First of all, it was set out by the Prime Minister that if there was going to be a Conservative Government we were going to do this. I would argue that it will not have come as a great surprise. The result of the election may have but the commitment to making sure that we ended onshore wind subsidies were set out clearly by the Prime Minister and subsequently in the manifesto. In terms of investment in the sector, there are people who are interested in looking at the possibilities of onshore wind without a subsidy. That seems to indicate to me that it might be time for wind to look at that possibility themselves.

Q36 Mr Carmichael: This is interesting. These people who come to you and say they want to develop without subsidy, would you characterise them as big corporates or small developers?

Amber Rudd: I would say they are the larger ones.

Q37 Mr Carmichael: They are the larger ones, so they are the ones who are able to meet the investment costs, perhaps, without relying on bank funding, for example?

Amber Rudd: I have not interrogated them on how that would happen but I expect them to come back and make their evidence to me.

Q38 Mr Carmichael: So I think the consequence of this would be that it will be good for the big guys and not so good for the small guys. Is that a fair characterisation?

Amber Rudd: May I just ask for clarification, which small guys are you thinking of? They do not tend to be the developers of large wind farms.

Q39 Mr Carmichael: No, indeed, but I think of members of Scottish Renewables, for example, who estimate that this could put £3 billion-worth of investment—70% of the onshore projects are in Scotland—or 2 GW of projects, at risk. Do you challenge these figures?

Amber Rudd: I would have to look carefully at the figures but for the purpose of your question, no. So your question is?

Q40 Mr Carmichael: I am saying that Scottish Renewables see this decision—the early closure of a renewables obligations—risks £3 billion of investment comprising of 2 GW of projects. Is that correct?

> *Amber Rudd*: It may be correct but this is consistent with what I was saying earlier to one of your colleagues, which is that the Government has to keep an eye on everybody's bills—everybody's bills—and that means making sure that onshore wind does not overdeploy and that we are already within the range of what we needed by 2020-21.

Q41 Mr Carmichael: When you did your introductory statement I think I noted you correctly as saying that you were going to focus on carbon reduction rather than renewable targets, is that right?

> *Amber Rudd*: Yes.

Q42 Mr Carmichael: What did you mean by that?

> *Amber Rudd*: What I mean is decarbonising is the most important approach. So low carbon energy is important to us as well and renewables are part of that mix. But the targets that we have that are run, for instance, through the Climate Change Committee are about decarbonising.

Q43 Glyn Davies: I think I do come from a perspective of generally agreeing with the position the Minister has taken on onshore wind as a background to where I am coming from on this. The one issue that has concerned me, Minister, and I would just like to know your view on this, is the impact on public opinion of the scale of development. I think the issue in some parts of the country has been just the sheer scale of development, which has turned local populations against not just onshore wind but the whole principle of renewable energy as well, in their anger. To what extent has that general feeling in some parts of our country influenced the position that you have taken?

> *Amber Rudd*: You are absolutely right and that is one of the reasons the Prime Minister wanted to end the subsidies for onshore wind and on the planning point put local communities in charge so that they can make the decisions on that. There is no doubt that certain communities felt that their voice was not being heard and large wind farms were being built around them without their consent. There is quite a lot of wind being generated already now in the UK and I know that some people have been very unhappy about the scale of it.

Q44 Glyn Davies: I think that is right. We talked about the targets or the expectation—there have been various words used to describe the amount of onshore wind that we saw as part of the energy mix—are you satisfied that we are in a position now to meet that target and meet those expectations? The answers you have given earlier suggest to me that you are fairly happy with that. How robust are those? One of the issues we do not want is people being of the general view that we have not reached the targets because of a change in policy.

Amber Rudd: You are absolutely right, Mr Davies. We set the range for onshore wind for 2020-21. Given the successful deployment up to now—not just the number of wind farms but the fact that they generate more electricity than was expected—we will be meeting that range.

Q45 Glyn Davies: Another point—it is related to what Alistair was asking—comes from personal experience of perhaps funders on relatively small wind farms being nervous in a changing subsidy regime and not being willing to continue with previous funding. Is there discussion going on with a potential funder and with big banks that might be the partners in developments by a small scale company and not by the very large international companies? Are discussions going on with the banks to give them confidence in the Government's—

Amber Rudd: I have to say that is not really for me to get involved with. That is up to the small companies and the banks in their conversations. I would hope that the long-term signal for developers of renewal energy is that this Government is committed to its carbon reduction targets and getting a deal in Paris. That will help give them confidence that we remain a Government committed to making sure that we decarbonise.

Stephen Lovegrove: If I can add to that point. It might be worth saying that over the past few years we have seen companies and vehicles and fits of financial engineering growing, which means that smaller projects can get aggregated together and access financial markets more easily than if they were to do it on their own part. So there are specialist renewable funds and so on and that is a part of a developing market.

Chair: Thank you very much. I want to move to the next area now and Dr Alan Whitehead.

Q46 Dr Whitehead: The last Parliament was concerned with construction of electricity market reform. This Parliament is about, I guess, delivery of electricity market reform—indeed the Department published an electricity market reform delivery document a while ago. How do you think it is going?

Amber Rudd: I think it is going well under the circumstances. The purpose of the EMR was to increase security and to do it at a cost-effective price. We have been evolving along doing that. The CfDs for instance: we had the first one and it has demonstrated that we can procure electricity more effectively through a market mechanism and that was part of the EMR. So it is early days but it seems to be going in the right direction as set out.

Q47 Dr Whitehead: So we are going to hear about the next round of CfD auctions very shortly?

Amber Rudd: I will be making announcements on CfD but that will not be for a little while.

Q48 Dr Whitehead: There will be a further round?

Amber Rudd: I cannot confirm that at the moment.

Q49 Dr Whitehead: If there might be a further round, when might it be?

Amber Rudd: Dr Whitehead, I am afraid I will have to come to back you and I will certainly write to you when I have further information.

Q50 Dr Whitehead: That is sort of going well, is it not, generally if that happens?

Amber Rudd: Well, the EMR has to be delivered within the framework of making sure that we look after consumers' bills.

Q51 Dr Whitehead: All right, but there will be a second capacity auction round? Indeed one's been announced at 45 GW—

Amber Rudd: There will be more capacity market rounds. Stephen was there with the EMR start.

Stephen Lovegrove: EMR we can think about in two senses. Obviously there was the whole of the CfD apparatus which is designed to bring forward renewable generation. We have been pleased with the projects that have come forward so far. We have been particularly pleased with the fact that alone in the whole of Europe we have been able to have an auction for renewable projects, which we did earlier on—about six months or so ago—and that is clearly the way in which we are going to have to continue with bringing renewables forward because we do need to keep an eye on the costs.

The other part of the EMR, in simple terms, is the security of supply piece, which is effectively being addressed through the capacity auction. The first one worked extremely well. The price of the generation that we secured was under half what we assumed it was going to be. I feel pretty confident about the medium-term challenges to security of supply, working with Ofgem and with National Grid. We will continue to tweak the terms of the capacity auction as we go on.

I think in terms of the broad thrust of the two wings of it, the CfDs for renewable generation and, indeed, other types of low carbon generation and the capacity market for security of supply, we think that we have got good tools in place to be able to do what the Government wants to do.

Q52 Dr Whitehead: But under EMR wasn't one of the purposes of capacity auctions to secure new capacity?

Stephen Lovegrove: The main objective of the capacity auction was to secure sufficient, reliable capacity for the years 2019 and 2020. We are looking at the moment, in the review that effectively we are doing internally in the first capacity market, as to whether or not in the very successful mix that we have of secured capacity there is enough new generation in there for the out years and if we decide that there is not—

Q53 Dr Whitehead: How much was there in the first place?

Stephen Lovegrove: There was one new gas project that came forward, which was successful in the capacity auction.

Q54 Dr Whitehead: Is that going to be built, do you think?

Stephen Lovegrove: At the moment, I do not know. Clearly, as you know, there are penalties involved on the developer should it not get built, because we were quite keen to make sure that people did not speculatively make bids into the capacity market and leave us short at the end of the day. But all of these kinds of issues are being looked at. There are a lot of things that we can tweak in the capacity market if there are slightly different outcomes that we want to go for.

Q55 Dr Whitehead: Meanwhile 7 GW of coal was given money, was it not?

Stephen Lovegrove: Security of supply was—

Dr Whitehead: And the entire existing nuclear programme?

Stephen Lovegrove: Yes, security of supply was the principle overriding objective of the capacity market.

Q56 Dr Whitehead: How can you turn a nuclear power station off, though?

Amber Rudd: Why would you want to turn it off?

Dr Whitehead: Sorry?

Amber Rudd: Did you say turn it off?

Dr Whitehead: Presumably, a part of the security supply process of providing money is so power stations remain on. You would have a power station that you cannot turn off.

Stephen Lovegrove: I am happy to get back to you on that. You obviously cannot turn if off like that. Equally you cannot turn it up that much either, but there are scheduled maintenance routines that can be adjusted in order to be able to make sure that there is the capacity from those nuclear power plants when we want it.

Dr Whitehead: Yes.

Stephen Lovegrove: So those are the kinds of things that were in debate. The point is well taken. Over and above the basic overriding objective of the capacity market, which was to make sure that we have enough power to keep all of the lights on, do we need to adjust it in certain ways in order to get other secondary objectives? Well, we are looking at that at the moment.

Q57 Dr Whitehead: We have talked about the Levy Control Framework next auction. How much money is there in the Levy Control Framework up to 2020, which would underpin an auction?

Stephen Lovegrove: Clearly, the caps for the Levy Control Framework in 2020 have been set and we know what there is likely to be spent at the moment. These numbers are moving around at the moment and we are in discussions with the Treasury as to what the right about of money to make available for any future auctions might be.

Q58 Mr Carmichael: Hasn't the Department exceeded its cap in the last three years that the Levy Control Framework supposedly set out?

Stephen Lovegrove: Certainly for 2020 as the OBR made public around the time of the Budget, and certainly on current projections—those projections might change—we are going to overshoot the £7.6 billion that was due to be spent in that year. It has to be said that we are not going to overshoot it to the extent that we are going to breach the headroom that was built into the Levy Control Framework cap, and the very fact that there was that headroom in there is a recognition of the fact that these are quite difficult things to predict five years out. Some of the things that we have been doing are to make sure that any further upward pressure on the Levy Control Framework is reduced, and over a period of time, as developments in the market take place, I would hope to see those predictions for 2020 come a little bit closer down to the central estimate of £7.6 billion.

Q59 Dr Whitehead: I think my concluding question under those circumstances is on the prospect of an early announcement of a Levy Control Framework system, post 2020, particularly to give investors confidence that there is something that is going to be there after the cliff has been reached in 2020.

Amber Rudd: I am acutely aware of the need to give some certainty after 2021. I am also aware that we were the first country to give certainty for those five years when we first set it out, and there is very little competition in terms of other European countries setting out beyond 2020-21, but I am in discussions to see what can be said and how soon about a future Levy Control Framework after 2020/21.

Q60 Mr Carmichael: Thinking about the question of onshore wind, you said quite Delphicly when we did an announcement today on the renewables obligation that on "Contracts for Difference, we will be implementing the terms of our manifesto." In relation to onshore wind and CfDs, what does that mean?

Amber Rudd: It means that our manifesto set out that there would be no more subsidies for onshore wind and we will be implementing those terms of the manifesto.

Q61 Mr Carmichael: So you would not anticipate onshore wind being part of the next CfD?

Amber Rudd: I wouldn't, no.

Q62 Antoinette Sandbach: In terms of network costs and access, you will be aware of the last Committee's report. Can you outline your plans for upgrading the electricity and gas networks between now and 2020?

Amber Rudd: The CMA referred to networks in their report and the report part of the package delivering safe and secure energy, it is a matter for Ofgem to manage the networks and we will be liaising closely with them to see that it is properly done, to have effective and efficient and cost effective networks, but it is basically for them to deliver those proposals.

Q63 Antoinette Sandbach: Given the concerns that there are about the district network operators and, in particular, barriers to connection to the grid, will you be looking specifically at simplifying and standardising network charges? How far are you progressing down that route at the moment, because it is particularly a barrier for the smaller projects that want to connect smaller renewable projects that want to connect to the grid?

Stephen Lovegrove: Yes, I should repeat what the Secretary of State said. This is something for Ofgem through their controls. They are profoundly aware of this particular subject and I have spoken to the chief executive of Ofgem about it. They are particularly aware, I should say, about the importance of investment in networks across the piece. I think in the last four years there has been £16 billion-worth of investment in the networks and Ofgem I think has approved another £45 billion or so worth of investment between now and 2023. One of the areas that they are most alive to is the need to make sure that there is an ease in universality of access for the kinds of SMEs that you are talking about.

Q64 Antoinette Sandbach: It is also, particularly in rural areas, where there are properties that may be some distance away from an electricity line, and it appears that there is a real lack of transparency around DNO connection costs in those circumstances. It is clearly an area that may impact more on rural communities than it does on others.

Amber Rudd: I think the network is going to have to evolve in order to accommodate all renewables, while of course giving us security of supply in terms of the baseload. It may be that for some DNOs the deployment of renewables has happened a lot faster than they thought, and that is what has led to some people being frustrated. They haven't been able to get on to the grid but, in my experience in the few that I have seen in the past 10 weeks, it has actually worked out after a bit. It is just tricky initially in terms of timing.

Stephen Lovegrove: Of course, it is a common and unwelcome feature in a whole host of different infrastructure areas, because you have a much larger proportion of the fuel poor who are in off-gas-grid situations, who are typically in rural places. Other Committees have looked at the failure to have really good coverage for broadband in rural networks. In a previous job I spent a lot of time thinking about the rural mail and rural networks. This is a perennial and abiding problem, which we have spoken to the regulator about and I am happy to speak to them again and send you a note if that is helpful.

Q65 Antoinette Sandbach: Yes, that would be very helpful. Thank you.

In terms of opening the delivery mechanisms up to competition, I think you, Secretary of State, said that you want to introduce competition into the way that networks deliver electricity, which will open up the energy market to innovation. Could you expand on how you see that operating?

Amber Rudd: I am a great believer that competition is the way to deliver more effective services and we will be having discussions with Ofgem, particularly in the light of the CMA report to see what can be done.

Antoinette Sandbach: Thank you.

Q66 Julian Sturdy: Secretary of State, I was pleased to hear in your opening statement that you talked first about security and security of supply.

Amber Rudd: Yes.

Julian Sturdy: I want you to go a bit further if you can on that. What is your assessment on the energy security risk to the UK, and are you concerned that the spare capacity margin is reducing? National Grid are saying that they want an adequate safe cushion within the spare capacity margin for unforeseen events, but we are seeing that reduced. We are seeing at some point negative margins talked about. I know that is not talking about blackouts but we are seeing negative margins talked about, so my question is: are we entering uncharted territory when it comes to energy security and the margins that we are talking about?

Amber Rudd: I think we are entering different territory, which is partly because the sources of our electricity are now becoming very different. But I do think that National Grid, who are tasked with making sure that we do have a secure and regular supply, are doing a good job and that we have given them the tools to do that, which is through the EMR, as you heard the Home Secretary say earlier. When they put out their statement recently, they did show that the margins sound quite narrow, and when they talked about having in fact a margin of over 5% they also explained that last year they had 6% and they never got into that margin. So I think that we do have a very secure supply but, although I am confident about it, I am not complacent because we have to continually make sure that we have no problems within it. With the additional powers that we have given National Grid, in terms of a balancing reserve, for instance, they are able to deliver us secure supply but it is absolute priority to make sure that we continue to have that confidence.

Q67 Julian Sturdy: We have two power stations closing March 2016, I think. They are both scheduled to come offline. One of them, Ferrybridge, is close by my constituency. Are you concerned about that and what plans are being put in place to make sure that that does not impact on capacity?

Amber Rudd: Both plants you are referring to are over 40 years old and we are aware and we follow it very closely. I always keep an open channel to National Grid and their view is that there is no impact of security of supply on this, but we will continue to monitor this very carefully.

Q68 Julian Sturdy: Are we reaching a pinch point? Is the winter of 2016-17 the critical point?

Amber Rudd: No. We certainly do need more infrastructure built and we need more sources of secure energy supply and, through the capacity market, through 2018-19 and through our promotion of a nuclear deal going forward, we are going to be delivering that, but in the meantime I am confident that we do have security of supply because we have the interim measures to deliver that.

Q69 Julian Sturdy: You talked about nuclear, so how confident are you that Hinkley Point C will open on time in 2023? We talk about the investment as well. When will that decision be taken?

Amber Rudd: We hope the decision will be made later on this year. We are very committed as a Government to making sure that we build new nuclear and Hinkley Point will be the first of those. There is a lot of interest in other projects, going forward, afterwards. Nuclear currently makes up 20% of our electricity and we would like to reach the stage where, through new nuclear, that level is maintained but old nuclear is coming off and I think that we need as much investment as we can procure in order to support new nuclear going forward.

Q70 Julian Sturdy: When you look at gas—obviously we know that there are huge fluctuations within the market and within the gas market and also we are quite reliant on other areas of the world for our gas supply—where are we with the progress with the new storage facilities?

Amber Rudd: I cannot reveal any more at the moment on that but we are looking at it and will be making announcements shortly on new storage. Gas is always going to be an important part of our mix and we are very committed to making sure that we continue to develop our own gas as well, so that we can have more security. Of course, interconnectors are an important part of making sure that we keep the price of gas down and have security of supply.

Stephen Lovegrove: Just on gas, it is probably worth saying that across the whole spectrum of hydrocarbons at the moment—so oil products, coal, gas—there is no concern globally about supply, and you can take a different view about where the prices are going to go but there is plenty of supply of all of these products in the market at the moment. We do not feel that we are in a place where there is any great danger for security of supply on hydrocarbons.

Q71 Dr Whitehead: Minister, when you say you are confident that a final investment decision will be taken on Hinkley this year, that is an investment decision that has been delayed by I think about three years. The scheme itself has now been delayed by five years. Does that somewhat lessen your confidence or are you still as confident as your Department was five years ago that this was going to happen and, by the way, are you secretly having regrets that the 93p per KWh that we have committed ourselves to for 35 years does not look exactly in line with what has been said today about affordability and energy prices over the next two or three years?

Amber Rudd: Answering those in reverse order: in terms of affordability we have to have secure baseload, so you should not be surprised, I may suggest, that we are prepared to pay more for that in order to make sure that nuclear is part of the mix. In a way that enables us to support more renewable in terms of renewables at the moment without storage.

Q72 Dr Whitehead: So we are subsidising it, aren't we, to a great extent?

Amber Rudd: On nuclear?

Dr Whitehead: Nuclear, yes.

Amber Rudd: Because of CfDs, as you will be aware. The requirement for nuclear is absolute, particularly in terms of wanting to have renewables as part of the mix because, as we all know, until we get storage right renewables are unreliable.

In terms of my confidence going forward, what I can tell you is I do not have the scars of the past two and a half years, as my Permanent Secretary may have, in terms of taking forward that negotiation, but I have met the parties who were involved in the past 10 weeks and it looks to me like there is a very good prospect of it reaching a happy conclusion later this year.

Q73 Melanie Onn: I want to go back to the issues around National Grid and potential issues around supply in a very cold winter situation. The National Grid continues its measures. Will that impact on consumer bills?

Amber Rudd: It does impact in a small scale on consumer bills because we have had to give them the tools to do that, and that has a cost attached to it. You might say it doesn't impact on consumer bills because it also gives people more confidence and so the market hopefully won't put the prices up in terms of an efficient market when they know that there is going to be good security of supply. So we have given them the tools. It does have a small impact on people's bills but I think it is right to do. It is about 50p I think. It is right to do in terms of making sure that there is no doubt in terms of security of supply.

Stephen Lovegrove: In a sense, I think the best way to think about it is as a very small insurance policy, and we understand the concept of insurance in our daily lives and I think this is the best way to think about, as I say, quite small numbers on people's bills.

Q74 Mr Carmichael: I was struck by your answer to Dr Whitehead there about the strike price of Hinkley Point C. Is that at odds with your earlier statement about subsidies being something that are there to generate an industry that can stand on its own two feet? You don't seem to share that ambition for subsidies for Hinkley Point C.

Amber Rudd: I do share that for—

Mr Carmichael: But not in the next 35 years?

Amber Rudd: This is going to be the first new nuclear plant in over 20 years, so it is essential to me that we succeed in it, but it does not mean that future plants will have a CfD at the same price. Perhaps you would like to address the price since you were involved there.

Stephen Lovegrove: Yes, indeed.

Mr Carmichael: That was a masterful move if I may say so.

Stephen Lovegrove: The policy of the last Government was that nuclear would not attract the form of subsidy that is different from that from other low carbon sources of energy, and that continues to be the case. Obviously 89.5 is considerably within some of the other—

Q75 Mr Carmichael: Except that it is not. It is 93 a MWh for Hinkley Point and 80 for wind, and wind is out of the subsidy market apparently.

Stephen Lovegrove: It is very much a question of which of the technologies you are looking at. Clearly onshore wind at the moment is more than 100.

Mr Carmichael: About 115 I think, yes.

Stephen Lovegrove: Yes. So the question is: looking across the basket and trying to make sure that there is a sufficient diversity of supply, is this a price that is justifiable? I think there are a number of reasons why we believe over the long term that this is the right kind of price. In the first place, although fossil fuel prices have dropped very markedly in the last year or so, the likely marginal cost of production in the gas markets, which is where electricity prices are derived from, are still expected to rise. The cost of LNG is still expected to rise over the kinds of periods of time that we are talking about.

Additional to that as well, we do not have at the moment a functioning carbon market. We would expect over that kind of period to see a functioning carbon market, and obviously that would disadvantage hydrocarbon generation in a way that clearly nuclear would not be disadvantaged. There is also the fact that, because there are going to be more intermittent renewables on the system, the cost of operating a gas plant is going to go up a bit because, as it will not be able to run for as long, the load factors won't be as high. That too is a factor.

Just to reiterate the Secretary of State's point, this is the beginning of the nuclear fleet in the UK and, in the same way as the first solar panels and the first offshore wind and the first onshore wind were more expensive than they are today, we would expect future new nuclear plants to come well within the kinds of prices that we have agreed for Hinkley Point C. It is moving everyone up to the sort of starting gate-type of—

Mr Carmichael: It is hardly a new technology.

Chair: Sorry, I am going to have to move on.

Dr Whitehead: Mr Chairman, if I could correct for the record it is £92.50 per MWh.

Q76 Chair: Thank you very much for that.

On the point of energy security, we know from the National Audit Office that our capacity is going down and we know that the Scottish Government are not happy with what is happening at Longannet. A big factor in there, of course, is transmissions costs because of the network that is there. But has any thought been given to the cost of having a network built to a power station that you are not transmitting on?

Amber Rudd: What, sorry, in Longannet you were saying?

Chair: A factor there is the transmission costs from Longannet and there is an infrastructure built but it has a particular transmission cost going with it. When you have a facility that you are not going to be generating from, has any thought been given to the costs of not using that, particularly when the capacity margin is so small?

Amber Rudd: I am not sure I quite understand. Your question is about the connection to—

Chair: It is almost like you have a roadway built but you notice there is no traffic going down that roadway from that power station, and it seems a strange place to be when the capacity margin is so small. Has any thought been given to that? I am getting the impression that not much thought has been given to that.

Amber Rudd: I am not entirely clear. Are you clear on this, perhaps you could help me?

Stephen Lovegrove: I will try and be as clear as I can. In terms of Longannet, it is clearly the case that in Scotland generators do slightly worse out of the distribution transmission charging network that we have but users do better. That comes around as a result of the fact that Ofgem, following the European Union's third energy package, is effectively saying that there has to be a form of differential pricing so that the generating plant is not responding to irrational economic pressures, and the costs of operating the network as a whole are not rising and therefore users, as a whole, suffer. I think that is what is at the heart of your question. When you ask whether or not any thought has been put into this, the CMA certainly has thought about this and wondered whether or not there should be any changes to the transmission and distribution network. If anything they said that those differential charging regimes ought to be slightly enhanced in order to make sure the economic signals are clearer, so it is not an area that is neglected by any stretch of the imagination.

Chair: Thank you for that. Time restricts me from going further into this but the mention of Europe allows me to segue neatly to Mr Sturdy for the final point in this area.

Q77 Julian Sturdy: Yes, on Hinkley and the timeframes you are looking at for 2023, do you think Austria's appeal over the state aid approval will delay the project further and, if there is further delay in the project, is there a plan B for any shortfall in capacity that might come from that?

Amber Rudd: As you will know, Hinkley Point is expected to come on in 2023 so there is plenty of time should there be a shortfall in capacity to prepare ahead of that. What I would say is that Austria's move is very unwelcome but our European colleagues have very different views on nuclear and so it was not unexpected. The signals that we are getting from the Commission is that their decision is completely robust, so we do not think it will impact on the final investment decision coming later this year.

Julian Sturdy: You do not think it will delay the project further?

Amber Rudd: No, we don't believe it will. As I say it is out there and it is unwelcome but the signal that we have had from the Commission is that their decision has been robust on supporting Hinkley Point.

Q78 Glyn Davies: We probably do not have as much time as we would like to talk about energy efficiency today because that is such a huge, huge issue.

Amber Rudd: Huge.

Glyn Davies: We have the whole Department on that but can you give us a bit on your approach to it, particularly how we might increase the number of homes that become energy efficient, which is really not as good as we might have hoped for perhaps.

Amber Rudd: Yes. I am particularly ambitious in this area and I want to put together a long-term framework, particularly for homes and particularly for fuel poverty. I am looking at the various initiatives that have been in place under the last Government and some, like ECO, that are still in place now, to find out which ones are working best and which ones have not worked well, so that we can work with industry to design a system that will deliver most costs effectively as much as possible. As you rightly say, home energy efficiency is the best way to reduce power output and to keep bills down. We are going to be looking at various ways of doing that and I am going to be looking at all the policies in the round and hoping to come forward with some new announcements in the autumn.

Q79 Glyn Davies: Just a couple of brief points. Most Departments are going to be looking at some reductions in spending over the next few years. That seems almost inevitable. Because energy efficiency, certainly in my view, is so hugely important will it be possible to isolate and detect the commitment to energy efficiency within the Department's budget? The second question—and I will ask you two at the same time because we are bit tight on time—is where are we going on the Green Deal? The Green Deal was impressive. It was presented as being huge. It seems not to have delivered what was anticipated. Is it still an important part of the objectives of the Department?

Amber Rudd: I will be looking—and I am looking—as part of the entire policy review in this area and, you are right, the Green Deal policies have not been as successful as was first envisaged but I am going to be looking at the whole area so that we can see what other policies might work better and how we can help people make their homes energy efficient for the least possible cost.

In terms of the Spending Review, I will be fighting hard to try to make sure that we prioritise delivering funds to make some energy efficiency available, particularly to the fuel poor. The best way we have found to deliver that has been through the energy companies, but it does not mean that we have unlimited funds by putting it on people's bills. I want to make sure that we keep those prices down in the most energy efficient way, so I am going to be talking to the energy companies about how best to do that.

Stephen Lovegrove: Just in that area, I think one of the things that the Department needs to think about harder is to use modern methods of data analysis, manipulation and collection to make sure that the money that we do spend and, indeed, the money that suppliers spend on our behalf is as targeted as effectively as it possibly can be, and we are working quite hard on that.

Amber Rudd: Yes. To add to that, particularly I am keen to work with DWP to make sure that we target the people who need our assistance as much as possible.

Q80 Antoinette Sandbach: You indicated that the Green Deal was not as successful as first envisaged. Will you be looking at barriers to take up? I am thinking particularly of where tenants are potentially refused consent for energy efficient measures to be installed by landlords, and I refer to my Register of Interests in that respect as I am a landlord. But have you looked at the barriers to take up and how you can encourage good behaviour, particularly around landlord and tenanted properties, given that those on the lower incomes are likely to be tenants rather than owners of property?

Amber Rudd: Yes, it is a very good point. The areas that have the most challenging home energy efficiency needs are usually in the private rental sector and, as you will be aware, we passed new regulations at the end of the last Parliament, to specifically target the private rental sector, in order to make sure that they achieve new targets of EPC ratings, band C, by 2030 with two bands on the way.

I want to try to make sure that we have a system whereby tenants can ask the landlords, which is currently in place, whereby they have to deliver at their request as long as it is no additional cost. At the moment that is envisaged to be delivered through the Green Deal and I will be looking at how we can best deliver that to make sure that there is some pay-as-you-save model available, so that landlords cannot unreasonably withhold permission to take this action and we can continue to improve the housing stock in this country, which is so important.

Antoinette Sandbach: I was actually asking about the other way round, where the landlord is trying to install it and the tenant refuses, because at the moment the tenant has an absolute right to refuse energy efficiency measures going in under the Green Deal and I wondered whether you would take a look at this year.

Amber Rudd: We will indeed take a look at that. Thank you very much.

Antoinette Sandbach: Thank you.

Q81 Dr Whitehead: I imagine, Minister, from what you have been saying on this particular section you were as shocked as I was to hear that the Government has pulled the entire plug on the 2016 target for zero carbon homes and the Allowable Solutions programme on zero carbon homes. Were you consulted about this when it happened and are you working hard to get this reversed?

Amber Rudd: What has been done at the moment is to postpone it. We must face up to the fact that we do have a housing crisis and that particularly the Allowable Solutions point was perceived as a tax on delivering new houses. I know that my colleagues at DCLG are very committed to making sure that we build new houses. That is the first point I would make. Secondly, in the discussions that I did have with the Secretary of State we did agree that he would work closely with me, with my Department, and that he and I would meet to discuss further what can be done for the existing housing stock. Getting improvements to the existing housing stock seems like the big prize to try to work with DCLG on. So, although we are not having new zero carbon homes for now, we are working together on seeing what we can do for the existing housing stock.

Q82 Dr Whitehead: Then we have to improve all the stock that exists at that point that is not zero carbon.

Amber Rudd: That to me is the bigger area in terms of working with DCLG to see what we can improve on existing housing stock. As you may be aware, by 2020 under European regulations new buildings need to be almost zero carbon and that will be there quite soon I am sure.

Chair: Could I make a small plea for certain areas of the country, particularly the Scottish highlands where the housing stock is so poor, the carbon gate is so big, it sounds as if there is almost fraudulent activity going on such is the carbon saving? The level of scrutiny they are subject to, and the level of the burdens of proof that are then put upon them for certain properties, is almost making it prohibitive because of the administration afterwards. I am not looking for a response. I raise that on your radar screen.

Amber Rudd: Okay.

Q83 Matthew Pennycock: Secretary of State, you have alluded a couple of times in this session to the problems around low-carbon heat and I wonder whether you accept the Committee on Climate Change's view that progress on low-carbon heat falls well short of what is needed to meet renewables and carbon targets?

Amber Rudd: I do accept that we need to do more on heat. Heat is hard. It is a difficult area to get right. We have a number of initiatives, both in terms of domestic and non-domestic, but we need to do more about it, which is one of the reasons I am looking at the whole range of policies to see what else we can do to work on heat in people's homes, because that will be a double win in terms of addressing our fourth carbon budget and in terms of keeping bills low. It has been hard. It has been slower than I would have expected and hoped for, but it is going to be a priority going forward.

Q84 Matthew Pennycock: Therefore, if we are not on track to meet heat's contribution towards the 2020 renewable targets, what is going to step in and meet that shortfall? Can I link it back to our earlier discussion on onshore wind, in the sense that, if something is to meet that shortfall surely the removal of subsidies at the point of target deployment, as you have outlined, does not make sense in that context? You need to step in and meet that shortfall.

Amber Rudd: I haven't given up on heat at all. There are heat initiatives out there. We have our own renewable heat initiative in DECC. There is biomethane and there are heat pumps and we have a heat network delivery unit. What I would like to do is to step up delivery of heat not try to replace it with something else.

Q85 Matthew Pennycock: Lastly, Chair, can I turn to the Renewable Heat Incentive? It is under a year until it is about to end. Do you accept that that uncertainty is impacting on investor confidence in this area?

Amber Rudd: On the Renewable Heat Incentive not so much, I don't think, because the Renewable Heat Incentive is a commitment to receive a subsidy for seven years that, if people are able to engage with the Renewable Heat Incentive and install their own solution, it works out quite well, either for the community or for the individual property, so the Renewable Heat Incentive I don't think has impacted in that way. But I appreciate that there is uncertainty in terms of how it will go forward after the Spending Review because, unlike many of our other policies, this has supported our taxation.

Q86 Matthew Pennycock: Can you give us a sense of whether it is your intention to push for a guarantee for that budget for past 2016 to 2021?

Amber Rudd: I can't give any indication. That will depend on conversations with Treasury.

Chair: Thank you very much. Moving on to the next area I am going to ask Julian Sturdy to lead on this.

Q87 Julian Sturdy: Thank you, Chair. There is a general consensus that the shale gas that we see within the energy sector is a game changer. What contribution do you see shale gas making to the UK energy mix, especially in light of the recent planning decisions? There is obviously quite a lot of opposition in certain areas to the development of shale gas.

Amber Rudd: Shale gas will be an important part of the energy mix for the UK, and I also note that it is an important part of our decarbonisation target because it is effectively a low-carbon source. Given that gas is going to remain an important part of our security of supply going forward, how much better to have our own gas than be importing it? So I remain committed to making sure that we can explore for shale. Of course I am aware that there are certain concerns about it but we have to continue to try to win the battle on it by reassuring people that the experts in the field—the Royal Society[1]—have all looked at it and have all given their stamp of approval that we have a secure and safe regulatory system in this country and it can be extracted securely and safely. I appreciate we need to continue to say that and demonstrate it and get people who perhaps are not Government Ministers to show people their views about this. In fact, there is no doubt that the decisions by the county council were disappointing, but we are still at early stages in exploring for shale.

Q88 Julian Sturdy: Ultimately, when we are talking about this we have to make sure that local communities are taken with the Government on this issue.

Amber Rudd: Yes.

Chair: How are you going to bridge that gap, because obviously there is a big gap at the moment with the view that local communities have over the impact that shale gas extraction will have in their local areas?

Amber Rudd: It is for the developer to try to make that case. We do have a strong safety record in the UK of exploring for oil and gas and I would hope that the developer can continue to make that case, to reassure the local community. The local community will benefit financially from it but I do not think that is what this is about, their concerns. I think their concerns are genuine concerns about safety, and I would urge the local developers to try and make that case to reassure them.

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[1] Transcript amended as described in letter from Secretary of State http://www.parliament.uk/documents/commons-committees/energy-and-climate-change/DECC-priorities-SoS-supplemtary-letter.pdf

Q89 Mr Carmichael: What is the latest sit-rep on the establishment of the Oil and Gas Authority?

Amber Rudd: The Oil and Gas Authority is now an arm's length body and it will become a fully independent body next year, but it is operating as though independent now. I attended their first inaugural meeting and, as I am sure you will be aware, it is well supported by the local industry and it has been very positive in terms of showing Government's commitment in order to try to make sure that we get maximum economic recovery, as stated in the Wood review from the North Sea oil and gas. No doubt it is a difficult time for recovery and for industry in the North Sea, but I think that the Oil and Gas Authority is an important step in trying to support them.

Q90 Mr Carmichael: Are we going to be able to keep everybody in the tent because it is quite a remarkable achievement? We have all the political parties, the Scottish Government, UK Government; you've got the different parts of the industry, the trade unions themselves all signed up to this strategy.

Amber Rudd: Yes, it does feel very positive. I will do my best to keep everybody in the tent.

Q91 Mr Carmichael: Last week we saw the management from Bristow's, the helicopters out of Aberdeen, laying off a substantial number of staff, including a substantial number of pilots—I think over 60 pilots. It is pretty clear that in the north North Sea in particular there is a lot of pain to come. What does the Government bring to the table in terms of maximising the extraction opportunity in terms of the north North Sea?

Amber Rudd: I think that we are bringing to the table what we are doing for the Oil and Gas Authority. We have great leadership there and I and my Ministers liaise closely with the chief executive there, Andy Samuels. The whole principle behind it, of making sure that private companies work more closely together, should—we would hope—make sure that there are fewer layoffs, there are fewer problems, so that by working together we can make sure that the industry survives what is I know a difficult time because of wholesale prices. Additional to that I suppose I would highlight the fact that the Chancellor has been helpful in terms of the fiscal regime and I hope that will continue.

Mr Carmichael: On that point—

Chair: A final point.

Mr Carmichael: To come back to your earlier point about the importance of having our own gas, there is surely a role for the OGA in facilitating the exploration and extraction for the west of Shetland, where you have big technological challenges and tighter margins, so surely joint working makes much more sense there and has a UK strategic benefit as well.

Amber Rudd: That is a very interesting thought. I will consider it. Thank you.

Q92 Chair: Thank you very much. Before we come to the end of our session, there are a couple of points I would like bring up briefly before I ask other Members as well.

Can we have an update on where the Government might be at the moment for carbon capture and storage, particularly in light of Peterhead and Drax of course, to have it on record?

Amber Rudd: We remain absolutely committed to the carbon capture and storage programme. It would be a fantastic outcome to deliver carbon capture and storage as soon as possible. We have put the funds aside, which are through the Levy Control Framework but are within our budget and we are going to be continuing to work with the two projects that we have and. As far as we are aware, the Peterhead project are still involved in the project and in the competition.

Q93 Chair: Can I ask also how committed are the Department to community energy renewable projects as well, which have been a big driver in many areas of economic regeneration as well as, of course, producing energy?

Amber Rudd: I think community energy is a very important part of what my Department helps communities with and it is a very important part of making sure that local communities realise the opportunities in renewable energy, so we are going to continue to support community energy where we can. There is also an opportunity coming through with community energy with the proposals on devolution. These proposals on devolution from Manchester and from Cornwall, some of them involve proposals on community energy and we are going to be seeing how we can assist on those.

Chair: Thank you and, before I lock up, I am going to ask the rest of the Committee: does anybody have a burning question they have been desperate to ask over this last hour and three-quarters, almost? Now is your final chance. We have about 120 seconds for clarity to ask your question and receive your answer if anybody has got a bid. Tremendous. Well done.

Thank you for your time, Secretary of State. We have tried to cover a huge amount of ground in this short space of time. We could have been here for probably days, if not weeks, on some of the areas we would have wanted to go into and I personally had to restrict myself on time. There will be a number of issues raised today that we will want to explore in more detail in due course. We might write or hopefully we might see you back in front of this Committee as well. We will be consulting with stakeholders and developing a programme of more detailed inquiries in the autumn, so this is a plea for those stakeholders who want to make submissions to the Committee to do so. We will look forward to and will be considering all that come our way and, as I said, we hope to see you again at some point in the Committee and I hope that things are developing in a positive way for your Department. Thank you all.