HOUSE OF COMMONS

Energy and Climate Change Committee

Oral evidence: DECC Annual Report and Accounts 2014-15, HC 544 Tuesday 10 November 2015

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Members present: Mr Angus Brendan MacNeil (Chair), Rushanara Ali, Tom Blenkinsop, Glyn Davies, James Heappey, Dr Daniel Poulter, Antoinette Sandbach, Julian Sturdy

Questions 1- 117

Witnesses: **Rt Hon Amber Rudd MP**, Secretary of State, Department of Energy and Climate Change, **Stephen Lovegrove**, Permanent Secretary, Department of Energy and Climate Change, and **Angie Ridgwell**, Director General, Finance and Corporate Services, Department of Energy and Climate Change, gave evidence.

Q1 Chair: Welcome, Secretary of State. Can I invite you to introduce your colleagues you have with you here this morning?

Amber Rudd: Thank you very much, Mr Chairman. It is a pleasure to be here again with you. Stephen Lovegrove is my Permanent Secretary who accompanied me last time, and Angie Ridgwell is the director of Corporate Services who will be helpful in any questions on the accounts.

Q2 Chair: Thank you very much. As I am sure you are aware, there have been some serious allegations in the press in the last 24 hours that you may have misled Parliament about whether the UK is indeed on track for its 2020 renewable targets. We have looked at the leaked material and your previous statements to the House, and our assessment is that whether or not it was your intention to mislead there has indeed been some misleading use of language and confusion where you talk on different occasions about renewable energy targets and renewable electricity targets. Can we begin by trying to get some clarity into the debate? As you know, we have a legally binding obligation to deliver 15% of renewable energy by 2020 and you would agree with this, I assume. This will be made up from renewable electricity, heat and transport and the UK's plan is that this target could be achieved if the UK is able to deliver 30% of renewable electricity, 12% of renewable heat and 10% of renewable transport energy. Is that correct?

Amber Rudd: Those numbers are correct, yes.

Q3 Chair: What is the current UK position then on renewable electricity, renewable heat and renewable transport energy?

Amber Rudd: Thank you, Mr Chairman, for giving me the opportunity for clarifying any misunderstandings that there might be. You are absolutely right that the UK has a 2020 target of 15% of its energy from renewable sources. The figure of 30% that I am quoted as referring to in the House of Commons is what we expect to have from electricity by 2020, which is a great result. We are now at 20% and we expect to reach 30%. It is something that the UK can be very proud of.

I am concerned about the work that is being done on transport and on heat to make the additional targets. That is why I have been writing to other Ministers in other departments, particularly in transport, to urge them to work across Government to make sure that we do make these targets.

We have made our interim target—in fact, we have just exceeded it—but it is going to be challenging to make the rest of the target. I remain committed to making good progress towards that target and it is because I am so committed to that that I am encouraging other Secretaries of State to take action. This is, after all, a cross-Government target; it is not just for my Department. I am going to be working with Transport and internally I am going to be putting together policies on heat to try to address the shortfall that we currently have in order to achieve that 2020 target.

Q4 Chair: Given what you have said particularly about renewable heat and renewable transport energy, are you on target to meet your 2020 objectives of 15% renewable energy?

Amber Rudd: It is difficult to say at the moment because particularly in heat—

Chair: But the private letter—it does not seem it is difficult to say—would indicate that it is not on target.

Amber Rudd: You asked me whether we are going to meet our 2020 target. It is my aim that we should meet the 2020 target. I recognise, as that letter does, that we do not have the right policies particularly in transport and heat in order to make those 2020 targets, but we have four to five years. I remain committed to making those targets, which is why I take it so seriously and I am engaging with other Secretaries of State to address the gap that we have.

Q5 Chair: You mentioned there you have achieved some interim targets. Which interim targets were those that have been achieved?

Amber Rudd: By 2013-14 and by 2015 we had specific targets. I think it was 6.3% and we have exceeded that.

Q6 Chair: What is the shortfall then that you expect?

Amber Rudd: Currently, there is insufficient evidence that we are going to make the target for 2020 unless we take certain action. I remain committed to taking action so that we can make our 2020 renewable target.

Stephen Lovegrove: If I may, just a small point of clarification. The interim target for 2013-14 on the way to this 15% was 5.4% and latest figures show that we reached 6.3%, so we are quite considerably ahead at the interim stage.

Q7 Chair: Your report is suggesting that you are currently on target to achieve 11.5% of renewable energy by 2020. Is that an accurate assessment?

Amber Rudd: That is accurate assessment of where we are if we do not take action, but I am determined to take action so that we exceed that and reach the 15%.

Q8 Chair: What action do you plan to take to be able to do that?

Amber Rudd: We need to take action on heat and on transport. I am happy to talk either later or now about the fact that we need to make policy choices in order to address heat, and I will be engaging with Transport in order to make choices to improve the transport outcomes.

Q9 Chair: Might that include pushing the Treasury to support renewable heat after the current funding settlement ends?

Amber Rudd: Indeed. We are in the middle of a spending review. It is difficult to say what will come out yet, but I remain committed to making sure that heat is addressed.

Q10 Chair: Will this include buying renewable energy from other EU member states?

Amber Rudd: As the letter set out, in order to make the 15% target for 2020 that would be an option. I accept it is not a desirable option. I would like us to take action here in the UK to address it and to deliver.

Q11 Chair: Which possible states have been identified for the purchase of renewable electricity?

Amber Rudd: We are not that far yet. It is well known that we are building an interconnector with Norway. There are alternative options but, as I say, the desirable option is to deliver ourselves on our renewable target for 2020.

Q12 Chair: The question then being asked, given these revelations heading up to 2020, is why is the Government not looking at supporting the renewable electricity sector, the renewable electricity producers for the UK, given particularly what happened with onshore wind in the last four or five months?

Amber Rudd: I think it would be a mistake to abandon heat and transport. They are part of the mix for a good reason. They also need to make their contribution in terms of making up on the renewable targets. I would much rather address the issue of heat and of transport than just say, "Let us just step up our electricity". It is not the answer just to do more electricity.

Q13 Chair: Do you think the announcement in June this year and the ongoing period that we are in at the moment since then has had any effect on this continuing situation that we find ourselves in?

Amber Rudd: Sorry, I do not understand that question.

Chair: Sorry. To what extent has your decision to cut support for renewables earlier this year, in June onwards, contributed to this situation?

Amber Rudd: I do not believe it has because the mix, as you rightly set out in your introductory remarks, was that we would have 30% of renewable electricity by 2020 and we are on track to have that. Despite the cuts to subsidies on renewables—I would highlight, for instance, onshore wind—our aim was always to have 11 to 13 gigawatts by 2020 and we are currently on plan to achieve just over 12.

Q14 Chair: Thank you. Just a final point on this area from me. Given the letter that has emerged in the last 24 hours and given the funding situation over the last four to five months, do you think, Secretary of State, that you have the confidence of the renewable energy sector?

Amber Rudd: Yes, I do. I engage regularly with the renewable energy sector. They speak to me in fairly strong terms sometimes about the fact that subsidies are being changed, but I have been very clear about the need that this Government has to provide value for money. We will continue to encourage renewable electricity and indeed renewable energy by working across Departments, but we will always make sure that we do so with value for money. I have been very clear with the energy sector that that is going to be a priority going forward.

Q15 James Heappey: Just one question, Mr Chairman. Your letter was leaked but the responses you might have received were not. Can you reassure us that you received favourable and encouraging responses from all of those you wrote to and that they recognise in their Departments the importance of achieving these targets?

Amber Rudd: It is my experience that they do having spoken to them during these past few weeks about the importance of addressing this. I will certainly come back to the Committee with any responses I have had.

Q16 James Heappey: Particularly with the Department for Transport where there is a struggle to fund some of the electrification scheme plans the Government had, would your analysis cause them a rethink and perhaps to reprioritise some of the schemes that were falling away?

Amber Rudd: The Department for Transport have said that they are going to do a consultation at the beginning of next year on how to step up their production of more energy efficient cars and more roles for electricity in driving cars. They are already planning on addressing that at the beginning of next year. I hope that perhaps one of the outcomes of this unfortunate leak will be a closer working relationship between me and Transport.

Q17 Chair: Given the difficulties that have been highlighted again in the last 24 hours with this and talk of importing renewable electricity from other European countries as yet unidentified, will the Government be ensuring that any developments that are potentially going to take place on islands, particularly Scottish islands, will now happen and that the words of the Prime Minister, "The Government remains committed to enabling deployment of renewable energy in Scottish islands and recognises the challenges involved" will be honoured, particularly in light of perhaps an acute problem, as your letter identified, and will indeed happen?

Amber Rudd: The Highlands and Islands is a particular issue in terms of European state aid, as we know, and that at the moment has not been authorised. But as I think I said at the last session and I am happy to repeat again, we remain very positive about the Highlands and Islands, as the Prime Minister has been.

I would also say that one of the reasons that I support the Highlands and Islands initiative is because security of supply—and I am sure we will come on to the opportunity to discuss that later—is also an essential part of a rigorous, successful, national energy market.

Q18 Chair: Thank you. A slightly different area now. According to the analysis by the Institute of Government DECC has the biggest percentage rise in staff numbers between 2010 and 2014 of all the central Government Departments. What did those extra staff allow you to do that would otherwise not have been possible?

Amber Rudd: If I may make some general remarks about that, then perhaps ask my Permanent Secretary to address it since he was around before I was in the Department, DECC, of course, was founded in 2008. It has had a very important job to do in terms of trying to position our energy market in a way that delivers the secure, affordable, clean power that we all want while also focusing on consumer bills, market efficiencies and so on. It has then put in place the EMR, the electricity market review, with the CfDs, with the capacity market. I would say it is an exceptional Department in terms of the requirements it would have had in that period because it was addressing a particular need and coming from a standing start.

Stephen Lovegrove: Yes, just to echo the Secretary of State's comments, we did have a very large and heavy workload starting in 2010 and that was recognised in the spending review settlement of that year. They were principally around electricity market reform, which very rapidly became the biggest unit in the Department. The capacity market is very complex. The CfDs for renewable, low carbon projects is very complex.

We also kicked off and built, and we still have, a very big team working on smart meters, which is an extremely important national infrastructure project. Those projects and others would not have been possible without a brief moment of growth in headcount in the Department. I guess the real background is that we still do have the scale of investment challenge in the UK in the power sector and in the energy sector more generally, which is absolutely immense. We needed to be able to have the staff to be able to meet that, so £100 billion of investment going into power over 10 years, £200 billion across the whole of the energy sector, these are big numbers.

Having said that, certainly on the electricity market reform side we are now nearing the end of that and we are scaling back those teams accordingly. Clearly, in today's environment we are very conscious of the need to make a contribution to general deficit reductions, so we will be scaling back the number of people in the Department. We currently have 1,600 people in the Department and we have a voluntary exit scheme going on at the moment, which is designed to remove about 200 heads from the Department. These are significant reductions and we will be playing our part.

Q19 Glyn Davies: Can we move to a different linked subject, the National Infrastructure Commission, which has been announced under Lord Adonis as the chairman? This is Treasury led. To what extent are the investments in big energy investment going to be influenced by your Department?

Amber Rudd: I welcome the National Infrastructure Commission. One of the issues that the energy market in the UK has faced—and has done, I think, for decades—is insufficient, long-term planning over 10, 15, 20 years. We are on the end of that now, which represents some of the challenges that we have. We are dealing with insufficient infrastructure investment and the National Infrastructure Commission, as in the name, will help us to address that. It is excellent that we have the support of the Treasury in delivering that. I have had a preliminary meeting with Andrew Adonis. I have talked to him about the areas that he is most interested in assisting us with and I think we will have an open dialogue about it. It elevates the Department rather than anything else in terms of making sure that we will get, I hope, the investment and the long-term planning that will benefit the energy infrastructure in the UK.

Q20 Glyn Davies: The Chancellor is appointing the board members of the commission and the commission reports to the Chancellor. It does mean to somebody looking in that the Treasury will be leading on all of these projects. How are we going to deal with a really huge energy project like, perhaps, the Swansea Bay development, which is of big interest to anybody living in Wales, even in Britain, because it is a first? What influence will the Department have on a decision like that or will they just be driven by this infrastructure committee and the Treasury?

Amber Rudd: No, I do not believe it will just be driven by the infrastructure commission and the Treasury. I hope it will be a positive, good working relationship, but considering projects such as Swansea Bay require quite a substantial financial commitment and the more involvement we have from Treasury at the start the better, because what we do not want in this business is surprises. I welcome Treasury's increasing involvement in infrastructure projects in energy. It will help to deliver the long-term future we need in terms of infrastructure and also help to work more closely with us in terms of our planning for the essential energy infrastructure that we need.

Q21 Glyn Davies: Is there inevitably going to be duplication in that the Treasury are going to clearly develop expertise in order to deliver their decisions? In what way does it differ from the expertise that there will be within the Department, and is it likely that the Department will lose the skills and expertise in the way that Britain lost it in terms of the nuclear industry because we did not do it? If the Department is not doing it and Treasury is, will the Department itself lose the skills?

Amber Rudd: I think the best way to do it is to share resources and that is the conversation I have had with Lord Adonis. In the areas that he is particularly interested in, we will be sharing resources. We will be seconding people from my Department to his group in order to make sure that our expertise is shared and there is not duplication.

Chair: James Heappey, I think we are moving towards the Hinkley Point nuclear investment.

Q22 James Heappey: The UK Government guarantee to the Chinese that their investment in Hinkley will be underwritten. What does that mean in practice?

Amber Rudd: The UK has indeed put forward a £2 billion guarantee. It is not to the Chinese, it is to the project, and that is a difference. What it means is that the UK Government will guarantee £2 billion of bonds that the project will likely issue on the way. It is about access to finance and cost of capital.

Q23 James Heappey: If the Chinese pull out, what would the UK taxpayer be liable for?

Amber Rudd: If the Chinese pulled out, I would expect the French promoters of the project, EDF, to find a new investor. This is an EDF-run project. It is for them to source the investment.

Q24 James Heappey: You are content that EDF carries all of the risk throughout the construction programme? There are reports of delays and cost overruns on other developments of EDF's. That is entirely their risk to carry?

Amber Rudd: Indeed. The construction risk is with the project promoter and that is EDF. In fact, if they come in under budget then the UK Government will get a return of 50% of the money that they come under. After the first billion it will be 75%. There is a clause in there that if the amount that it is costing has been overestimated, we will be recompensed, but the construction risk is with the promoters, EDF.

Q25 James Heappey: Hinkley is forecast to provide 7% of the UK's electricity needs. Are you concerned about the degree to which that makes us dependent on nuclear power?

Amber Rudd: We currently have 20% of our electricity from nuclear power. I think that is the right amount to have. We need to have a good mix. Having a diverse supply of electricity is absolutely key to a secure mix. It is our plan to make sure that we promote new nuclear—and Hinkley will be the first—so that we replace the ageing nuclear stations with new ones. Hinkley Point is a very important first step to doing exactly what Mr Davies referred to, rebuilding the nuclear industry that was lost 20 years ago by not addressing the need to replace the nuclear fleet as we go forward.

Q26 James Heappey: You mentioned its current level is around 20%. Is that a level that you aim to achieve for the new nuclear projects or more? What sort of level do you think nuclear should contribute to our mix?

Amber Rudd: Yes, we think 20% is about right. It works well in terms of secure, low carbon base load going forward. It is essential that we have a supply of electricity that is low carbon but is absolutely dependable, as we refer to it, as base load. We hope that by the 2020s and 2030s we will have 20% of our electricity supplies supplied by new nuclear in this way.

Q27 James Heappey: As a Somerset MP I was delighted when Hinkley was secured but it didn't half take a lot of effort to get there. How do the agreements for Sizewell and Bradwell shape up? Are you happy that they will progress more quickly and when is the earliest that these stations could be up and running?

Amber Rudd: I share your enthusiasm for closing the Hinkley Point deal. Sizewell and Bradwell are also nuclear power stations that are owned by EDF and they are not the only ones that are going to be part of the new nuclear programme. We also have Japanese promoters and investors Toshiba and Hitachi, so we hope that they will all now be able to come forward in proper order and in due time. Sizewell will also have the EPR reactor. Bradwell is likely to have the Hualong reactor and those I hope will follow on Hinkley. A lot of people who are investing and participating in the new nuclear were waiting for Hinkley to get over the line. Now it has done so we will be moving ahead with the new nuclear ones, these other ones as you referred to, Sizewell and Bradwell, and I hope that they will be operational by the late 2020s.

Q28 James Heappey: We have seen that the intention is that future strike prices at subsequent stations will be lower, but none the less people do criticise the Hinkley strike prices as being too high. How do you respond to that?

Amber Rudd: I think they have to see it in context of what we are trying to achieve. We need secure supply of low carbon energy and nuclear currently is the only place to give that. When you look at it you might compare it to offshore wind. It is less than that. In terms of what else it offers us, it offers us scale. People sometimes try to compare it to solar, but if you want scale—you refer to it as 7% of the mix potentially—yes, we need something at scale to supply the base load that we need.

It is also about security of supplies, making sure we get it from the UK. Again, I come back to the best way to have secure supplies of electricity in this country is to have a diverse mix. We needed to have nuclear. We had not done new nuclear in 20 or 25 years. I think this was the right price to pay. It represented value for money.

Q29 James Heappey: Just finally a bit on the contracts and the industrial strategy within new nuclear. Clearly, it was a shame that Britain no longer has a company capable of being the lead provider, although at tier one and certainly regionally with the supply chain there are huge opportunities. What can be done by your Department to really encourage growth in the British nuclear energy industry rather than having to rely on foreign resources? Is there a role that the infrastructure commission can play in stimulating that sort of growth?

Amber Rudd: We are very conscious that our plans for new nuclear will require the UK to step up and provide some back-up in terms of expertise in the whole field and we think that is a great opportunity. My colleague, Minister Leadsom, is down at Hinkley Point later this week and she will be opening a new training college there. We are exploiting and working on all the training opportunities that we can to develop our own national UK skills so that we can move towards having more expertise ourselves.

Q30 James Heappey: There is a requirement of EDF to use a certain percentage of UK contractors. I think it is 70%, is that right?

Amber Rudd: Yes.

Q31 James Heappey: Do you see a similar condition being put in all further contracts for the new nuclear build?

Amber Rudd: We made it very clear to all other promoters of new nuclear that using UK supply chains is an essential part going forward.

Q32 Dr Poulter: On the construction of nuclear going forward, the development of new power stations at Hinkley but also at other sites—Sizewell in particular—poses infrastructure challenges to those areas; for example, close to my own constituency in eastern Suffolk. What advice would you give to local authorities in trying to extract the best deal from EDF in the case of Sizewell and other energy suppliers to deliver that important infrastructure to facilitate the build but also to facilitate the ongoing work of the power station?

Amber Rudd: I think early engagement with the promoter. You can perhaps, if I may suggest, speak to your colleague from Somerset. The Somerset MPs are I think satisfied with the arrangements currently. I would name particularly the training college, opportunities for employment locally, opportunities for working with local colleges to make sure they develop the skills. I would recommend early engagement by the MPs or the local authority with the promoter to make sure that the local community gets the best out of it.

Q33 Dr Poulter: So you see this very much as part of an economic strategy for the area rather than just purely a discrete strategy about delivering the power station?

Amber Rudd: Yes, I do. You put it very well. It is about a UK skills growth and industrial strategy that has the positive aim of making sure that we have nuclear going forward, which is very good for the communities as well. Our experience is that new nuclear is largely welcomed in places where there was old nuclear because the local community is familiar with the positive elements of it.

Q34 Dr Poulter: Picking up on some issues raised earlier, from a departmental point of view, a lot of your budget—I am thinking towards the spending review here—appears to me to be fairly pre-committed, £7 billion worth on managing the energy legacy, including nuclear and the pension schemes. Your discretionary budget appears to me to be about £400 million for some of the other schemes. Given that your budget appears to be largely pre-committed, where do you see some savings to be made, or not as the case may be, going into the spending review?

Amber Rudd: You are absolutely right that the NDA, the Nuclear Decommissioning Authority, is a large part of our budget, which involves significant legacy costs. That is an unwise area to make cuts in: we have made that very clear to the Treasury. We are still under spending review terms with the Treasury, but there are certain areas where there are legacy commitments that cannot be adapted. That does not mean that we are not looking for opportunities to deliver value for money. We are always looking at them as well so that we can deliver on our legacy commitments while trying to make sure that we deliver better value for money.

Q35 Dr Poulter: You would say that, generally speaking, in terms of the context of your budget that when a lot of that is pre-committed, it is more challenging than it would be where there is more discretionary spend to trim the budget?

Amber Rudd: Yes. There are certain areas where we can only trim, we cannot make really substantial cuts to, and I think that is acknowledged by Government.

Q36 Tom Blenkinsop: Going back Hinkley and the actual contract where you said that EDF are in charge of the contract and that £2 billion will be given by the Government alongside Chinese investment to ensure that the contract goes ahead and that 70% of that would be UK procurement, how can you guarantee that? Will you be having regular reviews with EDF to see that procurement is doing it?

Amber Rudd: Yes. Permanent Secretary, do you want to answer that?

Stephen Lovegrove: Yes, there will be a lot of reviews and there will be continuous monitoring of not only the way in which the project is developing but also the way in which the procurement of the goods and services that Hinkley needs are being directed.

Q37 Tom Blenkinsop: In a market of foundation industries like steel, for example, where Chinese saturation is obvious within the UK and EU market—particularly the UK because other EU member states have taken individual state action to block that saturation of Chinese steel—how are you going to stop Chinese financiers procuring Chinese product for this British project?

Stephen Lovegrove: Well, the project is not a Chinese project. The project is a joint—

Tom Blenkinsop: The piper plays the tune, of course, doesn't he?

Stephen Lovegrove: The project is 66% owned by EDF, which has an established British presence, and 34% by the Chinese. There are arrangements in place, which are not going to be resiled from by the French main promoter, to source about 70% of it from the UK. I have not seen any remote sign so far that the Chinese are doing anything other than—

Q38 Tom Blenkinsop: Maybe the Minister might want to respond because, forgive my scepticism, but being someone from the Tees area where we have seen our steelworks close down, largely down to Chinese dumping, we have a relatively new offshore wind farm near Redcar, which was an EDF project, with not a bit of steel from the United Kingdom. How can you definitely guarantee that the 70% quota will be used? We have been here before: R&M contracts using British companies but foreign labour, foreign product. How can you definitely guarantee that without regular overview?

Amber Rudd: We will have regular—yes, we are sure. I spoke to the chief executive of EDF this morning, not on this subject but generally, and it is in the contract so it is part of the commitment that they have made. I appreciate you have had a difficult experience, but we will make sure that they deliver on all the terms that they have committed to.

Tom Blenkinsop: Forgive my scepticism, Minister, because given the recent letter that has been leaked about other guarantees that you gave that have not been met—

Amber Rudd: We discussed that earlier.

Tom Blenkinsop: Yes, which have not been met, of course, and you admit to.

> ***Amber Rudd***: No, they have been met. Well, if you wanted to refer to the comments I made earlier on the letter, we did address the fact that the electricity targets are being met and the issues of renewable energy, which is why I am so keen to work with Transport.

Tom Blenkinsop: I will be asking questions about that later, Chair.

Q39 Glyn Davies: There are a couple of points I just wanted to ask in relation to new nuclear. We have had discussion this morning and it is Hinkley Point, it is Sizewell, Bradwell. Are we going to have the same enthusiasm for Wylfa B? I still sense that Wylfa B will be the first to be producing nuclear power for the new generation of power stations. Are we having the same discussions with the Japanese, with Hitachi? Is that going to have the same drive behind it as Hinkley and Sizewell and Bradwell?

> ***Amber Rudd***: I think, Mr Davies, it was critical to get the first new nuclear power station to be commissioned in the UK over the line, but yes, we will be having discussions—and we already are—about Wylfa with Japanese potential partners and with others who are interested in participating and helping us build new nuclear in the UK. The Japanese will be an important partner going forward as well.

Glyn Davies: Did you want to add anything, Mr Lovegrove?

> ***Stephen Lovegrove***: Just to say that obviously these projects are multi-phased and they are at different points in their evolution. We are very fully engaged with Horizon up in Wylfa but, of course, the ABWR, which is the technology up in Wylfa, hasn't been through the generic design assessment from the Office of Nuclear Regulation yet. There is inevitably a bit more of a delay there. You may well be right: the manufacturing processes of the Japanese consortiums might well mean that they are online at roughly the same time as Hinkley, but they are at a different phase in development at the moment.

Q40 Glyn Davies: Another nuclear development is the small modular nuclear. Again, wearing my Welsh hat—which I never really take off—it is interesting that people tell me the first one in the world may well be at Trawsfynydd, which is perfectly located for that. How are we developing it? That would be much more acceptable. There is always going to be a worry about large-scale nuclear because of what we have seen at Chernobyl and Fukushima. Small modular may be far more acceptable and Wales could be a first. Are you fully enthused behind that project?

> ***Amber Rudd***: We are fully enthused about small modular reactors. We are doing as much as we can in terms of supporting the technology. We are working with Sheffield University to try to develop opportunities to see how far we can take it forward; how quick we can accelerate it. Small modular reactors would be an excellent way forward, so we are continuing to progress them but not in any way taking our foot off the pedal of traditional, if you like, new nuclear as well because we cannot take that risk. We want to do both to ensure that we have a secure supply of nuclear energy going forward.

Q41 Antoinette Sandbach: On small modular, there is considerable expertise in Cheshire in relation to small modular nuclear. Is that being linked in with the Sheffield project to ensure that we are bringing that forward as quickly as possible?

Stephen Lovegrove: Yes, it is and we are doing a piece of work at the moment with the National Nuclear Laboratory to assess the candidates, the runners and riders, for small modular where they might be placed in the UK. At the moment, as you know, there are no small modular reactors that have been built in the world so we would again be at the cutting edge of this, but it is important to look at this as positively as we possibly can.

Q42 Chair: Before I go to Julian Sturdy, there is something I want to pick up on there. You mentioned skills growth and an industrial strategy for nuclear. How do you think those listening or watching involved in solar and onshore wind might feel when there is this emphasis of support for nuclear in a wide context of the skills growth and industrial strategy?

Amber Rudd: Well, solar is an important part of the mix as well. In 2012 the projection was—

Chair: Is the skills growth and industrial strategy in solar and wind just as important as it is in nuclear?

Amber Rudd: I think that the skills in nuclear have a different complexion because you need to spend years training to be a nuclear expert. In solar it is a more straightforward area to enter into. Of course, every job matters and I think that solar will continue to have a great future in the UK.

Q43 Chair: Those who have lost work might have a different view on the emphasis that Government is putting.

Amber Rudd: The fact is I have to get the balance in terms of trying to deliver an energy mix and making sure that we deliver value for money. I was going to say that we anticipated, as part of our energy mix by 2015, that we would have 1.5 gigawatts of solar. We now have nearly 8 gigawatts of solar this year and it is continuing to rise. I welcome solar, it is a positive part of the energy mix but we cannot do it at the expense of anything else. We have to make sure that we get a diverse supply as well.

Q44 Julian Sturdy: I apologise for being slightly late this morning. I want to touch on capacity and security of supply, Secretary of State. Last week National Grid for the first time used emergency measures over energy supply. I think they call it demand side balancing reserve where, as I am sure you are aware, large businesses are paid to cut energy usage. There were a number of factors that triggered this: low wind speeds; I believe a couple of coal-fired power stations were offline due to maintenance issues. Given that, are you satisfied with the way in which National Grid handled last week's tight supply margin and are there any lessons we can learn from this going forward?

Amber Rudd: The main lesson I learn from last week is that we need to focus on security of supply, which we have been doing since the start of this Government. The reason why margins are tight is that we have failed over a long period to invest in sufficient infrastructure to support new electricity coming forward. What we had last week was a NISM, a notice of insufficient system margin. That was margin, so it is about the buffer rather than the actual supply of electricity. I am satisfied that National Grid handled it. I would just point out to the Committee that since 1999 there have been 111 of these incidents. It does happen. There is sufficient margin to work within it. I am confident but not complacent that we can manage it and it is a clear indicator nevertheless that we need to deliver new infrastructure that will give us new sources of electricity going forward.

Q45 Julian Sturdy: Through the tight supply, though, I am led to believe that obviously prices spiked on the back of that. I think one power plant was paid £2,500 per megawatt hour; about 50 times the average price. What impact does that have directly to customers?

Amber Rudd: It actually has no impact to customers—

Julian Sturdy: Or consumers, I should say.

Amber Rudd: —to consumers, because it is such a tiny amount over such a tiny period. National Grid run auctions every half hour and there was a period in the NISM period when they paid that for a small amount, so I do not believe it will have any impact to consumers.

On a wider point, I would say that it does have an impact on consumers if you have insufficient supplies of electricity and that is why we are so committed to making sure that we do bring on new electricity supplies to make sure that we can keep bills down for consumers.

Q46 Julian Sturdy: Having said that, when we are talking about the capacity margin this winter and next winter, which has been talked about quite a bit within Parliament but also within the media as well, are you concerned that we have a capacity issue going forward over the next 18 months to two years before new supplies come on-stream?

Amber Rudd: I am aware, and it is has been well covered, that the margin is tight and that is because we do not have enough new infrastructure delivering new electricity, but I am absolutely confident that we have the tools to handle that. National Grid handled it last week; they will do it again if we get more. I am satisfied that we can manage that. The system is working as intended but I would like to have a system where we have larger margins, better supply, and we will be investing to make sure we deliver that.

Q47 Tom Blenkinsop: To this Committee on 17 September you said, "When it became apparent that we were in excess of spending limits on renewables but were still meeting our renewables targets, it was right to limit the amount of money we were spending". Is that why you cut biomass subsidy?

Amber Rudd: Biomass subsidy is an important part of the mix and it is also being reviewed under the feed-in tariff review that we are doing at the moment. Biomass was always set out to be a transitional source of electricity and we are looking at it in the round with other sources of renewables.

Tom Blenkinsop: But it is part of new infrastructure that could provide electricity.

Amber Rudd: We are looking at it as part of the review that is going on at the moment. The review has just closed and we are going to be looking at the results over the next few days and weeks.

Q48 Tom Blenkinsop: Today you have said there was insufficient infrastructure over the last 10, 15, 20 years, but in your leaked letter you also look at potential solutions, investing in foreign renewables projects. Is that a good use of British taxpayers' money?

Amber Rudd: It is one alternative, factually speaking, to meet the renewable targets for 2020.

Tom Blenkinsop: So you wouldn't invest in British infrastructure like biomass or carbon tax on renewables, which you have put in as well on wind and solar, but you will invest in infrastructure abroad?

Amber Rudd: That is not what I am saying. I have said that that is one of the alternatives—

Tom Blenkinsop: Well, I think it is.

Amber Rudd: It is one of the alternatives, given that we want to meet our renewable target in 2020, but it is not the one that I would like to go down.

Q49 Chair: Which targets are these? When you say renewable targets do you mean—

Amber Rudd: These are the renewable targets—

Chair: —energy targets or the electricity targets?

Amber Rudd: I think that Mr Blenkinsop is asking me about the energy target for 2020.

Chair: I think we have to be clear now what we mean when we are talking about renewable targets.

Amber Rudd: Absolutely but, as I said to you earlier, Chairman, our desired outcome is to meet our targets by making sure that we deliver ourselves through putting forward policies on heat and transport but we have addressed the electricity.

Q50 Chair: In fact, there is one other area I would like just to raise there. You mentioned transport targets, but do I get an indication that the Department for Transport's budgets are going to be cut and how would that impact?

Amber Rudd: I am afraid I am not aware of what the Department for Transport's budget is and whether it is going to be cut. They have said that they are launching consultation at the beginning of next year to address how they can deliver more electricity in their cars.

Q51 Chair: Fair enough. It is outwith your brief. Moving to a slightly different area on contracts for difference, I would like to ask what lessons have been learned from last year's contracts for difference round and what, if anything, will you be doing differently in the next round. Many people are interested in this.

Amber Rudd: I think the most important thing that we learnt from last year's contracts for difference auction is that competition drives down prices and that the market is always going to be more effective and more efficient and more successful at setting the price. I think that was an important result in terms of trying to take Government out of setting prices and demonstrating that the most successful way to address supporting renewables is to do it through a market source, which is what we have done.

Q52 Chair: There is always an "on the other hand" there because some people have what is known as the winner's curse and win but find themselves unable to build. I think there are some projects on the way that it could be argued came in too low, which means they can now take a hit on the bond they have put up and do not build the infrastructure. That leaves the UK with less infrastructure being built so how can we insulate or insure ourselves against that sort of activity happening?

Amber Rudd: I think we have to learn from that and acknowledge where that is the case in the second CfD round, which we will be coming up to shortly.

Q53 Chair: In the second CfD round there were savings of £100 million made when the auction was competitively run on price. Does that mean with hindsight that the first round should have been run on a competitive price basis, too?

Amber Rudd: In hindsight, it is difficult to contradict that, but there is an argument that if you were doing it for the first time you needed to deliver investor confidence. I know the National Audit Office made that comment that the best way to do it was through an auction and you might have, as you said, saved £100 million by doing it straight off like that. I think that the best way to address it is to say, "We have learnt the lesson. We are now doing auctions. We are going to be saving money going forward". I would point out that, just as a demonstration of that, the offshore wind came down from £155 to £115.

Q54 Chair: If I had a penny for every time I am asked this by my dentist and for those stakeholders involved, I would certainly be a rich man: the timeline for the next round of CfD auctions, when will that be? Secondly, when is the next update on the list of administrative strike prices for these upcoming auctions? People need to know this.

Amber Rudd: They do. I appreciate that people want to know it. I am also asked that question quite a lot and I am in discussions with Treasury.

Q55 Chair: When can we expect an answer?

Amber Rudd: I am afraid I cannot give you a straight answer on that yet, Mr MacNeil, but as soon as I can I will let you know.

Chair: Will we expect an answer before Christmas?

Amber Rudd: We will.

Chair: Okay, thank you.

Q56 Rushanara Ali: Secretary of State, can I turn back, unfortunately, to the leaked letter? In your letter you talk about the fact that in the absence of a credible plan to meet the target it could trigger repeated fines from the European Court of Justice and a judicial review. Given some of the changes that have been made over the summer, the elimination of subsidies to renewables, how do you propose to have a credible plan?

Amber Rudd: The credible plan that is required—and I refer to those because I take it so seriously—is required on heat from my Department's point of view and on transport from the Department for Transport's point of view. In terms of electricity, we are on target to meet what we believe is the right amount to contribute to the overall renewable target, which is 30% from renewable sources of electricity.

Q57 Rushanara Ali: Can you clarify whether renewable heat will be a possible area for cuts in the Treasury's spending review?

Amber Rudd: Unfortunately, I cannot clarify that because we are still in discussions.

Q58 Rushanara Ali: Are you concerned about that? Are you having much success in lobbying the Chancellor to avoid that because surely it would cut across your stated aims of having a credible plan?

Amber Rudd: I think that it would be unwise for me to comment further on ongoing discussions.

Rushanara Ali: Well, I wish you luck with that.

Amber Rudd: Thank you very much.

Q59 Rushanara Ali: I wanted to turn to a couple of further questions, one in relation to the Prime Minister's climate change lead. He was very concerned again about the changes that have been made over the summer and the withdrawal of subsidies. Given what has happened recently and the fact that you are having to look at other EU countries to address the dangers of not meeting the target that you have admitted, how do these points sit together? It suggests that there are contradictory things going on across Government. How are we meant to have confidence in your stance that you will have a credible plan?

Amber Rudd: A credible plan on—

Rushanara Ali: On targets.

Amber Rudd: The UK has probably the most ambitious target internationally from the Climate Change Act. We have budgets that we adhere to in order to stick to that. We are admired by the rest of the world for these ambitious targets and our method of managing them. In terms of the Prime Minister's and this Government's commitment to addressing dangerous climate change, I do not feel that that is undermined at all. In terms of getting an international deal, the Prime Minister has led at the G7 in getting a commitment in terms of reducing carbon emissions and we are playing an active role in the negotiations ongoing in Paris ahead of the climate change conference and I hope commitments in the second week at Paris.

Q60 Rushanara Ali: Just on your point, in your letter you talk about negotiating some flexibility around meeting the target. One of the concerns I certainly have is the credibility of those commitments if you are trying to get flexibility around them in the light of some of the problems you have recently encountered.

Amber Rudd: It is one of the options the Government could look at. The letter sets out the various options.

Q61 Rushanara Ali: Is it not disingenuous in terms of honourably meeting a target as opposed to trying to find ways around it through negotiating a more flexible approach that could mean actually reneging on the target?

Amber Rudd: It is one of the options. We have not said, and it does not say I do not believe in that letter, whether it is something we are going to do. It is factually—

Rushanara Ali: Can you say today? Surely you could rule it out if you think it is not a sensible approach to try to get flexibility around it, which implies a reneging of—

Amber Rudd: I don't think it does imply reneging.

Rushanara Ali: That is helpful.

Amber Rudd: I think all it says is that we will stick to the commitments and these are the alternative ways of addressing them, but I maintain that the best way to address them is by taking action nationally.

Q62 Rushanara Ali: In relation to the announcements over the summer, can you say more about how emerging renewable industries are supposed to have confidence in terms of planning for investment and what your Department is doing to give them reassurance, a longer term framework and some clarity about what would happen, because that clearly is going to affect decisions on investment?

Amber Rudd: I think that renewable electricity is an important part of the energy mix. Subsidies are how we start getting different areas going and hopefully successful but subsidies are not intended to be permanent. Nobody, I think, expected that. The aim of subsidies is to help areas get going and then stand on their own two feet. I would say that some renewable energy sources are beginning to arrive at being able to stand on their own two feet and should be encouraged to do so. You ask the security and the support that we are giving for renewable electricity. I think we are doing the right thing in terms of giving the balance of supporting them where we can at an early stage and them beginning and hopefully, eventually, finally, completely stepping away.

Q63 Rushanara Ali: Do you think that your Government has the wrong priorities, though, because the subsidies are available in other areas? Surely they should be in renewables because that is where you can make the greatest gains in terms of decarbonisation and meeting our carbon emission targets. Surely you are making your life more difficult than it needs to be and other Departments and the Chancellor could be more helpful to your agenda.

Amber Rudd: It is all about getting the balance. We cannot have a system where we have so much renewable we did not have the funds or the support for getting on new gas, for instance, or nuclear. We have to make sure that we get the balance in terms of having an amount of renewable to support the targets, to making sure that we decarbonise, but also where we have sufficient electricity supplies that is base load and reliable and a source that can back up the renewables when the wind doesn't blow or the sun doesn't shine. At the moment, until we have successful storage, there is that weakness. When it comes to solar it is de-rated completely for security of supply.

Q64 Antoinette Sandbach: In relation to the success of programmes to FITs and Green Deal, you have indicated that contracts for difference announcements will be made before Christmas. When are you anticipating announcing your successor programmes following the consultation that finished on 23 October?

Amber Rudd: We received a substantial number of responses to that consultation and we are starting to go through them now. We are hoping to make announcements—it is very difficult to say—either at the end of this year or the beginning of next year on what we think the best way forward is as a result of the consultation.

Q65 Antoinette Sandbach: Given the focus in your letter on heat, would it be realistic to anticipate that there may be some announcements on heat in terms of your successor programmes?

Amber Rudd: Heat is very difficult to address but we absolutely need to do more on it. As you pointed out, the Green Deal finance company is on the way out; that initiative was not successful. I have some ideas for other initiatives I would like to take forward and they are wrapped up within the spending review at the moment.

Q66 Antoinette Sandbach: In terms of consumer protection and standards of energy efficiency, the fact that you have asked Peter Bonfield to review this area would indicate that you have some serious concerns. What are your concerns in that area?

Amber Rudd: No, I have asked Peter Bonfield to do it because he is an expert in this area and I am very grateful that he is putting in the time to do it. I think there is always room for making sure that we improve the consumer arena. I hope that we can continue to maintain good standards for consumers because, after all, they are the priority.

Q67 Antoinette Sandbach: Are you concerned that we may have invested Government money in substandard measures?

Amber Rudd: That is not what has propelled this review but I think it is always worth taking a very careful look at anything where Government money is involved so that we look after consumers.

Q68 Antoinette Sandbach: Because much of the measures around consumers have been funded by consumer levies on bills, do you anticipate that they are going to remain at the same level, which is around 9% of a consumer's electricity bill at the moment?

Amber Rudd: Our projections already suggest that that is likely to rise over the next few years to 2020. The levy control framework frankly sets that out. The levy control framework will need to be reviewed for 2020 to 2030 so in the short term that amount is likely to rise, but in the long term I hope it will come off, referring to my earlier points, because as renewable energy is able to stand on its own feet and we move much more to a market force in terms of delivering the renewable energy, those sums should come down again.

Q69 Antoinette Sandbach: What is the rationale for levying it on electricity but not on gas?

Amber Rudd: Electricity is where the costs are going. What we are doing with offshore wind, for instance, and indeed for solar, is providing new electricity.

Q70 Antoinette Sandbach: But if there are issues around heat and achieving your targets in heat why are you not looking at levies on gas?

Amber Rudd: Well, at the moment, as I know you are aware, that is funded through tax. Obviously, we keep all costs and levies under review.

Q71 James Heappey: We talk a lot about an energy trilemma but it seems to me there is fourth strand actually and that is that you are responsible or you hold the levers for an industrial strategy, be it in nuclear or the renewable sector. Could you reassure us that you are very much alive to the industrial impact of the decisions that you take? If decisions that you take in the interests of one of the other three parts of the trilemma, particularly keeping consumer bills down, have an immediate and severe impact on employment or businesses surviving in a sector that your polices are impacting, would you consider moderating that policy in order to keep the industrial strategy going?

Amber Rudd: It is a very good point and it is constantly raised. Are our costs, particularly to large-scale industry, fair compared to other European countries? Do we put the right policy costs on them? I would say that the key component to keeping costs down for electricity and indeed for gas is having efficient, secure supplies in the UK. The reason why electricity, for instance, is largely cheaper on the continent than in the UK for large industrial suppliers is that they have convergence of price, they have more secure nuclear supplying them, and they have advantages that we do not have as an island. The way to address them is to provide more electricity and gas sources in the UK.

The answer to your question is, of course, we will always keep it under review to make sure that we get the right balance of making sure the policy costs do not adversely impact. Electricity costs in the UK for large industrials are higher than in the continent but our gas costs, which often make up a larger portion of the energy costs, are considerably lower.

Q72 James Heappey: Thank you, but I was driving at something slightly different. It is not the cost of energy to wider industry, it is the fact that there is an industry in building renewable power and there is an industry in building nuclear power stations. You can make policy decisions that will reduce the cost of energy to the consumer and will achieve decarbonisation, but those policy decisions might come at the cost of thousands or tens of thousands of jobs in the renewable sector. I just wanted to be reassured that you were alive to the fact that your decisions could impact in that way and that you were open to the idea of moderating your policies where necessary to minimise the impact on those industries.

Amber Rudd: I understand your question now. Yes, of course. It is absolutely essential that we look at impact on jobs of everything we do.

Q73 Chair: The final point, Secretary of State. If we miss the 2020 renewable energy targets there is a risk of judicial review and fines. What is the potential cost of this?

Amber Rudd: Mr MacNeil, we have no intention of missing the target. We have four to five years to put policies in place to address that and that will be my focus.

Chair: But if you did, what would be the cost?

Amber Rudd: I have not looked at that because I intend to address it during this Parliament.

Q74 Chair: Will the addressing of that shortfall involve supporting more home-grown renewable electricity generation?

Amber Rudd: Home-grown renewable electricity generation is an important part of the mix but since we are largely on target to make our target on electricity generation, I think the focus should be on heat and on transport.

Q75 Chair: Largely on target is not the same as being on target. As we know from the letter that was leaked, there are concerns with targets. That is why I asked the question.

Amber Rudd: There are concerns on the heat and transport element of the energy mix, but not on electricity, which we expect to make by 2020.

Q76 Chair: Are you confident you will be able to meet all of these targets and you will not have any fines?

Amber Rudd: We will be endeavouring to avoid any fines at all.

Q77 Tom Blenkinsop: I want to take you back to your comments about industrial strategy, which I find quite amazing given that your former colleague in the Treasury, the Business, Innovation and Skills Secretary, has disdained the term "industrial strategy". In fact, he believes that his Department should in no way involve itself in terms of an industrial strategy and allow the market to roam free. Do you think policies such as the carbon price floor have had any effect upon energy intensives like steel or the chemical industry?

Amber Rudd: There is an important place for carbon price floor and for the EU ETS in terms of encouraging transfer to a low-carbon future. In terms of the steel industry, I am aware, of course, that energy costs have been quoted as impacting adversely on steel.

Q78 Tom Blenkinsop: The EU ETS, of course, is applied across the EU and we have had a compensation package for the EU ETS as a result. CPF, of course, is only UK limited. It was applied in 2011. We were promised a compensation package and to date it still has not arrived. What have you done to lobby the Chancellor and the Secretary of State for BIS on this issue?

Amber Rudd: I understand that the Secretary of State for BIS and the Chancellor have already spoken out about that and they are working on clearing state aid in order to procure it.

Tom Blenkinsop: Four years?

Amber Rudd: Yes. Well, if it was announced four years ago. I think it was frozen in 2014.

Q79 Tom Blenkinsop: Do you think it is somewhat complicated for the Government to make this argument given that it was a UK-applied tax? It is now having to go to Brussels to ask permission to provide compensation for its own tax.

Amber Rudd: It is important to remember that gas costs, for instance, to steel are some of the lowest in the country. It is not all about electricity costs is the point I am trying to make. There are elements here that are anti-competitive, I accept that, and that is why the Prime Minister made an announcement about full compensation costs for next year. The Government is addressing it, but it is wrong to think that energy costs are the major cause of the difficulty in the industry.

Q80 Tom Blenkinsop: I agree. I think there are five major causes that the industry have asked for action on repeatedly over the last few years, one of which, of course, is business rates. It is outside your departmental role but it is one that needs to be looked at given that no tier one steel site in England gets any compensation whatsoever, whereas retail and the third sector have had £1.8 billion in rebates in the last financial year alone. Again, I ask: what have you done to lobby the Chancellor and the Business Secretary on CFP?

Amber Rudd: The most successful thing I can do is make sure that our electricity costs are kept down, and the best way to do that is to have a secure supply of electricity so that our costs go lower, reaching more like the continental average. As an island, we have not invested in sufficient electricity, which is one of the key reasons—

Q81 Tom Blenkinsop: Is that not more to do with the fact that the onus of cost is on industry rather than the consumer, rather than some argument about the continent?

Amber Rudd: Germany, you are right, takes large industrials like steel out of those costs. Different countries have different approaches.

Q82 Tom Blenkinsop: What is our approach?

Amber Rudd: Unlike us—Ms Sandbach referred to the fact that we have 9% of costs on our consumers—Germany has 30% in terms of their policy costs. They handle it differently.

Q83 Tom Blenkinsop: What is our approach?

Amber Rudd: Our approach is a mixed approach of making sure that we look after consumers. My focus has been very much, since the day I started this job, to make sure that consumer bills are kept as low as possible. The Prime Minister has announced a compensation package and I hope that will be going ahead.

Q84 Antoinette Sandbach: To go from large scale to small scale in relation to fuel poverty, obviously there is a strong correlation between domestic energy prices and fuel poverty over time. As energy prices rise, we have talked about the consumer levy increasing over time. How can you prevent more people from going into fuel poverty?

Amber Rudd: The best way to keep bills low is to have an active, competitive market. In the past week, I have had phone calls with all six of the big six suppliers in order to press them about reviewing how they are looking at consumers' bills and, naturally, encourage them to look again to see whether we might get some reductions to consumer bills. I asked them specifically about what the key driver is in terms of potential reductions in prices. One of the things they all mentioned was competition. Driving more competition into the market—13% of the market now is from new, smaller entrants rather than the big six—is absolutely key to keeping those bills down. The average bill is £100 less than it was last year. Driving it down through a competitive, active market is one of the things I will continue to do.

Q85 Antoinette Sandbach: Do you think that Ofgem in particular is doing enough to protect vulnerable customers, who are a specific class of customer?

Amber Rudd: It is always worth keeping it under review. Under the last Government we asked them particularly to redirect ECO towards some of the off-gas grid people in rural homes. That was a positive thing to do. I will continue to monitor it to make sure that Ofgem do look after the most vulnerable customers. I would hope that the development of smart meters will start to engage people more and help them look after themselves more a bit as well.

Q86 Antoinette Sandbach: Do you think there is more that DECC can do to help rural energy customers, who often face a triple whammy: they cannot access lower bills because they cannot access dual fuel discounts because there is no gas supply; very often the type of housing that they are living in is older and harder to treat; and because they only have access to electricity or oil, a greater proportion of the environmental levies are paid for by rural consumers. They quite often face higher regional tariffs in terms of electricity as well. There is a storm of factors in rural areas. What is DECC doing to focus on the needs of those particular customers?

Amber Rudd: The best way to help them is largely through ECO and looking at ways to ensure that there is proper reporting. One of the issues under the last Parliament was that we needed to refocus a section of ECO to make sure it specifically addressed the fuel poor in rural areas, and we will keep that constantly under review.

Q87 Antoinette Sandbach: Do you think that there should be liaison between your Department and Ofgem to make sure that there is a proper focus on rural areas?

Amber Rudd: Yes, I do. There already is but we will continue to monitor that.

Q88 Dr Poulter: We had discussions recently with the regulator and one of the things that we talked about were fines. Do you believe that the fines, either carbon reduction fines or fines for anti-competitive behaviour, are substantive enough or effective enough to be a mechanism to encourage better behaviour from the energy companies when they have done something that is detrimental to consumers?

Amber Rudd: I think it is an important part of the regulatory landscape. Yesterday there was a fine announced for E.ON of £7 million. I appreciate what you are saying, which is whether, within the scale of things, is that enough? I understand—and I would expect this—that these are public companies. Shareholders have views and management have views. Ofgem are doing a reasonable to good job of showing a tough line on energy companies in terms of their delivery obligations.

Yes, I think the system is working and they have toughened up in quite a complex landscape, which is a good thing.

Q89 James Heappey: Will everybody have a smart meter by 2020?

Amber Rudd: Yes, everybody will have a smart meter by 2020. That is the plan. The energy companies are rolling them out. There are 1.5 million out there already. We think they will be a very positive influence, helping people to manage their own spending and manage their own energy.

Q90 James Heappey: Smart meters present a fantastic opportunity that could reap significant benefits: lower tariffs, time-of-use tariffs and easier switching. Do you think that you might seek to prioritise the roll-out of smart meters to the more vulnerable so that they can benefit from those benefits more quickly?

Amber Rudd: It is the energy companies who are delivering them. I have asked that question of them and they have said that they will naturally, in a way, prioritise because they are often the prepay ones. People who are on the prepay meters are likely to get the smart meters first because that is commercially sensible for the energy companies because then they are not having to monitor it with people going down and different bits of kit being issued. The prepaid customers tend to be the first ones being delivered. I know that British Gas are doing that, Utilita, E.ON and, I think, Ovo. The market force is delivering early delivery of smart meters to what is probably the most vulnerable, the prepayment metered ones.

Q91 James Heappey: I have been impressed by some of the apps that various energy companies are bringing out that make the data provided by a smart meter much more accessible. Invariably, it monetises the usage so that people can see what they are spending, not what they are using. Do you have any plans to encourage the wider employment of that sort of app-based technology rather than in-home displays?

Amber Rudd: Yes. That is a very topical question. The in-home display unit is an essential part of the smart meter offer. However, I also have seen some of the alternatives and they are quite exciting. There is a move from some people to say, “Could you not have this instead?” We are looking at it. We have an open mind and we are going to be looking at it.

Q92 James Heappey: Our predecessor Committee expressed some serious concerns about the delivery of the smart meter roll-out. What have you done to address these concerns? They particularly raised concerns about the cost of the programme. Could you just reassure us that that is under control? If, heaven forbid, the programme should be delivered under cost might those savings get passed on to the consumer?

Amber Rudd: Yes, that would be a very nice outcome, I agree with you. There is no indication at the moment of serious delay. There has been a small delay but that has not yet impacted on the target for delivering smart meters to everybody by 2020. There is no indication at the moment that we are behind and we will continue to push for the energy companies to deliver on schedule for 2020 as agreed.

In terms of costs, as you are aware, those costs are being borne by the bill payer. Again, there is no indication at the moment there is any change to that and we will be driving that very hard with the energy companies.

Q93 James Heappey: Have you modelled the implications of energy demand of large-scale behavioural change from the use of smart meters?

Amber Rudd: We have looked at it generally. There have been a number of reports written on the opportunity that smart metering will deliver and they generally point to a reduction in use and a reduction in bills because once people are much more aware of the cost of putting their washing machine on at a certain time, they try to put it on at a different time. It should be good for bills, for reducing usage and for security of supply because people are less likely to use electricity at the highest demand times.

Q94 James Heappey: You think that we will have good, wide-ranging time of use tariffs available for the market in order to facilitate that sort of behavioural change?

Amber Rudd: Yes. We are hoping that that will be delivered during the next few years as part of the rollout.

Q95 James Heappey: One of the issues is that if we have those tariffs and we have the smart metering giving people the information that they need, we then need homes that employ all sorts of technologies to allow your dishwasher to come on at a certain time of night when the energy price is lowest, and your tumble dryer the same. There is some regulatory change that is needed to encourage that, not least perhaps EPCs, which at the moment really just worry about what is in the walls and in the roof. Have you any plans to incorporate into the EPC the use of smart metering and smart energy management technologies in the home?

Amber Rudd: I think you raise a very interesting point, which is that as smart metering becomes more of the norm people will approach their whitegoods and their whole household usage differently. We do not have any plans on EPC at the moment but it is something I am certainly keeping an open mind to.

We do have other plans. For instance, I had a roundtable on storage just last week with some of the UK’s most engaged storage suppliers and talked to them about the best way that Government can help with regulation to encourage them to do it. That is an example of how we are moving to make sure that we provide the regulation and the framework for the future, which will involve such a different world in terms of how people manage their electricity sources through smart meters.

Q96 James Heappey: Finally, beyond banging the drum about the cheaper bills, how does Government incentivise people to employ these technologies and to insulate their homes and to do all that they can to be as energy efficient as possible?

Amber Rudd: I think that people will be driven, first of all, by the market, by their own market, by cheaper bills. I am sorry to bang on about it but that is what consumers, I think, will be driven by if they realise they can have cheaper bills and they can access that and the simplicity of it in terms of customer service and how the smart meter works. That is why I am so pleased there is such active competition between the energy companies. That competition will help to drive down prices and make sure that the service that customers get is better. So I am going to continue to bang the drum.

James Heappey: No plans for discounts on council tax or business rates if you manage to achieve an improvement in your EPC?

Amber Rudd: We will always keep good ideas like that under review.

Q97 Julian Sturdy: Is there not a problem here to a certain degree, though—and James touched on it—regarding technology? A lot of smart meters now are changing quite rapidly as technology advances. Different energy companies are using different smart meters in the roll-out. Is there a danger that when we get to 2020 the first lot of smart meters will be outdated already and there will be a difference between what the latest smart meters can do to what the first smart meters can do?

Amber Rudd: I suppose I would say to that that it is a good thing the Government is not delivering this because that might be the sort of mistake a Government would make if they were delivering themselves. It is the energy companies who are delivering them, so they will be within the market delivering the most up to date that they can that they feel that consumers will want to access. What I would expect is that the market will help to deliver the most up-to-date device all the time in the same way that our phones are always updated and improving.

Stephen Lovegrove: Two other points on that. The earlier SMETS1 meters, which are being rolled out at the moment, can be updated remotely with software improvements in the way that our computers are and all the rest of it. They will come up to pretty much the same level of functionality as the later ones, the SMETS2 meters, which are going to be rolled out from next summer.

Secondly, it will not get in the way of switching because the technical standards associated with these meters means that they are basically interoperable between different suppliers. We have tried to future proof this kind of thing as much as we can.

Q98 Julian Sturdy: Do you feel confident that it is future-proofed?

Stephen Lovegrove: I feel confident that we have done as much as we can to future proof it. No doubt there will be some degree of upgrading in the future, but we are hoping to keep that to a minimum. We are seeking to replace 53 million meters in people's homes so we are very conscious of the disruption that that represents.

Q99 Antoinette Sandbach: I want to come back to vulnerable customers particularly on the roll-out of smart meters. Obviously, with the kind of technology that we are talking about and the possibility of apps and all sorts of things, controlling your heating from your phone, there may be vulnerable customers who, again, may be in a rural area so have no access to mobile signal, limited access to broadband. Will you consider rolling smart meters out to vulnerable customers first so that they are prioritised because they have a harder time switching and they have a harder time accessing better tariffs?

Amber Rudd: Government is not setting the parameters of who gets rolled out first. It is for the energy companies to address it and they have said to us that on the particular issue of helping vulnerable customers they will make sure that those on the prepayments are addressed first because there is a good commercial imperative to do so.

I would also say that we hope that everybody will have a smart meter. It is not compulsory. If some people turn it down that is a choice they can make.

Q100 Antoinette Sandbach: I understand some people turn it down but is it not particularly important to give that information to the most vulnerable? While I appreciate it is being delivered by the energy companies, could it not be given a nudge by your Department?

Amber Rudd: I will certainly pass on your view. Thank you.

Q101 Dr Poulter: We have the Paris summit coming up shortly. What are your hopes or concerns about the summit thinking about it from a few weeks out?

Amber Rudd: I hope we will get an ambitious deal. It is a rather extraordinarily ambitious deal already in that we hope that 190 countries will sign up to a plan to reduce the increase in climate to a maximum of 2 degrees. The way we are achieving that is by having each country participate themselves through intended nationally determined contributions and we now have 150 countries and 86% of the world's emissions submitted as part of this.

As we look at how ambitious we want it to be, we must remember that if you had said 15 years ago that China would be participating, that Indonesia and India would all be participating, people would have been sceptical. We have the big emitters and most of the small ones all participating in this ambitious deal.

However, a deal on its own is not enough, it has to be something that can deliver an outcome that will address dangerous climate change. To me that means having five-year reviews so that we can come back regularly, acknowledge what is working and what is not working, and also having a long-term goal so that it is not just sometime into the century but a clear ambition of when we think we can achieve that. Those elements are not yet agreed by sufficient parties to feel that we have a deal that can be done. There is still a long way to go before being certain that we are going to get a deal.

Q102 Dr Poulter: As you go towards the summit—and you have mentioned that each country will be discussing their own plans—there is clearly a flux in our own position at the moment as we move away from some subsidies and put in place, I am sure as part of the spending review and consequent to that, new policies in these areas. How are you going to handle that because I am sure that might be an issue for challenge from other countries at an international summit?

Amber Rudd: Absolutely candidly, that is not raised with me at all at the summit or with any of my counterparts. How each country addresses delivering their own targets is left to each country.

The only element that people are really concerned about in the UK is the role that we can play, which is one of strong leadership, on the finance element.

In that area we are playing a vital role. Part of the commitment for getting this ambitious deal is to mobilise €100 billion a year by 2020 to help developing countries address their energy needs. The Prime Minister announced in New York about a month ago a doubling of our climate finance to $9 billion over the spending period through the use of the Overseas Development Aid funds. This has been incredibly well received and is why the UK plays such a strong role in trying to get this deal and making sure that other countries step up and make that commitment. On behalf of the UK, I have been playing an active role in chairing, for instance, meetings between other Ministers on how to address the finance issue and hope I will continue to do so.

Q103 Dr Poulter: Just looking forward, have you given any thought or when do you think you might be producing plans for the fifth carbon budget?

Amber Rudd: Yes, we will be addressing those next year. We are aware of the issues that need to be addressed, like in the way we started this meeting when we referred to doing something about heat. We will be engaging—I already do—closely with the Climate Change Committee.

Q104 Rushanara Ali: Secretary of State, there seems to be, as you have set out, a good record of achievement both in your Government and the last Labour Government of leading the way on climate change, particularly in relation to developing countries and the investment through DfID, but that seems to be at odds with what is happening at home.

I want to take you back to the policy changes since the election. According to a BBC audit, most of the policy changes around renewables are going to increase emissions and also, in some cases, increase bills over a longer period of time. It seems to me that is an own goal because domestically we are doing one thing—it is hypocritical as well because we are trying to get other countries to play their part, and rightly so, but if we do not practice what we preach then how are we meant to have credibility in these negotiations?

Amber Rudd: There is absolutely no question but that we have credibility in these negotiations. As I said to your colleague, nobody internationally raises this with me. The only people who make this point are people in the UK who are making a completely different point, which is about more support for the renewable industry.

We already have some of the toughest targets, possibly the toughest target, internationally because of the Climate Change Act. We already have plans to deliver 30% of our electricity from renewables by 2020. We are used as a model for delivering support for renewable energy. In fact, I can say that one new energy Minister said to me yesterday in Paris when I was out there, “We are impressed by your approach to delivering renewables and looking after bill payers’ interests”. I totally reject that anything that we are doing here impacts on our international leadership role.

Q105 Rushanara Ali: Do you not think you are being complacent and actually benefiting from some of the achievements of the past and not doing enough to lead further? Is this not the time to do so given the challenge of reducing carbon emissions and making sure that Britain does lead the way?

Internationally as well as domestically there are real concerns that Britain is not, including from the United Nations recently about some of our policy changes domestically.

Amber Rudd: I completely reject that suggestion. I find absolutely no opposition at all to our own policies from my international counterparts. Nobody raises that with me because they are pleased and admiring of the way that we are addressing our renewable and long-term targets through the Climate Change Act. They are particularly supportive of the fact that we play such a major role on the finance side where we are one of the largest donors in terms of climate finance.

I repeat, there is no correlation in my experience—I can only tell you my experience in dealing with my counterparts in Paris in the run-up to the COP—in terms of what we are doing here, which is continuing to support renewable energy.

Q106 Rushanara Ali: The audit shows that you have not and also that it is going to make matters worse and emissions are going to increase because of your policy changes.

Amber Rudd: What about the bills? Does it say anything about the cost to bills?

Rushanara Ali: It says the cost of bills are likely to go up in the long run.

Q107 Chair: The question is about emissions.

Rushanara Ali: Professor Jim Watson at UK Energy Research Centre reiterates this point and there are other experts who are very concerned about your policy changes. All I ask, Secretary of State, is that you revisit this, especially in the light of your admissions in this leaked letter and your recognition that there need to be changes. You are going to need to rethink how you meet your targets because your policy changes in the summer have undermined the overall objectives and will make it much more difficult and will affect Britain's standing internationally. Perhaps you may not see that but certainly it is emerging already, and I think that we need to make sure we practise what we preach when we tell poorer countries about their duties to reduce carbon emissions.

Amber Rudd: I would not tell poorer countries about how to reduce—I would not preach to poorer countries at all. The whole point is that each country comes through with its own proposal. Again, I completely reject your proposal that in any way the UK's position is undermined. My experience is that the UK's position is much admired.

To the critics of the way I have addressed reducing the subsidies on renewable energy I would say I have a very clear commitment to look after consumers' bills as well as to make those targets and I will only support renewable industry subsidies where they represent good value for money for consumers.

Q108 Chair: On a smaller point related to consumers, the Warm Home Discount Scheme was a Great Britain scheme but unfortunately not a United Kingdom scheme and pensioners in Northern Ireland have been particularly anxious about this. What can you do—maybe not retrospectively but it would be good to have it retrospectively—going forward in the future in making sure that pensioners in Northern Ireland are not left out of the sort of schemes that have been available for many others?

Amber Rudd: The Government of Northern Ireland decided to opt out of the costs associated with the warm home discount so it is up to them. If they want to opt back in then that might address the pensioners' concerns.

Chair: So pensioners in Northern Ireland have to go and lobby their own Government at Stormont to be involved in this?

Amber Rudd: I think that would probably be the right outcome, yes.

Q109 James Heappey: On regulation of the energy market, what work is DECC doing to follow up on the CMA's provisional findings in relation to the energy markets in advance of its final report next year?

Amber Rudd: We welcome the CMA's involvement in this, the energy market having been referred by the Prime Minister to the CMA. They have done their preliminary report and we have engaged with that. It is an independent organisation, though, so having responded to their call for evidence following their first response we now wait to hear from the CMA. They will be reporting I think now in five months' time about what their final recommendations are.

Q110 James Heappey: Should this have been the CMA's business, though? Should Ofgem not have the power to make this sort of investigation and decisions itself?

Amber Rudd: I think that there was a specific concern about the energy market and that revolved around competition and so it was right that the CMA were the people who looked at whether the market was operating fairly, whether it was indeed competitive, and that is the key focus of their analysis.

Stephen Lovegrove: Formally, of course, Ofgem made the recommendation for the CMA to look at it. That is how it works, I guess.

Q111 James Heappey: Staying with Ofgem's powers, it has told us in a previous evidence session that under current powers there are areas that it cannot regulate. This includes, for instance, district heating systems not connected to networks. What is DECC doing to protect customers receiving heating from these sources?

Amber Rudd: Receiving heating from district heating networks?

James Heappey: Yes. Ofgem had a concern that it was not able to regulate in that area.

Amber Rudd: Right. I have not particularly seen those concerns, but if there are concerns I will certainly take a look. District heating networks are usually privately run and we have not received—and my postbag obviously is quite responsive to MP's issues—anything particular on that, but I will keep a mindful watch out. If you, Mr Heappey, think it has been a concern of Ofgem I will contact them and ask them about it.

Q112 James Heappey: Is additional regulation or access to competition being contemplated by DECC for off-grid heating systems?

Amber Rudd: Not at the moment but we keep everything under review.

Q113 James Heappey: Okay. Under the Enterprise Bill you have stated that you will be consulting on bringing Ofgem within the scope of the business impact targets. How do you see this affecting the way Ofgem operates?

Amber Rudd: I just think it is essential that our energy system, and that includes Ofgem, is incorporated within the description of essential services because supply of energy is an essential service. I do not think it will have a huge impact on Ofgem but it will make those of us who are very focused on security of supply a little calmer to know that they are within that.

Q114 James Heappey: Today Policy Exchange have brought out a report, "Governing Power" I think it is called, which just looks at the cost and complexity of all the organisations involved in regulating and administrating energy in this country. Would you have a look at that and see whether there are opportunities for streamlining so that there are not quite so many organisations consuming quite so much public cash to administrate and regulate?

Amber Rudd: I will certainly take a look at that. I always look carefully at what Policy Exchange deliver to our door.

Q115 James Heappey: Finally, end of year is coming. What grade will you be giving Ofgem in their end of year report?

Amber Rudd: I think I will wait until we get to the end of the year and then take a careful look, but I think it always concludes with, "Could do better".

Q116 Chair: A final question from me. You often talk in DECC generally about the protecting of consumer bills. With this in mind, what analysis has been done to calculate the impact of the CfD awarded to Hinkley Point C and its cost to consumers?

Amber Rudd: We think it is about £5 or £6 a year in terms of the additional cost on the consumer's bills but you could also say—

Chair: Hinkley Point alone will be a cost of £5 to £6 a year more for consumers?

Amber Rudd: Yes, but that is 7% electricity. But you could also say that it brings down the cost of electricity by £90 a year on the basis that we are committed to delivering low carbon electricity and secure supply of low carbon electricity. What else is there at the moment that is going to deliver that at that price? We think that if you add all the costs within the bills together and you wanted to deliver low carbon base load, it would be much more expensive by using another source such as carbon capture and storage.

Q117 Chair: So a watching consumer at the moment might be wondering, "Am I getting £5 on or £90 off?"

Amber Rudd: Yes, I can see there might be some confusion there, but as an expert yourself, Mr MacNeil, I thought I would just point that out.

Q118 Chair: Okay. Could you send us more details on that? It would be interesting.

Amber Rudd: Absolutely.

Chair: Thank you all. We have come to the end of the session but I just want to say that I understand that some people have been experiencing problems with the webcast this morning from this evidence session. Apparently we are not alone; the Defence Select Committee had the same problem and indeed the Chamber of the House of Commons had this problem as well. Our colleagues who deal with Parliament TV have been investigating this and in fact, since it was brought to our attention a few minutes into the session, we know that they have been investigating this for a while. I would like to apologise to people who were hoping to watch this and to try to view this session online. It will be available to watch on recorded archive somewhere on the Parliamentary website.

We will also endeavour to get a transcript up as quickly as possible for people who want to pick up on matters that were raised this morning. I can certainly say that our staff will investigate, maybe gently or maybe not so gently, as to what happened to try to avoid this ever happening again in such important proceedings, especially when we have distinguished company like the Secretary of State in our midst. I would like to say thank you all.

Amber Rudd: Thank you.