



Energy and Climate Change Committee

Oral evidence: Investor Confidence in the UK Energy Sector

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Members present: Glyn Davies (Chair), Rushanara Ali, Tom Blenkinsop, Antoinette Sandbach, Julian Sturdy

Questions 179 - 204

Witnesses: **Matthew Knight**, Director of Energy Strategy and Government Affairs, Siemens Plc, **Niall Stuart**, Chief Executive, Scottish Renewables, and **Andrew Lee**, Chief Executive Officer and Managing Director, Velocita Energy Developments Limited, gave evidence.

Q179 Chair: Thank you very much for coming along to help us with our evidence taking. We are quite low on numbers on the Committee today, but I will start with the first questions. I will start with a question for Matthew Knight of Siemens. We will start off in the first group of questions with finding out a little bit more about the statements you want to make. Sometimes they are obvious, but it is on the record as part of the Committee's evidence. Can you tell us a bit more about your activities as an investor in the UK energy sector? What has Siemens invested in? Is it all in the supply chain activities or do you invest further up the project chain as well?

Matthew Knight: Thank you very much. The short answer is a bit of both. Around the world Siemens is one of the world's biggest engineering companies. We make everything from hearing aids to trains. In energy in the UK we get involved in all sizes of gas turbines and steam turbines. We also build combined heat and power plants and we are the UK's largest supplier of wind turbines. Our main investments tend to be in the supply chain side of things, but we have been, and continue to be, involved in developing new projects, particularly things like offshore windfarms. Just occasionally that is at the development stage, but usually it is at the construction and finance stage. So we have a broad view across energy. We also do electricity substations and smart metering. So we have a holistic view of the UK's energy system.

Q180 Chair: As a supply chain company, how much visibility do you have on your customer's pipelines? Is it easy for you to see exactly what your customers are developing?

Matthew Knight: It is always a judgment. There is probably no country in the world where you have complete visibility, as much as we might like that. It has been particularly challenging in the UK for several years now. A political fact of life was that part of the coalition agreement was that there was going to be no visibility in energy policy beyond

2020. All energy investments are long-term. It can take you 10 years to develop a project and then it operates for another 30, 40, 50 years. So you are talking about projects that take two Parliaments to go from an idea to actually being constructed, and so the idea, under the coalition, that there was this complete blank beyond 2020 was unhelpful. We then had a hiatus under the new Government. We have started to see the mist clearing and the two factors that have helped with that were the energy reset speech, which was just after we submitted evidence to this, and the Government's position on Paris.

Siemens is building a £310 million wind turbine blade factory in Hull. Hull is the UK's most deprived city and we are creating 1,000 jobs. That factory will open at the end of this year. On the morning of the reset speech we genuinely did not know whether there was any market for what that factory was going to build beyond 2019. That is a combination of circumstances but that is no way to run the strategic energy policy of the country.

Q181 Chair: That is certainly an answer to my next question, in part. Can you tell us about how you make your investment decisions? What are the triggers and influences, or the absence of influences and triggers, as you have just said?

Matthew Knight: It is very challenging. Many of the investments that we have looked at we are not doing and you will never get to hear about them. The Hull factory investment—let me put this the other way. Any supply chain company only builds new capacity if we believe there is a shortage, usually a global shortage, and we need to build a factory somewhere. The choice of the country that you choose to build that factory in is down to: where is there a good long-term home market to give you the base that you need to then be able to export around the world? It took us four years to finally decide to go ahead with Hull. The people of Hull waited for three of those because it became public knowledge and, every time we tried to make the investment case, the visibility was getting reduced. But we made it for a whole lot of reasons and Government played a full part in that. It was a decision on which we worked very hard with people from DECC, from No. 10 and from elsewhere.

What it came down to in the end was the fundamentals beyond the politics. This is a windy island, so offshore wind is the best opportunity that the UK has for large-scale, low-carbon electricity supply, and we convinced ourselves that sooner or later the UK would realise that. Hopefully with the energy reset speech this Government is acknowledging that, and we look forward to the opportunity of proving that we can do this cost-effectively over the next decade.

Q182 Chair: Can I move on to Niall Stuart from Scottish Renewables? Can you tell us about Scottish Renewables' members' activities, as investors, and what they do in the UK energy market?

Niall Stuart: We are the representative group for the renewable energy sector in Scotland. We have 280 or so members involved in all aspects of renewable energy—onshore wind, offshore wind, tidal, biomass, hydro, solar and also renewable and low-carbon heat. We are beginning to focus on some of the areas that you talked about in the last session, such as the development of energy storage, which clearly will be important to support renewables in the future, and also things like active network management. Our membership ranges from one-man consultancies right up to five of the Big Six. They are right across the spectrum in size of businesses but predominantly developers of projects and their supply chains, so financial services, legal service and companies such as Siemens.

Q183 Chair: Just in Scotland or are you spread over the border into the UK?

Niall Stuart: Our focus is on creating the right legislative, regulatory and financial environment in Scotland for the growth of renewable energy.

Q184 Chair: Can I go to—is it Velocity?

Andrew Lee: Velocita.

Q185 Chair: Velocita, yes. Can you tell us more about your investment activity in the UK?

Andrew Lee: Very quickly, Velocita—we are one of Niall’s members—is an onshore wind energy development and investment company. We were set up by an institutional investor to channel pension funds and other types of institutional capital into onshore wind investments across the developed markets of western Europe, so we invest across the European Union as well as the UK. Our two most significant activities are in France and Scotland.

Q186 Chair: What is involved in developing a new project?

Andrew Lee: Developing a project, as Matthew has commented, is an eight to 10-year haul involved in identifying a suitable site, clearing it from all sorts of constraints, like radar, aviation issues generally, birds, ecology, habitation and so forth, doing all of the environmental statementing work, and dealing correctly and professionally with the concerns that people may have surrounding the development. Then, after probably three or four years of preparation work, we start to pull together a planning application that will probably be a year or so in the submission. If it gets turned down there is an appeals process that typically takes another year or so. After six or seven years, or maybe five if things go very well indeed, you might have a building permit—planning permission, in UK parlance—and then it probably takes you another year or two until you have a construction permit to start building, because you probably also have to negotiate a slot on the grid, which may not be available when you want it. So it is quite obvious that at least one Parliament goes past, and quite probably two in many cases.

Q187 Chair: What did you mean in your written evidence when you talked about the losses of participating in development risk?

Andrew Lee: When we look at the returns that we need from our business to raise the funds from investors, who want to put their money into wind as opposed to some other form of infrastructure investment, we have to price in the fact that probably around 60% of our current projects will be successful. That is not a bad success rate within the industry. Some are lower, few are higher, but of every £1 or so we spend in development we only see value from about 50 or 60 pence of that.

Q188 Chair: How does the UK compare across the world as an investment opportunity for energy projects? We are told that the UK has fallen in the pecking order from 11th to ninth in the relevant table. To what extent do you think the UK is a good place to invest? Is it becoming a better place to invest? What are the long-term prospects for investment? What is

your general view of the investment scene in the Britain as compared with other countries? That is for all three witnesses.

Andrew Lee: Yes, of course. Speaking obviously as an onshore wind developer, it is not as favourable as it was, clearly, because Westminster Government policy has largely stopped onshore wind development. Scottish Government policy is much more favourable. It is not clear to us at the moment whether there will be a future for onshore wind development in Scotland or not. We would like to see a progressive future because, with the terrific wind resource we have up there in Scotland, we could deliver very cost-effective power for the country.

Just to give you some idea, we are building 120 megawatts in France right now. Our company is undertaking about 10% of the French wind construction market, and it is a matter of public record that we are building that for a 12-year tariff at £61 per megawatt hour. That clearly is very substantially less than anything we would get in the UK. I would also add that the French wind, which we are building that to take advantage of, is much less than the wind in Scotland. But it is obviously a very attractive rate for French energy consumers. We are doing that and getting an acceptable commercial return, and it is much lower than anything that has ever been done in the UK.

We could do a similar thing and give UK consumers a similar rate. It would be perfectly feasible. With the co-operation of Siemens and others, we could superimpose the French cost structure, which we manage to live with, on our British business. We could do that. We could deliver very effective energy. But what has happened is that we have had a cliff edge. Having spent many years participating in structuring the CfD regime to take over from ROCs, I think that would have very quickly delivered quite a cost-effective onshore wind energy price. But, as far as I can see, for political reasons, onshore wind has been deemed no longer to be an interesting thing for the Government to pursue.

Niall Stuart: The question is around attractiveness and the wider inquiry obviously is around confidence, and those are two very ephemeral and abstract concepts. It comes down to something much simpler: if you have been pre-accredited for the feed-in tariff at a rate at which you think you can build your project, if you think you can meet the deadlines to meet the closure of the renewables obligation—whatever they turn out to be over the next few weeks—and if you have an offer of a Contract for Difference through the investment-enabling process or through the first allocation process, then you generally will be able to finance and build your project.

The difficulty is for projects that don't fall into that category. If it is smaller-scale, they are not sure what the feed-in tariff will be at the point they come to pre-credit. They are not sure there will be any budget left to finance the feed-in tariff. If you cannot make the RO then you have to look towards the CfD, and we have no idea if onshore wind and solar will be able to bid in the next Contracts for Difference process. The Secretary of State has said that she doesn't think that wind will form part of that. If you are an offshore wind developer, you know there is an intention to have three allocation rounds in this Parliament but we don't know the exact timescales. We don't know the exact process, we don't know the budget to support that, and we don't know what the strike prices are going to be in those allocation rounds. So, if you have a project that is prepaid for the feed-in tariff that can make the RO or has an offer in the CfD, finance is available and you will go on with the project. If you don't there are some real significant challenges ahead. That is why people are scaling back

investment or freezing investment altogether on projects that they don't see with a clear route to market.

Matthew Knight: The UK is structurally quite different from a lot of our European competitors. Europe tends to have coalitions. They are a lot more consensual and technocratic in the way they view energy policy. Here in the UK, for some reason, it is a much more partisan thing and it has become a much more adversarial thing over the years. Under the UK system, the expert Department in anything has to have a settlement with the Treasury and with No. 10, and we see those tensions played out quite publicly in the press and elsewhere, perhaps more visibly than in other countries, so political risk is greater in this country. Now, the UK should be far and away the best place to be investing in energy, because we have the rule of law, access to the City, 25 years of privatisation, and a whole load of other things going for us. The fact that we are only down around the top 10 is down to the nature of the politics here, and it is therefore incumbent on politicians of every party to recognise that our system is a bit different in the UK. We need to be careful about the way we express political opinions around energy, particularly in ignorance. My encouragement to any Member of Parliament, any politician, is first: do no harm in energy. Energy is much more complicated, as this Committee is discovering, than a casual political analysis would suggest. In the past we have seen 1,000 jobs killed in the UK as a result of a speech. I will not say who and when, but people from the industry will know the examples I am talking about.

It is complicated and needs proper managing, but for the past 25 years the average tenure of a Secretary of State or a Minister for Energy has been about one year. So, as an industry we need to be continually making the case for the complexity, the longevity, of what we do and trying to encourage a consensus that takes it away from party politics.

Q189 Rushanara Ali: Just on that point, you cannot give specifics but can you put an overall figure on jobs and what has been lost, because of the point you make about the politics of how announcements or responses are made and this adversarial approach? Let us take the last few years.

Matthew Knight: It is very, very difficult to say and it is not about this recent Government; it is over a period of time. Personally, I have been involved in two large potential factory projects—developed not by Siemens but by others, I hasten to add—which would have each brought several hundred jobs to locations in the UK and both of them foundered on lack of a visible forward pipeline for projects in the UK. I had better not give any details of the types of investments those are, because there is always a chance we might be able to get some of them back. But it is the lost opportunity for the UK. If we don't have it here, it either does not happen or it goes somewhere else and, once it is lost somewhere else, it is lost to us for good.

Q190 Rushanara Ali: Again, in relation to Government policy announcements, can you say what the impact has been on investment in the renewable energy sector and infrastructure?

Matthew Knight: In both renewable and in gas, which is the other area we are in, I would like to make the point that uncertainty over energy policy is uncertainty over energy policy, and it does not help if one particular Government says, "We are in favour of fracking and we are against wind", because another Government can come along in the future and say, with equal lack of justification, exactly the opposite. Lack of clarity about how much wind

we are going to build feeds exactly through to lack of clarity on how much gas we are going to have.

Q191 Rushanara Ali: How would you recommend that we avoid that? You mentioned in the long-term obviously a 10-year plan, taking it out of the politics. Is there a particular way forward that you would recommend?

Matthew Knight: Yes. In our submission we talked about doing three things. We talked about acting to end unnecessary short-term uncertainty, and I have to give the Government its due, because the combination of the reset speech from Paris has moved us some way in that. The next big thing will be the Budget in a few weeks' time. Then there is dealing with the backlog of projects. We have about eight potential combined-cycle gas turbine projects that have sat there waiting to build in the UK. They have been in that situation for four or five years now. We have had two successive runnings of the capacity market, neither of which has yet delivered a project that is going ahead.

We know that the UK is going to need these things. The jeopardy is when. Will it be left to the last minute and then there will be a sudden peak, so they will be more costly and they will be built from overseas because we have depleted our UK capability? Similarly, we have over 10 gigawatts of offshore windfarms that have consent but don't yet have a contract or a visible opportunity to get a CfD. We need to manage both of those and have line of sight. The third thing Government needs to do is work closely with industry to build a long-term consensus view of which way we are going. DECC scenarios, which have been published over the last few years, have tried to be all things to all people. For example, in offshore wind we had one scenario in 2014 that said we could build about 35 gigawatts by 2030. In another scenario, published on the same day, it said there might be 1 gigawatt in the whole of the 2020s. That is useless. It means that anybody going in front of an investment committee can hold up one piece of paper that says, "The Government says this is going to be needed" and another piece that says, "The Government says this is not going to be needed."

Q192 Rushanara Ali: Would you say that the Government's approach has not exactly fulfilled the "do no harm" objective that you started off with?

Matthew Knight: I think it is not one particular Government; it is the way we have done it.

Q193 Rushanara Ali: But we are obviously holding the current Department of Government to account.

Matthew Knight: Yes. Let me say what I think all Governments should do in future. The challenge for us is this: we know we are going to Scotland. We have not decided yet whether we are going to Aberdeen or Inverness, but we stood on the platform at Kings Cross debating the end point and we could just get on the first train that is going in the Edinburgh direction. We know 80% of what the electricity mix is likely and ought to be in 2020, and probably anybody from the nuclear industry to the solar industry could agree on 80% of that. However, it is characterised as an argument over the 100% when we could just get on. We know we are going to need some CCGTs. We know we are going to need some offshore wind. I would love there to be some more onshore wind in Scotland. It is popular. It is cheap. It works. All of these things we could be getting on with while we finesse the future, and that is why a rolling forward view, published every year by DECC, endorsed by the Treasury and

by the National Infrastructure Commission, and embraced by the whole industry, would say to us, “Broadly, that is the direction of travel.” That would create more jobs in the supply chain than anything else. Nobody is after certainty, but just clarity of direction allows investment.

Rushanara Ali: Would the other witnesses like to come in on that?

Niall Stuart: On the first question about jobs lost, I think that it is incredibly difficult to quantify. We can answer it in indirect ways but I know that National Grid, in their last transmission performance report, said they had gone from a scenario of connecting 53 gigawatts in a certain time frame down to 11 gigawatts—that is, two thirds of the projects they had expected to connect had said they were no longer seeking to sign up to the grid. I think sectors around solar and onshore wind with the IRO have closed, and there is no clear way forward yet in terms of their placing a Contracts for Difference mechanism. If there are going to be significant job losses, we have only just seen the beginning of them, and people at this stage are investing speculatively to keep their projects going, but if we don’t get any certainty within the next 12 months then I think we will see significant job losses as people downsize significantly.

Your third question was what we should do about this. As I said in my first answer, it all comes down to allowing people to build a clear and quantifiable business case to invest in the projects. That is around: when are we going to have options for the Contracts for Difference, who is in, who is not in, what will the process be, what will the budgets be? And other things that people need to quantify: investment cases, such as the carbon floor price, which has been changed numerous times over the last few years.

One thing I have not mentioned is the Renewable Heat Incentive. We are two months away from the new fiscal year. We don’t know what the budget is, as far as I am aware, for the Renewable Heat Incentive. We understand that it will carry on. We know what the budget is in 2021, but we don’t know the budget for next year.

One last point: we spent a huge amount of time in the previous Parliament around the transition from the Renewables Obligation to the Contracts for Difference mechanism, and we successfully made that transition. Having made it, we then threw a bucket of cold water on the sector and said, “Hang on. We have done one round. We are not going to have one this year. We will come back to you in terms of details the next year.”

Q194 Rushanara Ali: What is your sense of how internationally other investors perceive it, because you have already highlighted what is a very frustrating picture from an investment point of view? What is your sense of how others see it and their experiences?

Niall Stuart: That is a difficult question for me to answer because our organisation only focuses on the environment in Scotland but, by way of an example, in the last fortnight there has been an auction for a long-term contract in Spain. There has been very little onshore wind built in Spain in recent years and none last year. The offer of a long-term contract was sufficient to get developers to come in and bid at exactly the wholesale price, in exchange for the long-term certainty that that contract provided. I think that is a great example of how, if we in the UK allow onshore wind and solar back into the Contracts for Difference

mechanism, that we could see prices come down significantly in exchange for that long-term certainty.

Rushanara Ali: Mr Lee, do you want to come in?

Andrew Lee: Yes. I think it will be some time before investors rush back into Spain, in the light of all that they have been through in the last five years or so. International investors are generally quite well disposed towards Britain. My investors are probably two-thirds American, one-third European. They are all quite well disposed to the commercial and legal business environment in Britain.

Q195 Rushanara Ali: Are they well disposed to the policy uncertainties?

Andrew Lee: No. They come to me with that background and with a feeling that, therefore, wind in Britain may be good, and so I have to intermediate or interpret. The difficulties I have are grappling with the complexity of the system, which allows a lot of piecemeal or salami-slicing. Not only has the tariff available to wind been historically very complex, and bits could be sliced off almost at will, but they are all bits that you probably took into a financing calculation of five years and you cannot go back and alter, and not only on the revenue side, but on the costs side. Business rates are a very good example. So 10 years ago we saw a huge hike in the business rates that were applied to English windfarms, which dramatically changed a lot of calculations on investor returns.

This year we are seeing the same thing but in reverse, which is the reduction of the business rate relief that we have enjoyed in Scotland for windfarms. That again fundamentally affects the economics. That is why, when you look at an investment situation for the UK, you will only do it at a much higher cost than you would, say, in France or Germany, because the energy markets and the tariff structures are so much simpler with much less opportunity for chopping bits off or loading in extra costs.

Q196 Rushanara Ali: If you were to quantify what the cost difference would be for an investor between the UK and, say, France or Germany—

Andrew Lee: Long-term investments in the onshore wind sector in France have achieved 5% or 6% returns, currently, in a low interest rate environment. In the UK we probably have to add 2% or 3% on to that, because we have learnt from experience that, over the years, it will be salami-sliced back and that probably, at the end of the day, when our rates have jumped much faster than predicted and someone has managed to slice off a piece of our revenue for some reason, it will come back to the same amount. Investors are looking for that sort of return from long-term infrastructure projects, and then you have to price the perceived more risky areas higher up.

Rushanara Ali: Thank you.

Matthew Knight: May I add something on that? One of the issues of doing business in the UK is the way different things interact in a complex way. Individual pieces of regulation that on their own are quite benign can get very, very complicated when all stuck together. We

saw it a few years ago with something called the OFTO gap, which was a combination of different pieces of regulation. It just meant that for an 18-month period it was illegal to build an offshore substation. There is no reason behind that. As an industry, we spotted that. We spoke to Government. We worked with Government and it was got rid of. We had a situation—

Andrew Lee: It was a tail on the dog syndrome as well, but please finish.

Matthew Knight: We have a situation—if I am allowed to mention a specific project—with Neart na Gaoithe in Scotland at the moment. The project won the lowest priced CfD in the first round for offshore wind. It is a viable project with serious backers, including Siemens. It is being held up because of the backlog on a particular judge's caseload to consider a judicial review of the Scottish Government, in a consent that was given to that project a year and a half or two years ago. A £2 billion project, which under one rule has to reach final investment decision by, I think, February this year, is being held up because obviously we don't rush judges, the independent judiciary and all that, but it is a case that has sat there for nine or 12 months or whatever. It is just not moving anywhere and killing the opportunity to do a £2 billion low-energy project.

Andrew Lee: Could I also add to this tail on the dog? We have seen through the rates review that the renewables industry, which is a relatively small but, I hope, important industry, is so often the tail on the dog. Ten years ago, when English business rates were reviewed, we saw on some of our windfarms a fivefold increase in rates. We were built, we were in operation, we were financed, and we had no opportunity to get those cost increases back from anybody. We could not put prices up. We were locked into a tariff, so there is nothing we can do. The only thing you can do is be warned that, next time you price an investment, you have to think ahead and think that this might happen. Whoever did that rates review was not tasked to think about windfarms. We were just the tail on the dog.

Rushanara Ali: Thank you.

Q197 Chair: It is in a similar area of discussion and a bit repetitive in some ways. We live in a democratic system in Britain and incoming Governments have different policies from the previous Government, and you cannot always tell exactly who is going to be the incoming Government until the vote takes place. This must be factored in, surely, in terms of the way that you think in Britain. Is the UK any different from other countries in terms of that risk that comes with a change of Government? Does energy policy not feature in other countries in terms of their political offer? Is the UK in some way different from everywhere else?

Matthew Knight: Some big issues in energy policy have become more partisan than they are elsewhere. People in other countries have strong political opinions about many things, but energy policy is generally seen as a technocratic thing that is capable of analysis. The politics elsewhere swings things less dramatically.

Q198 Chair: Are you suggesting a change of some sort?

Matthew Knight: No. All I am suggesting is that we, as an industry, need to try to insulate ourselves from that by continually trying to get across the complexity of energy, trying to get across the broad right answer.

Q199 Chair: Are you telling us that part of insulating yourself is in some way calculating the element of risk in that, which puts up the cost of investment?

Matthew Knight: Yes. Confidence matters. Confidence is not an abstract thing; it is about whether or not people invest in factories. It is about whether or not somebody takes on an apprentice. The short-term nature of things forces you. If you are going to take part in a market today, and you cannot see that you have something in the future, you don't take on that apprentice; you buy in a contractor or you don't build a factory in the UK, or you do it from overseas. Confidence and clarity of direction—clarity of direction for me more than anything else—that is what creates jobs in this country and brings the cost down.

Andrew Lee: I think it is true. In the last six or seven years we have seen energy, and particularly wind, become more polarised politically and more politicised compared with the other countries I have experienced, which is a broad sweep of countries across Europe. I am not sure why it is. I am not sure quite why we have been gripped by this feeling and this almost hysteria against wind in Britain, but we do seem to have been. The windfarm we are building onshore in France, the 120 megawatts, which as they go is huge, has been completely unopposed. That is quite rare for France.

A couple of years ago in France I had a petition from all the residents of a village—a small village of some 600 people—signed and stamped and delivered to me by the mayor, insisting, demanding and requiring that we come and build a windfarm near their village so they could enjoy the benefits of the community scheme. I never expect to see such a thing in the UK.

Q200 Chair: I don't want to start getting involved in things I have been involved in myself beforehand, but do you think there is ever a case in the industry where perhaps actions are usually reactions, as well as just being actions in themselves? Is there any extent to which the actions in the British political system, which has been negative towards onshore wind, is a reaction perhaps from aggressive development, doing things that local populations were going to be opposed to, and then these things in themselves generate and it becomes much more political through doing that? Is there any truth in that?

Andrew Lee: There is truth in that, but it has been amplified in the UK. There has been inconsiderate development in the UK in the past, but that has also been the case in other countries, I have to say. My company has always been a responsible developer. We have avoided aggressive situations. We have wanted to work smoothly and quickly and not have the extreme volatility that highly contested developments always bring.

We have observed that across other countries there has been a more measured correction of the system. Developers have become more responsive. They have become better controlled. Regulators and planners have become more adept at controlling developments and we have not seen this extreme flip flop that I think we have seen in the UK.

Niall Stuart: What most developers take very seriously is good community engagement, because they understand that that is the route through which they maximise the potential for success through the planning system. If you look at where most of the onshore wind development is in the UK, it is in Scotland. It is much less of a political issue in

Scotland, I would say, than it is in other parts of the UK. I think that contradicts your hypothesis on whether this is a reaction to the approach of onshore wind developers?

Q201 Chair: Matthew, the Secretary of State has said that future support for offshore wind will be conditional on dropping the price. What do you think the potential is for dropping the price? What sort of levels can we move to? How quickly can we operate on that?

Matthew Knight: I am really pleased you asked, because we in the industry are convinced we can get down to the right sort of numbers. Whichever benchmark you want to put there, I am sure we will be delivering electricity on a cheaper headline price than Hinkley Point before Hinkley is generating. I have to explain that I am a supporter of nuclear power, just for a comparison. The industry has worked with Government through the Offshore Wind Industry Council under the coalition. That set a benchmark of £100 per megawatt hour by 2020. We should beat that and be cost competitive with anything else that is out there by the mid 2020s, if we have a visible pipeline.

When Siemens developed what is now our 7 megawatt wind turbine, it took us a few years and it cost us €1 billion. We did that on the basis of an expectation of a global market for offshore wind turbines. We want to develop the next one and it might be a 10 or it might be something else, but we have to consider whether we spend another billion to develop that next platform? The last billion we spent single-handedly dropped the price of offshore wind by somewhere between 15% and 20%. My colleagues in Manchester, the team I used to work with, invented a new offshore substation. We worked on that for the last four years. That saves 40% of the cost of the substation for an offshore windfarm. It is a British invention and it is going to be deployed on Neart Na Gaoithe, if we get the go-ahead. That is the sort of thing. We are seeing these kinds of cost reductions come in, but they all depend on people investing, and people only invest if they can see a pipeline, which is why the pipeline is crucial.

Niall Stuart: I think that was one of the more positive parts of the Secretary of State's speech, but again it was very vague around cost reduction targets. Whose cost reduction targets, by when? It was a very general sense of, "We will continue to support the industry should costs come down". We know that costs will come down, but is there a yard stick against which that is going to be measured before Government continues to release budget through the CfD mechanism?

Q202 Chair: Yes, cost is obviously a key part here. The last group of questions that I want to ask—we don't have very long, because we would like to finish by 11.30 am, when the Chamber starts—are about the Levy Control Framework. Do you think that it is right that there should be some sort of cost control mechanism, such as the Levy Control Framework, in place?

Niall Stuart: Of course, there has to be. It is a significant aspect of public expenditure.

Q203 Chair: Should it be reformed in some way if it continues?

Niall Stuart: I think there is an ongoing debate. I know the Committee on Climate Change have views around exactly how costs to consumers are assessed, and what should be the appropriate reference in terms of how you measure the top-up that new builds and nuclear

and other low-carbon energy receives. But ultimately I guess, from a public accounts point of view, it has to come back to what is the cost to the public purse.

Matthew Knight: Some kind of framework, yes. The Levy Control Framework, as it is established at the moment, and certainly as it is described, is unhelpful because it does not equate to customer bills, for all the reasons that I am sure you are familiar with. The idea behind the Levy Control Framework was to give an industry the forward visibility that there would be some money available, and there is a positive to that. The downside is that there is immediately then a jeopardy: what happens at the end of that period because it is suddenly much sharper? When we hear mischaracterisation that the Levy Control budget is being spent faster, because the price of energy has gone down but, therefore, we should put more control in the Levy Control Framework, that is unhelpful.

We need a mechanism, but maybe not the one there is at the moment. Again, the political instinctive statements about the Levy Control Framework are unhelpful because they betray a lack of awareness of what is really going on. That is what gets us scared. We hear somebody from the Treasury talking about spending the money too fast and, by our own analysis, we cannot see that, and we also know things, like the merit order effect that for every pound that is spent on subsidising onshore windfarms you are getting about 60 pence back in a lowered wholesale market price.

Q204 Chair: Are you challenging the statement about the Levy Control Framework? Clearly, there was an anticipation that by 2020 a certain commitment would be made to the Levy Control Framework, and when one hears that there is a danger of that being breached, are you challenging that as being factual?

Matthew Knight: I have no visibility on how that conclusion has been reached.

Niall Stuart: We would challenge it if we could see the figures upon which it had been based. Since it will be argued that that estimate of, I think, 9.2 billion, we expect that significant savings have been made. For example, I think it is a sensible assumption that there will be no need for revenue support for CCS this side of 2020. That must surely save some call on the Levy Control Framework and there are other things. We are all keen to see a detailed working and an up-to-date working on exactly where the Levy Control Framework is.

Andrew Lee: Yes, I concur with that. Speaking for the wind industry, we would look forward to a day when there could be no subsidies. We don't enjoy subsidies. I think we now see that we are in a position in the near future that, if given a chance, we could deliver power in a place such as the UK, particularly in Scotland with such a very strong wind resource, and with the support of manufacturers continually reducing costs, which they have been doing, we could deliver power with no subsidies.

Obviously a framework around cost is paramount. We are doing this to get power to consumers with the most effective possible price. In France, we have to be ruthlessly cost conscious—far more so probably than wind developers have ever been in the UK, because they have been feather-bedded. We would like to play our part in delivering low-cost power. I think throughout the power generation industry that is the case. You just have to recognise that the way the markets are working, and with wholesale power prices today, no independent investor would build any form of generation because the prices are not there. That is a true

statement, whether it is for gas, nuclear, wind or anything else you can think of. You have to figure out, within a budget, how you are going to incentivise people to build generating assets.

Niall Stuart: I would just make one last point on this. You maximise the probability of wind getting down to that wholesale price, you maximise the scale of deployment and you maximise the contribution that the cheapest technologies can make towards the overall cost of decarbonising the energy system if you allow them to continue to compete in the Contracts for Difference framework.

Chair: Gentlemen, we have reached the appointed hour. We are hugely grateful to you for coming in and giving us your evidence. Thank you very much.