



Energy and Climate Change Committee

Oral evidence: [Investor confidence in the UK energy sector](#) HC 478

29 June 2016

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Members present: Mr Angus Brendan MacNeil (Chair); Mr Alistair Carmichael; Glyn Davies

Questions [294-402]

Witnesses: **Andrea Leadsom MP**, Minister of State, Department of Climate Change, and **Jeremy Allen**, Head of Investor Relations and Deputy Director, Commercial Directorate, Department of Energy and Climate Change, gave evidence

Q294 Chair: Welcome, Minister and Mr Allen, to this morning's meeting to discuss the investor confidence report on the UK energy sector, and thank you indeed for taking the time to come and meet with us. Before we begin our questioning, Minister, can you comment on the timing and quality of the Government's response to what we consider an important report? Indeed, I think much of the industry considers it an important report.

We published this report at the beginning of March and the response arrived from the Government yesterday, eight weeks later than expected. Given that the Department had four months to digest this report we were looking forward to something more substantial and well-considered. In the end it was astounding, to be frank, that the Government has not addressed the detailed conclusions and recommendations made by the Committee. In fact, it seems the response only engaged with some of the issues at the very beginning, in the summary, and it does not appear that the Government went beyond page 4 of our long and detailed report of 46 or 47 pages.

It was a thorough inquiry that we decided to carry out, because stakeholders across energy sectors were crying out for this, particularly last year, with the sudden lurches and changes. We feel, as a Committee, that it is not acceptable that the Government do not properly engage with that very serious analysis that was undertaken in the investor confidence report, and I am sorry to say, Minister, that we will be sending a response back to the Department, and I hope you impress upon the officials and ministerial colleagues the importance of properly engaging with this report.

Now, I do appreciate you have been busy in the last few weeks, but it has been quite a period since this report was with the Department, and I hope that when we get it back a second time we will have some more detailed responses.

Minister, can I give you the floor? I will give you the opportunity for any opening remarks before we move on to questioning.

Andrea Leadsom: Thank you, Chairman. Yes, I completely recognise that investor confidence is of huge importance, and particularly in the energy sector where we are looking for significant investment. So it is a priority for me and my Department, and I do welcome the Committee's inquiry into it and I am grateful for the opportunity to come here today and answer questions from the Committee.

By way of introduction, I would like to say that we have had phenomenal deployment success in renewables to date. According to Bloomberg New Energy Finance, the UK has been fourth highest investor in clean energy globally for the past five years. Over half of the total investment in the EU in 2015 occurred in the UK. In 2015 the UK increased its investment by 25% compared to 2014, at a time when EU investment as a whole fell by nearly 30% between the two years.

So even with cost control measures now in place, we are on track to deliver 35% of the UK's electricity from renewable sources in 2021, exceeding our ambition of 30%, and of course over 99% of solar capacity in the UK has been installed since May 2010 and 49% of total EU investment in solar PV occurred in the UK in 2015. Annual support for renewables will more than double to over £10 billion in 2021.

Even with cost control measures in place we still expect to deploy within or just above the 2020 ranges we projected in the 2013 electricity market reform delivery plan. For onshore wind we projected a range of 11 to 13 GW by 2020, and we expect to deliver just over 12 GW. For solar PV we projected a range of 10 to 12 GW by 2020 and we now expect to deliver around 13 GW. So without action there was a risk that these technologies could deploy well beyond these ranges, thereby increasing cost to bill payers, which was of grave concern. So for example in 2013 we estimated that for all solar PV deployment in 2015 would be 6.1 GW to 6.3 GW. In fact, it reached 8.2 GW by November 2015.

The actions that we are taking to protect bill payers now will put the industry back on a sustainable footing for the future, which is of course therefore also in the interests of investors.

Q295 Chair: Minister, where do you think investor confidence is this morning, particularly in light of what was said in the report? Do you recognise any concerns?

Andrea Leadsom: Yes, I personally feel that the challenge that we had was that back in 2010, from a very low start in renewables deployment, the Department put in place measures to significantly increase deployment, but at the same time, because it was a demand-led scheme and was subject to assessments of what the deployment might be, it has been a victim of its own success. I hope I have just given you a good outline of the amazing achievement in the renewables sector in what is now a six-year period. What that has of course meant is that all of the estimates of what that would cost to bill payers were exceeded, and that meant, as you know—

Q296 Chair: How do you think investors feel just now?

Andrea Leadsom: I think investors now should feel that they have a very clear path ahead. I absolutely recognise that the period of time taken to get the costs back under control—get the budgets back under control—was an unfortunate period for investors, but I do believe there is now a very clear way ahead.

Q297 Chair: When you say “an unfortunate period”—you have talked about the five to six years previously—this report grew out of the fact that investors were alarmed by the lurches post the 2015 election. How do you think investors have been from the 2015 election until now?

Andrea Leadsom: As I say, I think there is now a very clear trajectory for Government policy. I think we have been very clear about it, and we have put in place measures to keep costs down, to get the budgets back under control and to provide clarity to investors.

Q298 Chair: Ernst & Young’s report, which has been published, shows that the UK has fallen even further down the international rankings in terms of attractiveness to investors in renewable energy. How do you react to EY’s work?

Andrea Leadsom: Obviously EY’s work is backward-looking by definition, and of course we did have to take measures. As I have said, it was a demand-led set of policies that massively exceeded all expectations, and there is a balance between what is fair to businesses and investors and what is fair to the bill payers who pick up the tab. What we have done now is put that balance in the right place, and we are moving forward with much greater clarity for investors.

Q299 Chair: A straight, simple question: do you think there has been any damage to investor confidence in the last year? Yes or no?

Andrea Leadsom: I think that investors have found the changes to subsidies difficult, but I think also from the number of round-table—

Q300 Chair: Do you think that difficulty has damaged their confidence?

Andrea Leadsom: From the number of round-table meetings I have had personally with investors and with industry, they absolutely understand the reason why we have had to do that.

Q301 Chair: Is there any damage to their confidence by the actions of the Government?

Andrea Leadsom: I think you would have to ask them. What I am trying to explain is the balance—

Q302 Chair: We have, but you have asked them as well, Minister, and what do you think? Do you think their confidence has been damaged, yes or no?

Andrea Leadsom: I think you would have to ask them, Chairman. What I am telling you is what the Department has sought to do in getting the balance right between what is fair to bill payers and what is fair in the subsidies to industry in a sector that has rapidly grown beyond expectations.

Q303 Chair: With the greatest of respect, this is a classic governmental answer when a yes or no question is asked. The question is pretty simple. The question is, do you think, Minister from the Department of Energy and Climate Change, that there has been damage to investor confidence? You are the Minister at the Department. You are speaking to these people all the time. Do you have any feeling at all of any damage whatsoever to investor confidence among companies investing in the UK in renewable energy?

Andrea Leadsom: As I have said, we are not there simply to provide unlimited subsidies for the sake of industry. The balance—

Q304 Chair: That is not the question I asked. Investor confidence—

Andrea Leadsom: I am sorry, Mr Chairman, you are not going to get me to say to you—let me say that obviously, investors have had different reactions. Some investors have said they absolutely understand where we have got to. In fact, I cannot think of any of the investor round-tables and investor meetings I have had where people have said to me, “It’s an absolute outrage. We absolutely do not understand that you are trying to keep costs down for consumers, and it is not right that you should do so”, so of course what this has meant is that because we have reset the subsidy regime, there has been some uncertainty for investors about what that is until we have provided that clarity. We did that as quickly as we possibly could and that is where we are now; we have sought to provide that clarity going forward.

Q305 Chair: I do not find that to be an answer at all, Minister. The majority of witnesses that we heard from told us that they felt the Government could do more to improve investor confidence. However, the Secretary of State has said that she had been advised by a number of people who gave evidence to the Committee and by major investors that, “I take great comfort from the clear direction that has been set out from the Government Benches on future energy policy”. Exactly how many people are we talking about with that view, and can you give us some specific names and tell us which of these sectors these people are investing in?

Andrea Leadsom: For example, I can certainly give you the extreme delight with which the offshore wind sector has greeted the news that we remain committed to developing that as an enormous UK success story. As you will know, Chairman, we have announced that there will be three auctions in this Parliament; £730 million of support. We expect that to generate potentially 4 GW of new offshore wind. For the UK it also has enormous potential, because what we are expecting and hoping to see is greater industrialisation in the UK, more jobs, more growth, more export potential from UK businesses and therefore UK jobs around the world as other countries around the world start to deploy offshore wind. As you will be aware, as things stand the UK has roughly half the world’s offshore

wind, so there is huge potential from that, and I think having that certainty has been greatly welcomed by investors.

Q306 Chair: Thank you for that. I note an absence of names. I can provide you with two names, Minister. The press reports today are that Siemens are freezing investment in new UK wind, although hopefully the Hull manufacturing hub will not be affected by this, and that DONG Energy will await clarity over the implications of the Brexit vote. So those are two that are showing lack of confidence. What is your response to Siemens and DONG Energy?

Andrea Leadsom: Certainly I have seen that Siemens are intending to go ahead exactly as planned with the superb new site in the Humber for wind turbine blades. That is fantastic news for jobs and growth in the Humber. There are no plans to change that, and certainly I know that they have strong order books, not just from the UK but also from overseas. Likewise, DONG Energy just yesterday announced a new, very significant investment in the UK. I have been working very closely with DONG Energy and other offshore wind developers and players in the UK supply chain, who are all very excited by our announcements to provide further support for that technology to bring costs down.

Q307 Chair: From the Department's response, or from what I am hearing at the moment, there is a lot of self-praise going on, and self-praise to me is no praise. Which investors are praising the Government at the moment? We see DONG and Siemens being very concerned. Where is the praise coming from? From our report we know confidence is low.

Andrea Leadsom: I am sorry, Chairman, I do not see that DONG and Siemens are very concerned. I do not agree with your assertion. As I have just said, Siemens have a superb new plant in the Humber, and DONG has just announced a new investment. I do speak with those developers, and I don't agree with your assertion that their confidence is extremely low.

I am afraid I have not come armed with a list of comments from different businesses. I understood that we were here to talk about policy and the clarity of our policies going forward, and I am very happy to talk about that.

Q308 Chair: Investors we spoke to in our inquiry are indeed concerned, and that was 96 organisations or individuals. The difficulty that they will have is seeing that their concerns and worries are not recognised at the Department of Energy and Climate Change.

Andrea Leadsom: That is absolutely untrue. As you would know, I meet all the time with businesses—

Q309 Chair: So you acknowledge they do have concerns?

Andrea Leadsom: I absolutely acknowledge that we listen to industry and to submissions from industry all the time, all day long. I always encourage businesses to get in touch. Just yesterday I met with the solar trade industry. Very recently I met with a whole group of bankers in the oil and gas sector, and another group in the new gas sector. I have met with investors in renewables, so all the time we are listening and talking to business, so I think

that is a highly inaccurate assertion that you are making, that we are not interested in their concerns. Of course we are.

Q310 Chair: Why would DECC be listening if they don't have concerns? What are you listening to? You say you are listening. What are you normally listening to?

Andrea Leadsom: Businesses come along with ideas for innovation, ideas for how we can provide support for deregulation to enable them to make more success of their business. For example, I had a meeting recently with the storage sector, looking at ways in which we could improve their ability to deploy and come to market quickly, and that is indeed what we are doing.

We also meet with power generators of all sorts to understand where they think we can improve on policy areas. They make individual submissions on what they think would help. Literally right across the range of the power sector, I meet with businesses on an individual, group or trade association basis to try to move things forward, always with a view to improving investor certainty and with a view to keeping the cost down for consumers.

Q311 Chair: Thank you, Minister. Moving forward, you are a leading Brexiteer, as we know and congratulations on your result. I am sure you are very pleased. What does this mean for energy policy now going forward?

Andrea Leadsom: In my view, as I was very clear about all the way through the campaign, I don't believe anything will change for energy policy. I think that the UK's Climate Change Act 2008 is absolutely key to our climate change objectives. We continue to be absolutely committed to those. In fact, the Secretary of State is today making a speech precisely on energy policy and how the referendum will affect it.

In terms of interconnectors, it is businesses that run those interconnectors, and they are run on commercial terms and nothing will change. In terms of our co-operation on issues of climate change and decarbonisation, our own commitment remains as strong, but of course we were never just working with the EU. We work globally. Mission Innovation, which is a US-led organisation set up to try to improve the deployment of new technologies in the decarbonisation space globally, is a very important part of our plans going forward.

Our energy trilemma remains the same. We are committed to keeping the lights on; absolutely not negotiable. We are committed to decarbonisation at the lowest cost to consumers, so it is about keeping the bills down, decarbonising, but ultimately keeping the lights on. Those are our absolute commitments.

Q312 Chair: Does the result have any effect on the Austrian challenge to Hinkley?

Andrea Leadsom: Absolutely not, no. I don't believe that the Austrian challenge to Hinkley has any merit anyway, but I do not believe that it is impacted in any way by the results of the referendum.

Q313 Chair: A final question from me at for now, Minister: £350 million a week was earmarked to go to the NHS, apparently, but that money, we are told, is not going to go to the NHS. Will any of that money be going to energy?

Andrea Leadsom: I think you are going outside of the remit of this Committee. You are making an assertion that is not something I ever asserted.

Since you ask, I certainly believe that the enormous budgetary savings for the UK from leaving the EU will indeed go in large part to supporting the NHS, if I have any opportunity to promote that cause, and yes, I do believe that it would be very valuable for the UK economy if some of that were also to go to reducing VAT on fuel bills. Those are personal opinions, and I think that it is not appropriate for this Committee to be going over the discussion that was held in the referendum campaign.

Chair: I think it is appropriate, given that there was money that was not going to be spent that could be spent elsewhere. It seemed to be going to the NHS. You say it was not something that you agreed with. I am not sure it was something that you dissented from at the time or had any view on at the time. We certainly all knew about the figure; however, I will leave it there and pass over to my colleague, Glyn Davies.

Mr Carmichael: Before we do, may I say that there is a quite important principle at stake here? The remit of this Committee, Minister, is for the Committee to determine. It is for us to determine the questions that we wish to ask. I think that is quite an important principle that we should assert.

Q314 Glyn Davies: I would like to return to what I think is unquestionably what the Committee is concerned with, and that is investor confidence and future investment. I noted your answers to the Chairman that spoke in glowing terms of the investment that we have seen or are maybe currently seeing. What I specifically want to ask about is projects that might be in the pipeline for the future or at the very early stages of discussions and companies planning for the future. Where do you think we are? I know the Chair was asking about who you are talking to about future investment, but where are we in terms of what we could call the project pipeline? Particularly those at the very early stages that might be coming through in three, four or five years' time?

Andrea Leadsom: The principle that we have tried absolutely to maintain is that we are not making retrospective changes, as unfortunately some countries have done, so as to say, "This is too expensive, therefore we are just going to cut or cancel your subsidies". We have absolutely been very clear that once a project has received the commitment, that does not change, and I think that is really important for investor confidence. Also very important has been our grace period, for example for the closure of the onshore wind RO. We have provided what I genuinely believe is a very good balance of grace periods that are fair to investors who have made significant investments but also fair to the principle that our manifesto commitment was to close that subsidy early.

Philosophically—we could go line-by-line—obviously what we had to do was get to where we could get back towards the budget for the LCF. We needed to cut costs where we could, but at the same time make sure that we weren't being unfair to investors who had already made those commitments. My own view is obviously there are some projects

that had got part of the way along, but not far enough that the businesses will potentially decide not to progress with it. At the same time, they will still be able to deploy many projects, albeit at lower subsidy rates.

Q315 Glyn Davies: I perfectly accept that there have been no retrospective changes. I think that is going to help investor confidence, but what I am specifically interested in is where we are now in terms of future projects coming through the pipeline. We can talk about where we have been up to now. Quite a lot of recent investment will have been maybe about getting projects done before changes come into effect, but it is this area where projects can sometimes take many years to develop. Where are those? Give us an indication of what has happened to investor confidence in terms of making those commitments, maybe five years ahead of where the big investment will take place.

Andrea Leadsom: I think for the feed-in tariffs review, we did a huge amount of evidence gathering, and we did look very carefully in the impact assessment at what projects were likely to come forward. So if I recall, we expect up to 200,000 new solar installations between now and 2020—new ones under the revised FiT scheme. Obviously under the new offshore wind commitment we expect to see very healthy competition. We expect to see a number of projects coming forward.

We think that the investor confidence continues, but the investor returns now that we have put the pressure on to get the best value for the consumer will mean that some marginal projects may choose to not come forward. Of course, that is in the round the right thing to do, because what we are seeking to do here is to get the very best value for the consumer—not to just deploy at any price but to choose, or to have the pricing choose, the projects that offer the best value.

Q316 Glyn Davies: As a Department you must be monitoring where we are in terms of the projects that I am trying to focus on, which are those that are going to be coming forward in the future. Just where are we on that? I do not expect just a yes or no answer; is it slowing down or is it stopped?

What would be helpful to us, and absolutely key to investor confidence and the impact in the future, is whether there is some slowdown in the number of companies that are talking about investments and signing up to long-term investments. Have you noticed any impact, any slowing down at all, in those kinds of projects?

Andrea Leadsom: That is a really difficult question to answer, because of course it depends on exactly which technology you are talking about.

In the solar space, I met with the solar trade bodies yesterday, and they were saying they still see big demand for commercial rooftop installation and that we should be trying to do more to provide support for commercial rooftop, whereas other areas could potentially be subsidy-free in short order.

On onshore wind, we have been very clear that there needs to be community acceptance and that there is no further subsidy there. We have seen a small number of projects come forward since the closure was announced, so those are projects that do feel that they have

some local buy-in and do not need a subsidy. So there have been some, but a far fewer number of projects.

In things like landfill and waste generation, those projects have been incredibly successful, but we are slightly running out of landfill sites, so there may be other issues at work there that mean the number of projects coming forward are the result of there aren't the assets there to be able to start new projects.

I am sorry, but it really is technology-by-technology. In offshore wind we are seeing great enthusiasm, and the clarity of the policy there is a huge boost. We are seeing lots of competition, lots of interest, lots of investment going on there. Really, it does depend on the technology.

Q317 Chair: 12,000 jobs have been lost in solar, according to *The Guardian*'s report on a forthcoming PricewaterhouseCoopers report. Do you recognise that loss of employment in the solar industry from Government policy?

Andrea Leadsom: I absolutely recognise that our impact assessment showed that we believed the new subsidy regime would support in the region of 25,000 jobs, and I understand that there are around 12,000 currently in the industry. However, I have specifically raised the issue of what happens to those jobs. The indications are that there is a significant amount of redeployment.

Q318 Chair: Where are they redeployed?

Andrea Leadsom: Quite often the success of the solar industry has come out of, for example, house building, or out of electricians or plumbers, and they have expanded to have a solar installation arm. This is not an independent study, but anecdotally, as I understand it, there has been quite a large amount of redeployment. So when you say 12,000 job losses, what I would absolutely agree with is that our own evidence showed that the new subsidy regime under the new feed-in tariff band would support in the region of 25,000 jobs. That is what our assessment would be, and therefore other jobs have been redeployed.

Q319 Chair: Do you think, then, that *The Guardian* and PricewaterhouseCoopers should be picking up on that?

Andrea Leadsom: I welcome any data that provides us with more evidence. In providing that new subsidy regime, the impact on jobs was very much at our heart, trying to make sure we were absolutely scrupulously fair to the sector as well as to the investor.

I would just say again—

Q320 Chair: Should PwC and *The Guardian* by extension not be picking up on the point that you are making? If that is a substantial point, what is wrong with these people that they are not finding what you are finding at DECC?

Andrea Leadsom: I don't really understand what you are asking me.

Chair: Okay, I will move on.

Andrea Leadsom: May I make just one other point? In resetting the subsidies, it is incredibly important to bear in mind that while of course we take the impact on jobs and in the sector very closely to heart, nevertheless I do not think anybody would expect that we should continue to burden bill payers when costs have come down so significantly.

Chair: We will come on to bill payers soon. We'll return to Glyn Davies.

Q321 Glyn Davies: I just want to follow up a point that the Chair has made. It goes back to the point that you made about how it is right to respond in a different way to each different technology. In the west of my constituency, where it is most difficult to create employment, there was a terrific solar industry—manufacturing and installation. It was becoming a key part of the economy, and that has largely gone as a result of the changes. In each area there will be quite a bit of difference.

Where we I think as a Committee would want to be—the Chair will tell me if this is not the case—is that we look at investor confidence on a regular basis. It is the entire future of the industry, and we will be looking at this probably on an annual basis. Can you give us a departmental report to the Committee on an annual basis about exactly where we are on investor confidence, and particularly on the project pipeline? That would give us an indication of where we are going, rather than just describing what might have happened.

Andrea Leadsom: I think the best thing is if I go away and discuss that with officials. I know we do publish quite a lot of data, but equally with a number of big projects the commercial confidentiality means that we cannot publish it. In concept I think that is a good idea and I would be very happy to do that, but I also think that it would only be worth sending that to you if we weren't going to have to take out so much to avoid any breach of commercial confidentiality as to make it just irritating to you. If I may, I will go away and look into that very question and write to the Committee on it.

Glyn Davies: Yes, and come back with a fuller response on the report.

Chair: With respect, it should have been considered in the Department already, because it is in the report in paragraph 33, on page 16.

Q322 Glyn Davies: I was making the point more gently than you, but that is such a key area.

Another key area is that we can talk about stimulating more investment, and stimulating more projects and the pipeline, but how are we going to do that? In the past what we have had is the levy control framework. That seemed to be where the funding was coming from. That is coming to an end, and we do not quite know what is following it. What key strategies does the Department have for promoting new investment in new projects in the future? If I happen to be meeting somebody, at a social function or wherever, who is interested in developing a new project, I have said, "Well, DECC and the British Government have a really good policy

area”—in the past you would have said it was the levy control framework and the various grants within that. What would I say to them for the future?

Andrea Leadsom: We have said very clearly that in the autumn statement we will be setting out the post-2020 arrangements that follow from the LCF. We have already made clear our commitment to offshore wind. We have already made clear our enormous contribution to innovation, science and technology, and particularly small modular reactors. We are already having a competition to look at designs and so on. We have made very clear our commitment to new nuclear as part of our energy mix. We have made very clear our commitment to new gas as a bridge to a clean energy future. So I think there are a number of areas where there is already very good clarity, and we are working very hard to provide that full set with a long-term vision for where we are going right across the policy areas.

Q323 Chair: Minister, can I take you to another area, perhaps a favourite area of the Government, which is costs to consumers? The Government argues that it has made cuts to energy subsidies in order to save money for consumers. There is also a counter-argument that increased uncertainty caused by making these cuts may have the opposite effect, increasing uncertainty and thereby increasing risk premiums and ultimately increasing overall costs to consumers; so the policies may be having the opposite effect by their very nature. How do you respond?

Andrea Leadsom: I absolutely recognise that. Having spent a long time in finance myself, I absolutely recognise that there is a premium for uncertainty. That is why we tried very hard, when faced with this enormous over-budget on the LCF, to make decisions as quickly as we could and to make very clear that we would be as generous as possible with grace periods, with no retrospection and so on, to try to avoid what I absolutely agree is the risk of costs going up. Nevertheless, with our policies going forward, the way we have structured the feed-in tariff with quarterly degression and quarterly caps is to provide transparency for business so that they can see what they are investing in.

Likewise with offshore wind, in setting the cap for the strike price and then having a competitive auction we are providing that sort of clarity of exactly where we are going with that and also the very specific amounts that will be available for support and so on. I know that what we are absolutely focused on doing is providing that investor certainty.

Q324 Chair: Thank you. You have accepted there the double whammy, Minister, of costs to consumers going up and there being less money to be spent on the ground installing renewable energy. What work has DECC carried out to calculate the costs to the consumer of the policy uncertainty over the last year?

Jeremy Allen: In our various consultations as we look at the subsidy regime, we do talk to developers about the cost of capital. Often that has to be on a confidential basis because it feeds into assessments of the appropriate levels of support, and we can't divulge that because it will identify individual projects and assumptions that developers may have made about cost of capital. But we do look very closely at those issues, and as the Minister has indicated, we trade off against the other objectives that we are trying to achieve through balancing the LCF and managing the cost to consumers.

Andrea Leadsom: Certainly I can reiterate that I have had a number of round-table meetings with investors myself to understand cost of capital confidence in projects and so on.

Q325 Chair: Just to double underline the double whammy, on 3 March Roger Harrabin of the BBC tweeted that he had asked DECC to deny that cuts to energy subsidies may be putting bills up. It didn't, he said, and he stopped there. How do you respond to Roger Harrabin's point that contrary to what the aims were of cutting help to renewables—to cut bills—it is doing the opposite?

Andrea Leadsom: I do not think that would be true, because when you look at what has happened over the last couple of years, what we have seen is a huge decrease in wholesale prices that of itself has had quite a significant impact on all of the variables, including the cost of the LCF.

Q326 Chair: With respect, Minister, we know that wholesale prices will be reducing the price of energy, but the impact of the cuts that you conceded was the double whammy. To be clear, did the cutting of the services put the prices of bills up or down for consumers? Earlier you seemed to indicate that it did put it up—the Government's work, not what is happening in the wholesale price.

Andrea Leadsom: Have the Government's policies put bills down or up?

Chair: Yes.

Andrea Leadsom: They have put bills down. So the net impact of—

Chair: Despite the uncertainty and opinions?

Andrea Leadsom: That I think is something that would be extremely difficult to prove either way, because on the one hand—

Q327 Chair: Well, if it is extremely difficult to prove either way, you have just said before that it was going up and now you say it is going down.

Andrea Leadsom: No, I am just struggling to understand your question. I think what you are asking me is, has the uncertainty from our policies put the bills up? I have already absolutely agreed with you that uncertainty does add a risk premium to the cost of capital. However, we are in a situation where the cost of deployment in things like solar and onshore and offshore wind, has come down really significantly. Of course the subsidies being reduced has led to less deployment, which is indeed what we wanted to be the effect because of the overdeployment we had seen. So it would not be true to say that the net effect of all that has been to put bills up. That would simply not be true. What you could say is that the projects that have gone through might be more expensive in terms of cost of capital than if the subsidy had continued, but if the subsidy had continued at previous levels you would have had much greater deployment. The subsidies were more generous and therefore were adding more to consumer bills. You simply could not argue that the uncertainty has added to consumer bills.

Q328 Chair: The reason, Minister, for bringing this investor confidence or lack of confidence into the energy space was your efforts to keep bills down. Now you are telling us that you really cannot say whether they have gone up or down, because the evidence is not there.

Andrea Leadsom: I do not keep telling you I cannot say.

Chair: The evidence does not seem to be there.

Andrea Leadsom: I am telling you that bills to consumers have come down. What you are seeing from the OBR's report is that the LCF overspend is now significantly lower than before our measures were put in place. Categorically—for a fact—the impact of our measures to reduce subsidies has been to bring bills down.

What I was trying to do justice to you over was your further question—is the cost of capital higher? I was saying that I do agree with you that uncertainty leads to an increase in cost of capital. In terms of consumer bill impact, it is absolutely the case that the changes that we have made to policy have brought the bills down, as evidenced by the OBR's forecasting that the LCF is no longer as overspent as it was. So we have saved costs to bills.

Q329 Chair: That also ignores the merit order effect that should be happening in the future, because you have decided not to see any money spent as a cost rather than an investment. We will not have the merit order effect in the future. I am puzzled, Minister, because I thought we had a fairly straightforward response from you earlier on. When Roger Harrabin asked DECC to deny that cuts to energy subsidies may have put bills up, it did not deny it. Why would DECC not deny it on 3 March when you can say so clearly here that you can now deny that?

Andrea Leadsom: Very specifically on the levy control framework, that was designed to show the bill impact; at the £7.6 billion cap that was originally agreed, that would add a cost of £92 on the average household energy bill in 2020 at 2014 prices. The March 2016 OBR forecast, which was the latest one, shows an average implied £116 cost on the average household energy bill in 2021 at 2014 prices, but in between times, before our new policy measures, that went up to I think £132. So the cost on bills has absolutely come down as a result of our policy changes.

Q330 Chair: But the LCF does not show the whole impact. It does not take into account the lowering wholesale prices that renewables cause in the system, the merit order effect we have talked about earlier. What we are talking about here is the increased uncertainty adding to premiums, which has then caused energy prices to go up—the very opposite of what Government was trying to do, and the double whammy that we agreed with earlier of costs going up to consumers and less being spent on the ground in constituencies such as that of my colleague Glyn Davies.

Andrea Leadsom: The point I am making is that the policy changes that we have put in place have led to a reduction on consumer bills over not putting those subsidy changes in place.

Q331 Chair: Thank you, Minister. Can you provide us then at a later date with the evidence for your assertion? Would that be okay?

Andrea Leadsom: Sorry, you will have to—

Chair: Sorry, could you provide us with the evidence at a later date for your assertion that the bills have not gone up, and that the bills have gone down as the result of the policies?

Andrea Leadsom: I think I have just provided that. The LCF forecast at the £7.6 billion cap a £92 cost for the average consumer. As of now with the overspend on the forecast—less than the £9.1 billion but now at £8.7 billion—that is a reduction; unfortunately I do not have the exact figure here, but I am very happy to write to you with it. But the implied cost on the average household bill in 2020 and 2021 at 2014 prices is £116, which is less than when the LCF overspend was first identified, but I am afraid I do not have the exact figure. It was something in the region of £130, so this is in fact quite significantly lower post our changes in policy than it would be otherwise, but I will write to confirm that to the Committee.

Chair: Thank you. The point is that bill payers have paid more than the LCF on this wholesale price and the wholesale price interacts with the LCF, but this is why we have asked DECC to improve transparency on the LCF and on their spending calculations, and we will return to this later.

Q332 Mr Carmichael: Can I take you on to the question of CfDs in the carbon price war? The Secretary of State in her reset speech committed to holding three further CfD auctions for offshore wind in this Parliament, obviously with the caveat that this would be dependent on meeting cost reductions. We have seen some of the detail from the Chancellor in the budget in March, but can I maybe just talk you through these in turn. On the question of the next CfD auction, first of all, can you give us a date for that?

Andrea Leadsom: The first CfD auction will be in the fourth quarter of 2016.

Mr Carmichael: The fourth quarter?

Andrea Leadsom: Yes.

Mr Carmichael: That is the first quarter of the calendar year or the financial year? The calendar year. So we are looking at something like October, November, December?

Jeremy Allen: That is where the Minister plans to initiate the process that will lead to the auctions—so the pre-qualifications, as you saw last February.

Mr Carmichael: So the succeeding two CfD auctions, if they take place, when would we expect them?

Andrea Leadsom: They will be during this Parliament, but we have not set out those dates yet.

Mr Carmichael: That is still subject to the caveat of meeting cost reductions?

Andrea Leadsom: Exactly, yes.

Mr Carmichael: When would you anticipate being able to be a bit more specific? “In this Parliament” might be sometime between now and October, we are given to understand. I take it you mean some time between now and 2020?

Andrea Leadsom: Well we do have fixed-term Parliaments so, yes, I do mean between now and 2020.

Q333 Mr Carmichael: The Budget documents said, “Support for offshore wind will be capped initially at £105 per megawatt hour (in 2011 - 12 prices), falling to £85 per megawatt hour for projects commissioning by 2026.” Is this the cost reduction condition that the Secretary of State referred to in a recent speech? Are we going to see any other cost reduction conditions that will determine whether or not offshore wind will be supported through the three CfD auctions hoped for in this Parliament?

Andrea Leadsom: No, the trajectory of cost reductions is exactly as you understand it, but we want to see—

Mr Carmichael: And that is the limit of it?

Andrea Leadsom: We will always welcome further cost reductions but our cap, if you like, on bids is designed to be there.

I would just like to take the opportunity to say that I am extremely keen that this should be a real UK success story right through the supply chain. There is a lot of work going on in my Department and in BIS to try to make sure that the UK supply chain is very well placed to benefit from this. Of course building locally, buying locally and so on can also help to bring the costs down, so in that sense I am very ambitious for the cost reduction.

Q334 Mr Carmichael: Okay, well, we will maybe come back to that at some future date.

To stay on the future of the CfDs and the carbon price floor, though, do the cost reduction conditions apply only to offshore wind or are we anticipating extension to other technologies as well?

Andrea Leadsom: We will be making announcements on the make-up of the pot to technologies and exactly how that is defined, and whether there are any other particular constraints on those technologies, as soon as we can.

Q335 Mr Carmichael: Any indication of a timescale apart from “as soon as we can”?

Andrea Leadsom: Obviously before the auction.

Mr Carmichael: I will take that as a “no”, then.

Andrea Leadsom: There is a lot of work going on to assess the relative strengths, the pipeline, the possibilities and so on, all with a view to best value for the money—the best

cost trajectory to get future and potential out of that technology, and so on. As you can imagine, it is not just a back-of-a-fag-packet piece of work; there is a lot of detailed work going into that.

Mr Carmichael: We may know the answer to this, but I will ask it anyway: the Budget documents said, and again this is a direct quote, “Up to £730 million in this Parliament for up to 4 GW of offshore wind and other less established renewables, with a first auction of £290 million.” When are we going to get clarity on the division of the remaining sum for the second and third auctions?

Andrea Leadsom: Again, that will be when we make decisions on the timing for the second and third auctions. That in itself, the timing, depends on progress and pipeline and so on, so it is not possible to say right now.

Mr Carmichael: Turning to question of the eligible technologies, the Budget documents again stated that CfD auctions would be for “offshore wind and other less established renewables”. Can you confirm whether onshore wind and biomass will be able to bid into these auctions?

Andrea Leadsom: Onshore wind is a pot 1 technology, so that will not be included in pot 2. Biomass conversions are pot 3, so that is not a pot 2 technology.

Jeremy Allen: Biomass CHP is a pot 2 technology.

Andrea Leadsom: Yes, so the pot 2 technologies include—

Q336 Mr Carmichael: Yes, what are these other less established renewables, then?

Andrea Leadsom: It includes offshore wind, wave and tidal stream, advanced conversion technologies, anaerobic digestion, biomass with CHP and geothermal. But we do always keep the list of eligible technologies in each pot under review.

Q337 Mr Carmichael: If I can adopt a technique popular elsewhere in the House these days, I have an email from Neil in Stromness—Neil Kermode of the European Marine Energy Centre, somebody I am sure of whom you know. He is looking for a bit of certainty for the marine energy sector. He is asking if you can confirm and give a very clear message that the UK is still open for business in this sector—which is still in its infancy—and will be after 2021 despite Brexit, in particular by ensuring that the 100 MW CfD allocation previously put in place to encourage and enable British innovation is retained.

Andrea Leadsom: I am sorry, but those are exactly the policy decisions that we are in the process of taking, so I cannot give that clarity here today. I am absolutely aware of that previous commitment and am very much looking at that going forward, but I am not going to announce today without the work having been finalised.

Q338 Mr Carmichael: What engagement have you got with those working in wave and tidal stream generation?

Andrea Leadsom: A lot. We have had submissions; we are certainly talking a lot to all of the technologies in pot 2. We are in regular contact with them.

Q339 Mr Carmichael: On this question of how the pot works, where you have these very immature technologies such as tidal stream for example, with tremendous potential, others are going to scoop the pot before there is any chance for them to get anything from it, are they not?

Andrea Leadsom: Well, no, not necessarily at all—

Mr Carmichael: Unless you protect that innovation—and this is genuinely innovative, it is genuinely cutting edge business.

Andrea Leadsom: Yes, exactly. That is why it is very important that we look at the potential, the cost trajectory and so on.

Q340 Mr Carmichael: So as you are looking at that issue for pot 2 technologies, can you tell me whether you are looking at giving some protection for that sort of innovative and essentially research-based work?

Andrea Leadsom: It is absolutely under consideration. I can definitely tell you that, yes.

Mr Carmichael: I am pleased to hear you say that, because Mr Allen was shaking his head just before you—

Jeremy Allen: I am saying that we cannot be more definitive than the Minister has been. These are issues that Ministers are considering now in advance of their—

Q341 Mr Carmichael: While we are on the subject of emails from Stromness, what is the latest on the island strike price and the state aid application?

Andrea Leadsom: As you know—well, possibly you do not know—at the Scottish Affairs Committee last week I was explaining that we have had a lot of discussions with the Commission, and the pre-notification work is all agreed and discussed between us—

Mr Carmichael: The pre-notification work was finished at the end of December?

Andrea Leadsom: Yes, absolutely. You are asking me where we are with it, so—

Chair: In fact it was six months ago really, was it not?

Andrea Leadsom: Yes, exactly right. So we are looking at our policy decisions for the pot 2 auction, and that is absolutely in there for consideration as well.

Q342 Mr Carmichael: Yes, and the state aid application?

Andrea Leadsom: The state aid application has gone through its pre-notification stage, and should it—

Q343 Mr Carmichael: Yes, we know that, but when are you going to put it in as a notification?

Andrea Leadsom: Once we have made our policy decisions on pot 2.

Q344 Chair: Minister, would it not be better just to go to Europe and get that clear at the moment, so there is not a future excuse for not doing anything and you are freer to make your policy decision without Europe? Despite the Brexit vote, article 50 has not been triggered—it might never be triggered of course, but in the current situation we are still in the European Union despite what the referendum might say. Might it not be easier for you just to have that piece of work done for you, then you are freer to make your decision and you could not have an excuse of blaming Europe?

Andrea Leadsom: In our opinion there will be the opportunity to do that once we have made our policy decision, so it is right that we set out our policy decisions before we go and dot the i's and cross the t's.

Q345 Chair: But sometimes, in the way that these timings work, it may be that the policy decision could be made, but then it is impossible to allow that to happen because Europe had not cleared it.

Andrea Leadsom: We do not think that will be the case.

Q346 Chair: But would it not be better to take the more cautious approach to make sure that eventuality could not arise?

Andrea Leadsom: We do not think that would be a sensible thing to do, no.

Chair: Why not?

Andrea Leadsom: Because we want to make policy decisions first.

Q347 Mr Carmichael: Does this affect your policy decision?

Andrea Leadsom: It would certainly potentially give the impression that we had taken a decision when we had not, so it is better to have the policy decisions to make clear what the policy is and then finalise all the arrangements.

Q348 Mr Carmichael: Let me put it another way, then. You make your policy decision, you then go to the Commission for the state aid clearance and there is a problem with it. There has been a problem with this before, has there not? That was why we withdrew it from the first round. Does that not leave you in a position where you would not be able to pursue your policy objectives at the rate and the speed that you would wish?

Andrea Leadsom: Theoretically that is correct, but nevertheless we have to make our policy decisions first.

Q349 Mr Carmichael: But last time around it was more than a theory, was it not? There were objections from other DGs within the Commission?

Andrea Leadsom: Correct, but nevertheless, we will make our policy decisions and then we will put in place the other elements that are needed. That is our decision.

Q350 Chair: So experience has given you a bad outcome in the past, but the UK will still follow in the same path that led to that outcome in the past.

Andrea Leadsom: That is what we intend to do, yes. We are going to make our policy decision so that it is absolutely clear what the pot 2 technologies are, and then we will make sure that we can meet all of the timeframes needed to meet the policy decisions.

Q351 Mr Carmichael: I would like to accept as legitimate your concern that if you put in a state aid consent application, that sends a signal. Is there not another way of dealing with that signal to make it clear that when you put in the consent application, no policy decision is made yet and this is entirely precautionary, sensible preliminary work?

Andrea Leadsom: We do not feel that would be a sensible thing to do. It is much better if we have decided what the policy is before we go about creating precisely the uncertainty that this Committee does not want to create.

Mr Carmichael: I think we have our answer—it is not a question of whether it is sensible or not, we are just not going to do it.

Andrea Leadsom: No, I would assert that it is not sensible to do that, it is better to decide on the policy first.

Q352 Mr Carmichael: It is more sensible to do that than it is to take a risk of something happening that has happened to us in the past and a problem being raised from another part of the Commission—that is sensible?

Andrea Leadsom: I am sorry, I have given you my view and you have given me yours, and we obviously do not agree.

Chair: I was just wondering if, in any consultation, the Scottish Government are aware, and whether you had any advice on that or the experience of other Governments, but I will leave that there.

Q353 Glyn Davies: Most significant policy speeches coming out of the Department over the last couple of years, from my experience, talk about the balance between using subsidy—Government support—to deal with the cost to consumers, security of supply and objectives to decarbonise. That is the trilemma; those are the three major objectives.

Is there a difference in the degree of importance that you attach to those, particularly the levels of importance of decarbonisation and subsidies for securing supply? We have had the levy control framework in place, which has been a control on the costs of decarbonisation projects; that has driven a lot of Government hitting the ceiling, and there has been a lot of change. What about the capacity market? Are there going to be any caps in the capacity market? Is there going to be any cap on spending in the support you might give to new gas plants or whatever else is essential to keep the supply on? Will there be any caps on that at all?

Andrea Leadsom: There are some caps within the capacity market for existing dispatchable plant, which effectively seek to ensure that where they bid it cannot influence the outcome of the clearing price for the capacity market.

But essentially, the CfD and the capacity market are designed to do two different things. The levy control framework is designed to bring forward new, low-carbon sources of energy, and the capacity market is an insurance policy. So the capacity market is like the premium you pay on your car or your house to make sure that if you have a crash or your house burns down, you can sort that out. The capacity market is the insurance premium for keeping the lights on; to make sure that we have guaranteed that power generators that are dispatchable will be there in times of market stress.

So the capacity market is an insurance policy, and the premium for that does depend to an extent on what the previous investment levels in energy have been. As we know, there was a 20-year period when there was not enough investment in energy infrastructure, so together with the really significant drop in wholesale prices, what we have found over the last few years is that the old power generators have really struggled with the economics of power generation.

As a result, what we have sought to do in the capacity market is buy more and buy earlier, and that provides the power generators with the knowledge that they will be wanted, and also with the income to enable them to deal with the very low wholesale prices. So the capacity market is extremely good value to consumers. I was just yesterday doing some slight amendments to the capacity market and reiterating that the cost of the new capacity market auction is incredibly good value to consumers, but it does serve a different purpose from the levy control framework.

Q354 Glyn Davies: So what you are telling us is that there is not a cap on the capacity market—

Andrea Leadsom: It is a competitive auction, so yes.

Glyn Davies: Yes, so you are telling us that the experience is that it comes in at a good competitive price and it will be a good deal for them.

Andrea Leadsom: Yes.

Glyn Davies: But there is not a cap on that at all.

Andrea Leadsom: What happens is that National Grid advises us of the volume that we want to procure in the capacity market, and we certainly ensure that there are more suppliers out there than there is demand—in other words that there are more people who could bid for those capacity market auction contracts than there is demand from us for the capacity—to make sure it is a liquid auction. Then of course it is open competition, so that has kept the price down. In the first couple of auctions, we have all been delightedly surprised by how good value it has been. But the key point about it is that it is there to ensure electricity supply, and that is absolutely vital at this time when we are really changing our electricity sources, dealing with the rolling-off of old plant and so on, and bringing on new renewables. So it is very important.

Glyn Davies: You tell us that it has proved to be quite a good deal, but it does involve a cost, so the more we need—because the market has to be stimulated—the greater that cost will be. Although it may be good value, the total cost would be greater if there is a greater need. What impact does that have on Government's ability to fund the CfD payments? Is there any linkage at all between the two payments? Does one have an effect on the other?

Andrea Leadsom: No; in the capacity market auctions, the cost of that is applied to electricity suppliers, who then pass that on to consumers, so it does hit the bills but it is not a part of the levy control framework.

But just to give you an example, the supplementary capacity auction that we are having for 2017-18 will, in our best estimate, cost in the region of £2 billion to £3 billion, but the counterfactual is that if we did not have it, the spikes in electricity prices that we would see as a result of power stations coming off, possible closures and so on could be as high as £8 billion. So there is a very clear value for money, as well as the electricity security case for those capacity market auctions being absolutely vital.

Q355 Glyn Davies: At the end of all this, it is in the impact on customers—the impact on bill payers—that these things are clearly linked. Both are going to be met by customers, and that is why I was interested. If you happen to be paying your bill and one part of it is a contribution that is a lot higher than you were anticipating, it is going to have an impact on your overall bill.

Andrea Leadsom: Yes, and that is a really important point, Mr Davies. There is a very clear link between capacity market payments and wholesale prices. So the average dual fuel bill has come down by about £200 in the last year, and as a result of that power generators have really struggled with the economics. The capacity market payment, which we estimate may add between £12 and £28 to the average consumer bill, ensures the security of supply. We are still all benefiting from that net reduction in wholesale prices but it means that we are not risking plants just saying, “Well, we can’t afford to carry on”. So even at that level, if you are looking at the average drop in a dual fuel bill of £200 versus a potential addition to it from the capacity market of, let us say, a maximum of

about £28, you are still much better off, but you have the certainty of supply, which is an absolutely non-negotiable element of our energy policy.

Q356 Chair: Minister, you have just said that the capacity market brings down wholesale prices. Why do you not acknowledge the same with the LCF?

Andrea Leadsom: I did not say the capacity market brings down wholesale prices. I said that as a result of wholesale prices being low, the economics for power generators have meant that they have really struggled. So the idea of buying more in the capacity market and buying earlier has been to make the economics work so that we get that guaranteed electricity supply.

Q357 Chair: Are you now saying there is no link? Or, what link is there between the capacity market and wholesale prices?

Andrea Leadsom: There absolutely is a link, in the sense that power generators are now beginning to look at wholesale price plus capacity market premium in terms of the economics of their business. You could argue that their exposure to wholesale prices is less as the capacity market develops. That is an important issue for security of supply.

Q358 Chair: The long-life asset of a thermal generation plant being constructed under the capacity market may result in other zero-carbon technologies being crowded out, because once they are built they are either partially or wholly depreciated compared with new projects. To what extent do you think the capacity market and the current dash for gas is at odds with your long-term decarbonisation objectives? Shouldn't the capacity market be consistent with your long-term goals on climate change?

Andrea Leadsom: Yes, on the latter point I completely agree. The capacity market has to be compatible with our long term goals for a clean energy future, I absolutely agree.

Q359 Chair: Is it?

Andrea Leadsom: Yes, I do think it is. Obviously the capacity market is designed to provide secure electricity. It is not designed as a decarbonisation policy in and of itself. But what we are finding in particular, as you will be aware, is that there is a level playing field for all dispatchable technologies in the capacity market. What we have done to promote new gas is to allow a 15-year contract in the capacity market for new gas, to give the investor certainty so that they are investable for new gas plants and so on; so that they can deploy under the capacity market. That is the concession, if you like, to the bridge through gas to a clean energy future.

Of course the other thing that we have, which is very real, is that we have already announced our intention to get off coal altogether by 2025, assuming that we can do that without any risk to security of supply. Of course we already know that many of the old traditional coal-fired, and indeed other fired power stations are coming to the end; they have already in some cases lived beyond their normal life. We are also aware of the same in nuclear. So there is the need to generate more new plant, and obviously our policy

choices have been new gas, new nuclear and a huge amount of renewables, and we are delighted with the success of that. So yes, I do think the capacity market is compatible with our long-term decarbonisation strategy.

Q360 Chair: A small tangent, in a way: demand-side response. The people involved in that complained that there is a long lead-in time for them to operate in that space. There is contract length and there are bonds. Do you recognise the difficulties that demand-side response has in playing a role and helping with that area?

Andrea Leadsom: What I would say is that it is a new area and we are really trying to encourage the sort of genuine turn-down response, so we really want to see businesses and big users starting to look at how they can change their business processes to genuinely meet the opportunity of demand-side response.

Q361 Chair: Can Government be fleet of foot to help that? One of the criticisms is that Government is not really aware of the opportunities that demand-side response can give and has not been fleet of foot in that it does not have a level playing field for the various approaches to the capacity market. Do you concede that?

Andrea Leadsom: What I can say is that we are extremely keen on demand-side response, and we are very much taking in suggestions from companies and from brokers who are telling us what might work better. We are constantly looking at how we can improve on demand-side response. Do you want to add anything, Jeremy?

Jeremy Allen: Obviously there is the structure of the capacity market, the so-called T-4—the four-year round to auction—and the T-1, the one-year round. The T-1 allows demand-side response to play an active part in the next delivery, in a way that it could not if it was in the four-year round.

Q362 Chair: How long a contract can demand-side response get? Can it get a 15-year contract? What size of bond is it paying? Is it paying relative to its assets?

Jeremy Allen: I would have to check on the eligibility for the different contract lengths.

Q363 Chair: Thank you.

Minister, in October 2015 your Department told us that clarity on the LCF overspend would be provided shortly. In January you told the House in response to a written question that you would publish an updated set of LCF projections, as well as assumptions underpinning the latest forecast, in due course. Why has there been such a delay in publishing this information, dating back to October?

Andrea Leadsom: In general terms the issues with publishing detailed information on the LCF is around commercial confidentiality. A lot of these projects are very big, and it is very difficult to publish a great amount of detail without giving away who is doing what and what the economics of those projects are. The OBR published LCF's projected spend and analysis on 16 March this year and we have, wherever we can, published as much as

possible on that. The recent publication of the renewables obligation of 2016-17 outlined the methodology for some of the LCF's key assumptions. So we certainly have published details of all of the assumptions that underpin the LCF modelling, but obviously this issue of trying to protect commercially sensitive information is a very real one.

Q364 Chair: Are you now saying you are providing no further details on how these calculations are made?

Andrea Leadsom: What we are saying is that we have provided the details of all the assumptions that underpin the modelling, and that we have to make a number of considerations—primarily commercial data—before we release any further information. We are planning to publish an updated set of LCF projections and assumptions underpinning the latest forecast in the not-too-distant future—as soon as we can—but there is a process to be gone through to make sure that we are not giving out commercially confidential information.

Q365 Chair: Thank you. Minister, when you respond to the report for a second time, can I ask you particularly to look at paragraph 81, where the Committee calls on the Government to prove its transparency on the LCF? Could you maybe report back to us confidentially on some of the commercially sensitive stuff?

Andrea Leadsom: I do not think I can report commercially confidential information. I do not think that that is permitted but certainly we will—

Q366 Chair: In confidence?

Andrea Leadsom: I do not think that I can do that, no.

Q367 Chair: Would you welcome the National Audit Office examining this, maybe an intermediary for us all?

Andrea Leadsom: I am always delighted at public scrutiny, but at the same time it is very important that we do not reduce investor confidence by giving away commercially sensitive information.

Q368 Mr Carmichael: Just to stick with this point about transparency, one of the recommendations of our report was that your Department should develop and publish a structured response plan setting out how any future LCF overspend would be dealt with. Are you going to do that?

Andrea Leadsom: Well, I think this is a really important point, because as I said in my opening remarks, I have a concern about having effectively an uncontrollable levy control framework that makes it very difficult for businesses, for bystanders, for consumers to see precisely what is going on day to day. So I personally have a strong preference for very clear line of sight on where subsidies are and at what point they might have to be reduced or, indeed, cut altogether, to give long-term investor insight. But that is something that we

are thinking about very carefully now, and as I said, we will be looking at making announcements in the autumn statement on the future of the LCF.

Q369 Mr Carmichael: Just to understand how these things work in practice, can you talk us through the process that you went through when the OBR indicated that there was going to be an overspend in the LCF project last year? How did you decide which subsidies were going to be cut, and what factors affected your decision?

Andrea Leadsom: Obviously across Government there is a concern at the overspend, and you will be aware that that awareness was in April 2015, and so it fell to the new Government to be made aware and make the decisions. So what we decided very quickly was that we needed to look at all policy areas and consider how best, how easily, or how in the least damaging way to either investor confidence or to the deployment of renewables, or to jobs and so on, we could now reduce the overspend. So we did a review right across all policy areas, as you will appreciate, very quickly, bearing in mind that it was a huge undertaking. Then we came up with our conclusions, and we had the consultations on the feed-in tariff. Obviously we had a manifesto commitment on onshore wind and it was a matter of how it implement it, not whether to do so, but even so we had very lengthy discussions with onshore wind developers to look at grace periods and the like. We had—

Q370 Mr Carmichael: That was before you made the decision?

Andrea Leadsom: That was certainly at the same time. It was a manifesto commitment, so cutting the subsidy was a decision already from the date the electorate decided to elect the Conservative Government. But in terms of what our policy was, in terms of how we were going to do that and grace periods and so on, that consultation with onshore wind developers was absolutely before we finalised what we were going to do on grace periods and that sort of thing, and dates and so on.

Q371 Mr Carmichael: Was there any even informal consultation and discussion with stakeholders ahead of making the decisions?

Andrea Leadsom: Ahead of what?

Mr Carmichael: Making the decision.

Andrea Leadsom: Making what decision?

Mr Carmichael: The decision to cut the subsidies that you would cut.

Andrea Leadsom: As I say, there was a huge amount of consultation.

Q372 Mr Carmichael: Did you consult with any members of the investment sector?

Andrea Leadsom: Yes, absolutely.

Q373 Mr Carmichael: What did they tell you?

Andrea Leadsom: For example, in the feed-in tariffs consultation we had 55,000 responses. I think off the top of my head it was something like 5,000 datasets. A lot of the responses were campaign-style letters where they all say exactly the same thing.

Mr Carmichael: Yes, I am quite familiar with them.

Andrea Leadsom: I thought you might be, Mr Carmichael, yes. I think we are all familiar with those. But genuinely, there were probably 5,000 very useful inputs from right across the investment space, the developer's themselves and individual people, trade bodies and the like, trade unions; so very detailed.

Q374 Mr Carmichael: Was there a consistent message coming from these?

Andrea Leadsom: No. A lot of it was very informative. Obviously with the feed-in tariff there is a wide range of technologies, so some were quite specialist and focused on one particular technology and others were more general, but we did have a huge number of responses. It was a massive undertaking. I think it may have been the biggest consultation ever, or one of them.

Jeremy Allen: We backed that up with some face to face meetings.

Andrea Leadsom: Yes.

Q375 Chair: But Minister, these consultations came after you had announced your intentions.

Andrea Leadsom: Just to reduce subsidies, yes, absolutely. Yes, because very clearly—

Chair: So your intentions before you asked—

Andrea Leadsom: Yes. Very clearly, when we discovered that the LCF was in fact enormously over budget we absolutely had to get a grip and say, “Right, we are going to take action, and now we will be having consultations on exactly what that action will involve”. So that is exactly right, yes.

Chair: Sorry, Mr Carmichael, I would just like to pursue this a little bit further.

Mr Carmichael: Yes, I think you probably should.

Q376 Chair: So therefore, Minister, you knew the LCF was over budget, and you then chose between two forms of wind generation. You had the choice of onshore wind and offshore wind, one was expensive and one was cheaper—

Andrea Leadsom: No, that is not correct.

Chair: —and you chose the more—sorry, I am under the impression that offshore wind generation is more expensive than onshore wind generation.

Andrea Leadsom: No, what is not correct is that we had to choose. We made a manifesto commitment on onshore wind, so we were not choosing between onshore wind and offshore wind. We had a manifesto commitment that we were going to stop subsidies for new onshore wind projects.

Q377 Chair: Many argue with the basis of your manifesto commitment and the way it was worded. Did you talk to investors before you announced your intentions, or did you just do this without investors, without consultation, purely based on what many would argue was a woolly sentence in your manifesto?

Andrea Leadsom: As I have just said to Mr Carmichael, we had an enormous amount of consultation, and once we discovered the LCF was massively over budget, as any sensible business or political person would do, you would then take steps to get it back under control. Then followed an enormous amount of consultation, both formal and informal, to decide how best to do that.

Chair: Mr Carmichael?

Mr Carmichael: No, I think we have probably exhausted this.

Q378 Chair: Minister, if I can take you a bit further, when will we get clarity of what is happening with the levy control framework after 2021?

Andrea Leadsom: We have said that we will be making announcements in the autumn statement this year.

Q379 Chair: How do you intend to ensure that the LCF budget will be sufficient to deliver the fourth and fifth carbon budgets? I believe the fifth carbon budget has to be legislated for by tomorrow at the latest.

Andrea Leadsom: Yes, in fact it will be announced tomorrow.

Q380 Chair: That legislation will occur tomorrow?

Andrea Leadsom: Yes.

Q381 Chair: Thank you very much. Will you commit to introducing rolling annual LCF budget updates on a 10-year horizon, as recommended by the Committee on Climate Change?

Andrea Leadsom: As I have just indicated to Mr Carmichael, I would like the LCF going forward to give real clarity and certainty to investors, and we are looking at exactly how that could be delivered while at the same time, frankly, not being so vulnerable to the

situation that we found ourselves in whereby everything is going along merrily and then suddenly we realise it is massively overspent and we need to row back. That doesn't help consumers and it certainly doesn't help businesses, so I am very keen that the LCF post-2020 is going to create the investor certainty that we want. We are looking at all the options, of course including submissions from the Committee for Climate Change.

Q382 Chair: What sort of horizon will the budget updates have—five, seven, 10 years?

Andrea Leadsom: As I say, we are looking at the best way to deliver that. I would say, though, that I think the new National Infrastructure Commission will be useful in the sense that it will be putting out a long-term view of infrastructure needs, including in the energy space, and that will also help to give long-term certainty to investors.

Q383 Glyn Davies: I just want to discuss the formal position. I was thinking of the work of the Committee over future years in holding the Government clearly to account on the annual statement of where the Government policies are, and looking the following year at exactly where it is. The basis of this is likely to be the carbon plan or the emissions reduction plan. That seems to me to be really key, and the Committee is always going to be interested in where we are with that. When is it going to be published? We have heard it is going to be published at the end of this year; is it going to be part of the autumn statement, before it or after it?

Andrea Leadsom: Yes, by the end of this year.

Q384 Glyn Davies: When are we expecting to see it published?

Andrea Leadsom: We expect to publish it by the end of this year.

Jeremy Allen: That is correct.

Q385 Glyn Davies: So just the end of this year, not more precise than that at all in relation to the autumn Budget?

Andrea Leadsom: No, I can't be more precise than that, but by the end of this year. I completely understand that it is frustrating that the answers are not right there, but to get a good solution, a really good set of policies, these are enormous pieces of work, as I am sure you will appreciate, Mr Davies. Also, of course, whenever we say "by such and such a date" something happens, so it will be by the end of this year.

Q386 Glyn Davies: I am interested in setting up a formal way of reporting by getting the Committee to do an annual assessment of where the Government is. I think in our report we made something of this as being a pretty important issue, and there were a number of questions. When you come back and we have a further discussion, perhaps on your response to the report, there are four things that we listed in our report that we would quite like a response on. What consultations are you conducting as part of the process of developing the

plan? Are these consultations taking place now? You are probably conducting those consultations now.

Andrea Leadsom: Yes, absolutely. We are having meetings with stakeholders, including investors and so on, looking right across the board.

Q387 Glyn Davies: It would be helpful to us if we knew what those consultations are. If this emissions reduction plan is going to have significance I think it is useful to know that the Department is discussing this, and that it has meetings and is meeting different people. I think formalising it makes it more significant.

Andrea Leadsom: Yes. We have already started consulting with businesses, with consumers, obviously right across Government, with investors and so on. That will be continuing.

Q388 Glyn Davies: Yes, it will be a pretty important document. What sort of modelling work are you doing in terms of what shape this plan will take?

Andrea Leadsom: Cross-Government, there is a huge amount of modelling work going on. So the plan will obviously be based on very robust analysis that is tested with stakeholders across—

Q389 Glyn Davies: There is inevitably going to be scope for flexibility in that, because with some of the new technologies, they dismiss more than are being solved, so it happens unbelievably quickly.

Andrea Leadsom: Yes, exactly.

Q390 Glyn Davies: Are you going to allow for that sort of flexibility? You are not going to get into a position where it is not in the plan and so has to wait for the next plan.

Andrea Leadsom: Absolutely not, no. In energy, as you are exactly right to point out, that is one of the big challenges we have—we don't know what we don't know. We don't know as of today just how successful storage will be, just how successful small modular reactors will be. So, yes, you are exactly right to raise that. It will need to be a flexible plan.

Q391 Glyn Davies: Will the plan have implications for employment? I referred earlier to the impact in one part of my constituency—it was big, it was huge, and it was sudden. Clearly it was sudden because of the policy introduced after the election, and it really did cause a big shock and a big dislocation in a small area. Will the plan be anticipating those kinds of employment issues that might flow from decisions as well?

Andrea Leadsom: Yes. I am really sorry to hear that, and I completely recognise that in particular areas there can be a disproportionate impact of policy changes. What I can tell you is that we will always take into account issues of employment and the risk of massive

over-deployment that then causes a retrenchment later. So you want to see stability, but at the same time, as we have just agreed, it is very difficult without perfect foresight to know what new technologies might offer an opportunity that we have not anticipated. So yes, I think it is difficult, but we will of course be taking into account prospects for jobs and growth and so on.

Q392 Glyn Davies: We are looking forward to the publication of the plan and the first opportunity for the Committee to discuss it with Ministers, whoever the Ministers are at that time.

Andrea Leadsom: Yes, good. I think it will take us a long way forward.

Q393 Chair: Will any of these consultations be public, and how much of the pre work will be public as well?

Andrea Leadsom: The emissions plan will be published.

Q394 Chair: The pre work?

Andrea Leadsom: I am almost certain we could write to the Committee with details on all the consultations, the stakeholder engagement and so on. Without giving away specific information, we could certainly give you more detail on the process if that would be helpful.

Q395 Mr Carmichael: Finally, Minister, you touched a few minutes ago on the question of the National Infrastructure Commission. Can you tell us how, at official and ministerial level, your Department and the NIC agreed to work together?

Andrea Leadsom: Yes; there will be engagement, very regular engagement, at official level, and Ministers will get together to talk about strategy. Obviously the National Infrastructure Commission is big-picture and their brief is still, I believe, in consultation—or it is certainly not finalised as yet.

Mr Carmichael: We will come to their brief in a second. That is interesting.

Andrea Leadsom: But they are tending to focus on big areas, so, for example, they have been looking at transmission, they have looked at storage and so on. I think that is where the real value added will be—they will take a look at a particular area. DECC will very much be getting on with the day job, making the policy decisions, having the delivery and so on, but I think the NIC will have a very useful purpose in setting a long-term view and giving us some sort of guidance on exactly what we need to be achieving in the 10 to 30-year horizon.

Q396 Mr Carmichael: Where does the Committee on Climate Change fit into all this?

Andrea Leadsom: They provided an absolutely invaluable role in terms of looking at how we meet our decarbonisation goals, but that is rather different from the job of how we keep the lights on, how we keep the bills down, which technologies we use and so on. The Committee on Climate Change has a really vital role in the big picture on decarbonisation and a clean energy future, but that is a rather different job from the NIC.

Q397 Mr Carmichael: So if they have a vital role, will their remit be incorporated into the remit for the NIC?

Andrea Leadsom: I don't believe that has been considered, or not that I am aware of.

Q398 Mr Carmichael: But if it is to be meaningful, do you not think we should be doing that? Should we not have an explicit requirement to consider the infrastructure requirements of meeting the UK's carbon budgets and long-term legally binding carbon reduction targets?

Jeremy Allen: Within the NIC?

Mr Carmichael: Yes.

Jeremy Allen: My understanding is that the NIC is now a statutory body and it would be a matter potentially of changing statute to change its core remit.

Q399 Mr Carmichael: So the ship has sailed on that then?

Jeremy Allen: I think it would be a matter for Lord Adonis, who is the chair of the NIC, to take a view on if you wish to expand his remit or look at it again. I don't think it is for Departments. What we are looking at is an opportunity to work with a body that is taking that very long-term perspective and taking an objective view of infrastructure needs, in our case for energy, to give us guidance and advice and insight about how policy delivers that future.

Q400 Mr Carmichael: But how do you do that without taking full account of our commitments—our obligations on carbon reduction?

Andrea Leadsom: We absolutely do. As I say, the Committee on Climate Change makes a huge contribution to that, and we are responsible for meeting our carbon budgets and for putting forward policies to do that. So that is our business to do that.

Q401 Chair: Minister, a couple of things that have arisen today make scrutiny for a Committee difficult when so much is held under the mask of confidentiality, rightly or wrongly. I am not looking for a response to this, but we will look for ways to get around that or work with you on that, so that we can scrutinise more effectively.

A final question from me, Minister. As you said earlier, we don't know what we don't know, so given that you are a lead Brexiteer and in energy, where do you see energy and the

Government, the current UK, being in the future? Will it be in the European economic area, will it be in the European free trade area or in some non-determined situation?

Andrea Leadsom: I have always been very clear, Chairman, that I think that the UK will be trading with the world, including with our EU allies, and that will be enormously to the benefit of the United Kingdom.

Q402 Chair: So not EU or FTA?

Andrea Leadsom: I think that there will be free trade and that there will be certain red lines that will be abided by, which are what the people of this country voted for. Any arrangement will work within the red lines that were set out during the referendum—that we are not subject to free movement of people and not subject to the big budget contributions to the EU—but we will of course continue to trade with the European Union and it will open up huge opportunities with the rest of the world.

Chair: Okay, I think that provides an answer of non-EU and non-FTA, thank you.

Minister, we look forward to receiving a revised and more detailed response to the investor confidence report, please. In the meantime, we will have further opportunities to discuss this issue next week, because, as you know our investor confidence report will be debated in the Chamber on Monday along with the reports on carbon capture and storage and energy efficiency, and I am sure Members will explore some of these issues further. There is a lot there that I am sure we can all look forward on Monday evening. Minister and Mr Allen, thank you both for your time this morning in coming to the Committee, and we hope to see you again in the future, hale and hearty.

Andrea Leadsom: Thank you.