



# Select Committee on the European Union

## Energy and Environment Sub-Committee

Corrected oral evidence:

No deal preparations: energy and environment

Tuesday 23 October 2018

1.05 pm

Watch the meeting

Members present: Lord Teverson (Chairman); Viscount Hanworth; Lord Krebs; The Duke of Montrose; Lord Rooker; Lord Selkirk of Douglas; Baroness Sheehan; Viscount Ullswater; Lord Young of Norwood Green.

Evidence Session No. 2

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Questions 23 - 37

### Witnesses

I: Rt Hon Claire Perry MP, Minister of State for Energy and Clean Growth, Department for Business, Energy and Industrial Strategy; Jonathan Holyoak, Director, EU Energy and Climate Change, Department for Business, Energy and Industrial Strategy; Dr Katrina McLeay, Deputy Director for Nuclear, Department for Business, Energy and Industrial Strategy.

## Examination of witnesses

Rt Hon Claire Perry MP, Jonathan Holyoak and Dr Katrina McLeay.

**Q23 The Chairman:** I will start this public meeting. Can I remind members to declare any interests that they may have when they ask their questions? This is a public session. It is being transcribed and we will make that transcription available. If there are any mistakes on it, please come back to us and we will correct those. The meeting is being filmed and broadcast as well. This is a meeting about 'no deal' preparations on the energy and climate change side, and we are very pleased to welcome you, Minister and officials. Perhaps I could ask you to briefly introduce yourselves for the public, and then we can start the session.

**Jonathan Holyoak:** I am the Director for EU Energy and Climate Change in BEIS.

**Claire Perry:** Good afternoon. I am the Minister for Energy and Clean Growth.

**Dr Katrina McLeay:** I am the Programme Director for the Civil Nuclear EU Exit programme.

**Q24 The Chairman:** Perhaps I could start with the very general but important question of how prepared you feel BEIS is in terms of the energy and climate change area, particularly for the 'no deal' scenario which none of us knows whether that will happen or not. We are particularly interested in, and I know there has been some publicity today about this, the number of pieces of secondary legislation that have to go through Parliament between now and when we leave the EU and where we are on that; particularly how many SIs need to be laid before the House in this area, where we are at the moment and where we hope to be. I hope to have some assurance on that.

**Claire Perry:** Thank you very much for pursuing this line of inquiry and asking us to come and talk about such an important issue.

Of course, none of us wants to be in a 'no deal' place. Even though we think we could manage, we are very, very keen to do a good deal on behalf of those we represent and on behalf of EU citizens.

However, it is entirely responsible that we focus on 'no deal' planning. I have been heavily involved in negotiating funding, originally from the Treasury, for the overall Brexit team. I have worked with the team to prioritise 'no deal' planning and, indeed, to prioritise the legislative programme. It is obviously a government-wide issue. In Cabinet this morning, we discussed with the Leader of the House that we are making good progress on this. The challenge now is to make sure that everything gets through Parliament in good order before the exit date.

To give you some numbers, we have 73 EU exit issues in total due for delivery by next March, of which 70 are on track. There are three that relate to the SEM and Galileo, and they are off track—not horrendously,

but we are very reliant on third-party actors in those negotiations, so they are very much prioritised. We have published 29 technical notices.

We have a single 'no deal' work stream, which joins up 17 separate BEIS work streams. We have also looked at day one impacts that might extend beyond BEIS to our partner organisation. That has been stress tested and has proved, we believe, that there will be no significant risk on day one. We have published 13 exit SIs. We are aiming to lay a further 20 in October. We have to lay three SIs on behalf of the Northern Ireland group in the absence of an Executive. So we should have 75 in total, of which we are on track to lay 70% by the end of November.

I can assure the Committee that we are deprioritising SIs that are low priority and do not relate to these work streams to ensure that we get these SIs through.

**Jonathan Holyoak:** In the energy and climate space specifically, there are 28 SIs, four of which have already been laid, so there are another 24 to go. There are mature plans for all those to be laid before Parliament between now and December.

**The Chairman:** Were the numbers that you gave, Minister, the BEIS numbers?

**Claire Perry:** Yes, the Department's numbers.

**The Chairman:** That is very useful to understand. Do you think Parliament is up to it, let alone you?

**Claire Perry:** It is a very good question. Each of these takes Committee time. Even if it is an uncontroversial passage of something, and so far they have been uncontroversial, it is a drain. I have encouraged as much as possible for these to be grouped in Committee sessions, and we are working on doing that. Can we use people's time more efficiently to debate? Of course, not all of these require a Committee process, but to debate them where we need to, and we can.

**The Chairman:** I should know this, but given that those are a tranche of a much larger number of Government ones, do you deal with the Cabinet Office to get everything that comes together? Have you convinced them that this is an area of importance?

**Claire Perry:** The process has been with the Leader of the House's office and the various SI committees that exist. We have prioritised what we think is required. It then goes through a process of filtering with the House authorities in order to get them on to the various Order Papers where required. As I say, I do not underestimate this, but I am confident that this set of required pieces of legislation will be delivered. I probably should not stray into House sitting hours, but we have some flexibility in House sitting hours, should we need to.

**The Chairman:** Should we cancel our Christmas Recess, then?

**Claire Perry:** We rarely hold SI debates on Thursdays, for example, which we could do.

**The Chairman:** What concerns you most when it comes to getting things over the line? Which area of your portfolio is the trickiest?

**Claire Perry:** The thing that tends to get the most public attention is the ETS and our future co-operative relationship with the EU. I am fairly confident about that. I think I am on the record as saying to this Committee that the ETS is working and delivering a better price signal. It appears that we can work with that organisation going forward.

The tricky thing is the single energy market, partly because of the dependence on the other parties. The good news is that there is a huge amount of good will on all sides to ensure that the worst consequences of that not being delivered are completely avoided. It is of course a very serious focus, but I am more confident now that we will have a good outcome.

**The Chairman:** That is extremely useful. We will come on to both those subjects later. In a 'no deal' scenario, which is the one you have sent notices out on and the one we are talking about today, we would be out of the EU ETS, but we will come on to that later.

Q25 **The Duke of Montrose:** I declare an interest as being responsible for a rural estate in Scotland with a small hydroelectric scheme, which benefits from Feed-In Tariffs. What assessment have you made of the impact on UK greenhouse gas emissions of leaving the EU ETS? How many allowances will the UK have issued between 1 January and 29 March? What assessment have you made of the impact on the UK operators that will be handling allowances that carry the risk of losing their value on 29 March? How aware is the industry of the need for secondary registration in the EU? What assessment have you made of the potential impact on the EU ETS carbon price?

**The Chairman:** As you know, this is something that industry, when it talks to us, is very concerned about.

**Claire Perry:** Thank you for the question. I will try to set out the framework and then turn to Jonathan to answer specific questions on permits.

One thing that has been a great success story in our achievement of the best decarbonisation performance in our economy in the G7 has been the value of a pricing and trading mechanism, which we pioneered. Indeed, we now have our own unilateral carbon price, which we have put on to generators, which has largely driven coal out of the energy supply market. We are very committed to robust carbon pricing and the trading mechanisms.

If we have a very unlikely event of a 'no deal', we will no longer participate in the EU ETS under the current arrangements, but the intention—and there are conversations about how to do this—is to set up

a mirror system linked to the ETS, with the current operators in the UK having the same requirements to monitor, report and verify their emissions as per exit day. We have discussed before with the Committee the broader climate change agenda, on which our domestic achievements and ambitions are ahead of our shared ambition with the EU.

From my meetings with the EU Environment Council, I am aware of the UK's leadership in this area. We negotiated the reduction in emissions from vehicles package the week before last, for example. Our very strong ambition in this area is leading us to be extremely forward leaning in all the conversations, and I imagine that, whatever the technical relationship, that would continue.

Jonathan will answer some of the questions about the permits.

**Jonathan Holyoak:** As we set out in the technical notice, in a 'no deal' scenario the UK leaves the EU ETS and we initially meet our carbon pricing through the tax system. The particular issue is what happens after the 2018 compliance year, so after 31 December this year where there is a three-month period when people ought to be getting allowances. Only allowances issued after 1 January 2019 will be marked by the EU and have the potential to be made invalid. That is the first point to make. In a 'no deal' scenario, operators will not require 2019 EU ETS allowances to comply with the 2019 ETS year, because we will be out. Industry rightly has an issue about the first three months of next year and what to do about it, particularly at the moment, when they have to think about 'no deal' but also about a scenario in which we continue to participate.

In the technical notice, we wanted to set that issue out clearly for them. They then need to take their own advice and think about how they trade and what they want to do about that. We have been communicating with them. You asked whether they know about it. As early as February of this year, the Environment Agency started issuing communications to alert them to this possibility. We hope the technical notice brings that into sharp focus. We have been talking to the industry continually about its issues on the ETS, so we hope they are aware. Different companies will need to take different measures. Some that are pan-European will have different options from others, and they need to think about what it means for them specifically. The first few months of next year is an issue that the industry needs to think carefully about.

**The Chairman:** Can I just clarify, how many allowances would normally be issued in the period between January and March?

**Jonathan Holyoak:** It is difficult for me to give you a precise number. I do not know exactly. I hesitate to say this, but in a normal year between £300 million and £500 million worth of EUAs accrue in the UK system, so it is roughly a quarter of that. I would be wary of making too strong a presumption about that. That just gives you a sense of the issues they are dealing with. The most important thing is that they have foresight and a number of different options about how they trade into the future. We have been trying to give them that for most of this year.

**Viscount Hanworth:** Do people tend to buy certificates as and when they need them or in a lump at the start of the year?

**Jonathan Holyoak:** It depends on the organisation.

**The Chairman:** I would like to be clear on one thing, because these are quite valuable assets to people who have them, particularly with the carbon price having gone up a bit. Can I clarify that they will potentially be worthless after 2019 if they are not European-owned companies? That means there is likely to be a sell-off as people think that there will be 'no deal'. As the Duke of Montrose asked, does that mean that the carbon price will go down at that time?

**Claire Perry:** Again, we are looking at the worst-case 'no deal' scenario and trying to come up with something that could be put in place quickly to ensure that there is still a strong price signal. Longer-term options, which we have discussed, include participating in the ETS and a linked UK scheme. Signalling that to the market will be really important. Having painfully got to a place where the carbon price is now starting to send some good signals around Europe, it would be a massive backwards step if we saw that price come down.

**The Chairman:** We would go into reverse. I take your point.

**Lord Rooker:** Good morning. I have a modest declaration: I am a member of a co-op that runs an Archimedes' screw on the River Teme at Ludlow. My participation is purely voluntary, but we are hoping, and indeed are starting to generate electricity from it. Back to your first question on all the Statutory Instruments, I am also a member of Sifting Committee B in the Lords, so we will get half of them. Committee A will get the rest.

Can I develop the discussion a bit on the carbon tax and the announcement that was made? Which sectors and companies would it apply to? I came across a company yesterday, a fertiliser manufacturer in Stockton, which was ready to manage phase 3 of the Emissions Trading System and had a strategy for it. Now it has discovered that it cannot use its allowances to meet its obligations, and the carbon tax has been dumped on it without any warning or consultation. It is going to cost it the best part of £11 million to £15 million. That is a hit that no one planned. There has been no consultation about this. Did you have any discussions with the Governments in Wales and Scotland about this?

Lastly, how are you going to make it work in Northern Ireland? I fully accept that the Budget is on Monday and the Chancellor is going to say something about this, but this is a hit on companies that had planned to use their allowances. All of a sudden, a collectively agreed system is now a unilateral tax on them, without any warning. That cannot be good administration, can it?

**Jonathan Holyoak:** It is difficult to talk about the tax side of things ahead of the Budget, where we are expecting to have more detail about the carbon tax that might be put in place and who it would affect. I

apologise for that. We have been talking to Wales, Scotland and Northern Ireland about these issues for some time. We have had ongoing conversations with them. Northern Ireland in particular is in a slightly different position in the sense that it does not, for example, apply the Carbon Price Floor at the moment as part of the Single Electricity Market on the island of Ireland and making the market work. It has a different carbon price signal anyway.

As to your particular fertiliser factory, we would have to look into the detail a bit more to understand their issues.

**The Chairman:** Mr Holyoak, forgive me, if you could speak slightly louder that would be helpful to me.

**Jonathan Holyoak:** My first point was that, because the Budget is on Monday, it is difficult to give much detail about what a carbon tax backstop might look like. Secondly, as we have gone through this process we have been talking to the devolved administrations and seeking their input. Thirdly, I just had to say that, without understanding the precise details of this fertiliser factory, it is difficult for me to comment on that.

**Lord Rooker:** With respect, it is a point of principle. It is not about one particular factory. They must be one of many that have been working out what they are going to do in phase 3 of the Emissions Trading System. They have a plan and a strategy to meet it. They have some allowances. All of a sudden, whoosh, allowances are not available and cannot be used, and they are hit with a tax.

**Claire Perry:** I believe I have met this company several times. By the way, they are to be commended for decarbonising a very carbon-intensive production system. Indeed, we have worked with them over EU negotiations to phase 3 of the current system. Of course, this is all contingent on us not getting into a 'no deal' scenario. It is an example of how 'no deal' could be extremely negative for companies in that part of the world and, indeed, in many other parts of the world.

I do not think that the point about the devolved Administrations is quite fair. There has been a genuine attempt to have open-book policy-making, because it is in no one's interest to have anyone arguing about how decisions were reached. There has been a huge amount of negotiation and conversation. I know that the carbon tax idea was floated, but ultimately we are trying to maintain a very strong price signal for carbon reduction. We are trying to do something that replaces an EU ETS market that we have been told we would have to leave in the event of 'no deal'. It is not fair to say that there has not been negotiation. But this is why we have to keep negotiating hard, to ensure we have a good deal, for all the reasons you have pointed out.

**Lord Rooker:** Finally, will the Hospital Opt-out Scheme continue under this arrangement?

**Claire Perry:** I do not know the answer to that question. I am sorry.

**Jonathan Holyoak:** In the 'no deal' carbon tax situation, it is one of those areas where we just need to wait for the Budget. We do not know.

**Lord Rooker:** There is a big NHS connection there.

Q26 **Lord Young of Norwood Green:** I should first declare an unremunerated interest in fracking and the belief that it could make a positive contribution to our energy and security.

**Claire Perry:** Hear, hear.

**Lord Young of Norwood Green:** I thought that would please you. On the question of Northern Ireland, when you made your opening statement, I thought you said that that was an area that you still had some Statutory Instruments to cover. Let me pose a couple of questions to set the scene.

As you indicated, the integrated single energy market has a huge beneficial impact on the island of Ireland. I suppose this is the first question: what progress have you made on reaching an agreement with the Irish Government and the European Commission, so that the integrated Single Electricity Market on the island of Ireland can continue even in a 'no deal' scenario?

**Claire Perry:** As you rightly say, there are enormous benefits to consumers and the economy from a shared energy market, and that is recognised by all parties. I mentioned that this is complicated because there are multiple people negotiating, but there has been good progress on a legal provision to underpin the SEM in the Withdrawal Agreement, which is where it is very specifically spelled out.

We will continue to work to ensure that in the unlikely event of a 'no deal' it is maintained. There are legal questions around that, as well as technical questions, but there is a growing sense of confidence that that market will be maintained in all eventualities. We need to ensure that it is addressed directly in the Withdrawal Agreement.

**Lord Young of Norwood Green:** Does the absence of an Executive in Northern Ireland create any challenges in this regard?

**Claire Perry:** Yes, as with all matters in Northern Ireland. We have an important piece of legislation coming through our House to try to deal with this. We all regret deeply that we are where we are. Of course it does create an issue. Northern Ireland energy policy is largely devolved, but we are working closely with the Northern Ireland Office, regulators and all other parties that will be involved in the operation of the system. We are having conversations with civil servants and politicians, but also with those regulating on the ground.

**Lord Young of Norwood Green:** Have you spoken to the Irish Minister on this issue?

**Claire Perry:** I have met the Irish Business Minister face to face, and we discussed a number of things, including the market. There is strong appetite on both sides of the border to solve this problem, because it is a challenge for the Republic of Ireland as well as for Northern Ireland.

**Lord Young of Norwood Green:** Lastly, what consideration have you given to the impact that the Government's 'no deal' carbon tax would have on the functioning of the integrated single energy market?

**Claire Perry:** We have always understood that the carbon pricing is a challenge. The current Carbon Price Floor does not apply in Northern Ireland. We will continue to do all we can with Ireland and the EU to make sure the SEM is maintained. There is an argument that carbon pricing would hinder, in the short to medium term, the effective functioning of that market. That is something we would need to consider.

Q27 **Viscount Hanworth:** On the topic of civil nuclear regulation, when will the ONR publish its guidance on the new inspection regime, and when will the Euratom Supply Agency conduct an assessment of our safeguarding regime, as it must do before it can approve the supply contracts?

**Dr Katrina McLeay:** The work which ONR is doing to set up the new regime is going to involve it's keeping quite a lot of the processes for submitting nuclear material accounting reports as they currently are. The changes for industry in the short term will be quite minimal, and guidance will be forthcoming to assist industry in making any changes that are needed.

We in BEIS have had a significant amount of outreach to industry during the process of developing the regulations that will bring the new safeguards regime into place. ONR has also been working closely with industry on that point. They will be publishing their guidance in time for exit, but the fundamental process of reporting nuclear materials accounting to ONR and onwards to the IAEA, in discharge of our international obligations, will remain broadly similar for industry.

**Viscount Hanworth:** The Euratom Supply Agency wishes to conduct an assessment. When will that happen?

**Dr Katrina McLeay:** They will not formally have to conduct an assessment. They will want to satisfy themselves on where material is moving to and the regime it is moving into. The UK has already concluded new bilateral safeguards agreements with the International Atomic Energy Agency. As you know, the Euratom Supply Agency authorises contracts for movements outside the EU to other non EU weapon states, as the UK will be once it is outside.

**Viscount Hanworth:** The real question is whether you can guarantee an adequate supply of nuclear materials in a 'no deal' scenario. The Minister said in her letter of 6 June that you were uncertain which supply contracts would remain valid in these circumstances. Do we have any more clarity now?

**Dr Katrina McLeay:** We do not have sight of all the contracts, because they are commercially sensitive between particular entities, but we know which the affected operators are and we have been having discussions with those operators for over a year about what contingency plans they might put in place to ensure an adequate supply of fuel in the event that there is disruption in a 'no deal' situation.

I have had conversations relatively recently with those operators, or at least one of those major operators, and my team have had them with others. These are experienced operators with significant business interests at stake and they are very well progressed in their planning, in my opinion.

**Claire Perry:** It is fair to say that, as in every scenario where there is any form of risk, mitigation plans are being put in place, and you would expect us to be practically planning. Regardless of the European Commission's approach to reapproving existing fuel supply contracts, we will ensure that there is adequate nuclear fuel available.

**The Chairman:** That is reassuring. We can come back at a later stage to questions of nuclear waste.

Q28 **Viscount Ullswater:** First, I need to declare an interest. I am a trustee of a landed estate in Cumbria, which has interests in farming and wind energy.

It is not wind energy that I want to ask about now; it is nuclear research. How many UK researchers and scientists are currently actively involved in the Euratom research and training projects, the fusion at Culham and the International Thermonuclear Experimental Reactor? What steps have you taken to secure UK researchers' ability to collaborate on ITER independently of the EU in a 'no deal' scenario?

**Dr Katrina McLeay:** We currently have 92 permanent UK physicists working at Culham and 76 temporary UK researchers and scientists. There are 65 UK staff working at ITER. There are 87 full-time equivalents working on Euratom R&T fission projects across 15 key organisations. That accounts for about 50% of the UK fission funding secured from the programme.

On the steps we are taking, as we have made clear throughout, our preference is to associate in this area, but in a 'no deal' scenario the UK Government are willing to discuss opportunities for UK researchers, companies and institutions to continue to collaborate in this critical research.

**Claire Perry:** There is a very strong recognition of the value and the excellence of our research in this area. It is something we have talked about a lot in the Industrial Strategy as part of the energy transformation. My fellow Minister, Sam Gyimah, announced a package of measures only this month to support further work at Culham, including further funding. There is lots of interest in tokamak in many parts of the world, as there has been for many years, but that is an area of focus.

We have also established a £180 million research programme for nuclear fission. It is very much recognised as an area of focus and excellence, both for the energy sector and for the Industrial Strategy.

**Viscount Ullswater:** This is important, because these are huge sums of money and on a very long timescale. We need to make a commitment to that or at least have some indication that we can work jointly for the next 30 years on something such as Culham.

**Claire Perry:** Absolutely. It is slightly different, but I went to see the progress of work down at Hinkley and was astonished at how much technical expertise and money was being directed into that part of the industry. I hope the Nuclear Sector Deal will give the Committee some comfort. There is recognition of the need to look at other areas of research, particularly around small modular reactors, and to ensure a supply of domestically produced skilled workers for that industry over the long term.

**The Chairman:** Perhaps we can move on. We might go round some of these subjects again, depending on how we do for time.

Q29 **Lord Selkirk of Douglas:** Can I ask you, Minister, about the Connecting Europe Facility? When and how will the powers to enable the payment of the Connecting Europe Facility awards be introduced? In what respects and to what extent will the conditions and certification requirements differ from those that apply just now?

**Claire Perry:** This is an SI that will be laid by colleagues in the Department for Transport, which will cover transport, energy and broadband CEF grants. It will revoke the Connecting Europe Facility Regulation as it applies to domestic laws but essentially give us the powers to make payments if the Commission does not honour its grant awards. It is subject to the same time constraints. We will have this in place before any risk of a 'no deal' scenario.

The Innovation and Networks Executive Agency, to answer your second point, will essentially operate the grant agreements, which are very detailed and will form a good basis for new projects. I will ask Jonathan to expand on that, because it is not a very good answer.

**Jonathan Holyoak:** On the last point, with INEA, the Commission's agency that deals with these matters at the moment, we have a good foundation that we will take most of when we put a domestic alternative to the EU scheme in place. We are saying here that we have a pretty good basis for taking what the Commission already does and applying it domestically. The framework is there. We just need to transfer the powers, and then we can make sure that these projects, some of which are going, can continue to be honoured, and we can continue the good collaborative work in this area on energy, transport and broadband.

**The Chairman:** I think the Treasury accepts that, even if there is a 'no deal', we have financial obligations into the future with the EU, which as a nation we have to sort out anyway. Are there legal obligations for

payment on projects such as this, where there is a contractual relationship beyond the political one?

**Claire Perry:** From the UK Government? Yes. In January 2018, we said that the UK Government would underwrite all competitive bids for projects submitted while we are a member of the EU. The question is this: what about the ones already in place? The guarantee includes Connecting Europe Facility grants. Jonathan, does that apply retrospectively?

**Jonathan Holyoak:** It applies to any project that is currently a recipient of funding or sufficiently far through the planning process to mean that it is developed and money has been spent. The underwrite guarantee covers both those scenarios.

Q30 **Lord Krebs:** I declare an interest as a member of the advisory board of the Energy and Climate Intelligence Unit and a former member of the Climate Change Committee.

I would like to return to research but to talk about Horizon 2020. Minister, how are your discussions with the Commission going regarding our continued participation in Horizon 2020 if there is no deal? Assuming we are a third country, how many energy-related Horizon 2020 projects under way in the UK fall outside the calls covered by third-country participation? If they are outside, what measures are you taking to support them?

**Claire Perry:** It is very timely, given the raging debate there was today on this very topic. It is in no one's interest to lose opportunities for researchers. I say that as the wife of a professor engaged in many parts of this fundamental research. We have published our proposals for the future relationship. We are absolutely committed to this long-term, far-reaching set of cross-border collaborations, which have delivered so much. This is very much a fundamental part of the Withdrawal Agreement. Jonathan, do you want to talk about the conversations around 'no deal'?

**Jonathan Holyoak:** At the moment, we are gathering information in from all the projects that are recipients of grants from the EU side. We have had 486 registrations so far, I think, on the UKRI portal as we prepare ourselves for the scenario in which the UK has to make payments—the underwrite guarantee, if you like—to ensure the important collaboration that the Minister talked about continues. We are progressing that work and we will continue to do so, so that we are ready.

**Claire Perry:** It is an important point. On your second question about how many of these are energy-related contracts, because we have never been the grant awarders we have never historically held the data. Those contracts are between the European Commission and the beneficiaries. When I had to negotiate with the very tough Chief Secretary to the Treasury, part of the negotiation for the BEIS funding settlement was to ensure that we had the capability to take over the monitoring and future

administration of these grants, because it is not a function that BEIS has ever performed on behalf of Her Majesty's Government.

**Lord Krebs:** Just to clarify - we are talking about 'no deal'. I know that is not what you want, but it may be where we end up. Is the assumption that we should take away from this that, if there is no deal, the energy-related Horizon 2020 projects that fall out of being funded will be funded through UKRI? Is that what we are assuming? Is that safe to assume?

**Claire Perry:** Yes. The funding guarantee, which I believe was from August 2016, was a commitment to underwrite all funding for successful bids submitted before exit, grandfathered for the lifetime of the project. Energy projects, as well as other projects, would receive that funding guarantee.

**Lord Krebs:** Are you confident that UKRI is on track to deliver that funding after 29 March next year?

**Claire Perry:** Yes, I am. UKRI is going through a major reorganisation, as you know, and very successfully realigning more and more of our research with the Industrial Strategy. I have seen nothing to suggest that it is not entirely capable of maintaining the funding stream.

Q31 **Lord Young of Norwood Green:** Minister, on the question of Guarantees of Origin required to meet international obligations on fuel mix disclosures, BEIS guidance on generating low-carbon electricity states that, if there is a no Brexit deal, both combined heat and power Guarantees of Origin and renewable Guarantees of Origin that have been issued in the UK will cease to be recognised.

The guidance also states that Britain will continue to recognise Guarantees of Origin issued in the EU and that you are working to amend the relevant regulation to ensure they remain legally operable after Brexit. How many contracts and what volume of electricity trade would be affected by the EU ceasing to recognise the UK's combined heat and power and renewable Guarantees of Origin?

**Claire Perry:** To date, no UK-based CHP generators have applied for those EU-issued CHP Guarantees of Origin, so we do not expect any electricity trade to be affected under a 'no deal' scenario.

**Lord Young of Norwood Green:** Perhaps the second question is a bit irrelevant, then. What is the scale and nature of the amendments required to keep Guarantees of Origin legally operable in a 'no deal' scenario?

**Claire Perry:** Again, we have to provide a backstop, although I hate to use the word. The SI that relates to this amends the GB-plus-NI Guarantees to remove reference to the UK as a Member State and essentially ensure that the scheme operates effectively on exit day. Given that none have applied for this, that is just a belt-and-braces technical adjustment, is it not?

**Jonathan Holyoak:** That is correct. A lot of what we are trying to do in this space is tidy up the statute book to make sure that, where things said "EU", they now say "UK". We are also trying to maintain the status quo for industry so that nothing really changes for UK-based operators. It is more of a tidying up job, I would say, than a significant piece of legislation.

**The Chairman:** I just want to be clear. You said that we did not have any CHP, but do we have renewable Guarantees of Origin that we are relying on?

**Jonathan Holyoak:** They are two different things. I am pretty sure that we have a few, but not very many. It is probably best for me to give you belt and braces on that. I will write to you on that.

**The Chairman:** You are very welcome to come back to us on that.

**Jonathan Holyoak:** I think I might do that, if that is okay.

Q32 **Lord Rooker:** To come back to a slightly different subject, oil stocks, we have international obligations to hold 90 days' worth. While we are in the EU, we can hold some of the stock in the other 27 and, indeed, we might hold stock for some of the 27.

What are the general figures for stocks that we hold for ourselves and anybody else? Once we are out of the EU, what is the problem? Your department has said that we may not be able to access the international ticketing arrangements to hold our 90 days in any of the 27 EU Member States, where we might be holding stocks at the present time. What is the latest situation on the access to the international ticketing arrangements?

**Claire Perry:** According to our most recent numbers, there are enough physical oil stocks in the UK, which is about 11 million tonnes, to meet the IEA obligation without relying on cross-border ticketing. But part of the efficiency of the arrangement is to enable us to cover the obligation at the lowest possible cost. The approach would be to sign MoUs with relevant countries bilaterally, to ensure we can retain that option. That has been prioritised.

Leaving the EU could provide us with an alternative range of countries with which to sign MoUs, to maintain a strategic oil stock. Of course, it works both ways. The EU holds 5 million tonnes on behalf of the UK, but we hold 800,000 tonnes on behalf of the EU Member States, predominantly Ireland. There is a challenge, in that the stocks Directive says that Member States must maintain stocks within EU territory. We will have to sort that out, but there is a fairly pragmatic approach being taken to the negotiations.

The main impact, if there was a withdrawal or cancellation of the tickets, would be on the EU Member States that hold their oil stocks in the UK. They would then need to find alternative stocking options. But, again, pragmatism is running rampant in this set of conversations, luckily.

**Lord Rooker:** Is there any advantage to the UK in having to find countries outside the EU to hold our oil stocks? By definition, they are all farther away. Which countries are you looking at?

**Jonathan Holyoak:** You can have ticketing arrangements all over the world. What matters is that, when there is an emergency, the global market is supplied. Oil is a global market, so you are trying, in a supply shock, to supply the global market and ensure there is no price shock. In some ways it is almost counterintuitive, but it does not necessarily matter where the physical stocks are.

The EU bit of the Oil Stocking Directive is 61 days of consumption, but the International Energy Agency standard is 90 days of imports. Right now, that is a lower threshold than the 61 days on the EU side. We have it slightly easier, if you like. It is one of those few areas where it will be easier when we leave the EU. In 'no deal' terms, this is not a major concern. We need to focus on the fact that, for example, some companies hold stocks on mainland Europe. It would be convenient, I suspect, if they were ever used, to allow that to continue in the future. That is the particular focus of our efforts in this area.

**Lord Rooker:** In due course, you might ask, "Where are you holding your oil stocks?", and the answer might be "at sea".

**Claire Perry:** No, I think they physically have to be held on land.

**Lord Rooker:** They physically have to be on land.

**Claire Perry:** I think so. It says "maintain reserves". We can check that. It is an interesting question.

**Lord Rooker:** The grain stocks are held at sea, by the way. That is what I was told when I was a Minister. I said, "where are the grain stocks?" They said, "at sea".

Q33 **The Chairman:** If there is no deal, we will be out of the internal energy market at that same moment. One of the aspects of the internal energy market is that there are lots of efficiencies relating to oil and gas, interconnectors and those sorts of things, which we did a report on earlier in the year. Has the Department made any estimate of the price differences to energy consumers that a 'no deal' would make?

**Claire Perry:** There is a very interesting app that tells you how much energy is coming in right now from the interconnectors, which you may be interested in. It is about 6% at the moment. It is a very good way of working out how dependent we are overseas. It is a really important question.

By the way, in parentheses, one thing I have done is to change some of the calculation factors for interconnectors, because with the 'Beast from the East' they did not behave as was modelled. The flows tended to go the other way. There have been real questions about whether we have

got the modelling right in interconnector calculations. That is a more important strategic question.

**Lord Young of Norwood Green:** You said that the flow was going the other way.

**Claire Perry:** It was going to France rather than to here.

**Lord Young of Norwood Green:** We were exporting it.

**Claire Perry:** There are some important calculations about load and transmission flows. I know I am not supposed to go off topic, but we might have some really interesting strategic interconnector opportunities. There are some ideas in Iceland, potentially.

There have been conversations about pricing, but the market is incredibly fluid. What tends to set the price in the energy market is the gas price. At the moment, there is no fixed view as to what would happen to pricing should we, for some reason, have interconnectors that were suddenly technically not able to work. Of course, this would all come down to markets continuing to work but there being a question about their legality. No one is going to turn the tap off, but there would be questions about whether this was a legal contract.

**The Chairman:** No one is going to turn the tap off under a 'no deal'.

**Claire Perry:** No. It is absolutely right to have contingency planning for the worst-case scenario, such as a disorderly Brexit and concerns over supply, but I cannot imagine that the EU wants there to be an energy supply shock in Northern Ireland any more than we would.

Q34 **Viscount Hanworth:** On radioactive waste, first, can we determine the dimension of the problem? How many shipments of spent fuel and radioactive waste are sent from the UK to the EU 27 and vice versa in any one year?

**Dr Katrina McLeay:** The figures are collected and reported to the EU triennially. We do not have individual breakdowns of individual years. Looking at the total over the years of 2015, 2016 and 2017, from the UK to the EU 27, there were 1,248 shipments.

**Viscount Hanworth:** What about vice versa?

**Dr Katrina McLeay:** There were 54 imports into the UK over the same period.

**Viscount Hanworth:** Which is the UK's competent body for authorising the shipments? Will they have the necessary funds in future? Will they be displacing a European Union body, to some extent?

**Dr Katrina McLeay:** The shipments were authorised by the Environment Agency in England, by SEPA in Scotland, by Natural Resources Wales—I think the Environment Agency authorises for Natural Resources Wales, actually—and by the Northern Ireland Environment Agency. The

environment agencies in the UK are the competent authorities and will be doing the authorisations. We have been considering whether they will need additional resources in the future, to make sure they are fully resourced.

**Viscount Hanworth:** Then they presumably co-ordinate with their European Union counterparts.

**Dr Katrina McLeay:** Yes. The authorisation on the one side passes through for consent from the competent authority on the other side.

**Viscount Hanworth:** What has been the role of the European Union in licensing and monitoring projects to dispose of nuclear waste, and how will this function be replaced in a 'no deal' scenario?

**Dr Katrina McLeay:** I understand that you are referring to the process under article 37 of the Euratom treaty.

**Viscount Hanworth:** Yes.

**Dr Katrina McLeay:** This is whereby operators in the UK have to seek permission from the EU before they can go through a domestic consents process in order to dispose of specific quantities of waste in specific ways. This is largely to take account of potential transboundary impacts of that waste as it is disposed of.

In future, when we are no longer part of the EU, we will not be required to make that notification. Our domestic regime and our domestic regulation will remain as robust as it currently is and we are in the process of considering what potential transboundary reassurance we might want to give our neighbours about what we are doing with waste in this country.

**Viscount Hanworth:** Can you envisage, in a 'no deal' scenario, any great change in this flow to and fro of nuclear waste?

**Dr Katrina McLeay:** No, we are not foreseeing any significant flows resulting from anything to do with 'no deal'. There might be changes in business models in the nuclear industry, perhaps, but not as a result of no deal.

Q35 **Lord Krebs:** To come back to the discussion of Horizon 2020, I wanted to ask two further questions. First, you said that funding in the event of no deal would be guaranteed until the end of 2020. I want to know what is going to happen after then. The guarantee up to the end of 2020 does not cover projects in which the UK leads a consortium and is distributing funds to participants in other countries. In that case, what is going to happen to those projects and how much money is involved in that?

**Jonathan Holyoak:** What will happen after 2020 finishes? The Government are committed to supporting UK science in the long term, as the Minister spoke about and as I heard Minister Gyimah talk about this morning. We are keen to explore the option of full association with

excellence-based research and innovation programmes including Horizon Europe and Euratom research and training. We want to have that conversation in the future.

**Lord Krebs:** That is pretty vague. That doesn't give me much reassurance.

**Claire Perry:** Lord Krebs, you highlight an incredibly important point and one that is front and centre of the research community's conversations. Part of the mitigation has been the increase in R&D coming out of this Government. We endeavour to take our R&D spend up. That is hugely important and we want to make sure that is spent supporting the Industrial Strategy. But this is a very fundamental conversation to be having with EU counterparts.

I do not know why I am telling you this, but there has been incredible benefit from these international collaborations, and surely that is recognised by all Member States. There are serious conversations and negotiations ongoing, against a backdrop of a Government who are very actively supporting science, research and development, and scale-up, which we have struggled with for many, many years, and restructuring UKRI to deliver an outcome that we hope is more aligned with the Industrial Strategy.

I feel that we are not answering exactly the question, partly because we have set out what the UK Government want to do and the longer-term framework for R&D spending, but this is a very fundamental part of the negotiations.

**Lord Krebs:** Do you mean on the specifics of how they expect to co-ordinate with the UK?

**Claire Perry:** Yes, and you are right. We are talking about 'no deal', in which case we would automatically be a third country. In a 'deal' scenario with an implementation period, we would not have third-country status. You are right: we might be in a consortium that did not meet the threshold for Member State and associated country participants. My understanding is that our funding has been guaranteed to the extent that those contracts are already up and running, but we are seeking to address how this could be sorted out with the European Commission.

**Jonathan Holyoak:** A coda to that is that third-country participants can co-ordinate projects at the moment, so I do not see an obvious issue that would mean the UK could not continue to co-ordinate those projects as it currently does when it is a third country. We are hoping for continuity in that space.

Q36 **Lord Young of Norwood Green:** In a 'no deal' scenario, UK operators would not be able to participate in the common EU platforms for allocating interconnection. We have already touched on that. Will the new electricity trading rules that will need to be established in a 'no deal' scenario be agreed by both Ofgem and EU regulators by 29 March? What

assessment have you made of the potential impact on the UK's fuel mix if a 'no deal' scenario reduces the UK's ability to conduct short-term energy trading with the EU?

**Jonathan Holyoak:** With a 'no deal', how do Ofgem and the EU regulators work together? We and Ofgem have been working with the interconnectors to ensure that new access rules and the terms and conditions of trade can be approved on our side by 29 March. Clearly, what happens on the other side is not entirely within our control. We have an active conversation going on, as do the interconnectors, which have a clear interest in making sure the rules are agreed on both sides, so there is as efficient trading as possible in a 'no deal' world from the start of April.

**Claire Perry:** As you will know, the conversations about fuel mix are a complicated play based on our carbon targets, the removal of coal from our generation system by 2025, the potential for bringing on onshore shale gas, which could contribute to our domestic energy security, and the weather. When the wind blows and the sun shines, we get better renewable mixes. There is a sense that if we had a 'no deal', people would be cranking the pipes off. I am fairly confident that would not happen, although there may be a legal question as to whether these are operating within tolerances. I do not think it is a particular concern. There is a question, longer term, about the efficiency of the market. The interconnectors were there as a way of smoothing demand. But there is a sense that that would not be materially impacted by no deal.

**Jonathan Holyoak:** Briefly putting my negotiator hat on, in the conversations we have with the Commission, in the 'deal' world it is striking that this is an area of strong common interest. It is in the interest of both sides that there are efficient trading laws. It is in the interest of both sides that we build the infrastructure to facilitate a low-carbon GB and European economy. Who knows what will happen? But we hope there is sufficient common ground in this area to get to a sensible place.

**Claire Perry:** The French like it because they are exporting their nuclear power to us. They do not have anyone else; they send it to Germany, only no one is allowed to know that. There is a strong commercial reason to keep these flows.

**Lord Young of Norwood Green:** You are hopeful for reciprocity there. Finally, what impact would a 'no deal' scenario have on the price consumers pay for their energy?

**The Chairman:** We have gone through that.

**Lord Young of Norwood Green:** Have we?

**The Chairman:** Yes. I think you had to go out.

**Claire Perry:** There have been conversations about whether this could be the direct result of a 'no deal' but, because the markets are so dynamic, they would continue to function, technically.

Q37 **Lord Rooker:** Is your department responsible for making sure that, in Northern Ireland, portable generators are available in case things go wrong, or is it some other department? Are the generators being manufactured in the UK?

**Claire Perry:** This is worst-case contingency planning.

**Jonathan Holyoak:** In almost all the bad-case scenarios, the Utility Regulator in Northern Ireland will talk to the companies about ensuring that capacity is available. With us on the GB side, it will make sure that the interconnector between Scotland and Northern Ireland works efficiently to secure Northern Irish supply as well.

**Claire Perry:** To reassure you, there are conversations on that and other points, on an incredibly open-book basis, between my department and the Northern Ireland Office. It is a shame that we do not have a functioning Executive, but there are plenty of people on the ground who are very keen to help us not get to that scenario.

**The Chairman:** Good. Minister, Dr McLeay and Mr Holyoak, thank you very much indeed for coming before us and going through that in a rather rapid and varied order. We thank you very much and we look forward to seeing you in due course on other occasions.