

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

FEED-IN TARIFFS (AMENDMENT)
(NO. 3) ORDER 2015

Monday 13 June 2016

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The Committee consisted of the following Members:

Chair: SIR EDWARD LEIGH

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| † Allan, Lucy (<i>Telford</i>) (Con) | † Mathias, Dr Tania (<i>Twickenham</i>) (Con) |
| † Blenkinsop, Tom (<i>Middlesbrough South and East Cleveland</i>) (Lab) | † Murray, Mrs Sheryll (<i>South East Cornwall</i>) (Con) |
| † Boswell, Philip (<i>Coatbridge, Chryston and Bellshill</i>) (SNP) | † Pursglove, Tom (<i>Corby</i>) (Con) |
| † Leadsom, Andrea (<i>Minister of State, Department of Energy and Climate Change</i>) | Reeves, Rachel (<i>Leeds West</i>) (Lab) |
| † Lopresti, Jack (<i>Filton and Bradley Stoke</i>) (Con) | † Scully, Paul (<i>Sutton and Cheam</i>) (Con) |
| † Lynch, Holly (<i>Halifax</i>) (Lab) | † Smith, Julian (<i>Skipton and Ripon</i>) (Con) |
| † McCaig, Callum (<i>Aberdeen South</i>) (SNP) | † Stuart, Graham (<i>Beverley and Holderness</i>) (Con) |
| Mann, John (<i>Bassetlaw</i>) (Lab) | † Whitehead, Dr Alan (<i>Southampton, Test</i>) (Lab) |
| † Matheson, Christian (<i>City of Chester</i>) (Lab) | † Williams, Craig (<i>Cardiff North</i>) (Con) |
| | Joanna Welham, <i>Committee Clerk</i> |
| | † attended the Committee |

First Delegated Legislation Committee

Monday 13 June 2016

[SIR EDWARD LEIGH *in the Chair*]

Feed-in Tariffs (Amendment) (No. 3) Order 2015

4.32 pm

Dr Alan Whitehead (Southampton, Test) (Lab): I beg to move,

That the Committee has considered the Feed-in Tariffs (Amendment) (No. 3) Order 2015 (S.I. 2015, No. 2045).

It is a pleasure to serve under your chairmanship, Sir Edward. Normally, I run in the door three minutes after a debate has started, so it is a pleasure that I was actually here just before things started and someone else was running through the door just behind me.

I am opening the debate on the statutory instrument because the Opposition have prayed against the original negative SI, which introduced the changes. As a result of the way that SI was introduced to the House, those changes have come into effect, so our debate is more about the principle of what is being done rather than about looking prospectively at those changes. That is what I want to address my remarks to today.

The effect of the SI is, first, that changed rates of payment for feed-in tariffs, or FITs, for several technologies have come into place. More importantly, for all technologies, from now on, deployment will be limited by a new first come, first served measure, whereby agreement to provide FITs payments for projects will be based on an overall envelope of spending. We should be clear that that is not spending as we might plainly understand it, but putative tax and spend, because it is financed by a levy on supply that is eventually passed on to customers in the shape of their electricity bills.

It has always been the position of Labour Members that we do not object to depression being part of the FITs regime. Our concerns in the past have been about the rate and effect of depressions that are too precipitous or, as we have discussed on similar occasions, replacing a depression slope with a cut-off on payments. Depression is combined in the order with an absolute limit on the amount of levy that can be spent on FITs overall from now on. The control will be £100 million a year for all small renewable installations, be they wind, solar, hydro or anaerobic digestion, and there will be assumed subtotals in place governing how much of each technology can receive FITs each quarter before the limit is deemed to have been reached—reaching the limit will be the end of a FIT application, except that the applicant might get a FIT in the next quarter, and so on.

We are essentially returning to the original low-carbon building programme from before FITs were conceived. The programme rationed grants to installers to, I think, a quarterly limit, with schemes shut to new entrants as soon as the totals had been exceeded. The FIT arrangements were partly introduced to ensure that if an installer had put in the effort to install a device, with all the up-front investment involved, they would know that they had a tariff waiting for them once the installation had been

completed. The pre-accreditation arrangements that the Government unwisely scrapped a little while ago are to come back under the new regulations, but, even so, we have to be clear that that way of doing things is a straightforward and basic breach of the principle of how FITs were supposed to work and from now on will clearly be a considerable barrier to new entrants at a smaller scale.

I note that the Government intend to recycle underspend in any category under the new arrangements by adding one quarter's underspend to the total available for the next quarter, but they may change caps between priorities according to their own policy priorities. Will the Minister clarify for me during the debate what those priorities might be and at what point underspends on each technology at the end of each quarter, if they occur, will be announced? Will there be a delay in allocating, or reallocating, sums while the Government decide on their priorities, or will the sums go on to the next quarter's limit pro rata unless the Government say otherwise?

Reallocation or no reallocation, the effect of the proposals will be radically to reduce to deployment of renewables under FITs over the period up to 2020-21. Such limitation in deployment appears to be startlingly large. The impact assessment suggests that, in the central scenario, some 5.7 GW of low-carbon generation that otherwise would have come into the system will be lost by 2021.

The Minister will undoubtedly say that there is a levy control mechanism—here is the shibboleth that must not be breached—and that the order will help substantially to keep levy control spending at levy control figures, regardless of the damage it would cause to the deployment of smaller-scale renewables and regardless of the measure's adverse carbon impact. It is interesting that that carbon impact is not recorded in the impact assessment, as it is supposed to be.

The impact assessment states that the changes on depression and on capping will save about £1 on domestic customers' bills per year over the next five years. It is an interesting side proposition, not considered in the accompanying documents, whether the deployment of renewables through FITs itself has a depressing effect on prices as deployment increases, mainly because of solar affecting the daytime merit order of generation and pulling prices down as a result. It is therefore quite possible that the savings set out will be dribbled away against higher prices as a result of the lower levels of deployment that I have outlined. I will not dwell on that because there are rather more important issues to consider on capacity.

Graham Stuart (Beverley and Holderness) (Con): I had hoped that the hon. Gentleman would not pass over the merit order effects quite so quickly, and I encourage the Minister not to do so, because understanding the trade-off between the subsidy and the effect of taking the merit order out of the equation at any one time for the more expensive sources of production is an important component of understanding the real costs involved in subsidising something such as solar.

Dr Whitehead: I am delighted that the hon. Gentleman is a member of the Committee, because he will no doubt be as happy as I am to talk at great length about

merit order. I suggested that we do not dwell on it partly because of issues about how one looks at the dislodging of merit order by low-carbon energy coming on to the grid, particularly during daytime hours, which is a fairly complicated process. Nevertheless, as he said, that is important in terms of higher-carbon generation potentially coming on to system when lower-carbon generation is available and how that affects the relative prices coming forward, with the heights in the morning and the evening and the dips during the day, and pushes the merit order out along the line. That is a pretty important thing to consider, but other members of the Committee may not wish to be detained at length to discuss the intricacies of such arrangements.

I put that on the table as a potentially important point as far as the arguments for price reduction in energy generation in general are concerned. Actually, the very deployment of a larger amount of renewables may countermand some of the supposed reductions and, in fact, the net effect may be that prices would go up to a greater extent than would have been the case were those renewables in the system and affecting the merit order in the way I suggested.

The important additional point is that the deployment of renewables through FITs is, as I mentioned, adding to the nation's installed energy generating capacity and the loss as projected in the central scenario in the impact assessment to the order of 5.7 GW by carrying out the cap option is a real loss to installed generation capacity over the medium period. FITs-eligible installations do not get any sort of reward for being there to generate because they already have some assistance through the FIT, but other, non-renewable generation now does through the mechanism of the capacity market—auctioning assistance, essentially, for agreeing to be there to generate if generation is required, although not actually generating, as renewable energy would do if it were installed.

The Minister and her Department have not been slow to ensure that such capacity availability is to be well rewarded—about £18 per kWh at the first two auctions for existing generation. Through those two auctions and the additional early auction, about £5.5 billion will probably have been spent on securing existing capacity and supposedly procuring new capacity under the capacity market, which will explicitly not result in any new capacity coming on the system by the time the first round of capacity auctions is through. Indeed, we now know the results of the first two capacity auctions, which have procured precisely no new large gas capacity, but they have procured the establishment of some heavily polluting diesel sets as small-scale marginal generators to the tune of about 1.5 GW.

By the way, that 1.5 GW of new generation achieved through the capacity market system impacts on customers' bills in just the same way as FITs payments because that will be financed by a levy on producers, which will be passed on to customers' bills. That is for £5.5 billion, and 5.7 GW of new capacity will be lost to the system after 2020 because of the levy control cap and the way the Department is lying down and rolling over in front of the levy control framework demands. The purpose of the feed-in tariff—to generate low-carbon energy and incentivise the establishment of new technologies to do it—is being thrown out of the window in the process. If we were to ask the Minister what the impact of that £5.5 billion spend on procuring capacity in the capacity

market would be on customers' bills by 2020, the answer would be, "About £20 to £30", which massively counteracts the so-called saving achieved on eviscerating the feed-in tariff in the way proposed.

A valid riposte to my figures on capacity, as represented by the proposals before us, would be that the capacity margins of the renewables do not remotely add up to the level of power supply because the sun does not always shine, the wind does not always blow and so on, which is, of course, true. However, certainly as far as small-scale hydro and AD are concerned, the capacity margins look similar to those of gas plant. Even so, according to the impact assessment, some 7,000 GWh of generation will be lost if the cap goes ahead, against present projections. However, if we are making a comparison with the equivalent new generation through the capacity market, that new generation—the diesel sets—is predicted to run for even fewer hours than solar photovoltaics will as a proportion of its installed capacity. Indeed, the Government have made a virtue of the tiny hours that diesel sets will run in the capacity market, as an argument for discounting their extremely polluting nature.

The other, one might say valid-ish, riposte, is, "Yes, but we do not know when smaller generators are coming on to the system, so we cannot count that as capacity." It is, however, clearly capacity. It is coming on to the system and can increasingly be modelled as such. It is only because there is no visibility of power inputs below 15 MW that National Grid does not know when the capacity is coming on stream; it is merely recorded as a loss of load. With different arrangements on visibility, however, a different picture of what capacity is around could, and would, emerge.

That leads on to the next question for the Minister: has she ever looked, or is she now going to look, at processes whereby the capacity represented by small-scale generation can properly be accounted for in capacity margin calculations—calculations that tell us what capacity gaps there are and impel us towards decisions to build plant to bridge those gaps in the first place? If she did that, the 4.4 GW already installed under FITs and the 13 GW possible as cumulative installation under the present programme—if it continues under the current arrangements—might be seen by the Government in a different light, as a capacity asset and not a funding drain.

The Minister and hon. Members will, I think, have gathered by now that Labour Members do not like the proposals. We do not like them because they represent a fundamental missed opportunity to start to reshape policy so that there is a more real definition of how the system is working, what capacity is coming on to it and how it can be properly rewarded, in bringing the assets forward. I suggest that we have a completely unbalanced system at the moment, but, among the capacity that is coming on stream, penalising the renewable and rewarding the non-renewable is to the detriment of what I believe are overall carbon goals that we share, as far as renewable and low-carbon generation is concerned, for the future shape of our energy policies.

Instead of that, the measures represent a capitulation to limits that dismantle policy in favour of a sterile nightwatchman view of deployment, which cannot be acceptable with the low-carbon energy emergency that we face. We must have a better way of dealing with the

[Dr Whitehead]

deployment of renewable energy—with the capacity and the future asset that it represents—than to cap its deployment in the way described in the statutory instrument.

4.49 pm

The Minister of State, Department of Energy and Climate Change (Andrea Leadsom): The instrument before the Committee and the associated modifications to the standard licence conditions implement the changes set out in last year's feed-in tariff review. The changes include, among other things, the introduction of a cost-control mechanism in the form of deployment caps, and a revised level of generation tariffs to be paid under the scheme. The changes are necessary to protect bill payers from unacceptable costs in the future and to ensure that support for renewables remains affordable.

In recent years, we have made enormous progress in encouraging the development and deployment of renewable energy and building a successful renewables industry. The feed-in tariff, or FIT, scheme has been a vital part of that achievement. The Government recognise the significant role FIT has played in engaging non-energy professionals in the electricity market and also the role small-scale generation can play in future on a path to subsidy-free deployment.

The scheme now supports more than 861,000 small-scale renewable installations. That figure is far in excess of what was expected to deploy when the scheme was set up in 2010. The Government at the time estimated it would cost £490 million per year by 2020. Those projections are no longer even slightly correct. Without the changes we have introduced, which are set out in the instrument that we are debating, we estimate that by 2020 the FIT scheme would cost more than three times that figure at £1,740 million per year.

The Government are committed to cost-effective decarbonisation of our electricity supply and to protecting consumer bills by controlling costs under the levy control framework, or LCF.

Graham Stuart: The Minister is right to highlight the Government's record, which is tremendous. In 2010, only Malta and Luxembourg had fewer renewables than this country. The Government truly have been the greenest Government ever. To what extent is the Government's approach to the LCF and capping informed by an understanding of the merit order effect? That subsidy is not all that it seems. In fact, the costs to the consumer are a great deal less than would be apparent purely looking at the LCF total.

Andrea Leadsom: My hon. Friend makes a good point. He will be aware that the analysis my Department does takes into account the merit order effect. Nevertheless, the levy control framework—the actual sum that gets added to consumer bills by our policy on support for the renewable sector—has to be taken into account. This was not a modest overspend; it was shooting the lights out. It beat all our own assessments over our targets in our electricity market reform analysis. Both the deployment and the cost associated with it have gone massively over what we anticipated. Therefore, it is not fair to consumers simply to say, "Never mind, we won't even attempt to meet either the target that we set out for renewables or the cost associated with it."

Graham Stuart: Will the Minister give way?

Andrea Leadsom: Just once more.

Graham Stuart: I am grateful to the Minister for giving way again. The wholesale price is so much lower than I think the Government predicted. Perhaps she can confirm that. Therefore, in a sense, the cost to the consumer and the merit order effect are such that the low cost of renewables has dragged down the wholesale price of energy. That is why no one at the moment will put any form of new generation into place, without some sort of support. That is because renewables have lowered the wholesale price. Therefore, one must offset that against the subsidy if one is to have a true picture of what the consumer is paying towards greening our energy supply.

Andrea Leadsom: I say again to my hon. Friend that I completely understand the point he makes. He, too, completely understands the point I am making, which is that in terms of deployment, the management of the system and the transition to a low-carbon energy future, we cannot simply throw all our own estimates, budgets and targets up in the air and suggest that it does not matter what we add to consumer bills. I totally understand the point he makes—please do not get me wrong there. Nevertheless, it is vital that when we set our targets for how we want to manage our transition to a low-carbon future we keep some kind of rein on the deployment levels and the cost that we put on consumer bills as a result.

The Government are committed to cost-effective decarbonisation of our electricity supply and to protecting consumer bills by controlling costs under the levy control framework. The LCF projections published last July showed a significant overspend due to, among other things, demand-led schemes such as the FIT providing unchecked support for the renewables industry, so urgent intervention to manage spend has been necessary. It is important to remember that the FIT scheme is funded by consumer electricity bills—bills that are paid by all regardless of whether they benefit from the scheme. Uncontrolled spending on FITs therefore has a direct impact on the energy bills of consumers, including families and businesses.

Hon. Members will recall that the Government announced a package of cost control measures, including a consultation on the future of the FIT scheme last summer. This proposed a number of measures to meet two core objectives: first, to comply with our EU state aid approval, a review of the support offered by the FIT scheme, which is required every three years; and, secondly, proposals aimed at controlling the cost of the scheme to limit the impact on consumer bills.

It is clear that the scheme in its original form was no longer affordable and needed to be amended to protect consumers. With the changes introduced by this instrument, spending will be more controlled and will be reduced from £1,740 million to £1,300 million a year by 2020. That still allows for very significant support, but it will be provided in a more controlled manner, balancing the interests of bill payers with those of the wider renewables industry. Overall, the changes we are making will save at least £7.6 billion from consumer bills over the next 20 years.

Tom Pursglove (Corby) (Con): I draw the attention of the Committee to my declaration of interest as director of Together Against Wind. When reaching these policy decisions, do Ministers take into account the real challenges that our manufacturing industries are experiencing? Spiralling energy costs have made it difficult in recent years for them to compete on a global playing field. It is important that we control costs and we must not see them increase in what are already difficult circumstances.

Andrea Leadsom: My hon. Friend is exactly right to point that out. The balance we are seeking to achieve is to be fair to the industry and fair to those consumers, including businesses—we have seen this a lot of recent weeks and months—who are really struggling to meet their electricity costs and to be competitive. As I said, overall the changes will save at least £7.6 billion from energy bills over the next 20 years.

Members of the Committee will recognise that this Government were elected with a clear manifesto commitment to keep bills as low as possible, so controlling costs under the LCF is a key part of delivering that commitment. Urgent action was needed to bring projected FIT scheme spend down in order to manage LCF spend responsibly and to protect consumers. It is simply not acceptable to continue with an unconstrained scheme.

This amending instrument makes a number of changes to the FIT scheme, including, first, the introduction of deployment caps, limiting the aggregate total installed capacity of installations that can be applied for within any quarter. That will enable us to limit spend on the scheme to £100 million up to the end of 2018-19. Such caps are necessary if the scheme is to continue and if its impacts on consumer bills are to be properly controlled. I tell the hon. Member for Southampton, Test that currently, if the technology does not reach its quarterly cap, the underspend is rolled over to the next quarterly cap.

Secondly, the order reintroduces pre-accreditation. That would not have been appropriate without the security provided by the deployment caps. It will therefore also mitigate some of the uncertainty inherent in a system of capped deployment.

Thirdly, the order removes the right to receive a generation tariff for extensions to existing installations. That is intended to incentivise generators to install the maximum capacity achievable and to eliminate the potential for gaming of tariffs.

Fourthly, the order introduces a cap on the amount of green overseas electricity by which suppliers are exempted from paying FIT policy costs.

The rest of the measures from the review are implemented through amendments to licence conditions. First, there are changes to the generation tariffs. Tariffs have been revised following consultation to ensure a viable scheme while maximising value for money for bill payers. Secondly, there are modifications to both default and contingent degeneration tied to the quarterly system of budgetary caps. Thirdly, there are changes to energy efficiency criteria to require that an energy performance certificate—an EPC—is obtained prior to the commissioning date of solar PV installations under 50 kW. That change has been made to encourage improvements to the energy efficiency of properties more generally.

Prior to making the changes, my Department carried out an extensive stakeholder consultation. DECC officials met stakeholders across England, Scotland and Wales, and received and analysed just under 55,000 consultation responses. We listened carefully to the views of industry, in particular the £1 plan of the Solar Trade Association, and we took account of its responses in redesigning our scheme. I myself held a roundtable for all industry associations to hear their views. As a result of our stakeholder engagement, we revised tariffs upwards to reflect the findings of the evidence provided. We allocated more budget to solar under our £100 million cap and we implemented a cap system that will allow us to recycle underspend and to consider the balance of caps between years.

Our changes combine the visibility that industry asked for with the robust cost control that the Government need.

Dr Whitehead: The Minister has set out the various cost benefits of the changes, but has she set that against the possible loss of capacity after 2020 and the consequent expenditure, also a cost on bills, that will ensue from getting further capacity on the systems concerned? Has she looked at how that works in the round? Has she put those comparative figures to the Treasury in terms of how the levy control framework and the capacity market may work as a consequence?

Andrea Leadsom: I think the hon. Gentleman is suggesting that subsidy will continue to be necessary for ever for solar.

Dr Whitehead *indicated dissent.*

Andrea Leadsom: No? Okay. In which case, the hon. Gentleman will appreciate that, given the rate at which costs are coming down in various renewable technologies, it is our hope and expectation that as subsidies become less necessary, different renewable technologies will be able to stand on their own two feet. I am not entirely sure what he is asking me.

Dr Whitehead: Perhaps I can clarify. As the Minister is aware, we are about to spend £5.5 billion on procuring capacity through capacity markets. If we had greater renewable capacity in the system, and we were able to make that visible on the system, a good proportion of the expenditure to procure capacity from non-fossil fuel plant would not be necessary. Has she considered that, because the very large expenditure that is under way, which costs bill payers between £20 and £30 a year on their bill and dwarfs the figures she has cited, could at least in part be avoided by opting for that route?

Andrea Leadsom: Yes is the answer to that; we have absolutely considered that option, as we always do. Of course, the capacity market is an insurance policy for security of supply. In three or four years' time, we hope and expect that energy storage will have been deployed to a greater extent. In those circumstances, the hon. Gentleman might be right that, for future years, we may be able to say that, owing to such storage, solar and wind are despatchable power. However, he will recognise that our energy trilemma is to keep the lights on, keep bills down and decarbonise.

[*Andrea Leadsom*]

The capacity market is an insurance policy and therefore it is despatchable power that bids into that market. At the moment, solar and wind are not utterly reliable technologies. It is not negotiable: we will keep the lights on. I hope that is a reasonable answer, but I can assure the hon. Gentleman that we look at this from both ends of the telescope, and in the past year, my Department has done a lot of work to look at precisely how different policy changes affect every aspect of our energy trilemma. We always consider the questions, “What does this do to energy security? What does it do to the cost of bills, and what does it do to our targets for decarbonisation?” We never look at just one aspect of our energy policy. I hope that response gives him some reassurance.

The changes will limit the subsidy available under the FIT scheme. That is necessary to prevent overcompensation and to protect bill payers. In our electricity market reform delivery plan, our best estimate of the solar deployment needed to hit our 2020 renewables target was that we should achieve between 10 GW and 12 GW. Without action on demand-led schemes, we would have exceeded that target, and even with those changes, we are still on track to exceed that range. We expect to hit around 12.8 GW by 2020, so even with the limit on subsidies, we still expect to exceed our own targets by 2020.

The aim of the continued support we are offering is to get us to the point where the calculation is not about what jobs are supported because of subsidy, but what the industry can sustain in a post-subsidy world. For example, we believe that the future FIT scheme will provide enough support for new solar installations to power more than 260,000 homes. That is still a significant increase from where we are today. Of course, 99% of all solar installations have taken place since 2010, so this is still a significant growth sector.

The order came into effect on 15 January, so it is still too early to determine the longer-term impact of the changes on deployment, but early data show that six of the 11 caps for Q1 of 2016 have been hit. We are encouraged by the way the industry is responding to the recent changes. For example, deployment of solar under the revised FIT scheme continues at rates that match those seen historically following previous revisions to the scheme. I assure hon. Members that my Department is closely monitoring applications and deployment, and will continue to review the effect of the changes.

I would like to make one final point. If the order were to be annulled, we would have to consider closing the FIT scheme altogether. At the very least, we would need to suspend the scheme while we considered alternative means of controlling costs. That would bring further uncertainty, which would be deeply unwelcome to the renewables industry. Hon. Members will recognise that the Government are consumer champions, and we simply cannot allow uncontrolled costs to impact on consumer energy bills.

I remind the Committee that the changes to the FIT scheme are part of a package of cost control measures to deliver our manifesto commitment to keep bills as low as possible. The Government want to protect bill payers, ensuring technologies can stand on their own two feet while also meeting our renewable energy commitment. To annul the order and remove the cost

control measures—measures intended to protect bill payers—simply will not do. I commend the instrument to the Committee.

5.7 pm

Graham Stuart: It is a pleasure to serve under your chairmanship, Sir Edward, and to participate in today’s debate. Going forward, our aim should be to have a completely different energy market—not so much one characterised by base-load and then some flex, but as flexible a market as we can have, so that we can take on board renewables, with their intermittencies, and balance that by having flexible production.

One reason we might hesitate before curbing deployment of renewables is that there are four technologies that can help to provide flex in the system. One is storage, to which the Minister referred. Huge technological developments are afoot in storage. As we have seen with solar and wind, so we see with storage: prices are coming down, investment is going in and technology is being harnessed to lower costs. There is a big hope that storage could start to play an increasing role, and if we look at an online meter that shows where we get our energy from, we will often see that storage is playing a part already.

The second technology is on demand management. We are seeing significant efforts by National Grid to provide seedcorn for that market, in order to get people to start looking at whether they can switch off their systems, lower their energy use at key times in an affordable way and find out the price for that. That will develop over time as it becomes more transparent, and people may design major energy-using systems precisely so that they can easily be switched off cost-effectively at peak times, thus contributing to the system.

The third technology is interconnectors, which the Minister has played a big role in promoting and supporting. Having more interconnectors with our neighbours provides us with another flex in the system, because our peak is at a different time from our neighbours’ peaks.

The fourth technology that helps to provide flex in the system is flexible generation. The gas-fired power station at Saltend in my constituency was built for eight closures a year, if I remember rightly: it has four turbines, which have two maintenance closures each a year. But last year it shut down hundreds of times, precisely because work has been done to turn it into a more flexible generator. Mitsubishi, one of the major suppliers, has entirely changed the cost system for supplying parts; the system has responded, to try to allow Saltend cost-effectively to provide generation that switches off and on.

Those four technologies are developing day by day and getting better, just as is happening in my constituency. That gives us all the more reason to be optimistic that the system will be more flexible over time and that traditional fossil fuel systems such as gas, which might previously have seen themselves as base-load suppliers, can be flexible suppliers, providing energy where it is needed. With storage, demand management and the interconnector in place, the requirement for them to do that—and the requirement for the fossil fuels themselves—will, I hope, reduce over time and eventually disappear.

I have some concerns about cuts and about the direction we are going in with solar and onshore wind deployment while diesel generators are being commissioned as part

of the capacity market. It is fair to say that the Government are taking action to ensure that that does not happen again, but none the less it has happened recently.

However, my biggest concern is around the levy control framework—the idea of capping spending and viewing how much it is in static terms. When the LCF was put in place a few years ago, what wholesale price did the Government predict? I am not sure, but I am pretty sure that their predicted price was a great deal higher than the price today. Contrary to the suggestion made by my hon. Friend the Member for Corby that prices are spiralling, wholesale prices are at a remarkable low—far less than anyone in gas, wind or any sector can currently afford to commission new generation for.

Why is that? It is rather weird that, when there is a capacity market auction, the Government end up being alarmed that the prices that the system pays for the capacity they ask for turn out to be far less than would allow the commissioning of new plants. That is why the Government will doubtless come forward with new ways to ensure that we get a new generation system.

Why is the wholesale price so far below the price of new generation? People might say that it is because cap ex has been exhausted—an awful lot of plants have been going for a long time and can therefore produce cheaply. That argument does not entirely persuade me. It seems to me that if my cap ex had been repaid, I would still want to sell at the market price, regardless of my cost. In a normal market, the market price is the market price: the cheapest producer—the most profitable company—makes its profits and is very happy; it does not drop them.

Why has the wholesale price been dragged down? It is because of the merit order effect, which sounds terribly technical and distant but basically means that when our renewables—solar and wind—are going, they have to generate, which has helped to squeeze out the more expensive generators and has lowered the cost. In many ways, the renewables have made a significant contribution to lowering costs for consumers. I have not done the maths, so I am not suggesting that that entirely counteracts other factors. However, in a report on the merit order effect, Good Energy stated:

“In net terms, the cost of supporting wind and solar generation in 2014 was £1.12 billion—58% less than the cost reflected in the Levy Control Framework.”

The value of the Merit Order Effect will increase with further renewable deployment”.

In other words, the more renewables we have, the more the cost will be dragged down. According to that economic analysis, the idea that renewables are a chronically expensive, bill-boosting form of energy generation is not entirely correct. I am sure there are other aspects to this, so we need to add it all up. Perhaps we need to add up the additional costs per unit of generation of that plant in my constituency, which is not running so many hours a year.

There will be counter-costs, but on something like the measure we have before us today we need net figures. We need the Government’s estimate of what the real costs are on the consumer rather than just the headline figure, which is over what we budgeted, not mentioning the fact that the wholesale price, if I am right—someone correct me if I am wrong—is actually a lot lower than the Government budgeted. Therefore, the cost to the consumer, far from being massively boosted, is not

boosted. We then risk cutting the very technologies that are contributing to those reductions, or at least netting off a very great deal. At the same time, they are much cleaner and help us meet our carbon targets.

On the face of it, there are some issues there. Remember what Good Energy said about the £1.12 billion—58% less—in 2014:

“The value of the Merit Order Effect will increase with further renewable deployment...the current level of savings suggest that, if renewable support was viewed in net terms”—

I suggest that it should be—

“the projected future overspend of the Levy Control Framework may not be a reality”.

It may not be a reality. That, it seems to me, is the central challenge to the proposal.

Those are my concerns. I am sure that that report, like any other, will not have the entire truth in it and there will need to be further balancing, but, as I quietly and loyally support the order, may I make a plea to the Government that they look to come forward with a more sophisticated assessment—perhaps they have it already and are not sharing it with us—of the overall net position of the costs on both sides so that we can make a better informed decision and ensure that when we meet in a Committee Room such as this, we are better able to scrutinise the decisions they make, I am sure with the best of intentions?

5.17 pm

Dr Whitehead: The hon. Gentleman, in expanding a little on the merit order arrangements, hit the nail on the head about the inadequacy of the order’s response to the wider issues of renewable deployment; what that means over the next period and how we are properly to account for it in our generating capacity loads, given how expensive they are; what sort of subsidies we ought to put into what; and how the overall picture emerges. The truth of the matter is, as the departing chief executive officer of National Grid set out recently, that we are in not an energy transition period, but an energy revolution period in which many of the things we thought were certainties are beginning to be—and have been—turned on their heads.

My concern about the measure in the order is that it is—dare I say it—counter-revolutionary inasmuch as it turns the clock back on what will be some different calculations about what is being costed in and where, as far as generation is concerned, and how renewables play a part in that generation process. My suggestion is that if the order were to be annulled, that might well make the Government go away and, as things change as rapidly as they are doing, cost in some of those real factors in a rather better analysis within a reasonably controlled cost framework of energy deployment, with what it is that customers will have on their bills, because of course that is an important part of the process.

My case—the hon. Gentleman will perhaps join me in at least part of this—is that trying to save customers money on their bills essentially by closing down substantial parts of renewable deployment, but at the same time spending large amounts of money and costing customers a lot more money on their bills by trying to procure non-renewable, high-carbon capacity on the other side of the equation, may well lead to us completely losing the opportunity to decarbonise our energy supplies at a

[Dr Whitehead]

good cost to customers over a longer period. I hope that a review might result in a discussion emerging on the real net cost over that period and perhaps a more realistic view of what the levy control framework is going to do on deployment.

I am sure that the Minister would agree that having a static target against a variable and changing series of demands is probably not the best way to proceed in the longer term with energy policy. It may be that the Committee's deciding that it did not want to go down that route would be a rather positive and cathartic way forward for wider energy policy, although I accept that the Minister would have some short-term problems with that. I dare to say that she has been arguing recently about the longer-term benefit that we might get even though we might have short-term economic problems, for other reasons entirely.

How to get our energy policies right for the longer term, which may mean in the shorter term having to review how we make the levy control framework work and how we make power and generation work within that, could be a difficult question to resolve. Nevertheless, from what I and other Members have put before the Committee, there are some real questions about whether this way of adhering to the levy control framework is

the right way forward, and I seek a Division to see whether we can put forward different ways for the future of energy supply.

Question put.

The Committee divided: Ayes 10, Noes 6.

Division No. 1]

AYES

Allan, Lucy
Leadsom, Andrea
Lopresti, Jack
Mathias, Dr Tania
Murray, Mrs Sheryll

Pursglove, Tom
Scully, Paul
Smith, Julian
Stuart, Graham
Williams, Craig

NOES

Blenkinsop, Tom
Boswell, Philip
Lynch, Holly

McCaig, Callum
Matheson, Christian
Whitehead, Dr Alan

Question accordingly agreed to.

Resolved,

That the Committee has considered the Feed-in Tariffs (Amendment) (No. 3) Order 2015 (S.I. 2015, No. 2045).

5.24 pm

Committee rose.