PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT CONTRACTS FOR DIFFERENCE (ALLOCATION) (AMENDMENT) REGULATIONS 2016

Monday 24 October 2016

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Friday 28 October 2016

The Committee consisted of the following Members:

Chair: Mr Graham Brady

† Argar, Edward *(Charnwood)* (Con)
† Borwick, Victoria *(Kensington)* (Con)
† Bruce, Fiona *(Congleton)* (Con)
† Debbonaire, Thangam *(Bristol West)* (Lab)
Dugher, Michael *(Barnsley East)* (Lab)
Godsiff, Mr Roger *(Birmingham, Hall Green)* (Lab)
† Harper, Mr Mark *(Forest of Dean)* (Con)
† Hopkins, Kelvin *(Luton North)* (Lab)
McCaig, Callum *(Aberdeen South)* (SNP)
McGovern, Alison *(Wirral South)* (Lab)
† Mathias, Dr Tania *(Twickenham)* (Con)
† Morton, Wendy *(Aldridge-Brownhills)* (Con)
† Norman, Jesse *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Pincher, Christopher *(Tamworth)* (Con)
† Quince, Will *(Colchester)* (Con)
Weir, Mike *(Angus)* (SNP)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)
† Zahawi, Nadhim *(Stratford-on-Avon)* (Con)

Gavin O'Leary, *Committee Clerk*

† attended the Committee

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[MR GRAHAM BRADY *in the Chair*]

Draft Contracts for Difference (Allocation) (Amendment) Regulations 2016

4.30 pm

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Jesse Norman): I beg to move,

That the Committee has considered the draft Contracts for Difference (Allocation) (Amendment) Regulations 2016.

It is a pleasure to serve under your chairmanship, Mr Brady. The regulations amend a statutory instrument made under the Energy Act 2013. The instrument makes a simple amendment to the current regulations to extend the contracts for difference scheme. Under the current regulations, the Government have the power to run an allocation round and to allocate a budget for renewables projects commissioning—that is to say, generating electricity—up to 2020. The proposed amendment extends that date to projects commissioning up to 2026.

The instrument was publicly consulted on for a five-week period. That was an appropriate length of time, given the simple and technical nature of the change. We received 24 responses, all of which were in favour of the proposal. I welcome the wide reviews received as part of the consultation, which we will take into account when considering the further development of the contracts for difference regime.

As hon. Members will see, the regulations are short and—so far, at least—uncontroversial. They passed through the Joint Committee on Statutory Instruments and the Secondary Legislation Scrutiny Committee without note. The regulations do not come into force on one of the set dates for common commencement because they fall outside that scheme, with their impact on business, charities or voluntary bodies being negligible. However, it is right that attention is drawn to the cost to consumers and businesses of the broader operation of the contracts for difference scheme, which is why the draft explanatory memorandum includes the impact assessment for that scheme as a whole.

The contracts for difference scheme is designed to incentivise the significant investment required in our energy infrastructure—electricity infrastructure, in particular—to keep energy supplies secure, keep costs affordable for consumers and help meet our climate change targets, so that we can play our part in working towards the 2050 targets on climate change agreed in Paris and reinforced at the G20. We plan to run the next allocation round soon. Details have not yet been published, so I am unable to provide hon. Members with those today.

As hon. Members will be aware, the first CfD allocation round was held in October 2014 and led to contracts being signed with 25 large-scale renewable generation projects at a significantly lower cost than what those projects would have cost under the renewables obligation scheme. The Government will continue to evaluate and monitor the present scheme, ensuring the measures put in place remain effective and continue to represent value for money to the consumer.

4.33 pm

Dr Alan Whitehead (Southampton, Test) (Lab): It is a pleasure to serve under your chairmanship, Mr Brady. I welcome these proposals. As the Minister set out, they are, in principle, not controversial; indeed, they are the opposite of controversial, inasmuch as they extend the delivery date from the original cliff edge of 2020 to 2026. That is a positive move, which clarifies and makes possible the announcement in the last Budget that £730 million of support will be available through future auctions for offshore wind and other less-established renewable electricity generation technologies before 2020, for operation after 2020—that is, between 2021 and 2026. That is set out in the policy background statement to the regulations.

Although I have no concerns about the extension of the delivery date and the framework within which, therefore, CfDs can now be allocated, I do have concerns about the statement in the policy background document. I would be grateful for the Minister's elucidation of those concerns.

My first concern is that what is said in the policy background statement is not, in fact, exactly what the then Chancellor announced in Budget 2016. I would be grateful if the Minister clarified the differences between the Chancellor's announcement and what is now set out in the policy background statement.

The then Chancellor announced that

"the government will auction Contracts for Difference of up to £730 million this Parliament for up to 4 GigaWatts of offshore wind and other less established renewables, with a first auction of £290 million."

However, the policy background statement says that

"the Chancellor announced…£730 million of annual support for future auctions for offshore wind and other less established renewable electricity generation technologies."

That is a small difference, apparently, in framing, but it is a potentially large difference in eventual meaning.

When the then Chancellor announced £730 million for this Parliament, many people took him to mean that the sum was a one-off borrowing, as it were, from the levy control framework—which had, as yet, not been finalised—from 2020 to 2026 of £730 million. It was thought that that would be available for CfDs for offshore wind in the main, but also for other less established technologies, which I will come to in a moment, and that the borrowing would take place such that, although the auctions would take place within the levy control framework as it stands at the moment—that is, until 2020—the effect would be felt in the next period of the levy control framework.

The levy control framework is the framework within which this all takes place. That framework coincides with the delivery dates, which were originally set as 2015 and 2020 for the two periods of the levy control framework. We are now waiting to see what the levy control framework will look like for the next delivery period. The regulations sketch in but do not completely fill in the picture of what the levy control framework will look like up to 2026.

My question is that, given that it is now being said that the £730 million is annual support for future auctions, does that mean that for every year for the next period of the levy control framework, £730 million of putative tax and spend will be available to support offshore wind and other less developed technologies? Alternatively, does the Minister mean that there will be a one-off allocation—not a payment because it is putative tax and spend—of £730 million, which may be followed by other measures, completing the total picture of the levy control framework?

If the latter is the case, presumably there is more funding to come within the overall levy control framework picture up to 2026, and the £730 million is a part of that. If the former is the case, it is conceivable that £3.65 billion is the total amount allocated under the levy control framework for the next period up to 2026. It would help if we were clear about the differential and whether it points to the allocation being a one-off or a part of a series of available funds.

My second and third questions relate to the detail of that. Whether the available money is a one-off or continuing, presumably it will have to deal with the existing picture of the levy control framework up to 2020 because this statutory instrument essentially extends the period through which the levy control framework will work. If that is the case, we know that the controls set in place with the levy control framework and agreed between the Treasury and the then Department of Energy and Climate Change are likely to be exceeded by 2020.

I asked a parliamentary question in December 2015, and the answer indicated that the levy control framework up to 2021, even if changes are made to feed-in tariffs for solar PV, onshore wind and various other things, looks likely to be overspent by about £1.3 billion to £1.4 billion. According to the agreement between the Treasury and DECC, that overspend has to be clawed back within the levy control framework itself. So if this SI is to extend the levy control framework to 2026, that £1.3 billion overspend should, in principle, be clawed back within the overall total of the levy control framework up to 2026. If that is the case, the real cost is either £3.65 billion over five years, minus the £1.3 billion that is clawed back, or it is £750 million with some other money coming in but with £1.3 billion being taken off the total.

In either case, it would appear that the £730 million total, depending on what it is, is not necessarily one on which we can rely in the next period of the levy control framework. If that is the case, the indication that there is £730 million, or indeed £730 million times five, available for offshore wind and other less developed technologies is something that we might put a large question mark against.

Finally, what does the Minister mean by

"other less-established renewable electricity generation technologies"?

If he means what is at present in the less marketable pot of the levy control framework—things such as tidal power and wave power, etc.—he appears to be saying that, post-2020, support will be available only for offshore wind and technologies that are less close to market, which is presumably not solar PV and other forms of wind, and possibly not biomass. If that is what he means, it would help if he told us so. If, however, he has another interpretation of that statement, it would help if we were to hear that instead.

I have essentially asked three questions on a move that I welcome overall. If my questions are answered fully and successfully, this SI will provide a framework for a suitable way forward for remunerating renewable technology over the next period, albeit with the continuing degression of CfDs and underwritings as the technologies come closer to market. Nevertheless, it is a framework that, subject to those clarifications, the market and investors can look forward to working in, making their investments accordingly over a much longer period than has hitherto been suggested.

4.45 pm

Kelvin Hopkins (Luton North) (Lab): It is a pleasure to serve under your chairmanship, Mr Brady. I do not normally speak on statutory instruments, but I have a particular interest in energy. I defer to my hon. Friend the Member for Southampton, Test, who is a real expert in these matters, while I definitely am not. However, I assume that this is essentially about Government subsidy for renewable energy, to make up the difference, one way or another, between the price that companies want to charge and the price that consumers are expected to pay. I suggest that if this were taking place in the public sector, we would not have these complications, but it happens to be in the private sector. I have a particular view of the world that may not square with the Government's.

I was very disappointed when the Government cut back on feed-in tariffs for solar photovoltaics. I have installed solar PV in my own home, but I am comfortably off and can afford the capital costs; for others, feed-in tariffs can make the difference between installing it and not installing it. If every home and building in Britain had solar PV, it might not be as economical as generating electricity through gas, but it would be a massive step forward. I hope that one day we will see solar PV and other forms of renewable energy providing the bulk of our electricity and energy needs, even though we understand that the baseload has to be provided in a controllable, generable form.

I ask the Minister whether I have got the message right—I hope he will say yes—that the policy applies only to renewables. I know that there are parallel ideas about subsidising the future of nuclear, but this is not about nuclear but about renewables—at least, I hope so. I am very unhappy about nuclear, but that is a story for another day. These are simple questions from a person with a simple mind.

4.47 pm

Jesse Norman: I thank hon. Members for their questions. The hon. Member for Southampton, Test asked three questions: the first was about levels of funding under the contracts for difference scheme; the second was about whether there is an overspend relative to the levy control framework; and the third was about what is included.

The overall picture is that there is up to £730 million per year to be allocated in up to three auctions. This is the first auction, which is for £290 million a year of

[Jesse Norman]

annual support. Each contract will be for 15 years and will begin, at a time to be announced, between 2020 and 2026. That leaves headroom of £440 million a year of support that could, in principle, be offered via other auctions.

Dr Whitehead: I understand from the Minister that £730 million is available each year over a number of years throughout the next delivery period. I assume he means that £730 million is available each year for new applicants and that each of those applicants will then get a 15-year tail on CfD from a successful application. The total amount of money for new applicants is therefore £730 million times three, or five, or however many pots are available, and the first auction is part of that overall pot. Have I understood the Minister correctly?

Jesse Norman: Unfortunately, there is an ambiguity in the phrase "new applicants". The position is that £730 million is available under auctions. That money will be paid per year under the auctions. The first auction is £290 million; each contract period is 15 years long. I do not have the numbers to hand, but one can run the numbers out as to the total amount of money, in constant pounds, that will be paid out over those contracts in total and as they are announced individually. That is the position.

The hon. Gentleman asked whether there was some overspend under the levy control framework. The levy control framework, as he said, runs until 2020 and the Government are considering whether and how that framework will be extended. At that point, it will become appropriate to ask whether or not there could be any overspend. His third question was about what is included. The included technologies are offshore wind, wave and tidal stream, advanced conversion technologies—gasification and the like—anaerobic digestion, and biomass for combined heat and power. Those are the less established technologies.

Finally, I turn to the question from the hon. Member for Luton North. I am afraid he was telling such a beguiling story about the installation of solar PVs on his own property that I missed the central thrust of the question. I think he was asking whether the regulations were really focused on renewables, and I assure him that they are. There is an entirely separate framework, also known as a contract for difference, that applies to nuclear supply in the case of Hinkley. That is under a completely different scheme and is not the subject of the legislation today.

Kelvin Hopkins: To explain, I should say that I was expressing some disappointment that the Government had chosen to cut back on feed-in tariff support for domestic solar PV. It does not affect me, but it may have affected others and dissuaded them from investing in solar PV, which would be very disappointing.

Jesse Norman: I understand. I am glad that has not affected the hon. Gentleman, but he is certainly right that it has affected other people. This technology is rapidly falling in price and the sector is continuing to show its resilience in the face of the changes, so we must hope and expect that it continues to do so. The fact remains that it is separate from the subject of this debate, because it comes under the feed-in tariff regime and not under the contracts for difference regime, although I am happy to take the hon. Gentleman's point. The key thrust of what is being said today is that the regulations are about renewables contracts for difference in these so-called "Pot 2" less established technologies, and not in nuclear.

Question put and agreed to.

4.53 pm

Committee rose.