PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT ELECTRICITY SUPPLIER OBLIGATIONS (AMENDMENT AND EXCLUDED ELECTRICITY) (AMENDMENT) REGULATIONS 2017

Monday 16 October 2017

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not later than

Friday 20 October 2017

The Committee consisted of the following Members:

Chair: Mike Gapes

† Ali, Rushanara *(Bethnal Green and Bow)* (Lab)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
Carden, Dan *(Liverpool, Walton)* (Lab)
† Caulfield, Maria *(Lewes)* (Con)
Coffey, Ann *(Stockport)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Francois, Mr Mark *(Rayleigh and Wickford)* (Con)
† Furniss, Gill *(Sheffield, Brightside and Hillsborough)* (Lab)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† James, Margot *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Jones, Mr Kevan *(North Durham)* (Lab)
Lewis, Mr Ivan *(Bury South)* (Lab)
† Robinson, Mary *(Cheadle)* (Con)
† Ross, Douglas *(Moray)* (Con)
† Scully, Paul *(Sutton and Cheam)* (Con)
† Spencer, Mark *(Lord Commissioner of Her Majesty's Treasury)*
† Sunak, Rishi *(Richmond (Yorks))* (Con)

Clementine Brown, *Committee Clerk*

† attended the Committee

First Delegated Legislation Committee

Monday 16 October 2017

[MIKE GAPES *in the Chair*]

Draft Electricity Supplier Obligations (Amendment and Excluded Electricity) (Amendment) Regulations 2017

4.30 pm

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

That the Committee has considered the draft Electricity Supplier Obligations (Amendment and Excluded Electricity) (Amendment) Regulations 2017.

It is a pleasure to serve under your chairmanship, Mr Gapes. These regulations amend the Electricity Supplier Obligations (Amendment and Excluded Electricity) Regulations 2015, which make provision for indirectly exempting eligible energy-intensive industries from part of the costs of funding the contracts for difference scheme. They aim to avoid putting those industries at a significant competitive disadvantage.

The transition to low carbon and the securing of our energy supplies must be done in a way that minimises the cost to business and domestic consumers. Our industrial gas prices are internationally competitive, but our industrial electricity prices have moved out of line with other European countries. That places UK electricity-intensive manufacturing industries at a competitive disadvantage and increases the risk of carbon leakage.

To meet our legally binding climate change and renewable energy targets, we have implemented a number of policies designed to incentivise the generation of electricity from renewable resources. A substantial part of the cost of those policies is recovered through obligations and levies on suppliers, which pass those additional costs on to their consumers. That results in electricity bills being higher than they otherwise would have been.

The contracts for difference scheme is such a policy. It gives greater certainty and stability of revenues to electricity generators by reducing their exposure to volatile wholesale prices. The scheme is financed through a compulsory levy on electricity suppliers, which pass the costs on to domestic and business users through their electricity bills. The levy currently stands at almost £2.52 per megawatt-hour. The funding costs of the contracts for difference can reduce the attractiveness of the UK as an investment location and increases the risk that companies will invest or even move elsewhere. That is a scenario we particularly wish to avoid as we exit the European Union.

We intend to safeguard the competitiveness of those energy-intensive industries particularly exposed to the additional costs arising from CfDs by exempting them from a proportion of those costs. An exemption scheme allows for real-time changes in energy use to be taken into account and provides greater certainty to business. The European Commission approved our state aid proposal to exempt certain energy-intensive industries from the cost of CfDs in December 2015. The draft regulations update and improve the regulations we laid in 2015 and bring them into line with the terms of our state aid approval, allowing us to commence the scheme.

We recognise that the exemption will redistribute the cost of financing CfDs to other electricity consumers. We estimate that that would increase annual household electricity bills by around £1 over the next few years. None the less, we have taken steps to reduce costs on consumer bills, which are now lower than they might otherwise be. We have also published a draft Bill that will limit the cost of standard variable tariffs and other default tariffs that customers are moved on to at the end of a fixed-term deal, meeting our manifesto commitment and bringing an end to unjustifiably high prices.

The regulations make amendments to the original 2015 regulations that are necessary to bring them into line with the Commission's state aid approval. We are also making technical changes to the regulations to improve the administration of the scheme. The amendments include changes to eligibility; allowing new or restructured businesses to claim the benefit of the exemption; a requirement on beneficiaries to notify us, to help us ensure that they receive the exemption to the correct level only if they are eligible; and allowing a company to apply for the exemption if it does not obtain electricity directly from a licensed electricity supplier.

The House of Lords Secondary Legislation Scrutiny Committee raised a number of points relating to the timing of the consultation, provision for direct competitors and the impact on consumer bills. I will summarise its main points. Regarding the length of consultation, the policy to exempt eligible energy-intensive industries from a proportion of the cost of CfD had been subject to three previous consultations, the third of which covered technical amendments to the regulations, rather than policy changes, as the policy has already been consulted and agreed on previously. Our original intention was for the regulations to come into force at the end of February. However, some of the technical issues needed further consideration to ensure that the amended regulations achieved their aim. We involved stakeholders throughout the whole process.

Our original intention had been to provide relief to direct competitors—businesses that do not meet the eligibility criterion on electricity intensity, but which manufacture the same products as eligible companies in the same sector. That was designed to create a level playing field and prevent market distortions within sectors. We submitted a state aid notification to the European Commission to address this issue. However, the Commission does not think that our proposal is compatible with the relevant state aid guidelines. We are considering alternative options within the scope of the guidelines that may be open to us.

The draft regulations will make the necessary changes to the 2015 regulations to allow us to exempt eligible energy-intensive industries from up to 85% of the indirect costs of funding the CfD scheme. As well as providing those businesses with greater long-term certainty, the measures set out in the regulations will reduce the price differential between eligible energy-intensive industries and their international competitors, mitigating the risk that those companies are put at a significant competitive disadvantage and might choose to move their production abroad. I commend the regulations to the Committee.

4.37 pm

Gill Furniss (Sheffield, Brightside and Hillsborough) (Lab): The regulations are essentially a series of sensible clarifications and adjustments to the working of the scheme to exempt energy-intensive industries from paying money towards the cost of supporting energy schemes, such as contracts for difference given to low-carbon projects such as offshore wind. We support the idea that energy-intensive industries should not have that requirement placed on them in addition to the cost of the substantial amount of energy they use, so we will not divide the Committee on the regulations.

However, I would like the Minister to address and clarify questions arising from the new regulations. The first is on the consequence of exemptions on the bills of non-exempt industry and, particularly, on the bills of domestic energy customers. The regulations and their amendments will have a consequence for domestic bills, as obligations to pay for the cost of renewable underwriting are socialised across those paying bills. The exemption of part of that constituency of bill payers will result in marginal increases in obligation payments for everyone else.

It is suggested in the explanatory memorandum that domestic users should anticipate an increase in their bills of around £1 a year. However, in the impact assessment published alongside the original 2015 regulations, it is suggested that the effect of the regulations will be to add about £1.80 to a domestic bill. Will the Minister clarify whether the difference between those figures represents a lowering of the cost of the exemption as a result of the amendments, a change in the method of calculating domestic bill costs or simply a mistake in translating the costs between the two explanatory notes?

The second question relates to a passage in the explanatory memorandum that sets out the difference in the intention and outcome of the regulations. Paragraph 8.8 describes the Government's intention

"to remove the provisions in the 2015 Regulations that allow direct competitors of eligible EIIs which are not in themselves eligible"

for relief under the regulations to also "claim the CFD exemption." The memorandum indicates that the proposal was not approved by the EU for state aid, so it is being discontinued. The Minister mentioned that earlier, but we would welcome a more focused clarification, as it appears to have resulted in some over-exemption of liability to pay for green energy costs and thus to possible recovery of that over-exemption from companies that were initially exempted but no longer are.

I note that a mechanism for recovering and redistributing over-exemptions in certain energy-intensive industries is not included in the regulations because it seems that a workable model for doing so has not yet been identified. Will the Minister tell the Committee what the extent of those over-exemptions is, and when she is likely to identify a mechanism for recovering and redistributing those sums? That could be important for the overall effects on domestic bills.

4.41 pm

Mr Kevan Jones (North Durham) (Lab): It is a pleasure to serve under your chairmanship, Mr Gapes. To follow up on the clarification requested by my hon. Friend the Member for Sheffield, Brightside and Hillsborough, I am always concerned when Ministers say that it is about £1, and it will affect domestic bills for the next few years. Should I assume that the explanatory memorandum is wrong in referring to £1.80 as the additional figure? It rightly points out that the cost of the increase will fall disproportionately on low-income households because they spend more of their disposable income on electricity than others. I would like the Minister to clarify what the actual figure is, because just to throw the line out, as the Minister did, that it will be about £1—which could mean 99p, 90p, or £1.80 as the explanatory memorandum says—is not clear.

The Minister said "for the next few years", but the explanatory memorandum says that this will take up to 2020. If that is the case, what work is being done on what will happen after our exit from the EU? Will we have to re-examine the regulations, or is it the Government's intention to continue rolling them forward? Do the Government have a policy in mind to take a more aggressive stance on subsidies to make them more competitive vis-à-vis our European competitors? What thought has gone into that?

Over the period up to 2020, what will be the cost to UK household bills? We are talking about the mythical £1 to which the Minister referred, but we ought to try to get a global figure of what it will actually cost UK households in that period.

4.43 pm

Alan Brown (Kilmarnock and Loudoun) (SNP): It is a pleasure to serve under your chairmanship, Mr Gapes. In general, we, too, welcome the regulations. Anything that can help energy-intensive industry to be competitive, to keep jobs and to operate is clearly welcome.

The Minister touched on the additional £1 per domestic customer. As has been highlighted, it is quoted elsewhere as £1.80. Will the Minister clarify what the actual cost will be for domestic users? I noted in her opening remarks that she did not highlight the fact that medium users are estimated to carry a burden of £3,100 to support the offsets to energy-intensive industry. What proposals do the Government have to help businesses that will be hit with that extra cost?

The Scottish Government are using Resource Efficient Scotland, which works with businesses to bring down their energy bills and make them more energy efficient, and also looks at water use. What help will the UK Government provide? The proposed retail energy price cap was mentioned. To keep bills down in general for businesses and domestic users, it is important that the Government have a coherent strategy for future contract for difference auctions. Onshore wind currently is the cheapest form of renewable generation, so it must be allowed to bid in future auctions. Will the Minister say anything about that? The clean growth strategy published last week announced more dash for nuclear. We know how expensive Hinkley is, so what is the likely impact of more nuclear projects on businesses and domestic users?

4.45 pm

Rushanara Ali (Bethnal Green and Bow) (Lab): I want to reiterate the point about the £3,100 per year cost to businesses. I know that there has been an impact assessment, but what assessment has the Department made to establish how much pressure that would put on those businesses? I reiterate the need to support them.

[Rushanara Ali]

There is a reference in the impact assessment to voluntary organisations and charities. Will the Minister clarify what would be the impact on them? Are they expected to make the payment or would there be any exemptions for them? I may have misunderstood but I would like some clarification on that point.

4.46 pm

Margot James: I thank Committee members for their questions. I am very pleased that they agree with the direction of this important statutory instrument. In answer to the questions from several hon. Members, led by the shadow Minister, concerning the discrepancy in the notes on the increased cost of household bills due to this measure, the difference in estimates of an additional £1 and £1.80 to people's bills is because the population of eligible energy intensive industries is less than we originally estimated. As a result, the burden on consumers has reduced from approximately £1.80 to £1 a year. In answer to another question from the shadow Minister, there have been no over-exemptions as yet, as the regulations have not yet been enacted. We have general powers to claw back any over-exemptions if needed, but we are looking at whether a specific mechanism would be helpful.

Mr Jones: There is a huge drop from £1.80 to £1. I understand what the Minister is suggesting, but what is the percentage drop for the industries that will be eligible? If it is of that order—nearly 100%—it must be quite big. Are the estimates wrong about the number of industries that would be eligible or, as the policy has developed, have certain industries been taken out of the process?

Margot James: The estimate was too high in the first place and it has reduced. I will look into the reasons for that and I will write to the hon. Gentleman. In his speech, he asked about the policy for this sector of the economy post-Brexit—might we pursue a more competitive approach vis-à-vis the rest of the European Union? I think that he is asking what our policy on state aid will be after we leave the European Union, and that is a matter for the negotiations.

I think I have addressed the questions raised by Committee members. The hon. Member for Bethnal Green and Bow said that the average increased cost of electricity for a medium business user would be £3,100 a year—she is correct on that point.

Alan Brown: What will the Government do to try to mitigate that £3,100 burden on businesses?

Margot James: For this measure to be cost neutral, the cost of exempting some energy intensive users has to be distributed fairly among businesses. For an average user—a medium-sized user—the uplift will be about £3,100. As yet, the Government do not have plans to mitigate that.

Mr Jones: What assessment have the Government made of what types of businesses will be affected? I see the logic of the draft regulations in helping energy intensive industries, many of which consist of large entities that I accept are in international markets, but £3,000 a year is a huge amount for a small or medium-sized business. Has any assessment been made of which businesses the burden will fall on?

Margot James: I said "a medium-sized user" of electricity; I did not mention small businesses. I agree that that would be a significant increase for a small business. We are developing a package of measures to support businesses to improve their energy use and productivity and to make them more energy efficient. That is how their bills will be reduced in the long term.

The average increase represents less than 0.5% of the total electricity bill of a medium-sized business. I feel that that is an appropriate price to pay for the benefit that energy intensive users will gain. The shadow Minister indicated the Opposition's support for this measure. As she said, if we do not do this, high users of energy might be driven out of the UK, which would result in carbon leakage. That would not be a satisfactory outcome, so we have amortised the costs elsewhere. I think that 0.2% is a sustainable increase for the average medium-sized business user of electricity.

Mr Jones: I accept that, but I have to say that the Minister is flying blind here. Have the Government made any assessment of the businesses that will be affected? Do not get me wrong. I support the main thrust of the draft regulations, which aim to protect substantial users of electricity, but if the Government do not properly assess their effects we might protect one side of the economy but lose jobs elsewhere.

Margot James: Eligible energy intensive industries can also be small and medium-sized businesses. Very few of the vast array of companies across the country are exempt. The cost of the exemption will be amortised across many million businesses, so the average increase will be small, and the average company can bear that. I will write to the hon. Gentleman with any further information that we have that demonstrates the assessment that we have made of those companies.

I mentioned that we have developed a package of measures to support businesses to improve their energy efficiency. That aims to improve energy usage by at least 20% by 2030. We have also launched an independent review of the cost of energy, which I am sure the shadow Minister is familiar with. That review is led by Professor Dieter Helm and is all about helping companies to reduce their energy usage, which will be good for the environment and for company costs.

Rushanara Ali: Has the Department requested feedback from the businesses that will bear the £3,100 per annum cost as part of the impact assessment?

If so, what was their response? On the costs being passed on to charities, to which paragraph 10 in the impact assessment refers, will the Minister explain which charities are affected? What is their size and scale? Are they small, large or medium-sized? What will be the annual cost to charities? Public sector organisations are under a lot of pressure as a result of cuts to funding. Will the Minister update the Committee on whether an impact assessment has been carried out and what feedback has come back from those organisations about the cost burden of the policy? Once again, I support the thrust of the proposal, but we need answers to those questions.

Margot James: I am happy to write to the hon. Lady with more details of the assessment that has been carried out and about the size of the charities that have been scrutinised.

The exemption is a key component of our programme to reduce electricity costs for energy intensive industries. It will help to prevent putting those industries at a significant competitive disadvantage. The increase in industrial electricity costs due to funding the CfD can reduce the UK's attractiveness as an investment location, and increases the risk that companies will invest and move elsewhere.

Alan Brown: Going back to funding the contracts for difference and managing the costs overall, the Minister will be aware that the last option—offshore wind—came in at £57.50 per megawatt-hour, compared with Hinkley at £92.50 per megawatt-hour. Onshore wind is going to be even cheaper than that. Will the Government take account of that the next time they auction bids for CfDs?

Margot James: I will ask my colleagues to write to the hon. Gentleman with more information. I would not like to mislead the House, and I do not have the information at my fingertips.

Rushanara Ali: I am concerned that if the Minister writes to us as she proposes, we will not have an opportunity to amend the regulations, and she will not have the opportunity to take into account the cost to charities. She will be aware that many charities are having to shut down—I know that, because I chair one which, like others, has faced real challenges staying afloat, but has successfully done so. If she is suggesting that those costs should be borne by not-for-profit organisations without support from the Government, that concerns me. Will she assure us that the Government will find a way to mitigate those costs and will find resources to help those charities so they do not have to bear the costs of companies, if the costs are transferred?

Margot James: The Government provide advice to charities, voluntary organisations and businesses to help them improve energy efficiency and lower their costs. We are also revitalising the green deal, which they can access to improve energy efficiency. The cost to charities, like the cost to businesses, will be very small—0.2% of their total bill.

Rushanara Ali: It is not acceptable to expect a charity to bear the cost, even if it is 0.2%, without any assurance from the Government. Why are we cross-subsidising from the private sector to the not-for-profit sector? The Minister's answer is not satisfactory. Will she assure the Committee that charities will not have to bear the cost of the Government's decision to cross-subsidise by getting them to pay for the changes that they are making to help companies?

Margot James: I cannot add anything to what I have already said in response to the hon. Lady. I will ask for further clarification on the matter, but at the moment I can only repeat what I have said: it is a very, very small increase, because it is amortised across so many electricity users—not-for-profit organisations and companies. The exemption scheme allows for real-time changes in energy use to be taken into account, and provides greater certainty. We recognise that the exemption will redistribute the cost of funding to other electricity consumers, but we have taken steps to reduce costs on consumer bills, and they are now lower than they might otherwise be. The proposed measures update and improve the regulations, and they bring them into line with the terms of our state aid approval, allowing us to commence the scheme.

Question put.

The Committee divided: Ayes 9, Noes 0.

Division No. 1]

AYES

Caulfield, Maria
Francois, rh Mr Mark
Grant, Bill
James, Margot
Robinson, Mary
Ross, Douglas
Scully, Paul
Spencer, Mark
Sunak, Rishi

NOES

Question accordingly agreed to.

Resolved,

That the Committee has considered the draft Electricity Supplier Obligations (Amendment and Excluded Electricity) (Amendment) Regulations 2017.

5.2 pm

Committee rose.