

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

Public Bill Committee

## ENERGY BILL [*LORDS*]

*Fourth Sitting*

*Tuesday 6 June 2023*

*(Morning)*

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CLAUSES 56 TO 78 agreed to, some with amendments.  
Adjourned till this day at Two o'clock.

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**not later than**

**Saturday 10 June 2023**

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**The Committee consisted of the following Members:**

*Chairs:* DR RUPA HUQ, † JAMES GRAY, MR VIRENDRA SHARMA, CAROLINE NOKES

† Afolami, Bim (*Hitchin and Harpenden*) (Con)  
 † Blake, Olivia (*Sheffield, Hallam*) (Lab)  
 † Bowie, Andrew (*Parliamentary Under-Secretary of State for Energy Security and Net Zero*)  
 † Britcliffe, Sara (*Hyndburn*) (Con)  
 Brown, Alan (*Kilmarnock and Loudoun*) (SNP)  
 † Clarkson, Chris (*Heywood and Middleton*) (Con)  
 † Fletcher, Katherine (*South Ribble*) (Con)  
 Gideon, Jo (*Stoke-on-Trent Central*) (Con)  
 Jenkinson, Mark (*Workington*) (Con)  
 † Levy, Ian (*Blyth Valley*) (Con)

† McCarthy, Kerry (*Bristol East*) (Lab)  
 † Morrissey, Joy (*Beaconsfield*) (Con)  
 † Nichols, Charlotte (*Warrington North*) (Lab)  
 † Owatemi, Taiwo (*Coventry North West*) (Lab)  
 † Shelbrooke, Alec (*Elmet and Rothwell*) (Con)  
 † Western, Andrew (*Stretford and Urmston*) (Lab)  
 † Whitehead, Dr Alan (*Southampton, Test*) (Lab)

Sarah Thatcher, Chris Watson, *Committee Clerks*

† **attended the Committee**

## Public Bill Committee

Tuesday 6 June 2023

(Morning)

[JAMES GRAY *in the Chair*]

### Energy Bill [Lords]

9.25 am

**Dr Alan Whitehead** (Southampton, Test) (Lab): On a point of order, Mr Gray. Before we proceed with the impressive first group of amendments and new clauses, may I use your offices to inquire about other new clauses that it was indicated to me, in a meeting with the Minister just before we started proceedings, would be tabled at an early date? Two sets of new clauses have appeared on the amendment paper, but another two, pertaining to Great British Nuclear and assistance for energy-intensive industries, have not yet been tabled, although we are now well into our deliberations on the Bill. Have you had any indication that they are about to be tabled, and if so could you share that information?

**The Chair:** I am most grateful to the hon. Gentleman for that point of order and for giving me advance notice of it, which gave me the opportunity to discuss the matter—unofficially of course—with officials. They tell me that both new clauses will be tabled imminently—one today, I think, and one very shortly. I hope that satisfies him.

#### Clause 56

##### CHAPTER 1: INTERPRETATION

**The Parliamentary Under-Secretary of State for Energy Security and Net Zero (Andrew Bowie):** I beg to move amendment 23, in clause 56, page 50, line 15, at end insert—

“‘carbon dioxide transport and storage counterparty’ has the meaning given by section 59(3);

‘carbon dioxide transport and storage revenue support contract’ has the meaning given by section section 59(2);”.

*This amendment and Amendment 28 substitute new labels for existing labels and are consequential on NC29 and NC31.*

**The Chair:** With this it will be convenient to discuss the following:

Government amendments 25, 24 and 26 to 28.

Clause stand part.

Government amendments 29 to 35.

Clause 57 stand part.

Government amendments 36 to 54.

Amendment 111, in clause 61, page 55, line 6, leave out subsection (8).

*Whether or not a producer is an eligible low carbon hydrogen producer should be determined solely by the revenue support regulations, which should reference, among other things, the Low Carbon Hydrogen Standard. If the producer meets the objective criteria to be set out in*

*the regulations, it should not be open to the Secretary of State to determine that that producer will not contribute to a reduction in emissions.*

Government amendment 55.

Amendment 112, in clause 62, page 55, line 28, leave out subsection (4).

*Whether or not a producer is an eligible low carbon hydrogen producer should be determined solely by the revenue support regulations, which should reference, among other things, the Low Carbon Hydrogen Standard. If the producer meets the objective criteria to be set out in the regulations, it should not be open to the Secretary of State to determine that that producer will not contribute to a reduction in emissions.*

Government amendments 56 to 58, 60 and 70 to 74.

Government new clause 29—*Designation of hydrogen transport counterparty.*

Government new clause 30—*Direction to offer to contract with eligible hydrogen transport provider.*

Government new clause 31—*Designation of hydrogen storage counterparty.*

Government new clause 32—*Direction to offer to contract with eligible hydrogen storage provider.*

**Andrew Bowie:** I confirm to the hon. Member for Southampton, Test that the new clause on energy-intensive industries will be tabled tomorrow, and the new clause on Great British Nuclear will be tabled early next week. It is a delight to return to the Committee and to serve under your chairmanship again, Mr Gray.

The amendments that I will outline are consequential on the amendments made to introduce hydrogen transport and hydrogen storage business models. Hydrogen business models are required to encourage investment in, and the development of, hydrogen transport and storage infrastructure, alongside the existing provisions in clauses 61 and 62 for hydrogen production business models. The development of hydrogen transport and storage infrastructure, such as pipelines and salt caverns, represents the next critical step in the growth of the hydrogen economy.

Government amendment 23 makes it clear that existing references in clause 59 to transport and storage relate to the transport and storage of carbon dioxide and not to hydrogen. New clauses are to be added to make specific provision for hydrogen transport and storage. Government amendments 28, 29, 36, 38, 40, 42 to 52, 60 and 73 are consequential on Government amendment 23. The amendments substitute new definitions for existing definitions to distinguish carbon dioxide transport and storage from hydrogen transport and storage. Clause 56 provides the meanings and definitions of various terms used in chapter 1.

Government amendment 30 supports the establishment and operation of revenue support contracts as part of the hydrogen transport and hydrogen storage business models. That amendment, alongside other amendments to chapter 1 of part 2 of the Bill, provide the Secretary of State with the power to make regulations to enable hydrogen transport and storage revenue support contracts to be put in place. Those revenue support contracts, as part of the business models, will remove market barriers, most notably high up-front costs and uncertain financial investment returns. The overcoming of those barriers should encourage investment in, and the development of, hydrogen transport and storage infrastructure.

Clause 57 provides the Secretary of State with a power to make regulations about revenue support contracts, which will be known as revenue support regulations. A number of provisions throughout the chapter set out matters that regulations made under the overarching power in clause 57(1) may cover. Revenue support regulations are intended to underpin relevant business model schemes and to help to ensure that revenue support contracts are allocated and managed effectively, and that stable funding flows are in place.

Government amendment 53 seeks to clarify that contracts can be offered only to eligible low-carbon hydrogen producers and that, after the point of contract signature, it is for the contracts to stand on their own two feet and to set the parameters of the ongoing support that they provide. That approach is similar to that of the contracts for difference for renewables, in respect of which it has worked to great success. The amendment ultimately helps to ensure that projects and their investors are absolutely clear on the terms of their support and should help to inspire significant confidence in the new regime. Government amendments 26, 32, 33, 54 and 55 are consequential on Government amendment 53.

Government amendment 56 seeks to clarify that contracts can be offered only to eligible carbon capture entities and that, after the point of contract signature, it is for the contracts to stand on their own two feet and to set the parameters of the ongoing support that they provide. That approach is similar to that of the contracts for difference for renewables, in respect of which, again, it has worked to great success. The amendment ultimately helps to ensure that projects and their investors are absolutely clear on the terms of their support and should help to inspire significant confidence in the new regime. Government amendments 25, 34, 35, 57 and 58 are consequential on Government amendment 56.

Government new clause 29 will enable the designation of a counterparty to administer hydrogen transport revenue support contracts. The delivery of the hydrogen transport revenue support contracts is intended to be via private law contracts between eligible hydrogen transport providers and a hydrogen transport counterparty. The counterparty, which is the subject of the new clause, will manage the contracts and act as a conduit for funding.

The proper functioning of a revenue support counterparty is fundamental to the stability of the revenue support contracts. As the counterparty will be responsible for managing large amount of funds to meet its payment obligations, it is essential for the Secretary of State to exercise a degree of control over how it operates. Government new clause 29 allows the Secretary of State to designate a consenting person to be a counterparty for hydrogen transport revenue support contracts.

Government new clause 30 confers powers on the Secretary of State to issue a direction to a hydrogen transport counterparty. The counterparty will offer a contract to a hydrogen transport provider with a proposed project that the Government wish to support. That will enable a hydrogen transport provider to receive revenue support, which will help to remove market barriers associated with its infrastructure project. In turn, this should see the deployment of hydrogen transport infrastructure in the UK, thereby further supporting the hydrogen economy.

Government new clause 30 will ensure that revenue support regulations can make further provision about a direction, such as the terms that may or must be specified

in said direction. Those regulations must include the meaning of “eligible” in relation to hydrogen transport providers with whom the counterparty may enter into a contract. Additionally, the powers are expected to be exercised in relation to successful projects that apply for revenue support under the hydrogen transport business models.

Government new clause 31 will enable the designation of a counterparty to administer hydrogen storage revenue support contracts. The delivery of the hydrogen storage revenue support contracts is intended to be via private law contracts between eligible hydrogen storage providers and a hydrogen storage counterparty. The counterparty, which is the subject of the new clause, will manage the contracts and act as a conduit for funding.

The proper functioning of a revenue support counterparty is fundamental to the stability of the revenue support contracts. As the counterparty will be responsible for managing large amount of funds to meet its payment obligations, it is essential for the Secretary of State to exercise a degree of control over how it operates. Government new clause 31 allows the Secretary of State to designate a consenting person to be a counterparty for hydrogen storage revenue support contracts.

Government new clause 32 confers powers on the Secretary of State to issue a direction to a hydrogen storage counterparty. The counterparty will offer a contract to a hydrogen storage provider with a proposed project that Government wish to support. That will enable a hydrogen storage provider to receive revenue support, which will help to remove market barriers associated with its infrastructure project. In turn, this should see the deployment of hydrogen storage infrastructure in the UK, thereby further supporting our growing hydrogen economy.

Government new clause 32 will ensure that revenue support regulations can make further provision about a direction, such as the terms that may or must be specified in said direction. The regulations must include the meaning of “eligible” in relation to hydrogen storage providers with whom the counterparty may enter into a contract. Additionally, the powers are expected to be exercised in relation to successful projects that apply for revenue support under the hydrogen storage business models.

I commend to the Committee the Government amendments, Government new clauses 29 to 32 and clauses 56 and 57.

**Dr Whitehead:** Most of the provisions in this group deal with the establishment and terms of a hydrogen counterparty. The establishment of the counterparty is clearly important in the raising and distribution of the hydrogen levy, which we will discuss later. The raising of the levy goes through the counterparty—that is, the counterparty will be responsible for raising the demands of the levy upon whoever is liable to pay it. The counterparty has a substantial role in holding those amounts and distributing them to those who are developing, in this instance, hydrogen production. Of course, that is why it is called the hydrogen production counterparty.

It is a method similar to that adopted by the Low Carbon Contracts Company for arranging to levy charges on, in that instance, the electricity suppliers, and then

[Dr Whitehead]

distributing that to those in receipt of that levy. Those in receipt will primarily get money coming to them through the counterparty by means of the difference between the strike price for what it has been decided to levy on and the reference price—the general price for electricity after the strike price has been agreed. We do not yet have an indication of what the strike price for hydrogen production will be, but we have in front of us the experience of the likely reference price for electricity, which is likely to pertain over the years when the hydrogen levy will be administered by the hydrogen contracts counterparty.

The experience of the Low Carbon Contracts Company is that it is not always the case that money simply comes in and is then disbursed, because on occasions, and indeed on recent occasions, the LCCC has found itself in the position where the reference price and the strike price have inverted—that is, the organisations responsible for paying into the LCCC no longer get a payout from the LCCC because the relationship between the strike price and the reference price is positive. In this instance, then, the LCCC is actually accumulating amounts that it would normally not put into its funds because it would return them straight to the people who have contracted for a difference between the strike price and the reference price but at that point have an obligation to pay into, rather than expect to collect out of, those funds.

There has been some issue with the LCCC in terms of what happens to the money that goes into its funds but is not distributed out. Does that money accumulate in the funds of the LCCC perpetually? Or is it redistributed? If it is redistributed, to whom is it redistributed and on what terms? I do not see any provision for that sort of arrangement to take place, or, indeed, for it to take place in a secure way in the particular interests of consumers—we will talk about the interests of consumers later—in the Bill or in the Government amendments we have debated this morning.

It is important that as soon as the counterparty is in place, the full set of contingent and possible arrangements for the operation of that counterparty are clearly set out. Depending on how electricity prices change over the next few years, the hydrogen production counterparty may well, at a fairly early stage, be in the same sort of position of accumulating additional funds that the LCCC has been in recently. It is therefore important that there are clear provisions, preferably spelled out in the Bill, as to what the counterparty does under those circumstances. Have the Minister and his Department thought about that eventuality? If they have, how does the Minister envisage the hydrogen production counterparty operating under those circumstances? Why has he decided not to put anything in the Bill that gives us greater guidance as to how the counterparty will function?

**Andrew Bowie:** Let me clarify for the hon. Gentleman that later this morning we will come to clause 67, which specifically enables regulations to make provision for amounts to be paid to levied market participants by the relevant counterparty or hydrogen levy administrator. That includes the pass-through of payments received by the relevant counterparty under revenue support contracts, such as payments made by a hydrogen producer to a

hydrogen production counterparty. I hope that answers the hon. Gentleman's questions in more detail. We will return to this matter later this morning.

*Amendment 23 agreed to.*

*Amendments made:* 25, in clause 56, page 50, line 21, for “63(3)” substitute “64(4)”.

*This amendment is consequential on Amendment 58.*

Amendment 24, in clause 56, page 50, line 21, at end insert—

“‘eligible hydrogen storage provider’ is to be interpreted in accordance with section (Direction to offer to contract with eligible hydrogen storage provider)(4); ‘eligible hydrogen transport provider’ is to be interpreted in accordance with section (Direction to offer to contract with eligible hydrogen transport provider)(4)”.

*This amendment adds definitions to the list in clause 56 in consequence of NC29 and NC31.*

Amendment 26, in clause 56, page 50, line 23, for “61(3)” substitute “62(4)”.

*This amendment is consequential on Amendment 55.*

Amendment 27, in clause 56, page 50, line 36, at end insert—

“‘hydrogen storage counterparty’ has the meaning given by section (Designation of hydrogen storage counterparty)(3);

‘hydrogen storage provider’ has the meaning given by section (Designation of hydrogen storage counterparty)(7);

‘hydrogen storage revenue support contract’ has the meaning given by section (Designation of hydrogen storage counterparty)(2);

‘hydrogen transport counterparty’ has the meaning given by section (Designation of hydrogen transport counterparty)(3);

‘hydrogen transport provider’ has the meaning given by section (Designation of hydrogen transport counterparty)(7);

‘hydrogen transport revenue support contract’ has the meaning given by section (Designation of hydrogen transport counterparty)(2);”.

*This amendment is supplementary to NC29 and NC31.*

Amendment 28, in clause 56, page 51, leave out lines 3 to 6.—(*Andrew Bowie.*)

*See the explanatory note relating to Amendment 23.*

*Clause 56, as amended, ordered to stand part of the Bill.*

## Clause 57

### REVENUE SUPPORT CONTRACTS

*Amendments made:* 29, in clause 57, page 51, line 16, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 30, in clause 57, page 51, line 16, at end insert—

( ) a hydrogen transport revenue support contract (see section (Designation of hydrogen transport counterparty)(2)),

( ) a hydrogen storage revenue support contract see section ((Designation of hydrogen storage counterparty)(2)),”—(*Andrew Bowie.*)

*This amendment adds hydrogen transport revenue support contracts (see NC29) and hydrogen storage revenue support contracts (see NC31) to the definition of “revenue support contract”.*

Amendment 31, in clause 57, page 52, line 5, after “60(3),” insert

“(Direction to offer to contract with eligible hydrogen transport provider)(2) or (4), (Direction to offer to contract with eligible hydrogen storage provider)(2) or (4),”.

*This amendment provides for regulations under the specified powers to be subject to affirmative procedure.*

Amendment 32, in clause 57, page 52, line 5, leave out “61(3)”.

*This amendment is consequential on Amendment 53.*

Amendment 33, in clause 57, page 52, line 6, after “62(2)” insert “or (4)”.

*This amendment is consequential on Amendment 53.*

Amendment 34, in clause 57, page 52, line 6, leave out “63(3)”.

*This amendment is consequential on Amendment 56.*

Amendment 35, in clause 57, page 52, line 6, after “64(2)” insert “or (4)”.—(*Andrew Bowie.*)

*This amendment is consequential on Amendment 56.*

*Clause 57, as amended, ordered to stand part of the Bill.*

## Clause 58

### DUTIES OF REVENUE SUPPORT COUNTERPARTY

*Amendments made:* 36, in clause 58, page 53, line 2, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 37, in clause 58, page 53, line 3, after “counterparty,” insert

“hydrogen transport counterparty, hydrogen storage counterparty,”.

*This amendment and Amendment 39 make provision for ensuring that hydrogen transport counterparties and hydrogen storage counterparties can meet their liabilities under revenue support contracts.*

Amendment 38, in clause 58, page 53, line 4, after “any” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 39, in clause 58, page 53, line 5, after second “contract,” insert

“hydrogen transport revenue support contract, hydrogen storage revenue support contract.”.

*See the explanatory statement for Amendment 23.*

Amendment 40, in clause 58, page 53, line 8, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 41, in clause 58, page 53, line 8, at end insert—

“(aa) a hydrogen transport counterparty (see section (Designation of hydrogen transport counterparty)(3));

(ab) a hydrogen storage counterparty (see section (Designation of hydrogen storage counterparty)(3));”—(*Andrew Bowie.*)

*This amendment adds hydrogen transport counterparties and hydrogen storage counterparties to the definition of “revenue support counterparty”.*

*Question proposed,* That the clause, as amended, stand part of the Bill.

9.45 am

**Andrew Bowie:** Clause 58 sets out the duties of a revenue support counterparty and the Secretary of State’s ability to exert control over the activities of a revenue support counterparty, given that its role is critical to the effectiveness of a revenue support contract. It includes, for example, a duty for a counterparty to act in accordance

with revenue support regulations and a power for the Secretary of State to specify in regulations things that a counterparty must, can, or cannot do.

The proper functioning of a revenue support counterparty is fundamental to the stability of the revenue support contracts. The counterparty will be responsible for managing large amounts of funds to meet its payment obligations under a contract. It is therefore important for the Secretary of State to exercise a degree of control over how it operates. I therefore commend clause 58 to the Committee.

**Dr Whitehead:** The clause does indeed provide for a number of duties of the revenue support counterparty. I particularly note the requirement that it “must exercise the functions”

conferred on it

“by virtue of this Chapter so as to ensure that it can meet its liabilities under any revenue support contract to which it is a party.”

In order to do that, as the Minister has said, the counterparty must be buoyantly funded—shall we say—both in terms of the money coming in and out and the money to enable it to perform its functions.

What regulation is there on the counterparty to ensure that it is carrying out its obligations with its funding, in such a way that there is not too much in the bank, and not too little in the bank to meet its liabilities? As the Minister has said, we will later debate on how that works in with the possible restitution of funds from the counterparty at particular junctures. Is the Minister satisfied that the regulation of the counterparty is sufficient to ensure that it actually operates in that economical way, as far as the use and disbursement of its funds is concerned?

**Andrew Bowie:** I thank the hon. Member for his question. Again, it is a very pertinent, sensible and serious question, and one on which I am happy to give more clarity. The Government anticipate that the LCCC, which is the existing counterparty for contracts for difference, will be the counterparty for the hydrogen production, industrial carbon capture and waste industrial carbon capture business models—subject to successful completion of administrative and legislative arrangements, obviously.

The LCCC already has experience in similar types of contract management from its role as counterparty to contracts for difference; it is already established in that respect. The LCCC is also anticipated to be the counterparty for the carbon dioxide transport and storage revenue support contracts—again, subject to successful completion of administrative and legislative arrangements.

To address the specific point, in taking the decision to proceed with LCCC as the counterparty, the Secretary of State considered, among other things, its ability to deliver the required functions, and its experience and track record in contract management. Those considerations would be made on any future decisions, which would also be subject to normal principles of public decision making.

The envisaged greenhouse gas removals business model would also require a counterparty to manage the contracts, and the Department for Energy Security and Net Zero is currently assessing options as to the most appropriate organisation to perform that function.

*Question put and agreed to.*

*Clause 58, as amended, accordingly ordered to stand part of the Bill.*

**Clause 59**

## DESIGNATION OF TRANSPORT AND STORAGE COUNTERPARTY

*Amendments made:* 42, in clause 59, page 53, line 14, after “for” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 43, in clause 59, page 53, line 15, leave out “transport” and insert “carbon dioxide transport”.

*This amendment is consequential on Amendment 23.*

Amendment 44, in clause 59, page 53, line 17, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 45, in clause 59, page 53, line 19, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 46, in clause 59, page 53, line 22, leave out “transport” and insert “carbon dioxide transport”.

*This amendment is consequential on Amendment 23.*

Amendment 47, in clause 59, page 53, line 28, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 48, in clause 59, page 53, line 30, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 49, in clause 59, page 53, line 32, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 50, in clause 59, page 53, line 36, after “any” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 51, in clause 59, page 53, line 38, after first “a” insert “carbon dioxide”.—(*Andrew Bowie.*)

*This amendment is consequential on Amendment 23.*

*Question proposed,* That the clause, as amended, stand part of the Bill.

**The Chair:** With this it will be convenient to consider clause 60 stand part.

**Andrew Bowie:** Initial licensed carbon dioxide transport and storage companies are expected to be supported by a revenue support agreement, which is a contractual arrangement to be entered into by a counterparty. The clause will enable the Secretary of State to designate a consenting person to be a counterparty for carbon dioxide transport and storage revenue support contracts. A counterparty will be responsible for managing the contracts and making payments to the contract holders, as well as collecting any necessary payments from contract holders, as set out in the contracts.

Clause 60 confers a power on the Secretary of State to issue a direction to a carbon dioxide transport and storage counterparty to offer to contract with an eligible person. It also ensures that revenue support regulations can make further provision about a direction—for example, the terms that may or must be specified in a direction. I commend the clauses to the Committee.

**Dr Whitehead:** The clause designates a transport and storage counterparty to perform a similar function to that of the hydrogen production counterparty or, indeed, to that of the LCCC. In the case of the hydrogen production counterparty, the Government’s intention is

to roll the function in with the LCCC, so that the LCCC has an expanded role. I am not quite so clear about the Government’s intention for the carbon dioxide transport and storage counterparty. Is it the Government’s intention that that counterparty will also be rolled into the LCCC? If so, does the Minister not think that that will be a rather giant organisation responsible for different streams of funding in different ways? In such circumstances, are the Government satisfied that the streams could be sufficiently separate from each other to ensure the efficient running of all the different strands that will increasingly come under, in effect, one counterparty company?

**Andrew Bowie:** The hon. Gentleman is right to point out the inherent risks in the model. However, it is incumbent on the Secretary of State, the Department, the Government and indeed Parliament to assess and to keep watch continually on the arrangements to ensure that they are fit for purpose as we proceed and develop our hydrogen industry to the extent that we want to in future. The LCCC already does similar types of contract management in its existing role as the counterparty to the contracts for difference, so I do not envisage that as being as big a challenge as the hon. Gentleman sets out, but I accept the inherent risks, in particular in what we will be doing under the Bill, which is something completely new. Of course it is right for Parliament to have a role in scrutinising the Government to ensure that the model that we establish keeps pace and is fit for what we seek to do in future.

*Question put and agreed to.*

*Clause 59, as amended, accordingly ordered to stand part of the Bill.*

**Clause 60**

## DIRECTION TO OFFER TO CONTRACT

*Amendment made:* 52, in clause 60, page 54, line 3, after “a” insert “carbon dioxide”.—(*Andrew Bowie.*)

*This amendment is consequential on Amendment 23.*

*Clause 60, as amended, ordered to stand part of the Bill.*

**Clause 61**

## DESIGNATION OF HYDROGEN PRODUCTION COUNTERPARTY

*Amendments made:* 53, in clause 61, page 54, line 18, leave out from second “contract” to “was” in line 22 and insert—

“to which a hydrogen production counterparty is a party and which”.

*This amendment modifies the definition of “hydrogen production revenue support contract”.*

Amendment 54, in clause 61, page 54, line 25, leave out subsection (3).—(*Andrew Bowie.*)

*This amendment is consequential on Amendment 53.*

**Andrew Bowie:** I beg to move amendment 3, in clause 61, page 55, line 8, after “on)” insert “in the United Kingdom”.

*This amendment and Amendment 4 provide that activities by virtue of which a person qualifies as a “low carbon hydrogen producer” must be carried on in the United Kingdom (including the specified offshore areas).*



**The Chair:** With this it will be convenient to discuss the following:

Government amendment 4.

Clause 61 stand part.

Clause 62 stand part.

**Andrew Bowie:** Government amendments 3 and 4 relate to the territorial application of chapter 1 of part 2 of the Bill. As drafted, the existing provisions do not expressly set out the territorial application of provisions establishing the framework for hydrogen production revenue support contracts and counterparty. Government amendment 3 makes it absolutely clear that a “low carbon hydrogen producer” must carry out activities in the UK, in line with Government intentions for the hydrogen production business model to be applied on a UK-wide basis.

Government amendment 4 operates in conjunction with amendment 3, and relates to the territorial application of chapter 1 of part 2 of the Bill. As drafted, these provisions do not expressly cover hydrogen production activities carried out in offshore areas. Although the low-carbon hydrogen industry is nascent, the Government are aware of the potential for low-carbon hydrogen production to be located offshore, for example, co-located with offshore wind farms.

Government amendment 4, therefore, makes it clear that a low-carbon hydrogen producer must carry out activities in the United Kingdom, which is to be defined in subsection (9) as including activities in, above or below: (a) the territorial sea adjacent to the United Kingdom; and (b) waters in a renewable energy zone, within the meaning of chapter 2 of part 2 of the Energy Act 2004.

Turning to clause 61, the delivery mechanism for the hydrogen production business model is intended to be private law contracts. Those contracts are intended to be between eligible low-carbon hydrogen producers and a hydrogen production counterparty. The clause will enable the Secretary of State to designate a consenting person to be a counterparty for hydrogen production revenue support contracts. A counterparty will be responsible for managing the contracts and making payments to the contract holders, as well as collecting any necessary payments from contract holders, as set out in the contracts.

Clause 62 confers a power on the Secretary of State to issue a direction to a hydrogen production counterparty to offer to contract with an eligible low-carbon hydrogen producer. It also ensures that revenue support regulations can make further provision about a direction, for example the terms that may or must be specified in a direction. Clause 62 also requires regulations to make provision for determining the meaning of “eligible” in relation to a low-carbon hydrogen producer. The powers under clause 62 are expected to be first exercised in relation to the successful projects coming through the ongoing electrolytic hydrogen allocation round and carbon capture, usage and storage cluster sequencing process. In future, the expectation is that hydrogen production revenue support contracts will be awarded by way of a more competitive allocation process. Provisions to achieve that are also provided for in the Bill.

**Dr Whitehead:** The Minister kindly wrote to me a little while ago about the questions raised in this Committee about the UK seabed, which is the subject of Government amendment 4. I was grateful that he wrote to me so quickly after that debate, but his letter did not entirely set my mind at rest about the problem we raised on that occasion, which is also pertinent to hydrogen production.

As the Minister stated, it is entirely possible and feasible that hydrogen production could take place at sea, either on energy islands, converted rigs or specific platforms set up for that purpose, in conjunction with offshore wind farms. A number of those wind farms and installations will be well beyond the limits of the territorial sea adjacent to the United Kingdom.

My question in the previous debate that prompted the Minister’s letter to me was: what is the jurisdiction in relation to what is in the UK economic zone up to 200 miles, but beyond the 12-mile territorial sea adjacent to the United Kingdom? In his letter, the Minister effectively repeated the idea that the territorial sea adjacent to the United Kingdom was indeed the 12-mile zone. Does the Minister have any further clarification this morning about the relationship of the two different zones, and how they interact in terms of effective jurisdiction for these activities?

**Andrew Bowie:** I do indeed have an answer for the hon. Gentleman. As the hon. Gentleman and I have set out in Committee and in the letter, the territorial sea adjacent to the United Kingdom is the sea that extends 12 nautical miles from the low-water line along the coast, as defined in section 1 of the Territorial Sea Act 1987. However, the renewable energy zone extends from the boundary of the territorial sea to an area within the UK’s exclusive economic zone.

10 am

The co-ordinates of the renewable energy zone are set out already in the Exclusive Economic Zone Order 2013. The renewable energy zone was established by section 84 of the Energy Act 2004 for the purposes of energy production activities. Hydrogen production may be co-located with offshore renewable installations. It is therefore appropriate for the territorial scope of the provisions to be consistent with the provisions of part 2 of the 2004 Act. I hope that that clarifies the pertinent question asked by the hon. Gentleman.

*Amendment 3 agreed to.*

*Amendment made:* 4, in clause 61, page 55, line 12, at end insert—

“(9) In subsection (8) the reference to carrying on activities in the United Kingdom includes carrying on activities in, above or below—

- (a) the territorial sea adjacent to the United Kingdom;
- (b) waters in a Renewable Energy Zone (within the meaning of Chapter 2 of Part 2 of the Energy Act 2004).”—(*Andrew Bowie.*)

*See the explanatory statement relating to Amendment 3.*

*Clause 61, as amended, ordered to stand part of the Bill.*

## Clause 62

### DIRECTION TO OFFER TO CONTRACT

*Amendment made:* 55, in clause 62, page 55, line 28, leave out subsection (4) and insert—

“(4) Revenue support regulations must make provision for determining the meaning of “eligible” in relation to a low carbon hydrogen producer.”—(*Andrew Bowie.*)

*This amendment is consequential on Amendment 53.*

*Clause 62, as amended, ordered to stand part of the Bill.*

### Clause 63

#### DESIGNATION OF CARBON CAPTURE COUNTERPARTY

**Andrew Bowie:** I beg to move amendment 7, in clause 63, page 55, line 33, after “be” insert “(a)”.

*This amendment is supplementary to Amendment 9.*

**The Chair:** With this it will be convenient to discuss the following:

Government amendments 8, 9, 5 and 10.

Amendment 84, in clause 63, page 56, line 26, leave out

“that has been produced by commercial or industrial activities”.

*This amendment seeks to ensure that Direct Air Capture technologies and other engineered greenhouse gas removals are not excluded from these measures so that we leave open the option to include these technologies in revenue support contracts in the future.*

Government amendment 6.

Clause stand part.

Clause 64 stand part.

Government amendment 11.

**Andrew Bowie:** Government amendment 5 relates to the territorial application of chapter 1 of part 2 of the Bill. As drafted, the provisions do not expressly set out the territorial application of provisions establishing the framework for carbon capture revenue support contracts for counterparties. Amendment 5 therefore makes it clear that a carbon capture entity must carry out activities in the UK in line with Government intentions to support the deployment of CCUS across the UK.

Government amendment 6 relates to the territorial application of chapter 1 of part 2 of the Bill and works in conjunction with amendment 5. As drafted, the provisions do not expressly cover carbon capture activities carried out in offshore areas. While the carbon capture industry is nascent, the Government are aware of the potential for carbon capture activities to be located offshore. Amendment 6 makes it clear that a carbon capture entity must carry out activities in the United Kingdom, to be defined in the subsection that it will insert—clause 63(9)—as including

“activities in, above or below”.

Greenhouse gas removal technologies will have an important role to play in reaching net zero to mitigate the impact of residual emissions from hard-to-abate sectors, and the Government have been very clear on their intention to capitalise on the economic benefits from that emerging sector. Government amendment 9 will enable the Government to assign the most appropriate counterparty to oversee contractual support to GGR developers over the coming decades as the technologies and their corresponding regulation evolve. That avoids the risk that the resignation of a single counterparty negatively impacts other carbon capture and business models choosing to remain with their originally designated

counterparty. The amendment forms part of our broader approach to uphold our commitments and scale up engineered GGRs to deliver new export opportunities, unlocking high-quality green jobs across the UK.

Alongside other measures in the Bill, Government amendment 10 seeks to clarify the language used in the title section of the Bill to reflect that multiple forms of carbon capture, including greenhouse gas removals, can be enabled under the legislation. The amendment forms part of our broader approach to uphold our commitments and scale up engineered GGRs to deliver new export opportunities, unlocking high-quality green jobs across the UK. Government amendments 7 and 8 are consequential on amendment 10 and enable the appointment of a counterparty for any of the types of carbon capture revenue support contract.

Turning to clause 63, the delivery mechanism for the industrial carbon capture business models is intended to be private law contracts. The contracts are intended to be between eligible carbon capture entities and a carbon capture counterparty. Direct air carbon capture and storage—DACCS—is another form of carbon capture intended to fall under clause 63. The Government are minded to develop a GGR business model covering DACCS based on a revenue support contract model. The legislation is needed to ensure that we can facilitate a contractual arrangement to be entered into by a counterparty.

The clause will enable the Secretary of State to designate a consenting person as a counterparty for carbon capture revenue support contracts or for any one or more descriptions of carbon capture revenue support contract. A counterparty will be responsible for managing the contracts and for making payments to the contract holders, as well as for collecting any necessary payments from contract holders, as set out in the contracts.

Clause 64 will confer a power on the Secretary of State to issue a direction to a carbon capture counterparty to offer to contract with an eligible carbon capture entity. It will ensure that revenue support regulations can make further provision about a direction, such as the terms that may be specified in it. Clause 64 also requires regulations to make provision for determining the meaning of “eligible” in relation to a carbon capture entity

The powers under clause 64 are expected to be first exercised in relation to the successful projects coming through the ongoing CCUS cluster sequencing process. The current expectation is that, in future, industrial carbon capture business model revenue support contracts will be awarded by way of a more competitive allocation process, enabled by provisions that are also in the Bill.

I therefore beg to move that Government amendments 5, 6, 7, 8, 9, 10 and 11 be made and that clauses 63 and 64 stand part of the Bill.

**The Chair:** Order. I am sorry for nit-picking, but technically the Minister is only moving Government amendment 7. The other amendments will be moved once we get to the appropriate point.

**Andrew Bowie:** My apologies, Mr Gray.

**The Chair:** I am just being small-minded, really. I call Dr Whitehead.

**Dr Whitehead:** Amendment 84 is included in this group, I believe?

**The Chair:** It is, yes. We are debating it, but it is not being moved just now.

**Dr Whitehead:** I presume that I will, notionally, be invited to debate it at the appropriate point.

**The Chair:** You are invited to debate it now. This group is being debated whole. The point on which I was bringing the Minister up is simply that he is not moving all the Government amendments now; he is moving amendment 7 now, and can move the others when we get to the relevant part of the Bill. You are, of course, absolutely entitled to debate all the new clauses and amendments in this group.

**Dr Whitehead:** Thank you, Mr Gray.

Opposition amendment 84 would amend the definition of “carbon capture entity” in clause 63(8). We tabled it because we considered that definition insufficient to encapsulate what is now increasingly likely to be at least part of carbon capture and storage activity: DACCS, which involves carbon that has been captured from the air, or indeed from the sea. The DACCS process is up and running in the UK on an experimental basis and will undoubtedly become quite a substantial element of carbon capture in future, so we thought it important that direct air capture technologies should be included within the definition of “carbon capture entity”.

I thought we might have a bit of discussion about that point this morning, but I observe that, subsequent to our tabling amendment 84, the Government have tabled amendment 10, which results in similar wording. My first point is a positive one: well done to the Government on that. My second, slightly less positive point is, “Why couldn’t you have done that in the first place?”

My third point is one for the record: it may be that the Government and the Opposition’s thoughts were running along entirely parallel lines at precisely the same moment. Alternatively, it may be that the Government looked at our amendment and thought, “Oh, we haven’t done that—maybe we ought to, but of course we can’t accept an Opposition amendment, so we’ll have to use our own.” It might have been nice for the Government to say, “You’re absolutely right, so we’ll accept your amendment,” but I am fairly graciously saying that I am pleased that they have managed to table amendment 10. On that basis, it does not seem necessary to proceed with our amendment 84 this morning. We can rest satisfied that we maybe played a small part in the general progress of the Bill through the House.

**Andrew Bowie:** All I would say to the hon. Gentleman is that, of course, imitation is the most sincere form of flattery. While I do not deny that the Government and the Opposition were thinking along the same lines at exactly the same time, and therefore came to the same conclusion, I am glad that he is not going to press amendment 84 to a vote, and that he accepts that the definition in our amendment covers the definition of direct air capture and carbon storage. We share the view that greenhouse gas removal technologies will be essential to reach net zero, and I am glad that, as has so far been

the case with most of the Bill, there is broad cross-party agreement about where we are headed, and definitions required to get there.

**The Chair:** The cliché that sprang to mind was, “Great minds think alike,” although I would not necessarily add the second part, which is, “though fools seldom differ.”

*Amendment 7 agreed to.*

*Amendments made:* 8, clause 63, page 55, line 33, at end insert—

“(b) a counterparty for any one or more descriptions of carbon capture revenue support contract.”

*This amendment enables the Minister to designate a person to be a counterparty for particular descriptions of carbon capture revenue support contracts.*

Amendment 56, clause 63, page 55, line 34, leave out from second “contract” to “was” in line 1 on page 56 and insert

“to which a carbon capture counterparty is a party and which”.

*This amendment modifies the definition of “carbon capture revenue support contract”.*

Amendment 57, clause 63, page 56, line 4, leave out subsection (3).

*This amendment is consequential on Amendment 56.*

Amendment 9, clause 63, page 56, line 10, leave out from “may” to end of line 17 and insert—

“(a) exercise the power under paragraph (a) of subsection (1) so that more than one designation has effect under that paragraph;

(b) exercise the power under paragraph (b) of that subsection so that more than one designation has effect in respect of any description of carbon capture revenue support contract.”

*This amendment removes limitations on the Minister’s ability to designate more than one counterparty for carbon capture revenue support contracts, and supplements Amendment 8 by confirming that there may be, at the same time, more than one counterparty for a particular description of carbon capture revenue support contract.*

Amendment 5, clause 63, page 56, line 25, after “on)” insert “in the United Kingdom”

*This amendment and Amendment 6 provide that activities by virtue of which a person qualifies as a “carbon capture entity” must be carried on in the United Kingdom (including the specified offshore areas).*

Amendment 10, clause 63, page 56, line 25, leave out from “on)” to end of line 27 and insert

“, with a view to the storage of carbon dioxide, activities of capturing carbon dioxide (or any substance consisting primarily of carbon dioxide) that—

- (i) has been produced by commercial or industrial activities,
- (ii) is in the atmosphere, or
- (iii) has dissolved in sea water.”

*This amendment widens the definition of “carbon capture entity” to bring within it capturing carbon dioxide from the atmosphere or from sea water.*

Amendment 6, clause 63, page 56, line 29, at end insert—

“(9) In subsection (8) the reference to carrying on activities in the United Kingdom includes carrying on activities in, above or below—

- (a) the territorial sea adjacent to the United Kingdom;
- (b) waters in a Gas Importation and Storage Zone (within the meaning given by section 1 of the Energy Act 2008).”—(*Andrew Bowie.*)

*See the explanatory statement relating to Amendment 5.*

*Clause 63, as amended, ordered to stand part of the Bill.*

**Clause 64**

## DIRECTION TO OFFER TO CONTRACT

*Amendment made:* 58, clause 64, page 57, line 5, leave out subsection (4) and insert—

“(4) Revenue support regulations must make provision for determining the meaning of “eligible” in relation to a carbon capture entity.”—(*Andrew Bowie.*)

*This amendment is consequential on Amendment 56.*

*Clause 64, as amended, ordered to stand part of the Bill.*

**Clause 65**

## APPOINTMENT OF HYDROGEN LEVY ADMINISTRATOR

*Question proposed,* That the clause stand part of the Bill.

**The Chair:** With this it will be convenient to discuss the following:

Government amendments 12 and 59.

Amendment 117, clause 66, page 58, line 26, leave out from “regulations,” to end of line 27 and insert “including but not limited to—”

*This amendment seeks to define relevant market participants on a wider basis than purely gas suppliers, electricity suppliers and gas shippers.*

Clause 66 stand part.

Government amendments 61 to 69.

Clauses 67 and 68 stand part.

**Andrew Bowie:** This group concerns clauses 65 to 68, regarding the hydrogen levy. Let me turn first to clause 66 and Government amendments 12 and 59.

Government amendment 12 will overturn the amendment to the levy provisions made on Report in the other place. The amendment would have ensured that the funding for the hydrogen production business model could be provided through the Consolidated Fund. However, the financial assistance power in part 2 already enables Exchequer funding of low-carbon hydrogen production. Indeed, I remind members of the Committee that the hydrogen production business model will initially be funded through the Exchequer.

The Lords amendment would also restrict where a hydrogen levy could be placed, thereby removing the option to levy gas and electricity suppliers and providing that a levy could be placed only on gas shippers. Investor confidence and developer confidence are critical to realising the potential benefits of the UK hydrogen economy, which could support more than 12,000 jobs and unlock up to £11 billion in private investment by 2030.

CCUS-enabled hydrogen projects are also expected to play a key role in the Government’s plans to deploy CCUS in four industrial clusters by 2030. Other countries are investing heavily in hydrogen and CCUS, and it is important that we do not miss this opportunity to deliver high-quality jobs and growth.

Government amendment 59 will expand the existing levy provisions to allow the Secretary of State to make regulations to establish a levy to fund hydrogen transport

and hydrogen storage revenue support contracts, and associated costs, in addition to the hydrogen production business model.

The Government have not reached a decision on how the hydrogen transport and storage business models will be funded, but the powers in the Bill enable both Exchequer and levy funding options. That approach will ensure that there are robust, reliable options available to fund the business models. That will help to support investor and developer confidence in the future of the UK’s hydrogen infrastructure, encouraging private investment, which is critical to kick-starting and growing the hydrogen economy.

10.15 am

I shall now speak more generally to clause 66. I reassure the Committee that the Government will continue to prioritise the protection of consumers. We have paid almost half of the average household’s energy bill since the introduction of the energy price guarantee, as well as supporting businesses through the energy bill relief scheme and now the energy bills discount scheme. I also reassure members of the Committee that the Government are listening carefully to concerns raised across the House both here and, indeed, on Second Reading.

Government amendments 61 to 69 are all consequential on Government amendment 59. Clause 67 enables regulations to make provision for payments to be made back to levied market participants. For example, as the hydrogen economy matures, it is possible that the market price of hydrogen will exceed the agreed strike price. In that scenario, hydrogen producers receiving support through the hydrogen production business model would make payments to the hydrogen production counterparty. Using clause 67, the Secretary of State can make regulations that enable those payments to be passed through from the counterparty to the levied market participants. That can help provide for fair and efficient payment and reconciliation arrangements.

Clause 68 enables revenue support regulations to make provisions specifying the functions and duties of a hydrogen levy administrator. It also enables regulations to make provision for the Secretary of State to direct the levy administrator. That will help to ensure the effective operation of the levy by enabling regulations to set out functions of a levy administrator. The clause is critical to investor and developer confidence in the hydrogen levy.

Finally, clause 65 makes provision for the Secretary of State to make regulations appointing a person as a hydrogen levy administrator. I beg to move that Government amendments 12 and 59 be made and that clauses 65, 66, 67 and 68 stand part of the Bill.

**The Chair:** Technically speaking, the Minister need only move that clause 65 stand part of the Bill. That is the first debate in the group.

**Dr Whitehead:** We have two concerns about this group. One relates to Government amendment 12, and the other to amendment 117, which we seek to advance. Amendment 117 simply seeks to widen the definition of relevant market participants beyond purely gas suppliers, electricity suppliers and gas shippers. There are other relevant market participants that might actually come

under the definition, and we feel that the current wording in the Bill, which effectively says that only the market participants set out here can be included, is overly restrictive. We suggest in our amendment that the words should state that those participants—gas suppliers, electricity suppliers and gas shippers—should be included, but that the definition should not be limited to them. We have therefore added the words

“including but not limited to—”

to the definition in the Bill. I would be grateful for the Minister’s response to the amendment, whether we move it formally or not. Some reassurance on the limitations perceived to be there at the moment would be helpful.

I will turn to the main issue in this part of the Bill. As the Minister states, Government amendment 12 seeks to overturn what passed in the other place, which is that their lordships felt that the idea of pursuing a hydrogen levy by means of a levy on customers, essentially, was not a good one. I would go rather further than that: I think it is an absolutely suicidal one.

Their lordships considered an amendment to the Bill at that point, which made it clear that there would be a limitation on who could be the levy payers as far as the hydrogen production levy is concerned, and that that limitation should be the Consolidated Fund or gas shippers. Arguably, gas shippers would have an effect on customers’ bills in the future, and the Consolidated Fund has an effect on taxation levels, but not on bills as such.

Where we had got to when the Bill came to this House is that a consolidated part of the Bill was actually a restriction on who could be levied as far as the hydrogen levy is concerned. I, for one, thought that was a very wise restriction to place in the Bill, and I know from their statements, particularly on Second Reading, that a number of members of this Committee also thought at the time that that was a pretty wise move.

That is why I am really disappointed this morning to see that the Government are seeking to overturn the restriction that was placed on levy raising in the other place. I am not the only person, of course, who is worried about this issue, as far as levy payers are concerned. I refer, for example, to the MailOnline on 4 June, which stated:

“Grant Shapps is poised to ditch a plan to add around £120 to Brits’ energy bills to fund the transition to hydrogen.”

The article continued:

“The Net Zero Secretary is understood to be ‘not at all convinced’ that the levy should go ahead, after fierce criticism from Tories.”

Of course, it is MailOnline, so it does not say that there has been fierce criticism from the Labour party as well, but there you are. The article went on to say:

“The government has been accused of heaping more pain on struggling consumers with the proposals for a charge to fund the fledgling industry.”

Obviously, I have got to know the Minister quite well while we have been considering the Bill, and indeed beforehand, and we have a very good relationship. I, for one, would not like to see him being hung out to dry by his Secretary of State on this issue. Whether it is a wise thing for the Minister and his career to advance this amendment right at this minute is something that we will leave for others to judge.

However, the substantive point I want to make is this: just what will be the effect of a levy payment, in the way that this amendment suggests, on the development of hydrogen itself? The Government have quite rightly targeted 10 GW of hydrogen production by 2030 and they have put in place in the Bill arrangements for a system similar to that for offshore wind, with strike prices, reference prices and so on being involved in the process of levying whoever it is that will be levied.

Determining what the strike price is likely to be will be difficult. The Government have indicated—well, the then Department for Business, Energy and Industrial Strategy gave an indication in November 2022—that they would assume a strike price of about £100 per MWh for hydrogen production. Once that is established, it is important to look at what the difference is likely to be with the prevailing electricity price, since they are contracts for difference. With electricity prices as they are at the moment, the difference between the £100 strike price and the electricity price might be fairly small, but if we assume a more reasonable difference—what the selling price of hydrogen will be in the market at that point and based on gas as a comparator—we can come to something like £55 per MWh, which is the prevailing gas price and a premium on carbon pricing within gas. The difference between the £100 per MWh strike price and the likely reference price of £55 gives us a gap of £45, which would be the financial support for the 10 GW of hydrogen production by 2030 that would be fundable through a hydrogen levy. What that gap actually means is that some £53 billion over a 10-year period would be required.

That funding would not be flat because the hydrogen levy would be levied on a rising amount of production over the period. Initially the cost of the gap would be reasonably low, starting at about £700 million per annum between 2025 and 2030, but by 2030 it would be about £3.5 billion per year and then would continue through the period of 15-year contracts. The support that will be necessary—£3.5 billion per year by 2030—can then be translated into what it is likely to cost the bill payer per year as a proportion of that cost. If we divide the number of paid units by the amount per year by 2030, the cost on bills is likely to be in the region of £118 to £120 per year. That is a levy that dwarfs all previous levies.

The total amount of green levies, which are not being paid at the moment because the Government are covering them during the energy crisis—and not a much longer period, I suspect—is about £165 in total. So what is being proposed here this morning is a plan that will add two thirds to those levies over the period running up to 2030. Other levies are proposed in the Bill, and we have agreed to a number of others that are coming down the road—well, I say we agreed to them, but I unsuccessfully attempted to obstruct them. For example, the nuclear regulated asset base will come in as a levy, and there will be further levies under the Government’s—and, indeed, the Opposition’s—plan to quadruple offshore wind and, if we have our way, double onshore wind by 2030. If we continue trying to add levies for everything to customer bills, they will increase hugely by 2030, not because the prices of electricity or gas have gone up or because Mr Putin has invaded anywhere else, but because of conscious policy design and the way the Government set up the levy system.

10.30 am

I appreciate that trying to establish exactly what the costs will be is an art rather than a science, but I do not think that the putative cost of £120 more or less is likely to be that far out. The central point is that the fundamentally broken system of funding renewable and low-carbon energy by way of direct levies on customers will be further broken, further brought into disrepute and further of concern to customers in the future.

Hydrogen does not fit into exactly the same category as some other levies. One of my concerns about the nuclear RAB is that customers are being asked to pay for it before a nuclear plant is in production. That levy will be added to their bills before a single kilowatt of power has been produced by a new power station. Consequently, they may say to themselves, “We are taking on the risk of this. There should be ways of spreading the risk other than adding it to our bills.” For hydrogen, customers may say, “How is this coming to us? Is it coming to us in the same way as offshore wind?” Levying offshore wind will eventually lead to lower bills for customers, because of the maturity of the wind that the levy has enabled, so there is a sort of customer benefit at the end. At the moment, the extent to which hydrogen will be used for customers—certainly, domestic customers—is not clear. Indeed, the Government have deferred the decision about the role that hydrogen will play in domestic heating until 2026.

It is absolutely right that we move at least at the pace that the Government have set as their ambition for putting in place hydrogen, and particularly green hydrogen—10 GW by 2030—but there is much less clarity about what it will be used for. There are clear uses for hydrogen in decarbonising heavy industry, steel and various other heavy industrial products. Clearly, there are substantial uses for it in transport logistics and energy storage, but Members will see that all those uses do not bear on domestic customer arrangements in any clear way. Therefore, customers may well ask why they are paying £118 on their bills for something that is not going to impinge on those bills very much at all.

We will discuss the industrial turbocharger plans later on. I was reflecting that the Government now name everything “turbocharger”, “super” or “great” something or other. The turbocharger is essentially a plan for ensuring that industry is substantially exempted from the effects of various levies and those levies are more greatly placed on domestic customers. Later on, when we discuss the turbocharger, we will ask whether the Government intend to introduce the levy and, by the way, increase its severity by taking it off industrial users and concentrating it all on domestic users. If the Government do that, the £118 will be considerably increased for domestic customers. The Government currently appear to be getting cold feet about that and customers have not just got cold feet but are increasingly likely to revolt against it. As the Onward think-tank, which has done quite a lot of work on the matter, has suggested, there are other ways of funding a hydrogen levy to cover the sort of sums I have suggested but which do not entail putting that additional levy on customers. As the Bill stands, those other ways could be advanced, but not the question of a further customer levy.

I might kindly advise the Minister to think very carefully. Unfortunately, he cannot do that in the lunch break, because we may take a decision on the matter before then—unless I speak for even longer.

**The Chair:** We do not want to go there.

**Dr Whitehead:** I agree, Mr Gray. It is not a good idea, and I will bring my remarks to a close.

My kind advice is that the Minister should think very carefully before proceeding with the amendment. We have a good Bill overall, which has been strengthened by the decision made in the other place and it sits well with the Bill as it stands. Why can we not just leave it like that? Let us continue to discuss the Bill on the basis that we can all agree on that structure for the future. I fear the Minister may not take that advice. If he does not, we will certainly try and force a Division to make sure that that advice is well taken. The way to do that is simply to vote against the Government’s amendment.

**The Chair:** Yes, that is right.

**Dr Whitehead:** If the Minister does pursue this, that is what we would propose. I would just add, finally, that I think there is considerable support for that in this Committee. The right hon. Member for Elmet and Rothwell—

**The Chair:** Who will speak for himself in a moment, I think.

**Dr Whitehead:** He said:

“We have to take the public with us on this—we cannot keep adding to people’s bills to try to make things work.”—[*Official Report*, 9 May 2023; Vol. 732, c. 276.]

That was well said, and I hope that that view will be reflected in the decisions taken by this Committee this morning.

**Alec Shelbrooke** (Elmet and Rothwell) (Con): I thank the hon. Member for Southampton, Test for what was almost a warm-up act to introduce me to the stage. I agreed with every word: we do have to take the public with us, and a movement is building in the country against net zero and an increase in bills. There are many issues, as he has outlined.

I have good news and bad news for you, Mr Gray: I have quite a lot to say, but the hon. Member has covered a few of those things by setting out the financial implications, using some well-researched material that is available to the Committee, so I shall leave some of that aside.

One problem is that it is a little bit of lazy economics to come along with a new area of energy generation—renewable generation—and just say, “Well, we’ll add another tax to do it.” I hope to set out some alternative ways of doing it. There are some considerable potential uses of hydrogen, which I will come on to describe. If we take them in turn, they could suggest areas where the focus could be changed.

My hon. Friend the Minister is a dear friend of mine, and I will try to be gentle with him. He commented that the Bill will enable funding streams that are not yet decided. However, I say to him in all good heart that conversations in the background have opened with the comment, “Well, if we don’t do this, how are we going to pay for it?” That would suggest that decisions have already been made about the levy coming into place.

I find that exceptionally disappointing, within the brief that the Minister has been given, because I do not want to see him hung out to dry.

Where I think the Minister has a very valid argument is in what he said about discussions taking place in the background. I have been led to believe that the Government are trying to work on alternatives for Report; I hope very much that that is true. The hon. Member for Southampton, Test quoted my comments on Second Reading; he will have noticed that my comments were not unique, as many colleagues on the Government Benches had similar concerns. I think that it is the view of the House, overall, that there are concerns about Government amendment 12. There is therefore an imperative on the Government to come along and find a way to make hydrogen work without a direct taxation on people's bills.

Here is the reality. I have some figures and comments from the Library. Costs to consumers due to Government policy are known as policy costs. They consist of the renewables obligation paid on electricity bills to support large-scale renewables; the feed-in tariff paid on electricity bills to support small-scale renewables; contracts for difference paid on electricity to support low-carbon generation; the energy company obligation paid on both electricity and gas to support household energy efficiency; the warm home discount paid on both to provide a discount to vulnerable households; assistance for areas with high electricity distribution costs paid on electricity; and the green gas levy, which funds the green gas support scheme, paid on gas bills.

Based on the Q2 2023 price cap, the breakdown of annual costs annually is as follows: the renewables obligation is £80.26; the feed-in tariff is £18.70; the energy company obligation is £43.87; the warm home discount is £20.60; assistance for areas with high electricity distribution costs is £1.45; and the green gas levy is 45p. That shows that a significant number of green levies are already applied to people's bills.

10.45 am

When we had the rapid increase in bills, the experience of everybody in this room and their constituents was probably quite unique. Like many politicians, I have spent decades knocking on people's front doors, and we all know that there will be an argument about policy—it could be about when we did not put pensions up by the consumer prices index and in line with earnings, because of the anomaly during the pandemic around the decision we take every year. That can start a political debate on the doorstep: “It's outrageous. You said you were going to do this, and you haven't.” That is politics.

However, what happened in the early months of 2022 was something I had never seen before. Door after door, there was fear—absolute fear—from people about how they were going to pay for their energy. I was always supportive of the energy price cap, which was an important move that helped to alleviate things, but back in the first half of last year, there was much comment about how much levies were adding to energy bills to supplement green policies. Some said, “We must drop them,” but the Government made the comment, correctly, that contracts are in place and that that was not an easy thing to do. The idea that we could add another levy to energy bills is a mistake, and we will not take the public with us.

What we are doing on this Committee today, and what we are doing over the next few sittings—I am proud to be on this Committee, because this is a revolutionary Bill—has a lot of cross-party support, as Opposition Members have said, because we all recognise that this is such an important topic that will affect this country's energy production, net zero targets, and how we move forward for decades. We should therefore be able, when the House is roughly speaking as one, to take the public with us, but every now and then little parts of the Bill can become exceptionally explosive—excuse the pun—in relation to bringing people with us.

**Katherine Fletcher** (South Ribble) (Con): My right hon. Friend is making a powerful case around what many of us hear on the doorstep. Does he agree that being able to define exactly what any levy would be for is a really important part of explaining something when people are fearful of their energy bills? Some have concerns about the hydrogen levy: “What hydrogen is it? Is it green hydrogen produced by wind? Is it blue hydrogen produced from carbon fossil-fuel sources with associated carbon capture and storage?” Blue hydrogen still contains some contaminants. Does he believe that “hydrogen” has been defined enough to allow us to explain things to the general public?

**Alec Shelbrooke**: My hon. Friend touches on an important point, drawing on comments made by the shadow Minister, the hon. Member for Southampton, Test. We are being asked to add a levy before we know how it will be used or what type of hydrogen it will generate. I do not think that people like signing open cheques without the way forward being defined.

I want to develop the argument for why hydrogen is an important step and to look at its applications in the automotive industry. The reason I say that is purely—

**The Chair**: Order. I am reluctant to interrupt the right hon. Gentleman, whose speeches I always greatly enjoy, but he is now launching us into a Second Reading-type debate on the benefits of hydrogen. We are discussing a very specific series of amendments, so perhaps he will return to the group under discussion.

**Alec Shelbrooke**: I am grateful, Mr Gray. What I am seeking to do is set out alternatives that can be used instead of putting the hydrogen levy in place.

**The Chair**: Order. We are discussing a Bill. It is possible to discuss the Bill itself or the amendments proposed to it; it is not possible to discuss things that are not in the Bill, even if the right hon. Gentleman thinks that they might be a good idea. Will he therefore please discuss either the Bill or the Government or other amendments in this group? He may not discuss things that are not in the Bill.

**Alec Shelbrooke**: I take your advice, Mr Gray. One tries to push one's luck, but I take your comments on board.

To summarise the comments I was going to make, which can wait until subsequent stages, there are several alternatives within the energy market that can be used to achieve some of the things we are hoping to achieve

[Alec Shelbrooke]

with the blunt tool of yet another tax on energy. Hydrogen will play an important part in the energy progress that we make going forward. These things will need capital funding to help set them up, similar to many things that were done when the North sea was first exploited. Government subsidies and underwriting helped to get that under way.

These are important areas. We must not be blind to the fact that the public are losing faith in the climate agenda overall. There are many reasons why that may be happening. It may well be just algorithms on social media that draw certain people together, but we cannot be blind to the fact that there is a growing movement against net zero. There is a growing movement in this House to talk about having a referendum on whether we want to achieve net zero. Some colleagues are now pushing that forward.

We have to act carefully and diplomatically, and show people that there are huge advantages to be had from this technology and this energy going forward. The Government raise a lot of revenue off energy production, as the hon. Member for Southampton, Test and I have outlined. I therefore feel that Government amendment 12 would be a mistake. However, the Minister has indicated that work is taking place in the background, and I have had indications that amendments may be brought in on Report. If the amendment is pushed to a Division today, I shall not vote against it, but I shall abstain.

**Olivia Blake** (Sheffield, Hallam) (Lab): It is a pleasure to follow the right hon. Member for Elmet and Rothwell. I know that this is not really a declaration of interest, but my mother, Baroness Blake, was actually the person who moved the amendment in the other place. It is interesting that mother and daughter are both working on this Bill in different ways.

**The Chair:** A record?

**Olivia Blake:** Possibly a record. Who knows?

I rise to defend the amendments made in the Lords and to speak against Government amendment 12, predominantly because of the aims of the Bill that the Secretary of State outlined when it was brought forward. Those aims were about security, but also about tackling fuel poverty. The facts about fuel poverty in the UK at the moment are very telling. I will cite the End Fuel Poverty Coalition's numbers: 1,000 people died in 2022 as a result of living in cold, damp homes, unable to heat them because of costs. We also know that 7 million people in the UK last winter were living in fuel poverty. Taken together, those are staggering numbers, and it is important that they are at the forefront of our minds when we discuss the levy.

It is telling that there seem to be unified voices against the policy. The figure of £118 that the shadow Minister mentioned came from Onward, which is a Conservative think-tank. The discussion is also about who has the broadest shoulders to help with the changes that desperately need to be made to our energy system. I completely agree with the shadow Minister that the Bill gives the public all the risk and potentially none of the benefits.

There are 37 independently published reports that set out that they do not believe that the UK will move fully to hydrogen for home heating. Obviously there are massive benefits for steel—Sheffield is the city of steel—that could be unlocked through hydrogen, and there are many benefits for industry, but it seems wrong for Government amendment 12 to remove the protections given in the other place to the levy to prevent that cost from falling so dramatically on households. As the right hon. Member for Elmet and Rothwell set out, it is really important that we bring the public with us.

Government amendment 12 is almost a wrecking motion for net zero, because the opposition to this will be huge. I ask the Minister to think hard about whether the Government want to champion such a burden on households when it is not clear whether the benefit will ever fall on households. We do not yet know the questions about hydrogen, let alone the answers, or what the benefits to home heating will be, if that is the path we go down as a nation when there are many alternatives growing at speed, as we have discussed. I think the Government's amendment is very challenging. I urge them to think again for the benefit of all those who struggle to pay their energy bills now and for those who may struggle in future if the levy comes in.

**Kerry McCarthy** (Bristol East) (Lab): I want to add to what has been said on both sides of the Committee Room today about how unwise it is for the Government to go down this path. I do not agree with what the right hon. Member for Elmet and Rothwell said about how we should not conflate public feeling about net zero with public concern about energy bills; the green transition and the move towards renewables will bring in cheaper energy and enhance our energy security, so I do not accept his arguments. However, if I were to argue that point with him, you would quite rightly say that I was broadening the debate beyond the parameters of the Bill, Mr Gray, so I will save my remarks for this afternoon's Westminster Hall debate on the Government's approach to net zero.

At the heart of the issue is what the shadow Minister, my hon. Friend the Member for Southampton, Test, said: consumers want to know how this will come to us. I share the concerns—my hon. Friend listed the other green levies in legislation, but the difference is that we can see a benefit from investment in such fields—but the hydrogen levy will mostly be to the benefit of energy-intensive, hard-to-decarbonise industries, and consumers will rightly feel that they are paying for something from which they will not receive the benefit.

We know that there is huge concern. The right hon. Member for Elmet and Rothwell said that there is fear in people's eyes about how they will meet their energy bills. There is—I have seen that concern. In my public communications about how energy bills were predicted to rise, I was very worried about making constituents even more scared. It was a balance: I wanted to warn people about what is to come, but given the stress that they were under, I felt that it was important not to be alarmist. It is a difficult position to hold. As has been said, it could put about £118 on bills. Documents from the Department state that after 2030, the impact on consumer bills will ramp up even further:

“Once introduced, we expect its impacts will ramp up as we look to deliver our 2030 hydrogen ambitions to improve energy security.” This is a deeply regressive move.



I do feel a bit of sympathy for the Minister, because he has to defend to the hilt something on which, given the reaction on Second Reading, he will end up having to U-turn. He will get all the flak, and his boss will get all the credit for having listened to people and changed his mind.

Somebody mentioned the think-tank Onward, which has contributed a piece to “ConservativeHome”. Onward has also said:

“The Government is walking into a trap with the hydrogen levy. It would be a mistake that risks stalling the development of a British hydrogen economy. It would also be unfair to ask households that won’t benefit from hydrogen directly to pay for it. The Government should think again. And the Treasury should get off the fence and back the role hydrogen can play in the economy.”

Clearly this is not an anti-hydrogen move. It is about ensuring that the people who will benefit bear the majority of the cost.

11 am

The shadow Minister, my hon. Friend the Member for Southampton, Test, has quoted a little of what the right hon. Member for Elmet and Rothwell said on Second Reading, but let me give the quote in more detail. The right hon. Member said that

“the cost we pass on to the public must be minimised. I hope the Minister”—

that is, the Secretary of State—

“will take note of the points about the hydrogen levy before Committee stage. It is misguided and it is in the wrong place. We have to take the public with us on this—we cannot keep adding to people’s bills to try to make things work. I hope the Minister will take that point away.”—[*Official Report*, 9 May 2023; Vol. 732, c. 276.]

The problem is that the Secretary of State has taken it away but not quite given it enough consideration at this stage, and the poor junior Minister present today is in an invidious position.

The former Business Secretary, the right hon. Member for North East Somerset (Mr Rees-Mogg), said that he tried to block the levies when he was the Minister in charge of the Bill under the former Prime Minister. He said:

“Let’s not beat around the bush, these levies are taxes and tax is already too high...Energy is already expensive enough...The Government should try to help people get cheaper energy, not more expensive energy. There is no justification for further levies on bills.”

The hon. Member for Yeovil (Mr Fysh) argued that

“it is inherently inflationary to put lots of new taxes on things.”

The hon. Member for Northampton South (Andrew Lewer) said that

“just as it looks like bills will maybe start to come down—that will put them up again”.

The hon. Member for South Thanet (Craig Mackinlay) said that this was a

“socialist energy agenda...more reminiscent of the 1950s Soviet Union that we used to laugh at”.

Actually, I do not think that there is anything socialist about such a regressive move. I take the underlying point that we should not make such provisions, but I think it was slightly unfair to suggest that the move was coming from the left.

Finally, Lord Lilley, who sits on the Lords Environment and Climate Change Committee, argued:

“Hydrogen is a non-starter as a replacement for domestic gas” and that

“to make households pay for something they will never receive is a double insult. It’s absurd to make people pay for something that is never going to happen.”

I think he is what these days we would politely call a climate sceptic, rather than a climate change denier, so I would not endorse his broader approach, but those quotes sum up the position that the Minister is in. There is a lot of unhappiness on this issue. There is not support among the public or in the House, even among Government Members. I hope that he can give some indication that he will at least think about this, even if he cannot agree with us and is forced to vote in the wrong way today.

**Andrew Bowie:** I will start by speaking to amendment 117. I assure the hon. Member for Southampton, Test that the Government carefully considered the possible levy payers listed in the Bill when it was introduced in the other place. Levies on electricity and gas suppliers have been successfully used to support the deployment of low-carbon electricity and to increase the proportion of green gas in the gas grid. Those funding mechanisms are well understood by the private sector and can help to bolster investor confidence in the viability of funding for hydrogen.

Gas shippers were included as another possible option for the levy design, which allows for a greater range of options for a future levy design while appropriately narrowing the scope. The amendment in the other place was also intended to enable Exchequer funding of the hydrogen business model, but the powers in the Bill already provide for that arrangement. The hydrogen production business model will initially be Exchequer-funded. That aspect of the amendment would therefore introduce redundant provisions to the Bill.

Let me turn briefly to the thoughtful and serious comments made by the shadow Minister, the hon. Member for Southampton, Test, as well as my right hon. Friend the Member for Elmet and Rothwell and the hon. Members for Sheffield, Hallam and for Bristol East. I thank the hon. Member for Southampton, Test for bringing to the Committee’s attention the fact that the Government do care about and recognise the huge pressure that has been put on everyone in this country as a result of Vladimir Putin’s invasion of Ukraine, and the highly fluctuating gas markets and huge increase in energy bills that we have seen as a consequence. I thank him for reminding the Committee that this Government stepped up late last year to pay half of everybody’s energy bills—that is £1,500 per person. We consider very much the impact of any policy decision, any action taken by the Government and any action taken by forces outwith our control on people’s energy bills, particularly this year, when people across the country have been paying record amounts.

I recognise the experience that my right hon. Friend the Member for Elmet and Rothwell spoke so powerfully about; when knocking on people’s doors earlier last year, there was a genuine fear about the impact that the rise in energy bills would have on individual circumstances. That fear was not confined to those people who were sadly already worried—it was across the piece. We have got to pay close attention to that and bear it in mind when we reach any decision in Government that may affect those bills even further.

[Andrew Bowie]

I say to all the Members who have expressed an opinion today, and to all those engaged in the debate outside this place, that the design of the hydrogen production levy is ongoing, and discussions as to what form that levy will take—or whether it will exist—continue. Those discussions will take into account all relevant considerations, including the affordability of energy bills, which I hope I have made clear the Government take incredibly seriously. We will continue to have discussions and consult on the future design of the said levy as we move forward.

*Question put and agreed to.*

*Clause 65 accordingly ordered to stand part of the Bill.*

### Clause 66

#### OBLIGATIONS OF RELEVANT MARKET PARTICIPANTS

*Amendment proposed:* 12, in clause 66, page 57, line 25, leave out “the Consolidated Fund or gas shippers” and insert “relevant market participants (see subsection (8))”.—*(Andrew Bowie.)*

*This amendment reverses the amendment to clause 66 made at Report stage in the Lords, so that a levy may be imposed on gas suppliers or electricity suppliers as well as on gas shippers.*

*Question put, That the amendment be made.*

*The Committee divided: Ayes 7, Noes 5.*

#### Division No. 1]

#### AYES

Afolami, Bim	Fletcher, Katherine
Bowie, Andrew	Levy, Ian
Britcliffe, Sara	Morrissey, Joy
Clarkson, Chris	

#### NOES

Blake, Olivia	Western, Andrew
McCarthy, Kerry	
Owatemi, Taiwo	Whitehead, Dr Alan

*Question accordingly agreed to.*

*Amendment 12 agreed to.*

*Amendments made:* 59, in clause 66, page 57, line 27, at end insert—

“(za) a hydrogen transport counterparty to make payments under a hydrogen transport revenue support contract or in respect of liabilities incurred in connection with hydrogen transport revenue support contracts;

(zb) a hydrogen storage counterparty to make payments under a hydrogen storage revenue support contract or in respect of liabilities incurred in connection with hydrogen storage revenue support contracts;”.

*This amendment enables regulations to require levy payments to be made to fund hydrogen transport revenue support contracts and hydrogen storage revenue support contracts.*

*Amendment 60, in clause 66, page 57, line 31, after second “a” insert “carbon dioxide”.—(Andrew Bowie.)*

*This amendment is consequential on Amendment 23.*

*Clause 66, as amended, ordered to stand part of the Bill.*

### Clause 67

#### PAYMENTS TO RELEVANT MARKET PARTICIPANTS

*Amendments made:* 61, in clause 67, page 58, line 38, leave out “hydrogen production” and insert “relevant”.

*This amendment and Amendments 62, 63, 64, 65, 66, 67, 68 and 69 are consequential on NC29 and NC31.*

*Amendment 62, in clause 67, page 59, line 6, leave out “hydrogen production” and insert “relevant”.*

*See the explanatory statement for Amendment 61.*

*Amendment 63, in clause 67, page 59, line 7, leave out “hydrogen production” and insert “relevant”.*

*See the explanatory statement for Amendment 61.*

*Amendment 64, in clause 67, page 59, line 10, leave out “hydrogen production” and insert “relevant”.*

*See the explanatory statement for Amendment 61.*

*Amendment 65, in clause 67, page 59, line 13, leave out “hydrogen production” and insert “relevant”.*

*See the explanatory statement for Amendment 61.*

*Amendment 66, in clause 67, page 59, line 16, leave out “hydrogen production” and insert “relevant”.*

*See the explanatory statement for Amendment 61.*

*Amendment 67, in clause 67, page 59, line 18, leave out “hydrogen production” and insert “relevant”.*

*See the explanatory statement for Amendment 61.*

*Amendment 68, in clause 67, page 59, line 25, leave out “hydrogen production” and insert “relevant”.*

*See the explanatory statement for Amendment 61.*

*Amendment 69, in clause 67, page 59, line 28, at end insert—*

“(4) In this section ‘relevant counterparty’ means any of the following—

(a) a hydrogen transport counterparty;

(b) a hydrogen storage counterparty;

(c) a hydrogen production counterparty.”—*(Andrew Bowie.)*

*See the explanatory statement for Amendment 61.*

*Clause 67, as amended, ordered to stand part of the Bill.*

*Clause 68 ordered to stand part of the Bill.*

### Clause 69

#### POWER TO APPOINT ALLOCATION BODIES

*Question proposed, That the clause stand part of the Bill.*

**The Chair:** With this it will be convenient to discuss the following:

Clause 70 stand part.

Clauses 71 to 76 stand part.

11.15 am

**Andrew Bowie:** Clauses 69 to 76 concern the allocation of contracts. Clause 69 enables the Secretary of State to appoint one or more persons to act as allocation bodies. They will be responsible for administering competitive allocation processes for hydrogen production and carbon capture revenue support contracts. While initially, to support an emerging market, business model contracts

are expected to be awarded bilaterally, it is the ambition of this Government to transition to more competitive allocation processes for hydrogen production and carbon capture revenue support contracts. For the hydrogen production business model, our ambition is to move to price-based competitive allocation from 2025, as soon as legislation and market conditions allow.

Clause 70 gives the Secretary of State the power to issue and revise standard terms of hydrogen production revenue support contracts and carbon capture revenue support contracts. The power also enables the Secretary of State to designate particular standard terms as terms that may not be modified under clause 74.

Clause 71 sets out how an allocation body can notify a hydrogen production or carbon capture counterparty of an allocation decision and enables the design of the allocation process to change over time. Clause 72 builds on clause 71, enabling the Secretary of State to make regulations setting out how hydrogen production and carbon capture revenue support contracts are to be allocated as part of a more competitive process. That includes allowing the Secretary of State to make regulations conferring a power on the Secretary of State to set the rules of allocation in an allocation framework. The expectation is that an allocation framework will be produced and published for allocation rounds and will act as a rulebook for how allocation rounds will operate.

Clause 73 sets out how a hydrogen production or carbon capture counterparty must act upon a notification from an allocation body under clause 71. Any offer to contract is required to be on the standard terms, or on the standard terms as modified in accordance with the procedure provided for in clause 74. This clause enables further regulations to be made that may include setting out the time in which the offer must be made or what happens if the eligible person does not enter into a contract as a result of the offer.

Clause 74 enables a hydrogen production or carbon capture counterparty to agree modifications to the standard terms with low-carbon hydrogen producers or carbon capture entities. These adjustments may be required because it is not possible for the standard terms to anticipate every technology or project-specific issue. Clause 75 clarifies that regulations made using powers in clauses 71 to 74 may include, for example, requirements for how allocation is to be determined competitively, as well as procedures that should be followed and consideration of specified matters and the opinions of specified persons when making any determinations under the regulations. For example, the clause could enable a counterparty to determine whether an applicant has provided sufficient information and evidence that a modification of standard terms is both minor and necessary.

Clause 76 makes clear that a gas system planner licence may include conditions aimed at facilitating or ensuring the effective performance by the independent system operator and planner of any hydrogen production allocation body functions. It also provides that where the Gas and Electricity Markets Authority proposes to add, remove or alter such a condition that relates to Northern Ireland, GEMA must notify the Department for the Economy in Northern Ireland. With those explanations, I beg to move that clauses 69 to 76—

**The Chair:** Just 69 will do.

**Andrew Bowie:** Just 69—that clause 69 stand part of the Bill.

**The Chair:** For clarity, I group various things together in one group when it is convenient to discuss them together. The Minister moves only the first clause in that group. Therefore, in this case the Minister moves only clause 69.

**Dr Whitehead:** These are all riveting clauses, which seem to be pretty well put together. We have nothing to say about them, other than that we trust they will be part of the Bill.

*Question put and agreed to.*

*Clause 69 accordingly ordered to stand part of the Bill.*

*Clause 70 ordered to stand part of the Bill.*

*Clauses 71 to 76 ordered to stand part of the Bill.*

## Clause 77

### FURTHER PROVISION ABOUT DESIGNATIONS

*Amendments made:* 70, in clause 77, page 66, line 35, after “59,” insert “(Designation of hydrogen transport counterparty), (Designation of hydrogen storage counterparty),”.

*This amendment together with Amendments 71, 72 and 74 make supplemental provision about designations under NC29 and NC31.*

Amendment 71, in clause 77, page 67, line 3, after “59,” insert “(Designation of hydrogen transport counterparty), (Designation of hydrogen storage counterparty),”.

*See the explanatory statement for Amendment 70.*

Amendment 72, in clause 77, page 67, line 9, after “59(1),” insert “(Designation of hydrogen transport counterparty)(1), (Designation of hydrogen storage counterparty)(1),”.

*See the explanatory statement for Amendment 70.*

Amendment 73, in clause 77, page 67, line 12, after “a” insert “carbon dioxide”.

*This amendment is consequential on Amendment 23.*

Amendment 74, in clause 77, page 67, line 12, after “counterparty,” insert “hydrogen transport counterparty, hydrogen storage counterparty,”.—(*Andrew Bowie.*)

*See the explanatory statement for Amendment 70.*

*Question proposed,* That the clause, as amended, stand part of the Bill.

**Andrew Bowie:** Clause 77 enables the Secretary of State to revoke a counterparty designation by notice. A designation will also cease to have effect if the counterparty withdraws consent to the designation by giving not less than three months’ notice in writing to the Secretary of State. Subsection (4) enables the Secretary of State to make provision in regulations enabling a person who has ceased to be a revenue support counterparty to continue to be treated as such a counterparty, including provision about the circumstances in which, and the period for which, such a person may be so treated. I recommend that clause 77 stand part of the Bill.

*Question put and agreed to.*

*Clause 77, as amended, accordingly ordered to stand part of the Bill.*

### Clause 78

#### APPLICATION OF SUMS HELD BY A REVENUE SUPPORT COUNTERPARTY

**Dr Whitehead:** I beg to move amendment 86, in clause 78, page 67, line 31, at end insert—

“(4A) Revenue support regulations may make provisions for the return of sums held by a revenue support counterparty that have been secured from gas shippers over and above necessary reserve levels to energy supply customers.”

*This amendment would guarantee that, where shippers have above what is in reserve provision, the difference would be restored directly to customers from the shippers (in contrast to the way the LCCC works with retailers/customers now).*

The amendment follows on from the discussion that we had earlier in Committee about the role of the hydrogen production counterparty in administering the sums that may come its way. We have already had some discussion about the counterparty, which will potentially be enormous in terms of its likely new duties both in hydrogen production and in carbon capture and storage. The counterparty will have a very large amount of money coming in and out, and possibly staying in its reserves and being allocated for the purposes of what the counterparty is being set up for—to develop hydrogen production in this instance, but also carbon capture and storage development.

What is the position at the moment with the LCCC, which, as we have agreed, is likely to be the designated body for the counterparty for various things? The position at the moment is that there is no position on what the LCCC does with sums over and above what is necessary for it to hold in reserve or as contingency for the pay-out of sums to hydrogen production bodies, which is an important omission, because there is no specific guidance or legislative certainty. In practice, the LCCC hands over money greater than its reserves where it has accumulated additional sums of money because of the periodic inversions of strike price and reference price—hence there is money coming into it, rather than being paid out of the LCCC. It does pay those sums out, but there is no certainty as to where they go. Indeed, there is no certainty that anything should be paid out. At the moment, it would be quite possible for the LCCC to say, “We need more reserves, so we’re not paying any money out,” or it could pay that money back to industry or to certain parts of industry. I understand that the LCCC pays out that money to energy suppliers, but, again, there is no certainty that even the money paid out by the LCCC to those energy suppliers ever reaches the customer.

For surpluses over and above what is necessary for reserves and operational costs of the LCCC—the counterparty—if the principle is that the customer pays the levy, which we sincerely hope it is not, but if it is, should there be surpluses within that levy, the customer should get the money back one way or another. Similarly, if the Consolidated Fund is the source of a levy, the Consolidated Fund should get that money back one way or another. It should not be used for other purposes or sit in a bank account somewhere. It should be actively used, either for restitution of customer bills or for further use via the Consolidated Fund for the future.

The amendment would ensure that the revenue support regulations provide for the return of sums held by a revenue support counterparty, which have been secured

over and above necessary reserve levels, to energy supply customers. It makes a very specific directional instruction, as it were, in the Bill, about what the destination of those funds should be over and above the reserves for the counterparty. I think that is a useful addition to the Bill and a useful clarification of what levy money for the future we are contemplating entrusting this very large body with.

It is a clear instruction as to what that body should do. It is a clear instruction from the Committee of what it wants to ensure happens when the Bill becomes an Act of Parliament. That is why we have tabled this amendment. I think the Minister will agree that the situation at the moment with the LCCC is a little shadowy, although it works okay in practice. That allows us to be much clearer for the future about not only how these things will work in practice but how they should be directed in principle.

**Andrew Bowie:** I thank the hon. Member for his amendment. I probably would not use the same language and describe the LCCC as a shadowy organisation, but I understand the spirit in which he makes those comments. The Opposition are absolutely right to focus on ensuring that the Bill can make provision for fair and efficient payment and reconciliation arrangements. However, I would like to reassure the Opposition and anybody else following our proceedings today that the existing provisions in the Bill already enable regulations to provide for such arrangements.

As previously discussed, clause 67 explicitly enables regulators to make provision for the amount to be paid to levied market participants by a relevant counterparty or hydrogen levy administrator—in this case the not-shadowy LCCC. That includes the pass-through of payments received by a relevant counterparty under revenue support contracts, such as payments made by a hydrogen producer to a hydrogen production counterparty. We would expect that in such instances the levied market participants would pass these payments on to their customers.

However, to provide extra assurance on this matter, subsection (3) of clause 67 also enables the Secretary of State to make regulations requiring that the customers of levied market participants benefit in accordance with those regulations. I hope this provides the hon. Member for Southampton, Test with the assurance he requires to withdraw his amendment.

**Dr Whitehead:** I think it is incumbent on me to ask the Minister a question. Yes, the Minister will have the power to make regulations, but will he commit himself to making those regulations should the Bill pass? As he knows, making regulations is something Ministers may do, but they can sometimes sit on their hands and not make them. It is important to be clear on that.

**Andrew Bowie:** I am suggesting that the Secretary of State make regulations. I am not quite the Secretary of State, but maybe one day. The Government are committed to working to ensure that the design of the levy enables fair and efficient payment and reconciliation arrangements. Work on the detailed design of the levy, including decisions related to calculation, is ongoing. We will consult on the detailed design of the levy before laying the regulations that introduce it.

**Dr Whitehead:** I beg to ask leave to withdraw the amendment.

*Amendment, by leave, withdrawn.*

*Clause 78 ordered to stand part of the Bill.*

11.25 am

*The Chair adjourned the Committee without Question put (Standing Order No. 88).*

*Adjourned till this day at Two o'clock.*





