

PARLIAMENTARY DEBATES

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OFFICIAL REPORT

Second Delegated Legislation Committee

FINANCIAL ASSISTANCE TO INDUSTRY

Monday 18 December 2017

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The Committee consisted of the following Members:

Chair: Ms KAREN BUCK

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|-------------------------------------------------------------------|-----------------------------------------------------------------------|
| † Afriyie, Adam (<i>Windsor</i>) (Con) | † Metcalfe, Stephen (<i>South Basildon and East Thurrock</i>) (Con) |
| † Blackman, Bob (<i>Harrow East</i>) (Con) | † Mills, Nigel (<i>Amber Valley</i>) (Con) |
| † Brown, Alan (<i>Kilmarnock and Loudoun</i>) (SNP) | † Peacock, Stephanie (<i>Barnsley East</i>) (Lab) |
| † Carden, Dan (<i>Liverpool, Walton</i>) (Lab) | † Perry, Claire (<i>Minister for Climate Change and Industry</i>) |
| † Cleverly, James (<i>Braintree</i>) (Con) | † Tomlinson, Michael (<i>Mid Dorset and North Poole</i>) (Con) |
| † Debonnaire, Thangam (<i>Bristol West</i>) (Lab) | † Whitehead, Dr Alan (<i>Southampton, Test</i>) (Lab) |
| † Djanogly, Mr Jonathan (<i>Huntingdon</i>) (Con) | Clementine Brown, Yohanna Sallberg, <i>Committee Clerks</i> |
| Doughty, Stephen (<i>Cardiff South and Penarth</i>) (Lab/Co-op) | † attended the Committee |
| † Harris, Rebecca (<i>Castle Point</i>) (Con) | |
| † McGovern, Alison (<i>Wirral South</i>) (Lab) | |
| † McMorris, Anna (<i>Cardiff North</i>) (Lab) | |

Second Delegated Legislation Committee

Monday 18 December 2017

[Ms KAREN BUCK *in the Chair*]

Financial Assistance to Industry

6 pm

The Minister for Climate Change and Industry (Claire Perry): I beg to move,

That the Committee has considered the motion, that this House authorises the Secretary of State (Greg Clark) to undertake to pay, and to pay by way of financial assistance under section 8 of the Industrial Development Act 1982, compensation to eligible energy intensive industries in respect of a proportion of the indirect costs of funding the renewable obligation (RO) and smallscale feed in tariffs (FIT) totalling more than £30 million and up to a cumulative total of £565 million maximum.

It is a pleasure to serve under your chairmanship, Ms Buck. I hope not to detain the Committee too long, but it is extremely important that we consider this substantial and necessary motion.

The motion was laid before the House on 6 December and is being made under the Industrial Development Act 1982. I draw the Committee's attention to the very helpful explanatory memorandum that my officials circulated ahead of time to enlighten Members about the more technical aspects.

Dr Alan Whitehead (Southampton, Test) (Lab): Just ahead of time.

Claire Perry: Well, it was unusual to have it, and it was rather a helpful process.

In order to meet our climate targets, we have implemented a number of policies designed to incentivise generation of energy from renewable sources. As we know, the costs of such policies are recovered through obligations and levies on suppliers, who pass those costs to end users, usually in their electricity bills. Such costs can put the most energy intensive industries at a competitive disadvantage. Indeed, as set out in the clean growth strategy, our industrial electricity prices for large consumers in 2016 were the second highest in the EU15, after Italy. That can place some of our most important strategic and productive electricity-intensive manufacturing industries at a competitive disadvantage and increases the risk of businesses relocating due to the costs associated with meeting our climate targets, which no one wants to see.

We have taken steps to reduce the cumulative impact of these policies on industrial energy prices for sectors such as steel, paper, plastics, cement and chemicals. At the Budget in 2014, the coalition Government committed to compensate energy intensive industries for the indirect costs of the renewables obligation and feed-in tariffs. The compensation scheme was launched in January 2016. It provides for eligible energy intensive industries to receive compensation for up to 85% of the costs of funding the RO and FIT. We have now paid more than £352 million under the scheme to 147 companies. That has been estimated to have reduced industrial electricity prices by £17 per megawatt-hour in 2016, or around

15% of an eligible company's electricity bill. The scheme has played a significant role in supporting the competitiveness of these vital industries.

We have tried to focus our resources on sectors that are most exposed to electricity price rises—those that are both electricity-intensive and exposed to international competition. Committee members will agree that those are incredibly important strategic industries that offer highly productive jobs right across the UK.

Under section 8 of the Industrial Development Act, Parliament must authorise the amount of compensation we can pay to these companies for the indirect costs of funding the RO and FIT as the amount exceeds £30 million. In March 2016, we authorised spend up to a cumulative total of £371 million. The motion seeks authorisation to pay up to a cumulative total of £565 million. That is a maximum number—it is not a target—and is intended to enable Government to continue to pay RO and FIT compensation to eligible EIIs until replacement exemption schemes are introduced. I know that many Committee members served on the various Committees in which we introduced those pieces of legislation.

The spending review and autumn statement 2015 set out our intention to provide an exemption from the policy cost, to ensure that EIIs have long-term certainty and remain competitive. Those exemptions are intended to replace the current compensation schemes. I will not go back through the arguments for why exemptions are better than the compensation method; suffice it to say that they are quicker, provide much more certainty of cash flow and are welcomed by the companies.

Sadly, it has taken longer than originally expected to secure state aid approval from the European Commission for the move from compensation to an exemption. We have received approval for the renewables obligation scheme, which we will implement from 1 April 2018. State aid considerations for the FIT scheme are more complex and will take longer to resolve, which is why we need approval to maintain the current compensation system while we deliver on the state aid requirement. The compensation scheme will continue for a little longer, until we have state aid approval, and costs will therefore arise in excess of the £371 million that was originally authorised. However, as I said, they will be capped at £565 million as a result of the motion, which I hope the Committee approves.

It is crucial that we continue to provide compensation until an exemption comes in. The sectors that are eligible for the relief employ around 230,000 workers and have gross value added of more than £30 billion—2% of the UK economy—and turnover of around £115 billion. About 60% of the businesses have exported products in the past 12 months. Crucially, many of the companies that are eligible for the compensation are located in areas of relative economic disadvantage and are a vital and strategic part of our industrial base. As Members will know, we want to work with these industries through the industrial strategy to boost workers' earning power, improve living standards and create jobs so that everyone across the country can share the benefits of our economic success.

Energy intensive industries need to play their part in reducing emissions. Eight sectors, including steel, chemicals, glass and cement, are responsible for around two thirds of industrial energy use and two thirds of industry's greenhouse gas emissions. They have worked effectively

with the Government to produce industrial decarbonisation and energy efficiency action plans, which we look forward to bringing forward with the various players in those sectors.

I am content that the financial assistance outlined in the motion will benefit the UK's energy intensive industries, and that section 8 of the Industrial Development Act is the appropriate means by which to make such payments. I therefore commend the motion to the Committee.

6.7 pm

Dr Whitehead: It is a pleasure to serve under your chairmanship, Ms Buck.

There is good news and bad news. The good news is that the Opposition do not intend to divide the Committee. The principle that energy intensive industries should be compensated in some way for the costs they incur in meeting green and social levies that they would not incur were they non-exempt industries is clear, and we support it. Nor do we have a quarrel in principle with the idea that, because of particular circumstances that I will come to, the ceiling for the compensation that is paid to those industries should be raised from £371 million, which was the amount originally agreed back in 2015, to £515 million.

However, we have some concerns. The first is about the principle of moving to giving back 85% of the costs incurred by energy intensive industries in paying green and social levies by means of a levy for the future rather than a compensation arrangement for the present. We know from recent secondary legislation to effect that measure on the renewables obligation and FITs that that adds substantial costs to the energy bills of non-exempt industries and general consumers, over and above what they already pay in green and social levies. There is a plus-plus effect on their bills; they pay the green and social levies in any event, and an additional one as a result of moving from a general taxpayer-funded compensation scheme to a general levy scheme. For a medium-sized business, that puts £6,700 on to an average year's energy bill. I am not making that figure up; it is in the impact assessment for the Renewables Obligation (Amendment) (Energy Intensive Industries) Order 2017, which went through recently. It is a substantial additional burden to bring about the levy arrangement.

The bad news, I guess, from the Minister's point of view, is that we do not support in the long term the idea that the arrangements should be transferred from a general taxation compensation to a levy-based compensation arrangement. Certainly, were we in a position to make a change, we would want to do so in the long term. However, we are where we are for now, and it is important to get the compensation arrangement right. The other bad news, then, is that I have a couple of questions for the Minister about what exactly getting it right means in the context of the transition between a compensation arrangement and a levy arrangement.

As the Minister has indicated, there is a considerable gap between the date when it was hoped there would have been transition between compensation and levy arrangements, and the actual date. It was originally supposed to be the spring of this year. It will now be April 2018 at the earliest for the RO and FITs. At the time, it was intended that in addition to a transition between compensation and levy arrangements for the

RO and FITs, there should be a new levy arrangement with respect to new contracts for difference coming on stream, to be put in place when CfDs were tenable.

The RO arrangement has effectively come to an end for new entrants as of March 2017 and, although the programme will run for a further 10 years, it is effectively a ghost programme. It will continue to carry out the obligations that have been entered into for their 15-year period, but no new ROs will come on stream. Instead, for larger renewable energy concerns there will be contracts for difference.

Some of those contracts for difference were entered into in 2016 or so, but they were not in existence at the point when the arrangements for a levy for contracts for difference were first entered into. Consequently the question did not arise at that point of whether to compensate energy intensive industries for the obligations they might have to pay for organisations that had received CfDs. No CfDs had been received at that point. That is not the case for the renewables obligation, because that started in 2002 and the tail of those ROs is running through the system and will continue to do so, as I have mentioned, well after 2018.

The question arises whether the motion before the Committee includes the possible consequences of energy intensive companies actually having to pay for CfDs, bearing in mind that originally it was considered they should not pay for them. When the changeover was originally determined, those CfDs would not have existed, whereas now they will exist, because we are a year behind essentially in effecting the changeover.

The figures in the draft regulations produce, as it were, a neat increase from the original control total of £371 million to the new cumulative total of £565 million—a difference of £194 million, which is almost exactly what the impact assessment on the RO and FITs levy changes suggested would be the annual cost of the central estimate of an exemption arrangement. In the impact assessment, £196 million was stated to be roughly the same as what would have been paid per annum in compensation before the exemption scheme was considered. The suggestion is that the £194 million pays for a one-year extension of the obligations that were there as far as the renewables obligation and feed-in tariffs were concerned, and does not take account of any possible payments that might have to be made as a result of CfDs coming on stream and the scheme changeover being delayed.

My question to the Minister therefore is: has that been taken into account? If it has not been taken into account, should it be? If it should be taken into account, is there any sort of cost implication involved in making those calculations? My next question to the Minister is about the way in which the payments have been calculated for energy intensive industries under the compensation scheme. In the response to the consultation in 2016, on the idea of a new levy for ROs, FITs and CfDs as far as energy intensive industries were concerned, the Government stated:

“We are also considering options for a statutory mechanism to recover and redistribute any over-exemption that EIIs have received in error.”

The suggestion in the consultation was that a number of payments had been made to energy intensive industries under the compensation scheme that might well not have been accurate, might have well been paid in error and might have been overpaid. I have seen nothing yet,

[Dr Whitehead]

as far as I know, whereby a statutory mechanism can be introduced to recover those costs, if indeed they are still outstanding.

In the context of asking the Committee to agree a further £194 million in compensation payments, it would be prudent to make it clear what is being done to ensure that the first lot of compensation payments were accurate. If they were not, schemes could be set up to recover what had been taken—possibly in error—so that the original amount of compensation was right and that any new compensation should not be strewn with those errors as well.

If the Minister has any information on either of those points, I would be grateful, because they are important in any discussion of whether we have a complete solution to the problems of, as it were, the overrun of the period for changing from the compensation scheme to the levy scheme, and indeed whether we have a complete solution that allows us to leave the Committee Room happy that we have done all we can to ensure that the compensation scheme ran its course in the best possible way and translated to the levy scheme in the best possible way.

I cannot resist reminding the Minister of the response she gave to my written question the other day. I asked whether the changeover from the compensation scheme to the levy scheme meant that, as far as ROs and FITs were concerned, there would be a new levy. The answer she gave was that it was not a new levy, because there had been a previous arrangement in existence. My understanding of our discussion this afternoon is that there had been no previous arrangement in existence. In those circumstances, it might be a good idea for the Minister to provide me with an answer to my written question that reflects that.

6.20 pm

Alan Brown (Kilmarnock and Loudoun) (SNP): It is a pleasure to serve under your chairmanship, Ms Buck. I will be brief.

In terms of where energy policy is just now, I fully agree with the motion. I agree with the Minister that exemption rather than compensation is beneficial to the companies in terms of cash flow and managing the process. I share the shadow Minister's concerns about levies being added in future to consumers' bills and, in particular, bills for medium-sized businesses. The Minister mentioned the industrial strategy and creating jobs, including higher-paid jobs, which clearly I agree with. She also highlighted the fact that energy intensive industries account for two thirds of greenhouse gas emissions.

We need a coherent energy policy. As the industrial strategy develops further and has more meat on its bones, we need to see a clear pathway, with research and development money that aligns with energy intensive industries, so that they can cut down their energy usage, and the wider development of schemes such as carbon capture and storage, which I have long argued for. In the bigger picture, in terms of managing bills for businesses and consumers, we need to have onshore wind companies being able to bid for CfDs again. The Government need to end their nuclear obsession. There is no doubt that Hinkley is adding costs for consumers and businesses. We need a more rounded policy.

6.22 pm

Claire Perry: I am grateful to the hon. Members for Southampton, Test and for Kilmarnock and Loudoun for their typically thoughtful comments about what we are trying to do.

I will try to answer all the points that were raised. I know that if I do not, the hon. Member for Southampton, Test will write to me. I want to pick up his point about his parliamentary question, rather than asking him to resubmit it. It is not a new levy. These exemptions are adjustments to the existing scheme, so I do not think they are classified as a new levy, but if he wants to put that question to me again, I am happy to ask the Department to respond.

We are not debating the idea of a switch from compensation to a levy. Businesses absolutely appreciate the fact that this is much more cash-flow positive for them and much less hassle. It reduces the risk of potential overpayments, which the hon. Gentleman raised. It is about smoothing cash flow for them and giving them certainty. As we know, whether the money is coming out of consumers' pockets as taxes or in energy bills, ultimately we are all investing in this renewable transition together.

I want to pick up the point about the maximum amount of burden being put on businesses and slightly correct the hon. Gentleman's statement about medium-sized businesses. It is actually medium energy-using businesses. All sizes of business, from small and medium-sized enterprises to large businesses, are eligible to bid into the scheme. The test is whether the energy cost is 20% of their profits plus something—I should know that. Essentially, any size of business can bid into this scheme. That is important. In the round, this is a cost increase of less than 1% of energy bills.

Dr Whitehead: If I did not put my point carefully enough, I apologise. I was seeking to suggest that the effect of non-exempt industries and companies being liable for the costs of green and social levies and this new levy would add £6,700 a year to the bill of a medium-sized non-exempt company.

Claire Perry: To clarify, a medium-energy user could be any size company. It might be a very large company with a very small energy footprint. As I said, on average, because we do not know by what revenue the £6,700 is divisible, it is about 1% of the total cost for consumer bills.

The point is about who we get to pay for the investment in the renewables of the future, for which we have pretty much cross-party support; we know that we need to make that transition. The good news is that thanks to the policy frameworks put in place by the coalition and Conservative Governments, we are reaching a point where renewable energy is being delivered subsidy-free. I opened the country's first subsidy-free solar farm a few months ago, and we purchased offshore wind at £57 per MWh in the latest auction. Renewable companies, having been subsidised to get to this point, do not now require subsidy going forward.

It is important that we communicate why we are doing this. To address the point about overpayments made by the hon. Member for Southampton, Test, it is obviously right and indeed required under state aid laws

that we recover any overpayments, which are infrequent. That process is continuing. Of course, if there is an exemption scheme, it is far less likely that the Government will effectively overpay on that basis.

I also want to point out that given the critical nature of many energy-intensive industries, there is an extremely long supply chain of different-sized businesses that depend on the health and wellbeing of those industries. The key test for the sector deals that we are putting together with those industries is by how much they can drive up the UK content in their supply chain. By making them more cost-competitive, we are boosting the whole UK supply chain, which is extremely important.

It was asked how we had got to the numbers. Effectively, the increase that we are debating in the motion covers renewables obligation compensation for the final two quarters of 2017-18 and FIT compensation for the final two quarters of this year and all of 2018-19. That is how those numbers stack up. I was asked how the

measures relate to the CfD point. Because that is an exemption scheme of its own, this will not combine the two. They are completely separate schemes.

I wanted to pick up the point about research and development, which is crucial. In both the clean growth strategy and the industrial strategy, we have committed to the biggest spending increase on R and D that any Government have ever made, with £2.6 billion going into innovation in the clean space. The hon. Member for Kilmarnock and Loudoun and I have had many conversations about carbon capture and storage technology in which we agreed that it was vital to bring it forward. I look forward to getting those projects moving.

In conclusion, we know that businesses want us to do this, and it is extremely relevant now. It appears that we have consensus on making the changes. On that basis, I commend the motion to the Committee.

Question put and agreed to.

6.28 pm

Committee rose.

