PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Eighth Delegated Legislation Committee

DRAFT ELECTRICITY SUPPLIER OBLIGATIONS (EXCLUDED ELECTRICITY) (AMENDMENT) REGULATIONS 2024

DRAFT ENERGY-INTENSIVE INDUSTRY ELECTRICITY SUPPORT PAYMENTS AND LEVY REGULATIONS 2024

DRAFT ELECTRICITY CAPACITY (SUPPLIER PAYMENT ETC.) (AMENDMENT AND EXCLUDED ELECTRICITY) REGULATIONS 2024

DRAFT RENEWABLES OBLIGATION (AMENDMENT) (ENERGY INTENSIVE INDUSTRIES) ORDER 2024

Wednesday 13 March 2024

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Sunday 17 March 2024

The Committee consisted of the following Members:

Chair: Sir Robert Syms

Allin-Khan, Dr Rosena *(Tooting)* (Lab)
† Butler, Dawn *(Brent Central)* (Lab)
† Carden, Dan *(Liverpool, Walton)* (Lab)
† De Cordova, Marsha *(Battersea)* (Lab)
† Dixon, Samantha *(City of Chester)* (Lab)
† Ghani, Ms Nusrat *(Minister for Industry and Economic Security)*
† Grady, Patrick *(Glasgow North)* (SNP)
† Jones, Sarah *(Croydon Central)* (Lab)
† Largan, Robert *(High Peak)* (Con)
† Lewis, Sir Brandon *(Great Yarmouth)* (Con)
† Malthouse, Kit *(North West Hampshire)* (Con)
† Morris, James *(Halesowen and Rowley Regis)* (Con)
† Simmonds, David *(Ruislip, Northwood and Pinner)* (Con)
† Stafford, Alexander *(Rother Valley)* (Con)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
† Wood, Mike *(Lord Commissioner of His Majesty's Treasury)*
† Zahawi, Nadhim *(Stratford-on-Avon)* (Con)

Seb Newman, *Committee Clerk*

† attended the Committee

Eighth Delegated Legislation Committee

Wednesday 13 March 2024

[Sir Robert Syms *in the Chair*]

Draft Electricity Supplier Obligations (Excluded Electricity) (Amendment) Regulations 2024

4.30 pm

The Chair: Is it the wish of the Committee that the statutory instruments be taken together?

Kit Malthouse (North West Hampshire) (Con): On a point of order, Sir Robert. I am afraid that I am not necessarily content to consider all the regulations together. I realise that I may be in the minority, but having looked at the four statutory instruments, I know that they are extremely complex. Given that we have a Finance Bill that is about to go through the House and given their complexity, I do not understand, why they are not being put to the proper scrutiny of a full legislative Committee. The numbers that are appearing, even at a central estimate based on some of these impact assessments, run into the many billions. We are obviously dealing with a significant industrial subsidy and I do not understand why it has been consigned to a Delegated Legislation Committee rather than to a full Committee of the House.

The Chair: Order. The hon. Member did not have to make a speech. If there is a single objection, we must take the statutory instruments separately without a vote. We will therefore take them separately.

I will now call the Minister to move the first instrument. Debate on the other instruments will follow and can continue for up to an hour and a half on each instrument. I remind the Committee that debates should be confined to the instrument being considered. I fear we may be interrupted, but for now, I call the Minister.

4.31 pm

The Minister for Industry and Economic Security (Ms Nusrat Ghani): I beg to move,

That the Committee has considered the draft Electricity Supplier Obligations (Excluded Electricity) (Amendment) Regulations 2024.

It is an honour and a privilege to serve under your chairmanship, Sir Robert. Although I fully appreciate that we are debating the first statutory instrument, the four instruments were laid on 22 and 23 January 2024 and together they make up the British industry supercharger, which aims to support our most energy-intensive industries with the cost of electricity. The British industry supercharger will help secure investment for the UK from new and emerging industries such as battery manufacturers, which are critical to electric vehicles, and manufacturers of semiconductors, which are critical to the high-tech economy. We appreciate that the Government have provided and will continue to provide support for those industries, but there remains a competitive gap with other nations such as Germany, France and the Netherlands. In the UK in 2019, electricity prices for medium and large industry users were the highest in western Europe. The regulations seek to close that gap.

The existing support has been in place since 2017. Since then, more than 370 businesses have benefited and will continue to benefit from an exemption from certain renewable energy levies. Under the new measures, businesses that are eligible for the exemption scheme will not only see an increase in the value of their exemption, from 85% to 100%, but benefit from a new exemption from the GB capacity market charges, as well as receiving compensation for a proportion of their network charges. Taken together, the Government estimate that that support could be worth, on average, around £24 to £31 per megawatt hour, closing the competitive gap between UK industrial energy prices and those faced by international partners.

I am not quite sure, but I will read out the detail on all four statutory instruments. We are fundamentally talking about regulations that amend the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015; amend the Electricity Capacity (Supplier Payment etc.) Regulations 2014; make provision as the Energy-Intensive Industry Electricity Support Payments and Levy Regulations 2024; and amend the Renewables Obligation Order 2015.

The Chair: Order. We will probably have two Divisions. If it is one, we adjourn for 15 minutes and if it is two, for a further 10 minutes. I will probably see you in 25 minutes.

4.33 pm

Sitting suspended for Divisions in the House.

5 pm

On resuming—

Ms Ghani: As I was saying, this suite of regulations will help to bring electricity costs for the most energy and trade-intensive industries—such as steel, chemicals, glass and battery manufacturers—down to a level similar to that for their European counterparts. Let me repeat, to provide assurance to Members, that the policy rationale for grouping all these SIs together is that all the measures combined provide support in the form of a saving of £24 to £31 per megawatt-hour. I commend the regulations to the Committee.

5 pm

Sarah Jones (Croydon Central) (Lab): It is a pleasure to serve under your chairmanship, Sir Robert. I thank the Minister for setting out the instruments for us. As she has mentioned, the four measures under consideration today aim to implement key elements of the British industry supercharger. The supercharger was announced just over a year ago, I think, and is a package of measures with the aim of making key energy-intensive industries more competitive. We all know that producing key materials such as glass, steel and cement is vital for Britain's national security and for our supply chains, prosperity and communities. Often largely concentrated in areas of the country where we need there to be industry and jobs—the midlands and the north being the obvious two—these industries support hundreds of thousands of jobs that are often well paid and long lasting.

However, energy-intensive industries face a number of significant challenges in the years ahead and have been burdened with some of the highest industrial energy prices in Europe. The right hon. Member for North West Hampshire made a valid intervention about considering the measures in one chunk, but Opposition Members agree that we need to work at pace to try to resolve what has been a very difficult situation for a lot of industry. The supercharger in and of itself will go a long way towards fixing a particular problem, but will not go all the way. Energy costs will still be higher in this country than in equivalent countries, so there is still much more to do.

As we have seen, the steel sector has had particular problems with its energy costs. A report by UK Steel found that UK producers pay £117 million more per year for electricity than their competitors do, so we recognise the scale of the challenge and, to the extent that these instruments seek to address that challenge, we broadly support the measures under consideration today.

I have a few questions for the Minister. The first instrument will exempt energy-intensive industries from the costs of funding the capacity market, which plays a vital role in guaranteeing that our electricity system has enough supply to meet peak demand, which is particularly important when wind generation is low. Given its importance to our energy security, can the Government publish what assessment they have made of the risk of a shortfall in the capacity market and outline what steps have been taken to mitigate that possibility?

The second instrument—the Electricity Capacity (Supplier Payment etc.) (Amendment and Excluded Electricity) Regulations 2024—fully exempts energy-intensive industries from the cost of various green levies. The third instrument—the Renewables Obligation (Amendment) (Energy Intensive Industries) Order 2024—facilitates this by enabling the Secretary of State to revise the renewables obligation level from 2024-25. To fund these changes, the Government are to pass the costs on to the bills of those who do not qualify for the exemption, including households, charities and small businesses. Although the Government's estimated £4 to £5 average annual increase on household bills is relatively small, it is none the less important to note that it comes in the context of a cost of living crisis and the worst Parliament for living standards on record, according to the Office for Budget Responsibility. I note that the Government have provided an average figure and that many bills will vary from that average. For example, many disabled people use more electricity in their homes to power specific equipment. Others need heating to be at a constant temperature to manage pain. Therefore I ask the Minister whether she has looked at and can publish any assessment of the full spectrum of impacts on domestic bills.

The final instrument—the Energy-Intensive Industry Electricity Support Payments and Levy Regulations 2024—proposes a network charging compensation scheme, which will provide payments to energy-intensive industries to reduce the impact of electricity costs. The payments are to be funded through a levy on electricity suppliers. There was a good debate on this instrument in the other place. The shadow Minister outlined a range of questions that were not given quite the answer that they needed, so I will ask them, too. How will the Government ensure that energy-intensive industries receive the payments without administrative delay? Have the Government assessed the likelihood of the costs of the scheme outstripping the contributions from the electricity suppliers? Are there any provisions in place for that possibility, so that the scheme does not collapse?

Bringing down energy prices for our energy-intensive industries is a vital priority, and, as I have said, in so far as the instruments seek to do so, the Opposition will support them. Ultimately, we believe that the only solution to high energy prices is one that addresses the problem from the root, which is why we need turbocharged, home-grown green power, reform to the grid, and an industrial strategy that gives energy-intensive industries and others the certainty and direction they are crying out for. Those solutions will perhaps come in the next Parliament.

5.5 pm

Kit Malthouse: In the interests of economy, I am happy to make one speech covering all four instruments.

We are dealing here with a kind of post-match rectification for a situation that has been created by a combination of Government regulation, imposition on industry and a global market in high energy, and I often wonder whether the party I represent has got lost in a wormhole of subsidy for businesses that is not necessarily in the long-term interest of British industry. There is lots of evidence around the world about what happens if we continue to subsidise businesses of all types—here I draw attention to my entry in the Register of Members' Financial Interests. If we continue to subsidise industries across the board, from agriculture and steel to whatever it might be, we end up in a situation in which, broadly, we constantly chase uncompetitiveness and we are in an auction for subsidy with lots of other countries.

That is what we will see with the imposition of an internationally agreed minimum corporation tax level: rather than countries reducing their corporation tax, they will start to compete round the back, as it were, through endless subsidies to various industries. Those industries turn up with powerful lobby groups—and, sometimes, legitimate community and business interests—to make the case that they should be given subsidy, while they are busy paying tax out through the front door. It looks to me like that is exactly what we are doing with this suite of regulations. We should not be under any illusion: we are providing a very large subsidy to a part, not to all, of the economy.

Many industries and businesses that are suffering from high energy costs and are therefore finding it tricky to continue their trade will not qualify under the regulations. My first question to the Minister is therefore whether other sectors could come forward and say, "We have high energy costs as well; they are not as high as those in the steel or car industries, but nevertheless we would like to have some relief from them." For example, if a textile firm has 12 or 15 knitting machines in a shed somewhere in the east midlands, it will have power costs, alongside labour costs, that will have gone up significantly. Similarly, lots of retailers in my constituency tell me that their long-term energy supply contracts

[Kit Malthouse]

have come to an end over the last two or three years, and their costs have rocketed, which has made their businesses marginal, too.

I guess I am asking this: why do the regulations cover certain industries and not other industries that are above or below the threshold that the Minister has drawn? Is it that the Government have a strategic notion that we need certain industries? I agree that we need a steel industry in the UK, because it is vital for our defence and other interests. Or is the threshold driven more by geography—that the relevant businesses tend to be large employers in particular geographies that we do not want to be decimated? Can the Minister explain the rationale? Is the Minister's door open to other industries that may come forward and say that they have large power costs that are being passed on?

I also want to ask about the maths in some of the—if I may say so—eye-watering impact assessments, which seem to be broadly identical. In line with the shadow spokesman, I am interested in where page 8, paragraph 15 of the the impact assessment talks about the costs of the subsidy and where the cost might fall. The second bullet point, basically the third paragraph, states:

"The cost of funding the exemption is redistributed to all non-eligible consumers including other businesses and households."My reading of that is that the passing of the delegated legislation means that everybody else's bills will go up. I am interested to know, as the shadow spokesman was, how much I can expect my residents' bills to go up to pay for that subsidy.

The second bullet point states:

> "Additional funds have been earmarked from the Department's contingency to cover the greater level of relief announced in the British Energy Security"—

whatever that means; the sentence is not grammatical. It does not seem to say anywhere in the impact assessment how much that is—perhaps I have missed it. I am bit snow-blind with all the paper; it took a long time to read.

On the front page, where it says that the total net present social value is £9.4 billion, is that net or gross of the cost to all the other households that will bear the cost of the investment? What impact will it have, for example, on the Treasury? If we are saying to whoever it might be—a manufacturer—that we are going to reduce their energy costs, they will presumably make a profit, one hopes, unless, as I say, they remain uncompetitive because of the subsidy. If they are making a profit they will then pay a 25% corporation tax on that.

How much can we net off the cost that comes back to the Treasury and why is that not coming back round effectively to cushion the blow on everybody else's energy bills? Will the Minister explain how the maths works? How much will this cost the taxpayer and every other consumer? It would be helpful if it was split into residential bills and businesses. In the light of that increased cost, are there others who could come forward and ask for similar treatment? Those are my questions and I hope the Minister will give us the numbers.

5.12 pm

Patrick Grady (Glasgow North) (SNP): I have some sympathy with the policy points made by the right hon. Member for North West Hampshire and his points about the scrutiny of the instruments before us today. A lot of our delegated and secondary legislation procedure is increasingly unfit for purpose. I recommend to Members who are interested in these things the Hansard Society's report on reform. Perhaps if the right hon. Member is keen, we can apply to the Backbench Business Committee for a debate to consider some of the issues in more detail.

The issues could have been considered on the Floor of the House. We have plenty of time—we are probably going to finish early again today, and the Government fill the agenda with a lot of make-work. Debating issues of substance and significant public expenditure as outlined in today's papers deserves broader scrutiny than perhaps the Committee is able to provide, despite the wealth of talent represented in the room.

Nevertheless, there is little in these statutory instruments that is objectionable, at least in principle. Energy price hikes affect all aspects of society, and industries that use energy most intensively will be particularly affected. That then has a knock-on effect on the end-users and consumers of the products of those industries, so these measures, perhaps slightly belatedly, will go some way to addressing that. I note the Minister said that that will help to bring things in line with Europe, so I wonder what has happened to cause divergence with Europe and why Ministers now think that that divergence should be a problem that needs to be rectified.

In the long run the regulations are not a substitute for the wider reform of the energy market that needs to happen and the things that we would like to do with the full powers of independence—proper, sustained transitional investment in renewable energy and decoupling particularly the price of electricity, oil and gas. But none of those, the Committee is probably relieved to hear, are reasons for us to object to the instruments before us today.

5.14 pm

Ms Ghani: I thank all hon. Members for their valuable contributions to the debate, and in particular for grouping their contributions to enable these statutory instruments to be debated in one go.

The British industry supercharger will indeed provide essential support for critical foundation industries, including the steel, paper, chemical, cement and glass sectors—I will respond to hon. Members' questions about that in a bit more detail. It will also support emerging sectors such as battery and semi-conductor manufacturing, helping to ensure that UK manufacturing has a great future and that we can continue to be proud of it.

As highlighted earlier, the regulations will support industries across the UK, including in often overlooked parts of the country, and ensure investment into the EI sectors, which employ about 400,000 workers across the UK and account for more than a quarter of total UK exports. We are taking these instruments together because we are grouping the benefit provided to the sectors that we are supporting.

The Government estimate that the support could be worth an average of £24 to £31 per megawatt-hour. We are closing the energy price gap between UK industry and international competitors. The energy price spiked because of Putin's illegal invasion of Ukraine. These savings are funded by spreading the cost widely among all other electricity consumers. It is estimated that that will add between 5p and 10p per week to the average domestic bill, and will increase the cost for non-domestic consumers by circa £1 per megawatt-hour once all measures have been fully implemented.

Questions were asked about the impact assessments. Impact assessments have been completed on all measures, and a huge amount of documentation has been published. A question was asked about timely payments and mitigation for the long-term future of the scheme. We have appointed Elexon Ltd as the administrator for managing the network charging scheme and the EI support levy. The support levy has a resource fund mechanism in the unlikely event that individual suppliers default on a monthly levy obligation.

There were some stellar contributions from Conservative Members. I know that every penny matters, because they add up to pounds. As I mentioned earlier, these changes will add between 5p and 10p a week. All the Department funds have been allocated. If my right hon. Friend the Member for North West Hampshire would like more detail, I am happy to ensure he gets hold of it. He asked why we are targeting these firms in particular. This is a continuation and a deepening of support for the firms that were caught in the energy-intensive industries exemption and compensation schemes. Fundamentally, these are key foundational industries that are essential for our critical national infrastructure—steel, chemical and battery manufacturing—or are part of the supply chains of other critical sectors of our economy, which therefore include auto and aero. This is not something they can dip in and out of. The eligibility has been around for a while, but I take on board my right hon. Friend's concerns that, when we set a grouping, some firms will fall out of the scheme. The reality is that these are the firms we are supporting now. As the hon. Member for Croydon Central said, these very important industries require and deserve the support we are providing because the international sector is incredibly competitive.

Kit Malthouse: Does the Minister accept that we are getting lost in a thicket of subsidy in this country? We subsidise farming, film and the car industry, and I guess there are subsidies on top of the 500 million quid we shelled out to Tata Steel. We are shelling out money all over the place and chasing our tail. It always used to be the case, although I do not know if it still is, that the amount of money we collected through corporation tax was only slightly less than the money we gave back in business subsidy. I wonder whether we would have a much more competitive industry if we did not collect corporation tax and let everyone get on with doing their business.

Ms Ghani: My right hon. Friend makes an important intervention. Unfortunately, this is not the Finance Bill and I am not a representative of the Treasury. I understand that he may argue that these things should be within the Treasury's purview. I am not just saying this because I am the Minister for Industry; the reality is that these are foundation industries, and when we can support them to be competitive, I believe that we should do so.

A support mechanism has been in place for quite some time and it was important to get the next round of support absolutely right. That is what we are doing. The legislation provides the industries with the stability that they nee, and the planning they are required to do. Given the contrast with energy prices in Europe, it is absolutely right that we have the supercharger in place. We will update and publish our guidance on the gov.uk website by April 2024, and proactively engage with stakeholders to ensure that eligible businesses are aware of the support package, and have the opportunity to benefit.

A review of the data underpinning the British industry supercharger will be carried out in 2026 to assess how the scheme continues to meet the needs of energy-intensive industries and whether it can go further in helping manufacturing remain competitive, while at the same time supporting this Government's ambitions for decarbonisation. There have been some issues raised around subsidies and who fits in and who fits out. However, this is a good news story, which has been well costed, well documented and well evidenced.

Question put and agreed to.

Resolved,

That the Committee has considered the draft Electricity Supplier Obligations (Excluded Electricity) (Amendment) Regulations 2024.

DRAFT ENERGY-INTENSIVE INDUSTRY ELECTRICITY SUPPORT PAYMENTS AND LEVY REGULATIONS 2024

Resolved,

That the Committee has considered the draft Energy-Intensive Industry Electricity Support Payments and Levy Regulations 2024.—*(Ms Ghani.)*

DRAFT ELECTRICITY CAPACITY (SUPPLIER PAYMENT ETC.) (AMENDMENT AND EXCLUDED ELECTRICITY) REGULATIONS 2024

Resolved,

That the Committee has considered the draft Electricity Capacity (Supplier Payment etc.) (Amendment and Excluded Electricity) Regulations 2024.—*(Ms Ghani.)*

DRAFT RENEWABLES OBLIGATION (AMENDMENT) (ENERGY INTENSIVE INDUSTRIES) ORDER 2024

Resolved,

That the Committee has considered the draft Renewables Obligation (Amendment) (Energy Intensive Industries) Order 2024.—*(Ms Ghani.)*

5.22 pm

Committee rose.