

MONDAY 27 APRIL 2009

Present

Bradshaw, L
Brooke of Alverthorpe, L
Dundee, E
Dykes, L
Freeman, L (Chairman)
James of Blackheath, L
Jones of Whitchurch, B
Livsey of Talgarth, L
Palmer, L
Ryder of Wensum, L
Sewel, L
Sharp of Guildford, B
Ullswater, V
Walpole, L

Witnesses: **Lord Hunt of Kings Heath**, a Member of the House, Minister of State, **Mr Bryan Payne**, Assistant Director (Sustainable Energy), and **Mr David Capper**, Head of EU ETS Team, Department of Energy and Climate Change, examined.

Q1 Lord Freeman: Lord Hunt, thank you very much indeed for coming, together with your officials, to answer questions put to you by Sub-Committee B, which I chair, and Sub-Committee D, which Lord Sewel, on my right, chairs. I think you were in Brazil when the House debated our Sub-Committee's report, but I know that you have got a great interest, and indeed responsibility, in this subject. Perhaps for the record you could introduce yourself and your officials and then I know that you want to make an opening statement.

Lord Hunt of Kings Heath: Thank you very much, Lord Chairman. I am here as a Minister of State at the Department of Energy and Climate Change where I have responsibility for energy innovation. On my left is Bryan Payne, Assistant Director of EU Energy Policy at the Department, and Mr David Capper, on my right, who is Head of the EU ETS section. Both of my colleagues were actually involved in the negotiations leading up to the decisions made in

Europe. May I open by welcoming both Committees' inquiries and reports on the EU Emissions Trading Scheme and the EU Renewable Energy Directive. We have produced official responses to both reports and they have both been previously debated. I was not able to debate the Renewable Energy Directive report, but I was able to respond to the Committee's report on the EU ETS on 18 March. My Lords, as you already know, negotiations on the EU Climate and Energy Package were concluded in December and EU leaders and the European Parliament reached agreement on the package. I am pleased that the core of the Commission's ambitious proposals survived largely intact. This was despite calls during the negotiations by some that the global economic downturn justified postponing action on climate change until stability returns. We have strongly argued, and continue to believe, that the case for strong and early action remains robust under the current economic situation. It may be helpful, my Lord Chairman, if I briefly summarise the key elements of what was agreed in the December package. These were, first, that the EU agreed to a unilateral 20 per cent reduction in greenhouse gas emissions by 2020 with provision to increase this to 30 per cent as part of an international climate change agreement. The associated effort-sharing decision sets the Member States targets for reductions in sectors of their economies not covered by the EU ETS and provides each Member State with a stringent annual binding trajectory towards their 2020 target. The key elements of the EU ETS agreement are a fundamentally different and much more rigorous approach to setting the cap on emissions. A central EU cap will guarantee that the EU ETS will deliver its share of emissions reductions in order to meet the EU's overall climate change targets. The central EU cap is set at a much more ambitious level. For the first time there is an annually declining trajectory for the cap to 2020 and beyond. Access to international carbon credits is limited in the ETS to ensure that at least half of the required emissions reductions take place within the EU, whilst providing finance to developing countries to invest in low carbon projects. This

limit on international credits is much tighter than those in the ETS to date and provides for a credible decarbonising of our economy. There is a large increase in auctioning. At least 60 per cent of EU ETS allowances will be auctioned by 2020 compared to around three per cent of allowances in Phase II. This will provide a more economically efficient way of allocating allowances. There is a political commitment to use half of all auctioning revenues to tackle climate change within the EU and internationally. In summary, the EU Emissions Trading Scheme has been revised to be more environmentally ambitious. It is consistent with keeping the EU on track to deliver a 60 to 80 per cent cut in emissions by 2050. Furthermore, the combination of a tighter cap with a set declining trajectory, auctioning as a primary means of allocation and reduced access to project credits from outside the EU will result in more predictable market conditions, with a more stable price and improved certainty for industry. Looking towards Copenhagen, the importance of the carbon market cannot be over-estimated. The growth and development of the global carbon market will be central to delivering low carbon economies and to stimulating the transfer of know-how and technological capacity to developing countries. Central to making the carbon market work are ambitious caps on emissions. The market then enables mitigation action to occur at lowest cost and stimulating business investment in low carbon technologies by rewarding those who take action. We see a key challenge, and one of the ultimate goals for UK and EU climate policy, is to build a truly global carbon market by linking the EU ETS to other comparable systems. On the Renewable Energy Directive, the agreement establishes a binding 15 per cent renewable energy target for the UK by 2020. Meeting our target will save some 20 million tonnes of CO₂ a year and reduce gas imports by up to 16 per cent. It could also provide £100 billion worth of investment opportunities and up to 160,000 new jobs created in the renewable energy sector by 2020. Other key elements of the renewables agreement are a ten per cent 2020 binding renewable transport target for all Member States, a flexibility regime which

allows Member States to meet their overall target in a cost-effective way through supporting deployment in other Member States, a number of measures aimed at ensuring that the administrative process for renewables is proportionate, necessary, streamlined and support their deployment. Following our consultation over the summer of last year we will shortly publish a new UK Renewable Energy Strategy. On carbon capture and storage the key elements of the agreement are that up to 300 million EU ETS allowances, worth billions of pounds, will be used to part-fund up to 12 CCS demonstration plants as well as demonstrations of innovative renewable energy technology. We believe that provides a credible financing mechanism for these technologies which have huge opportunities and potential to reduce emissions across the globe. In conclusion, I believe that it is also important to recognise that agreement on the EU Climate and Energy Package provides a very solid foundation as we move towards Copenhagen in December this year. Had the EU failed to rise to this challenge then I believe that the prospects of Copenhagen would have been very doubtful indeed, so we do think that the overall agreement does provide a good basis for going on to Copenhagen. Of course, my Lords, there can be no complacency. There is a lot that needs to be done to bring Copenhagen to a successful outcome. There is no doubt that the work within the EU is a significant step along the way. Thank you very much.

Lord Freeman: Thank you. Let us go straight into questions. Lord James?

Q2 Lord James of Blackheath: Minister, I think you have said enough already to indicate that the 2020 target remains Government policy. At what sort of priority is it, particularly in the context of the budgets that can be made available to achieve it?

Lord Hunt of Kings Heath: It is of course one of the main priorities that the Government has, alongside ensuring that our energy is secure, affordable and efficient. It is part of our key goal of achieving a transition to a low carbon Britain. The third plank of our policy, as far as my Department is concerned, is achieving an international agreement on climate change at

Copenhagen in December 2009. It is very important and it is one of the key aims that we have set ourselves, and clearly it is a challenge. I do not think that there is any question that meeting the 15 per cent target is going to be a considerable challenge, but it is one that we are up for.

Q3 Lord James of Blackheath: Minister, the issue is very stark on that because in the event that you cannot achieve the 2020 target, and you have a budget of whatever it is, you will have to give some thought, presumably, to whether the budget can be spent better to maximise whatever you can achieve by 2020, so what actually have you got as a budget and what can you best spend it on to get the best result? What resources are there available to you in total in the context of whatever budget is available to you?

Lord Hunt of Kings Heath: If I may say so, Lord James, it is a little premature to start talking about failure to meet the 2020 target.

Q4 Lord James of Blackheath: I was only echoing your own words that it is challenging.

Lord Hunt of Kings Heath: Indeed so, and I am not going to run away from the nature of the challenge. Members will know that at the moment about 1.8 per cent of our energy comes from renewables, so to reach 15 per cent is of course a considerable challenge. I think later on we are going to discuss the trajectory towards that, but I stand before you confident that we can meet it. As far as the issues of budget and resources are concerned, clearly the main cost of increasing renewable energy will be met through the financial incentives, the ones that we already have such as the Renewables Obligation. We have also announced our intention to introduce a Renewable Heat Incentive and feed-in tariffs as well, feed-in tariffs we hope from April next year and the Renewable Heat Incentive a further year on. These are all obligations on suppliers. Clearly the majority of those costs will at the end come out in terms of prices which the consumer will pay. We are working on a Renewable Energy Strategy, which, as I

say, we hope to publish very shortly, which will set out additional measures in terms of encouraging the meeting of the target.

Q5 Lord James of Blackheath: Minister, you will forgive the directness of this question perhaps if I ask does the fact that you have not answered part of my question mean that there is not a budget available for the implementation programme at this time as agreed with the Cabinet?

Lord Hunt of Kings Heath: I am not sure that follows from the answer that I have given. I have talked in terms of the incentive payments, which will very much provide the incentives to enable companies to meet it. Of course, we have already set out in the Budget last week a number of measures which will provide further incentives and the Renewable Energy Strategy itself will also cover those grounds.

Q6 Lord James of Blackheath: Can I try and make the question a bit easier then by asking what resources do you start with? Are you starting with a commitment to a single technology or do you already regard certain technologies as in the equation and available to contribute to 2020?

Lord Hunt of Kings Heath: I think that we are looking at all ranges of technology as providing opportunities to increase the amount of renewable energy sources that we can go to. We are not in a position to say there is one particular source which we would favour above others. Could I ask my colleague to come in on that.

Mr Payne: Given the ambitious nature of this target, we will be looking to all renewable technologies on which we have strong resource potential to contribute towards its achievement. Of course we already support a number of technologies through the Renewables Obligation. We have achieved a step change in the development of offshore

wind since its introduction in 2001, so certainly we would see onshore and offshore wind playing a significant role alongside biomass in the attainment of the 15 per cent target.

Q7 Lord James of Blackheath: I have heard that there is a budget at the moment available of only £200 million and that is all directed towards research and development of technologies. Is that in fact correct or does it include the acquisition of any part of the supply chain?

Lord Hunt of Kings Heath: I am happy to set out the budgetary position as far as I gather. I am not sure what £200 million you are talking about. There is the Environmental Transformation Fund which has a budget of £400 million which is to encourage the development of various new energy programmes. Clearly, the ROC system, the feed-in tariff system and the Renewable Heat Incentive in themselves provide incentives for companies to develop in this area.

Q8 Lord James of Blackheath: I heard that the development costs that were being agreed at the present moment were directed towards site assessment and wind analysis and things of that sort rather than the actual development of the technologies.

Mr Payne: Of course the Crown Estate is undertaking a strategic environmental assessment looking at exactly the issues surrounding the deployment of the significant amount of offshore wind that will be required over the next decade to contribute towards the target. That sort of action is indeed taking place. One of the key challenges is bridging the gap between those near-market energy technologies and those a bit further away, like wind and wave and tidal, where the UK does have strong potential to bring those to the market in a more rapid timeframe hence the focus on the R&D.

Q9 Lord James of Blackheath: Let me end on a simplified question, on the basis of what have you identified at the present moment in terms of the supply chain, which technologies might you be intending to support in particular?

Lord Hunt of Kings Heath: Clearly the supply chain is very important. I said in my opening statement that the potential for British jobs is very considerable if we are going to make the most of the move towards a low carbon economy in the UK. Clearly we are developing our work in terms of assessing the supply chain. It is one of the reasons that we are setting up an Office for Renewable Energy Deployment to work with businesses and other stakeholders to deal with some of the barriers there are to development of renewables. The Budget itself had several new measures contained within it to support the supply chain, including £405 million to support the development of low carbon energy such as renewables and the green manufacturing supply chain. I very much take your point that we do need to develop the supply chain and we do need to make sure that the UK takes advantage of the investment that will need to take place.

Q10 Lord James of Blackheath: Is it possible that the identification of an available supply chain will indicate the preference for the actual technology?

Lord Hunt of Kings Heath: It may well do and I think that is a very important point. Clearly the Office for Renewable Energy Deployment that we are setting up may have a very important role to play in that. I think clearly our preference is for a market-led approach where we do everything that we can to remove any of the barriers that might be in place for allowing the development of renewable energy. We would prefer a market response, but, equally, the Government has a strong role in helping make sure that the pathway towards the development of more renewables is as easy as possible, that we deal with some of the obstacles that have been identified and that we make the most of this for the UK.

Q11 Lord Ryder of Wensum: Minister, to what extent is the Government intending to rely on wind power to meet the target? Has the Government's view changed on this over the last 12 months and, if so, how? If not, why not?

Lord Hunt of Kings Heath: Well, if you look at the scenario that has been set out in our consultation document of the overall breakdown that might be needed to meet the overall 15 per cent target, we are looking at about 20 per cent biofuels, 19 per cent offshore wind, 15 per cent biomass heat, 13 per cent onshore wind and nine per cent solar heat, so that is the range. In the Renewable Energy Strategy we will set out some further strategies and we would expect a contribution of different technologies. In the original consultation document we estimated that we might need about 14 gigawatt of offshore wind and 14 gigawatt of onshore wind by 2020, which equates to approximately 30 per cent of the total effort required to meet our 15 per cent target. What I would say in conclusion is that we believe that wind will continue to provide a very important component of what is required on renewable energy, but not the only part. Clearly offshore wind has considerable potential. The UK is a leader at the moment and we want to make the most of that, too.

Q12 Lord Ryder of Wensum: Do you believe that the current economic conditions have changed the Government's attitude in any way during the last few months? Has the Government's attitude been changed by the different views on the economic likelihood of wind being successful?

Lord Hunt of Kings Heath: I do not think the Government's view has changed as to the importance of wind. Clearly the current economic downturn is having some impact in terms of companies requiring access to credit and their ability to turn that into substantive projects, but we are confident that overall - and particularly we think that the Budget announcements and the changes to the ROC system which provide some further incentives - we will provide the right climate for investors to wish to continue to invest in wind in the future. I have no

particular evidence to suggest that that is not the case and that wind will not continue to be an important component in the future. Clearly one reads in the newspapers that concerns have been expressed recently from various companies in the renewables sector about access to credit, and of course we understand it, and we are monitoring it. We hope that the revision to the ROC system will provide some help to this sector, but we will continue to monitor it very carefully.

Mr Payne: I think the Minister also touched on this, we are absolutely reviewing our analysis that was set out in the consultation on the costs and the benefits of various different scenarios to meet the target. We will be publishing a reviewed scenario analysis in the Renewable Energy Strategy and that will absolutely take account of the current economic climate.

Q13 Lord Ryder of Wensum: That is very helpful, thank you very much for that addition. How will the increase in the Renewable Obligation Certificates work for wind power and who is going to pay for them?

Lord Hunt of Kings Heath: The proposal in relation to offshore wind is to increase in the next year the number of ROCs available to offshore wind to two ROCs and then it will come down to 1.75 in future years, as against the 1.5 ROCs that are available. Of course, in the end this is paid for through the pricing structure that will be charged to consumers.

Q14 Lord Ryder of Wensum: And you are clear about that at the moment, are you?

Lord Hunt of Kings Heath: Yes, yes.

Lord Freeman: I think that is helpful. Lord Bradshaw?

Q15 Lord Bradshaw: Could I take you on to the subject of carbon capture and storage. It appears now to be very important if we are going to be dependent on fossil fuels for quite

some time. How developed is this technology? When do you expect to see some real projects start?

Lord Hunt of Kings Heath: In essence, CCS has been tried out in various aspects but it has never been tried at scale in relation to a generating power station, so the need for demonstration projects is to show how it would work at scale and to identify the issues and the problems. The announcement that we made last Thursday is to allow for up to four demonstration projects to take place in this country. We are going to publish a detailed consultation paper again in the summer. We are going to have a very busy summer in my Department! If I remember rightly, we already have a competition for one CCS demonstration project and the hope was that that might be up and running by 2014. If all goes well and we get four projects up and running, the hope would be that by 2020 the independent assessment will be able to come to a satisfactory conclusion in relation to CCS. At that point the companies who have developed CCS projects will have five years to ensure that the whole of their plant production is covered by CCS. That is the kind of timescale that we are working to. CCS is potentially enormously important. If you look at the scale of generation produced by coal, it is responsible globally for 40 per cent. Without CCS it is going to be very, very difficult to reduce emissions in the way that we have to do, so CCS is critically important. I think that the announcement we made last Thursday is very welcome in showing that the UK is going to take a lead.

Lord Bradshaw: I wish you a very busy summer!

Q16 Lord Dykes: Minister, can we now go on to the aspects of the Government's obligations towards the European energy policy and working with the Commission and getting this right, not only for Copenhagen but for the longer-term perspectives that you referred to in your statement, because we are still at the very early stages. You reminded the Committee that this obligation is binding, and you used the word, and we really have to get

going from now on in acceleration of this process to achieve these targets. Presumably, there is regular consultation and co-ordination with the Commission on an on-going basis. I should imagine it is very, very intensive so once again our sympathies for all the work that is involved but it is so important for the UK, as we understand.

Lord Hunt of Kings Heath: I do not know if you are asking a question but of course it is very important for the UK, but it is also very important for the EU as a whole, so from that point of view we need to make sure that the EU does indeed have a very effective system of monitoring and review.

Q17 Lord Dykes: Indeed, and they had a similar meeting in Berlin on Thursday when they were discussing their renewable figures and their targets and so on. Can you help the Committee by explaining very briefly the liaison function and how it operates? What steps would you take if these targets look as though they are going to be missed later on, which we hope they will not obviously. How does the Commission react to that? Do they themselves start chivvying up the Member States if things look as though they are slipping away? Do you give a blow-by-blow account of the unfolding view on the Renewable Energy Strategy document to the Commission as it goes along? Can you help us by explaining how this process works?

Lord Hunt of Kings Heath: We have interim targets set, so for the 2011-12 period they are 4.04 per cent; 2013-14, 5.41 per cent; 2015-16, 7.47 per cent; and 2017-18, 10.21 per cent. So you can see, my Lords, we are moving from 1.8 per cent and there is a fairly narrow curve and then a large curve at the end which reflects the investment decisions that need to be taken. Obviously if on any of these targets it looked like we were missing them then we would have to make a decision as to how we will deal with that, and whether we need to adjust any of our other policies, and of course we would have to ensure that we discussed this with the EU. We expect to report on a regular basis. We would also expect that if there were comments from

the EU on whether they thought the action we were taking was sufficient or not, it would be the normal process of business between different government departments and the EU, but we would expect there to be an active monitoring process. Clearly given the critical importance of meeting this target, if in the early stages it looked like we were not on track then we would have to consider what further action needs to be taken.

Q18 Lord Dykes: Would that further action possibly include - and I speak in a putative sense because these things are still conjectural for the further term - some further primary legislation halfway along the process between now and the target date of 2020?

Lord Hunt of Kings Heath: I think that is pushing me a bit far. I am not going to fall into the trap of discussing a hypothetical position which I hope we will not meet, but, clearly, I was asked at the beginning by Lord James how important was this to the overall considerations of Government and I have said that it is very important indeed. Clearly, if it were to happen that we were falling very short of this we would need to consider further actions.

Q19 Lord Dykes: Do you think the Commission might be minded to include the Regulation form of its own legislation in order to make sure that Member States did adhere to targets later on in the process rather than Directives?

Lord Hunt of Kings Heath: Perhaps I could ask my colleague to comment on that.

Mr Payne: If I could just start off by saying that our first Renewable Energy Strategy is yet to come out and that will be coming out in the next couple of months, which of course will set out our RES policies and it will set out exactly how we intend to meet our 15 per cent target. Of course, the interim targets are not legally binding, although Member States do need to set out adequate measures designed to enable them to be achieved. Of course, the 2020 target is a legally binding target. As the Minister pointed out, there is a number of reporting requirements on Member States to report to the Commission on progress, and there will be a

very strong engagement, as the Minister pointed out also, between the Member States and the Commission as we go forward. Obviously our intention at the moment is to set out the policies in our Renewable Energy Strategy for how the 15 per cent target will be met.

Q20 Lord Walpole: I am going to ask you two very, very simple questions and almost a yes or no is the best answer, but if it is the wrong one I shall want an explanation! Does the Government still believe that in the current economic climate the UK's 15 per cent target is achievable? Do you?

Lord Hunt of Kings Heath: I do.

Q21 Lord Walpole: Good!

Lord Hunt of Kings Heath: You cannot just let me say that!

Q22 Lord Walpole: But, on the other hand, what will be the impact on renewables of a decrease in the expected revenue in carbon auctions in the downturn? I think that is a more difficult question. Do you see that there will be a problem there?

Lord Hunt of Kings Heath: Yes, it is a more difficult question. I think the 15 per cent target is, as I said right at the beginning to Lord James, very challenging, and I do not think we should ignore that. It is a big leap from 1.8 per cent to 15 per cent. That is why it has been so essential to get the infrastructure right in terms of the planning regime, the energy legislation taken forward, the incentive system like ROCs and feed-in tariffs. We are confident that, notwithstanding the current economic climate, we can achieve the 15 per cent. On the issue of the question of carbon auctions, I think the response to you is that the level of funding that is going to be made available to renewables is not currently linked to the revenues received from auctioning. The EU Member States, as you probably know, have made a non-legally binding commitment to spend half of all auction revenues on measures such as these.

Actually Member States are already investing in a lot of renewable energy measures and we would expect that to grow in the future. In conclusion, I am confident at 15 per cent, although it is very challenging, that the issue about auctions and the resources that become available will not be allowed to detract from the investment effort that we need to make in order to ensure that we do achieve the renewables target.

Lord Walpole: Thank you very much.

Q23 Lord Bradshaw: To take you on to another subject now, you are proposing to set up an Office of Renewable Energy Deployment. Do you think that that is going to spend lots of its time promoting competition or is it going to actually concern itself with the achievement of the objectives of government? I draw parallels with the Office of Rail Regulation which, much to the consternation of the Government, concerns itself with open access and competition rather than possibly putting forward the best solutions for the railway.

Lord Hunt of Kings Heath: I am not going to comment on the issue of the railways, though as a user it is always tempting to go into those sidings! However, I see the work of ORED is not to take a kind of theological approach to a market; it is there to provide practical support and advice to companies who wish to enter into the renewables market who may be facing problems around the barriers that are there and ORED is there to do everything they can to help companies get into the market and stay there. We have another example which is the Office for Nuclear Deployment which has been, I believe, very helpful in facilitating new nuclear build. It was set up in September 2008. We see that as a model, but we know that companies, and I have met many companies since coming to this job in DECC since October, who have raised issues about access to the Grid and about planning issues and information about the various government mechanisms of support that are available. The idea of ORED is to have a very accessible unit within my Department to which people can come for giving quick advice and guidance. As I see it, that is its core purpose.

Q24 Lord Freeman: We are coming to the last two or three questions from Sub-Committee B. I would like to, if I may, just refer to a letter that the Secretary of State wrote to the Committee talking about flexibility mechanisms in terms of meeting the overall EU target so that one country might help another meet its target either through Guarantees of Origin or some other mechanism. Would you be kind enough to clarify what is meant by flexibility mechanisms and where we have got to on Guarantees of Origin?

Lord Hunt of Kings Heath: The flexibility mechanism was agreed as part of the Directive. It is intended to allow Member States who wish to use it the opportunity to lower the overall costs for meeting their target by allowing for renewable energy generated in one Member State to count towards the target of another. This is subject to the agreement of the Member State concerned. The Directive allows for four types of flexibility in this regard. The first is statistical transfers between Member States. An example of this might be France could agree to buy part of their target from Poland as long as Poland produced the renewable energy with the appropriate levels of renewable energy deducted from Poland's reported levels of renewables and added to France's. The second is joint projects where we could theoretically, following agreement with another Member State, fund a renewable energy project in that country with the renewable energy produced being used in that country but the credits counting towards the UK's target. Alternatively, the renewable energy could be imported into the UK via an inter-connector and used in the UK. The third type of flexibility agreed relates to joint projects between Member States in countries outside of the EU. There are conditions with this type of co-operation, such as that the project must be new and the energy produced must be consumed in the EU, so there must be a physical inter-connection into the EU, and again agreement would be needed between the third country and the EU Member State. The final type of flexibility relates to joint support schemes where Member States may choose to join or co-ordinate their financial support schemes for renewables. I think perhaps, Lord

Chairman, I should say that the agreement reached on the flexibility mechanism differs significantly from the Commission's original proposal in that guarantees of origin are to be used to demonstrate the amount of renewable energy in a supplier's fuel mix. These can be traded across countries but only affect suppliers of fuel mixes. They do not, as envisaged in the Commission's original proposal, affect the country's achievement of its targets. This remains the role of statistical transfers and joint projects. I do not know if you wish me to go on to talk about how this is to be monitored?

Lord Freeman: For the purposes of our Sub-Committee that clarification has been very helpful. I think perhaps we can write to the Department if we require further information, so thank you for that. The last two brief questions from Sub-Committee B, Lord James followed by Lord Walpole.

Q25 Lord James of Blackheath: Briefly, what is the present position with regard to feed-in tariffs, which you did mention in your introduction? Are they still planned for 2010? Can you indicate what size and type of plants they will be aimed at, please?

Lord Hunt of Kings Heath: I cannot give you many more details at the moment because we are still in the substantive work that needs to be undertaken before we can issue a consultative document. Clearly we believe that feed-in tariffs are very important in terms of encouraging micro generation, but our hope is that it will be introduced from April 2010 and a Renewable Heat Incentive from 2011. We also expect to put some of the broad details within the Renewable Energy Strategy which, as I have said, will be coming out fairly shortly.

Q26 Lord Walpole: Minister, the Directive requires Member States to provide either "priority access" or "guaranteed access" to renewable generators. I assume this is something that the Government supports. Personally I do not quite understand how you are going to implement it and what actually physically happens.

Lord Hunt of Kings Heath: The Directive requires Member States to provide either priority access or guaranteed access to electricity produced from renewable generators, which means offering guarantees once a project is connected. This is what the UK does. Every connected generator has a guarantee of being able to use the electricity network, and the only reason generators may not be able to generate it is to ensure the reliability and safety of the Grid system. Clearly behind that answer lies what has been a very big challenge for renewables, which is getting access to the Grid. Of course, we understand fully the problems that have arisen. We have had a transmission access review. We are working very, very hard with the companies, with National Grid and with Ofgem to ensure that access is available as soon as is required. We do need to do more work in this area, but it is clearly very important foundation work towards meeting our renewable energy target.

Q27 Lord Walpole: I can see that it is perfectly possible to put quite a lot of generation of different sorts on to the Isles of Orkney because the Grid is actually there, but I do not see that you can put an awful lot more off the north Norfolk coast without great difficulty because the Grid is not available.

Mr Payne: That is absolutely right. During the negotiations on the Renewables Directive there was significant confusion about whether priority access means priority connection, ie you connect renewables before other types of generation to the Grid system. That is not the case and the priority or guaranteed access only relates specifically to already connected renewables and other types of generation.

Q28 Lord Freeman: Minister, thank you very much indeed. Obviously the Select Committee will consider whether it will be helpful to publish the evidence today in the form of a report to the House as well as its availability on the web. You have been extremely helpful to us. My question is probably impossible to answer but when the Renewable Energy

Strategy is published, I think, speaking on behalf of Members of the Select Committee, that an opportunity to comment on that by means of a statement or a short debate would be helpful?

Lord Hunt of Kings Heath: The usual way ministers answer this is to say of course that this is in the hands of the House authorities and it will be done through the usual channels, but can I say that I would very much welcome the opportunity of having a debate when it is published, and I am sure that it is possible that between us we can find a mechanism in which to do that, whether it is in the House or through your Select Committee.

Lord Freeman: Thank you very much. I am handing over now to Lord Sewel.

Q29 Lord Sewel: A seamless transition, or not as the case may be! You will notice, Minister, that there is a difference between the two Committees; our questions take more the form of essays rather than questions! Can I go back a little bit because reaching the UK Government's emissions target will require a considerable co-ordinated effort across government and indeed through the devolved administrations as well because in many areas they actually have implementation responsibilities. Firstly, who will manage and have oversight of the UK's emissions reduction efforts within government? Where does the locus of monitoring and managing and oversight rest? And then, secondly, how do you negotiate the responsibilities of the devolved administrations as to their appropriate share and how do you exercise oversight on their achievement and delivery?

Lord Hunt of Kings Heath: As far as the question of overall management and oversight of the UK's emission reduction effort, clearly it is the Department for Energy and Climate Change which is in the lead across government and of course overall co-ordination within government itself rests with the Cabinet. The mechanism by which we take this forward, clearly in terms of a regime under which we ensure that different government departments do what is necessary, one of the main ways in which we are going to do this is through the

mechanisms of carbon budgets which will very much embrace individual departments in ensuring that there are carbon reductions, and ensuring that government departments, when thinking of the implication of their policies vis-à-vis carbon emissions, will have to have very careful thought as to how development of policies is going to contribute to their carbon budget, thereby reducing emissions. We see that as a very strong control and encouragement to individual government departments to do what is necessary. Alongside DECC leadership and Cabinet co-ordination, we have carbon budgets, in a sense, as the stick to go alongside the carrot of DECC leadership and Cabinet government co-ordination. As far as the devolved administrations are concerned of course, we will continue to work in collaboration and close co-operation with the devolved administrations. I chaired a unique event for me last week of the British-Irish Council, which is another opportunity of discussions on important climate change environment issues with the devolved administrations as well as the Irish Government, but of course we will work very closely with the devolved administrations on this.

Q30 Lord Sewel: How do you monitor their achievements and the level of delivery?

Lord Hunt of Kings Heath: Of course, just as we will monitor individual government departments we will be working very closely to measure and to understand the level of carbon emissions that emanate from government departments, so we would expect to work closely with our colleagues in the devolved administrations to ensure that they are doing the same. I think it will be mainly by a process of encouragement and co-operation, although of course in the end the UK Government has to accept its UK responsibilities. That seems to me part of what I always described as the “joy of devolution”, and no doubt when one thinks back to the Bill that you took through this House some ten years ago inevitably there is a trade-off there between what one might expect to achieve from devolution and the fact that the UK

Government has to accept responsibility overall for issues to do with the UK where it actually does not have control over certain areas of responsibility within the devolved administrations.

Q31 Lord Palmer: I can see that being somewhat of a logistical nightmare and it will be very interesting to see how it all works out in practice. You acknowledged during the debate we had on our EU ETS report - and I was terribly disappointed not to be able to take part myself - that the Directive agreed in December provides for rather more sectors to be deemed at risk of carbon leakage than appears justified by the current available evidence. How content were you with that compromise and how do you anticipate the issue might be built into the EU's negotiating position ahead of the Copenhagen meeting. What really is being done to provide certainty to the businesses that will, in my view, undoubtedly be affected?

Lord Hunt of Kings Heath: Thank you. Throughout the negotiations we were very concerned about this matter and my colleagues may wish to comment on this because they were involved in these negotiations. We do think that we took a significant step forward in December by agreeing that around 50 per cent of allowances will be auctioned from 2013 compared with just about three per cent currently. Of course, whilst rather more sectors are likely to be deemed at significant risk of carbon leakage than is justified by the evidence, this is in a world where there is no international climate change agreement. Of course, we are very hopeful in relation to Copenhagen that there will be an opportunity to review the carbon leakage after international agreement, and the Directive is clear that free allocation will only be given where it is fully justified. In a sense, I fully accept the concern that lies behind your question. We have made some advance. We would hope for more in the event of international agreement, and of course it is very much part of our strategy towards Copenhagen. We believe that in the event of international agreement that the revised EU ETS Directive does contain sufficient provisions to allow us to review levels of free allocation.

Lord Palmer: Thank you.

Q32 Earl of Dundee: Minister, at last December's Council were linkages discussed at all and, if so, to what extent?

Lord Hunt of Kings Heath: My understanding is that there was very little linking that was discussed at the December Council meeting. However, during the negotiations that took place leading up to that meeting linking was discussed in more depth. My understanding is that there was clear consensus amongst Member States that we do want to support linking the EU ETS with other emerging systems as a way of developing a global carbon market, and we have a vision of a series of linked cap-and-trade emissions trading systems in OECD countries by 2015. Of course, if we are able to achieve that, the whole question about the risk of carbon leakage becomes much less, so I can assure you that although it was not discussed formally in the December meeting, it remains an important goal for the UK, and we are confident that, subject to getting international agreement in general, then it will be possible to see the kind of global link that we need to see happen. Might I bring my colleague in to just comment on the discussions that took place there?

Mr Capper: I can confirm the Minister's suspicion that there was a clear consensus amongst Member States that linking was a good thing and that we were aiming to do it as soon as practicably possible. Of course, rushing into linking without due thought for the implications would be foolish, so both the European Commission and ourselves have set out criteria by which when other emission schemes around the world emerge, we can evaluate those systems and those schemes against these criteria to assess whether it is sensible for the EU to link our own emissions trading system to theirs.

Q33 Earl of Dundee: You mentioned the desirability of an OECD-wide carbon market by 2015. Nevertheless, in general, could you please outline your position on linking the ETS to other systems and in particular on which specific steps to that end you and the Commission might advise?

Mr Capper: I think one of the important features will be that we need to have something to link with, so, for example, as you may know, there is a Bill being put forward in the House of Representatives in the US, the so-called Waxman-Markey Bill, which attempts to set up a federal cap-and-trade system in the United States of America. There is similar discussions going on in Australia and New Zealand about establishing their own emissions trading systems. What we are doing at present is two things. We are working through the International Carbon Action Partnership (ICAP), and we also have a very significant outreach programme working with the governments of these countries in order to try and ensure that what emerges in these different emissions trading systems around the world is compatible so that will then facilitate linking once they have been up and running for a year or two and they are well-established in their own right.

Q34 Earl of Dundee: It is all a bit in the melting pot just now but would you anticipate necessarily a date by which time a greater level of co-ordination internationally on this point might have been achieved?

Lord Hunt of Kings Heath: What we would like to see happen is a series of linked emissions trading systems by 2015. That will be the ideal scenario for us.

Q35 Lord Livsey of Talgarth: I wonder, Minister, if you could just confirm something that you said in your opening statement where you appeared to say that there was going to be more auctioning taking place, and I think you repeated it just now, when we are talking about revenue. Is that correct?

Lord Hunt of Kings Heath: Yes, it is correct.

Q36 Lord Livsey of Talgarth: The context of my question is that the December agreement reduced the level of auctioning of emissions allowances from 100 per cent in 2020 to 70 per

cent in 2020. In addition to that, we have recently seen a slump in the carbon price. Both considerations suggest that the revenue from auctioning may be lower than initially foreseen under the Commission's proposal. What do you consider to be the impact of this reduction, notably on climate change-related investment in the UK on the one hand and in the EU on the other? To what extent will it be a consideration in the international negotiations on the level of financing that might be made available to developing countries - that is an additional question really - to assist with mitigation of, and adaptation to, climate change.

Lord Hunt of Kings Heath: Thank you for that. To answer your first question, clearly where there are lower levels of auctioning there is going to be less auction revenue, and if there is a low carbon price there will also be less auction revenue. I think that is pretty clear. It is interesting though that the European Commission's impact assessment on what was agreed in December provided auctioning revenues estimated for a single year, 2020, and that was based on the assumption of full auctioning, and whilst we see that the current carbon price is currently lower than is used in the Commission's impact assessment, most market analysts are predicting a carbon price in 2020 around the Commission's estimate, so our initial analysis is that changes that we are seeing now in the short-run economic situation are unlikely to affect revenue estimates in 2020.

Q37 Lord Livsey of Talgarth: Can I just stop you there. Can I conclude from what you have just said that you are optimistic that the price level will come back up?

Lord Hunt of Kings Heath: It is not for government to forecast price levels and I am not going to be as direct in my answer as the noble Lord would probably wish. I think it would be fair just to reiterate that the analysis that we have seen is that looking to the long term there is unlikely to be significantly affected revenue estimates, but I am not sure that I can go much further than that.

Lord Livsey of Talgarth: Thank you.

Q38 Lord Sewel: You mentioned, Minister, in your initial statement that there was a political commitment to use 50 per cent of auction revenues for climate change investments. This is close to hypothecation, is it not, and are we content with that?

Lord Hunt of Kings Heath: I am not going to call it hypothecation.

Q39 Lord Sewel: I bet you are not!

Lord Hunt of Kings Heath: For obvious reasons! All I would say is that it is not a binding commitment but it is more a statement of intent.

Q40 Lord Sewel: It is likely you would follow that statement of intent?

Lord Hunt of Kings Heath: I would certainly hope we would be able to do so.

Q41 Lord Sewel: Colleagues in the Treasury are quite content and happy?

Lord Hunt of Kings Heath: Of course the government speaks with one voice.

Q42 Baroness Sharp of Guildford: Taking the questions Lord James was putting to you right at the beginning, do you see part of the resources that are available to finance the investment in renewables as coming from this source?

Lord Hunt of Kings Heath: Finance is going to come from availability of resources. As I said in my earlier answer, I cannot point to a direct relationship between resources raised through auctioning and specific programmes. Indeed, in the sense that the take from auctioning might be less than was originally projected, that is probably a good thing. It is not possible to pull up a direct relationship there. What is clear is that, if we are thinking about renewable energy for instance, the resources are coming from a variety of sources. The important question is: is it sufficient and is it sufficient to encourage up front investment that you want to see at the moment? That is the aim of government, to make sure that it is sufficient.

Q43 Baroness Sharp of Guildford: The government will to some degree underwrite it?

Lord Hunt of Kings Heath: What the government will do is make sure that the conditions are right for investment in the way that we need to see it happen.

Q44 Baroness Sharp of Guildford: That is very diplomatically put. It has been generally agreed that strict monitoring is vital if the ETS is to work effectively. Are you content with the provisions on monitoring and enforcement in the new ETS Directive both in relation to emission reductions themselves and to the cost-effectiveness of those reductions?

Lord Hunt of Kings Heath: Yes. My general experience as a minister in a number of departments is that the EU has not found itself lacking in monitoring approaches. As I said earlier, it is very important in this case because the integrity of the EUETS system is vital if we are going to make progress in this area. We do think that the EUETS has an effective monitoring, reporting and verification system in place. I might point out to the Committee that we had 100 per cent compliance in 2006 and 2007 and, at the end of this month, we will know the level of compliance in 2008 when there was an expansion of the EUETS to new activities. My understanding is the EUETS Directive provides for new regulations on monitoring, reporting, verification and accreditation. I have talked at length to officials about the integrity of the system and I am satisfied that it is a robust system in which we can have confidence.

Q45 Baroness Sharp of Guildford: In which we can have confidence not only in the compliance in our own country but in the compliance in other countries?

Lord Hunt of Kings Heath: Yes indeed. I fully accept that that is very important to the integrity of the whole EUETS system. We are confident that it is a robust monitoring, verification and reporting system.

Q46 Lord Sewel: The last question raised an issue that came up in the debate we had on the ETS. A number of speakers drew attention to the need for what they termed a fiscal audit which would involve auditing existing subsidies for fossil-fuel intensive businesses as well as introducing carbon based taxes. In your response you informed us that there may be a need for additional policies and that you were looking to the Treasury “to keep us on track to ensure that the most effective balance and incentives are in place.” Could you update us on that? Are we likely to see progress in the area of something that could be called a fiscal audit?

Lord Hunt of Kings Heath: I said earlier that the government speaks with one voice. I am very glad to say that on this question decisions on tax are a matter for the Chancellor and are subject to a normal Budget and pre-Budget report cycle. I can say very little more than that, save that of course, in relation to climate change and energy policies, these have to be kept under review. I said earlier that in relation to the very challenging target that we have set ourselves it will be vital to keep track of progress that has been made, of areas where we need to change policy and of course that encompasses the whole of government. As for fiscal matters themselves, I rest my case on my original answer.

Q47 Lord Sewel: The Treasury have not gone beyond that?

Lord Hunt of Kings Heath: I would neither confirm nor deny that. Quite clearly, fiscal matters are kept constantly under review by the Treasury. The normal process of government is to ensure that the Treasury is aware of issues that arise in different sectors and of course we will keep them informed about that.

Q48 Lord Sewel: You say that the government speaks with one voice but through you the Treasury have not indicated any eagerness to have a fiscal audit on these matters?

Lord Hunt of Kings Heath: I do not think that you can take that from what I said. I have made it clear that these matters will always be kept under review. Of course, as we move towards 2020, we will need to see the impact of various measures the government has taken. We will of course address issues as they arise. If we think there are problems we will talk to the Treasury but I do not think there is anything more I can say in relation to fiscal measures.

Lord Freeman: Thank you for the answers you have given to all our little essays. I am sure both Committees speak with one voice in thanking you for the clarity of your answers. We look forward to the publication of the sustainable energy strategy.