

# PARLIAMENTARY DEBATES

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OFFICIAL REPORT

European Committee A

ENERGY MARKET DESIGN

*Monday 23 November 2015*

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

*Chair:* MR ANDREW TURNER

- |   |   |
|---|---|
| † Boswell, Philip ( <i>Coatbridge, Chryston and Bellshill</i> ) (SNP)                   | † Nokes, Caroline ( <i>Romsey and Southampton North</i> ) (Con) |
| † Green, Damian ( <i>Ashford</i> ) (Con)  | † Quince, Will ( <i>Colchester</i> ) (Con)                      |
| † Heapey, James ( <i>Wells</i> ) (Con)  | Smith, Mr Andrew ( <i>Oxford East</i> ) (Lab)                   |
| † Hopkins, Kelvin ( <i>Luton North</i> ) (Lab)  | † Smith, Jeff ( <i>Manchester, Withington</i> ) (Lab)           |
| † Leadsom, Andrea ( <i>Minister of State, Department of Energy and Climate Change</i> ) | † Smith, Julian ( <i>Skipton and Ripon</i> ) (Con)              |
| † Morris, Grahame M. ( <i>Easington</i> ) (Lab)   | † Whitehead, Dr Alan ( <i>Southampton, Test</i> ) (Lab)         |
| † Murray, Mrs Sheryll ( <i>South East Cornwall</i> ) (Con)                              | Joanna Welham, <i>Committee Clerk</i>                           |
|   | † <b>attended the Committee</b>                                 |

## European Committee A

Monday 23 November 2015

[MR ANDREW TURNER *in the Chair*]

### Energy Market Design

4.30 pm

**The Chair:** I will briefly outline the procedure. First, a member of the European Scrutiny Committee may make a brief five-minute statement about the decision of that Committee to refer the documents for debate. The Minister will then make a statement lasting no more than 10 minutes. Questions to the Minister will follow. The total time for the statement and subsequent questions and answers is up to an hour. Once questions have ended, the Minister moves the motion on the paper. Debate takes place on that motion. We must conclude our proceedings by 7 pm.

Does a member of the European Scrutiny Committee wish to make a brief explanatory statement?

4.31 pm

**Kelvin Hopkins** (Luton North) (Lab): It is a great pleasure to serve under your chairmanship, Mr Turner, I think for the first time.

It might be helpful to the Committee if I take a few minutes to explain the background to the documents and the reason why the European Scrutiny Committee recommended them for debate.

One of the Commission's strategic objectives is to secure reliable and affordable energy supply as part of its climate policy. That requires fundamental transformation of Europe's energy system. Document 11018/15 is a consultative communication that seeks views on how that might be achieved, while taking consumer interests into account. The document notes:

"Europe's electricity system is in the middle of a period of profound change...but...still faces considerable challenges",

which include the move towards decentralised generation and the importance of integrating all those involved. In addition, there is a need to provide clear price signals for new investments, to facilitate renewables, and to provide a truly European dimension to the security of supply. The remainder of the communication sets out in more detail, specific issues on which the Commission has invited comments.

The Government strongly support integrated and well functioning energy markets, but recognise the challenges that that poses for member states and the effective functioning of the internal energy market. The Government also comment on a number of specific issues identified in the communication.

The communication is one of several produced recently by the Commission on European Union energy policy, and although its purpose is essentially to seek views, it raises a number of important issues. The European Scrutiny Committee took the view that it would be helpful if the House were to consider those at this formative stage, and therefore recommended the document for debate in European Committee A.

**The Chair:** I call the Minister to make an opening statement. Interventions are not allowed during a statement.

4.33 pm

**The Minister of State, Department of Energy and Climate Change (Andrea Leadsom):** It is a great pleasure to serve under your chairmanship this afternoon, Mr Turner. I very much welcome the opportunity to debate the important subject of European electricity market design.

A new design modernising Europe's electricity markets will be key to ensuring that the EU's ambitious decarbonisation efforts are conducted in the most efficient and cost-effective way. Europe clearly needs to do more to ensure the effective functioning of cross-border electricity markets that effectively integrate renewables and provide clear signals for investments while offering best value to consumers. As the Committee knows, in the UK we have already addressed those challenges through the electricity market reform and we stand ready to share that expertise with our European partners. For those reasons, I welcome the Commission's consultative communication on energy market design.

I agree with the Commission that reform of European electricity markets is necessary to enable them to function safely and efficiently, fully integrating all market players and at minimum cost to consumers as we transition to low-carbon electricity systems. In several areas I agree with the Commission on the actions needed to improve the design of European electricity markets.

First, support for renewable generation should be market based, ensure cost-effectiveness and avoid overcompensation. Secondly, it is important to ensure that energy markets deliver a good deal to consumers. In that respect, effective competition plays a key role to ensure that consumers get the best possible deal on their energy bills. Thirdly, capacity mechanisms should be consistent with the single energy market and its aims; they should also be in line with the EU's state aid rules and open to cross-border participation. Fourthly, progress is needed on implementing infrastructure projects of common interest and increasing interconnection to facilitate the integration of European electricity markets and to diversify their sources. Fifthly, voluntary regional co-operation is important in facilitating the delivery of a well functioning, well integrated internal market. Related to that, member states should engage with their neighbours to share expertise and best practice when developing their energy policies. Sixthly, the role of the Agency for the Co-operation of Energy Regulators and the EU regulatory framework should be reviewed to ensure that there is appropriate regulatory oversight as European markets become more integrated, but nothing must undermine the role of national regulators.

Through our domestic reforms, the UK has a unique perspective and extensive experience of the issues covered in the energy market design. I am keen to share those with the Commission and other EU member states. For example, the UK is the first member state to allow interconnectors to participate in a capacity market and to hold obligations in a similar way to other capacity providers.

At the same time, I am keen to work with European partners to identify common approaches to common challenges where possible. However, modernising Europe's

electricity markets cannot be achieved through a uniform approach. The diversity and specific requirements of member states will need to be carefully accommodated and considered and, as I have already stressed to the Commission, this is clearly a case where one size does not fit all. I therefore think that the Commission's commitment to consult thoroughly with member states, regulators and relevant stakeholders throughout the market design initiative and before issuing any proposals is essential. I will of course ensure that any legislative proposals put forward by the Commission on energy market design are necessary, proportionate and fit for purpose and preserve the right balance of competence between the Commission and member states.

**The Chair:** We now have time for questions to the Minister. May I remind Members that these should be brief? It is open to a Member, subject to my discretion, to ask related supplementary questions.

**Dr Alan Whitehead** (Southampton, Test) (Lab): The Minister mentioned the importance of interconnectors in the UK's approach to the reform of the single energy market. She will know about the programme already under way of increased UK interconnectors. Is she confident that the present UK system of requiring interconnection to work on the basis of arbitrage between different levels of price in the energy system in the UK and where those interconnectors are connected to will work on the basis of a far higher level of interconnection, even in the context of caps and floors, as is envisaged in the EU document?

**Andrea Leadsom:** Yes, I am confident. I think that at the moment, it is very important that interconnectors respond to price movements. The hon. Gentleman will be aware that in the recent notice of insufficient supply margin, interconnectors played their part, so they are a very valuable resource for the UK at times of stress—when we have an unexpected outage of a plant—so that price signal is very important for them. He will also be aware that there are, however, measures to put in place in the event of a real system stress, where system operators can call on each other to provide specific support and help, which potentially can overrule simple price movements; but of course, competition and free-flowing markets are vital.

**Dr Whitehead:** The Minister states that she supports a common methodology for assessing capacity adequacy—indeed, in her Department's response to the document, it is stated that the methodology

“must respect the differences between Member States”.

What does she think are the main differences that would cause the UK to resile from the real common capacity adequacy methodology?

**Andrea Leadsom:** I am not completely sure that I understand the hon. Gentleman's question. The point I am making is that it is for individual member states to look at the balance of energy mix that is important for their own energy security. The integration among and co-operation between member states leading to greater interconnection offers all member states access to surplus in another member state, which is of benefit to energy security and, of course, prices in each member state.

Interconnection is valuable, but that is not to say that one size fits all and that a common methodology must therefore be used in every member state for every interconnector.

**Philip Boswell** (Coatbridge, Chryston and Bellshill) (SNP): The Minister spoke of the especially effective integration of renewables. The document mentions storage. Does she agree that the storage of energy, particularly from renewables, will be key to the solution for European energy in the future and deserves a much higher profile in the document than is currently the case? What does she propose to do about storage in the UK?

**Andrea Leadsom:** The hon. Gentleman is exactly right that storage will play a huge part in future. I certainly feel that not enough has been done at a time when power generation from renewables has been rising rapidly not only in the UK but throughout Europe and the world. Of course, that renewable generation has added stresses to the system because of its natural intermittency, so finding a way to bring down the costs of storage and exploring the different storage technologies is important for all of us throughout the world who aspire to decarbonise our energy systems. A particular advantage of greater focus on the electricity market design across Europe is that we will be able to share with our European neighbours the costs of the technology and of research and development. We will be able to co-operate and find the best and most cost-effective solution for all our consumers.

**Kelvin Hopkins:** Following on from the question from the hon. Member for Coatbridge, Chryston and Bellshill, storage comes in two forms: for the grid, there are things such as the scheme at Dinorwig—we need many Dinorwigs, in my view—but there is also domestic battery storage, which apparently is now available in America. Will the Minister tell us how the Government propose to approach storage at both those levels and what plans there are for the future?

**Andrea Leadsom:** The hon. Gentleman might be aware that significant investment has already been made into research at both grid and domestic-level storage in the UK. My Department has invested significantly in trying to bring design ideas to fruition. We are at the cusp of a big change, with storage costs coming down. He is right that some of the household battery designs in the States are becoming significantly cheaper. We are seeing those costs fall, supported by co-operation not only at EU level but elsewhere. Last week I was at the International Energy Agency, which is also very keen to focus on research and development into new storage technology to ensure that costs come down for us all.

The hon. Gentleman is exactly right that at both system and domestic level, storage and the whole demand-side response to enable people to reduce their own demand on the system are extremely valuable, not only to keep down costs for consumers but to help to support our energy security.

**Philip Boswell:** Following on from the hon. Member for Luton North, both he and the Minister mentioned battery power as a potential fix. Does she agree that that would be a megawatt solution for a gigawatt problem? I was Shell's contract lead on the carbon capture project,

[Philip Boswell]

which I moved from Longannet to Peterhead, and I am familiar with different storage facilities. Does the Minister think that compressed air electricity generation might provide an alternative solution? Does she agree on the megawatt issue?

**Andrea Leadsom:** Yes. I am grateful to the hon. Gentleman for making that point. It is absolutely right to say that domestic battery storage is a small solution for an enormous problem. However, there is increasing use of smart metering; domestic households are increasingly generating their own power through solar panels on their own domestic rooftops; and so on—all these small measures in aggregate are changing the balance of the system. Those demand side responses of individuals play a very important part. Nevertheless, he is exactly right that there are some amazing technologies coming to fruition: compressed air; pumped storage; and grid level battery storage. There are a number of different technologies and my Department is very keen to see which one can have the biggest effect and, of course, which one can offer the most cost-effective solution for consumers.

**Dr Whitehead:** What progress has the Secretary of State made with the inclusion of non-UK-based projects that are eligible for contracts for difference, which the document clearly indicates would be the sort of cross-border collaboration that might be necessary in this reformed energy market? I believe that she produced a document in 2014 that indicated that the proposed date of 2018, when overseas non-UK projects might be eligible for CfDs, would be the earliest date at which that could be achieved. Is the Minister happy with that rate of progress?

**Andrea Leadsom:** Yes, I am entirely happy with that rate of progress. The hon. Gentleman is quite right to raise the issue of CfDs being made available to foreign generators. Of course, the key point for the British consumer is the evaluation of the contribution that offering a CfD to a non-British generator could make to our energy trilemma: decarbonisation; keeping the costs down; and keeping the lights on. We are considering two projects, but he is absolutely right that we will not be making decisions for the next year or two. The two projects are with the Isle of Man and Iceland. The Isle of Man has shallow waters and the appetite to build an offshore wind project, which it would then seek an export market for, and of course that could be very advantageous to the British consumer, because it could be very cheap energy to produce, so it could be good value for the consumer here. Likewise, a project with Iceland could offer us access to geothermal energy sources, which could be very advantageous for the UK. All those projects require quite a lot of evaluation, but I can assure the hon. Gentleman that we will look at them carefully, based on whether they offer best value to consumers.

**James Heappey (Wells) (Con):** Last week, the Energy and Climate Change Committee went to the national grid headquarters in Wokingham, where the energy coming in from the continent is clearly displayed on its “flows” board. One became aware of the differences in the wholesale price between that in the UK and that

elsewhere. As we build more interconnectors, I would be interested to know the Minister’s views on that: obviously, it will bring down the domestic wholesale price, but what will be the impact on existing CfDs and therefore on the Government’s financial exposure?

**Andrea Leadsom:** The advantage of interconnectors in the round is quite significant for UK consumers. They improve access to cheaper and, quite often, low-carbon sources of additional electricity, and indeed gas, as he will know. We have therefore encouraged more interconnection and we have a number of projects that are under way and under consideration, under our cap and floor regime, which does not leave the consumer completely at risk on the costs payable to the producer.

There is always a balance to be struck, of course. Because of the way that the price determines the flow—the interconnector will send gas or electricity this way, should it pay to do that—prices here will need to be higher for the power to flow this way. However, in aggregate, we anticipate that more interconnection would have a suppressing impact on wholesale prices in the UK, but not to such a great extent that that would unbalance the system in the UK. My hon. Friend raises an important point, and we take very seriously the issue of balancing the system in the UK—having the right balance between energy security, keeping costs down and keeping the lights on—and we must keep that under constant review.

**Kelvin Hopkins:** A decade or so ago, Germany had 300 times more installed solar capacity than Britain. In terms of renewables, we were second worst in the European Union after Malta, which is obviously a warmer country. Now, although we have been making progress in catching up, and solar has been coming on stream a lot more, the Government have chosen to reduce feed-in tariffs, which will be a disincentive to installing solar. Why have they done that? Can they not see that we still have a long way to go on solar? We must have better feed-in tariffs if it is going to be successful.

**Andrea Leadsom:** I am sure the hon. Gentleman knows that the absolutely overriding issue with the feed-in tariffs, and with the levy control framework more generally, is that the costs were expected significantly to overrun the budget for 2020. When the Government came into office, we discovered that the deployment rate of wind, solar and other renewables had exceeded the expected levels, and we are in fact running well ahead of the deployment levels we thought we would see by now. If things had stayed as they were, the expected deployment levels by 2020 would significantly exceed the likely target, and the cost associated with them would represent a significant overspend.

The hon. Gentleman will be aware that the levy control framework budgeted for a £7.6 billion per annum cost to consumers by 2020, and the Office for Budget Responsibility forecast that it would have reached £9.1 billion by 2020. We have therefore had to take measures to keep the costs of bills to consumers down. That is an incredibly important point with so many still living in fuel poverty and the need to address energy bills. We do not consider that there is concern over electricity generation. We are ahead of our targets in terms of renewables electricity generation. We are where we expect to be, even with these measures to cut the cost to consumers. However, keeping the bills down is absolutely vital.

**Philip Boswell:** Following on from that, I understand that stopping wind and solar was one option, but was not another option to slow them down to retain the supply chain? Creating a supply chain from nothing, as we look to move into tidal, wave and other forms of renewable energy, is extremely difficult. Continuing with wind and solar, although they might have slowed down, may have given us a greater advantage, putting Britain at the forefront of renewable energy and maintaining the advantage we had gained. Was it perhaps unwise to stop entirely?

**Andrea Leadsom:** I am sure the hon. Gentleman is aware that we have not stopped the feed-in tariff entirely. We are consulting. The consultation is now closed and we will respond as soon as we can. There were significant numbers of responses, and we hope to provide the Government's policy response by the end of the year. The hon. Gentleman will be aware that, in fact, the proposal is to continue to give a return to investors from participating in the feed-in tariff. He will also be aware that there is a significant amount of onshore wind still in the pipeline in terms of meeting the grace period for the early closure. He will also be aware that, only last week, the Secretary of State gave a continued commitment to support for offshore wind, where Britain has 50% of the world's deployment. I hardly think that that is calling a halt to renewables.

**Dr Whitehead:** I note that the Minister, in response to my previous question, cited the Isle of Man as somewhere where a connection might be made outside Great Britain. How should other such areas, which are not in the EU, but are clearly associated with Great Britain, be dealt with in the discussions? I have in mind the Channel Islands, in particular.

**Andrea Leadsom:** That is not something to which I have given a great deal of thought. The key thing, from an energy policy perspective, is for the market to come forward with ideas. We do not go out and seek bids directly from the Crown dependencies, the islands, other member states and so on. We are looking for ideas to come forward. They can be generated by developers who have a good idea or by Governments in other countries that feel there is an opportunity. I understand that, in the Channel Islands, there is the potential for a tidal project in Alderney, but we are looking to developers or other Governments to come forward with those suggestions.

**Kelvin Hopkins:** The Minister is understandably concerned about prices for consumers, but there seems to be no concern about the extraordinary prices that will be accorded to nuclear. Nuclear will have a rigged strike price, which will put a massive burden on consumers, without considering the decommissioning costs, the clean-up costs and so on. Of course, the nuclear power stations that we are planning have been shown not to be working well in other parts of the world. They are miles behind time and over budget. How can the Minister justify going ahead with nuclear while restraining other forms of energy provision?

**Andrea Leadsom:** I am very disappointed with the hon. Gentleman; I thought he would take a pragmatic view. Hinkley Point offers excellent value to the UK

consumer. It provides baseload, it is as low carbon as offshore wind, the consumer pays nothing until such time as it is producing electricity and private investors will be making the investment. The decommissioning price is included in the strike price of the CFD and the funded decommissioning programme has to be agreed up front, so it is simply not true that the decommissioning has not been considered. Hinkley Point will contribute enormously to our energy security at a time when we want low-carbon sources.

Every day of the week, we receive about 19% of our electricity from ancient nuclear power plants that will be shut down some time during the 2020s. We have to replace them either with something that is higher carbon or with new nuclear. France benefits from a relatively older, but not too old, nuclear fleet that reliably provides it with low-carbon energy day in, day out. That is what we want for Britain, which is why we are so committed to new nuclear.

In the UK, we have a huge opportunity to design our own small modular reactors. All the amazing R and D that is going on in the UK right now gives us the opportunity to be part of that. As the hon. Gentleman no doubt knows, Hinkley Point C offers about 25,000 jobs in the Somerset area, and 60% of the £24 billion being spent on it will be spent in the UK. It is a great news story for economic growth, jobs and security of supply, and it will keep the bills down.

**Dr Whitehead:** My hon. Friend the Member for Luton North, in introducing the EU document on behalf of the European Scrutiny Committee, talked about the immense change that is taking place in the way that electricity is generated across Europe. It is becoming decentralised and is entering into different forms of generation, which removes the assumptions about centralisation that have been at the heart of the European system for a long time. Is the Minister confident, in the light of her Department's recent reset statement, which appeared to point to a very centralised energy future, that the way forward for UK energy will be compatible with the changes that take place in Europe when those greater connections happen?

**Andrea Leadsom:** I do not agree at all that the Secretary of State's speech suggested centralised energy systems. The UK is facing the most superb and exciting revolution in power generation. One of our biggest challenges in managing the system is the diverse range of power generators coming on to the system, putting stresses on the system and leaving us with the risk of projects being delayed due to the inability of getting a grid connection, for example. Those are the sorts of challenges that we are trying to address right now. Far from being centralised, our energy policy is very decentralised. The Secretary of State was trying to make it clear that the transition away from coal towards gas, which is the greenest, cleanest fossil fuel, and a renewable future is the right way for the UK to go, and I think she is absolutely right.

**Kelvin Hopkins:** I have high regard for the Minister, but we disagree about nuclear, although I do not want to debate that now. Another component of energy is insulation. We have very inefficient buildings across the country, and progress towards insulating all our buildings

[Kelvin Hopkins]

is slow, yet we can save the output of many power stations simply by properly insulating every building in the country. What does she have to say to that?

**Andrea Leadsom:** I completely agree with the hon. Gentleman on that, and I am glad that we are back on the same page. I agree with him on many things, and I am happy that this is one of them. From a policy perspective, we are keen to see a continued programme of insulating homes. I struggle to recall the figure, but there have been in the region of 780,000 measures to insulate and promote energy efficiency in homes. We are keen to do much more. Obviously, we will soon hear from the Chancellor what the spending envelope will be, but we want to refocus our spending measures for fuel poverty and fuel efficiency on those in greatest need. Of course, insulation and other energy efficiency measures are a core part of that.

**The Chair:** If no more Members wish to ask questions, we will now proceed to the debate on the motion.

*Motion made, and Question proposed,*

That the Committee takes note of European Union Document No. 11018/15 and Addendum, a Commission Communication: launching the public consultation process on a new energy market design; and supports the Government's approach of welcoming the Commission's consultation which addresses the challenges that decarbonisation creates for Member States' electricity systems and the effective functioning of the internal energy market, while working to ensure that any future legislative proposals preserve an appropriate balance of competence between the Member States and the Commission.—(Andrea Leadsom.)

5.2 pm

**Dr Whitehead:** The document before the Committee addresses the move towards greater integration of the EU energy market. The Minister has answered a number of wide-ranging questions, but the document is at the heart of our discussions. I will make a couple of remarks about the extent to which we are already starting to integrate with the European energy market, at least in the way in which we are jointly facing outwardly. The UK needs to consider carefully how it integrates its activities with the way in which Europe is now going. The document does not make any particular policy recommendations. Nevertheless it points in a clear direction, with regard to what an integrated energy market in the EU might look like, and the sorts of provisions that would go along with that.

In a context where we already collaborate to an extent with the EU in various energy matters, reductions in, or the removal of, subsidies for onshore wind and solar are being defended on the basis that we have already reached the expected deployment of renewable sources of electricity generating capacity. I assume that the Minister at least bows in the direction of the idea that we have a joint EU target on renewables, and that energy as a whole should include a joint target for renewables. Indeed, the UK's renewable energy target is 15% of energy by 2020, as part of an EU-wide agreement.

We may be reasonably close to the target in relation to one pillar, but we are woefully failing to get near the target in relation to the other two pillars—heat and

transport. The EU target mechanisms enable member states to exceed the sub-targets in particular areas, to bring the overall target together. I should have thought that, bearing in mind the success of the UK deployment of solar and onshore wind, as well as the development of offshore wind as a substantial part of our renewable electricity targets, over-achieving on those target areas would make a major contribution to keeping the UK on track to meet its overall EU energy targets. Cutting the one area where we are almost achieving our target, when we are making no progress in the other areas, does not seem to be a terribly constructive way to secure our European commitments to EU energy targets.

Perhaps that is no more than a straw in the wind—an indication of the problems that the UK may encounter in making its position compatible with the EU's, as we move on to greater integration of markets. I remind the Committee that for Paris COP 21 we have a joint position with the EU on the European contribution to carbon reduction and climate change targets; I would also point out the extent to which we are negotiating on those targets in Paris as one body. That will ensure that the member states can join in a real contribution to the joint targets agreed across the EU.

I want to highlight something on which I put a question to the Minister earlier. I warmly welcome the process—and I commend some of the early methods used to make progress with it—of expanding interconnection between the UK and the rest of Europe. The Minister will of course be very aware of how lamentably weak the UK has historically been in that respect. Not only are we an actual island, but we have been an energy island for many years as far as the rest of Europe is concerned. The level of interconnection of 3% to 4% is way below the norm in most of the rest of Europe and way below the norm target that the EU has set for the interconnection that should be afforded to member states of about 10% of supply.

The increase in interconnection is under way. Arrangements have been made by National Grid to develop caps and floors for the regime as far as the interconnectors are concerned. Even discounting the more longer-term arrangements that we might have in, say, Iceland and elsewhere, several interconnection plans look as though they are under way. However, there is the problem of the operation of interconnection. If we continue to operate the working assumption of interconnection in the UK on the basis of arbitrage between different prices between the UK and the continent, as my hon. Friend the Member for Luton North mentioned earlier, it is a matter not only of EU regulation, but of logic.

The more interconnectors we have, the more those interconnectors bear down upon price differentials, and the possibility of making money for the interconnectors through arbitrage is deflated interconnector by interconnector. The model upon which interconnectors work therefore becomes untenable over time. My concern about other aspects of the way in which the UK energy market operates is that we may be in difficulty as far as being able to take advantage of how energy markets are moving in Europe. Should those markets come about, the danger is that they might be one-way markets as far as the UK is concerned and not the two-way markets that the greater integration of European markets should bring about.

The Department will want to have a good look at the direction this document moves us in, notwithstanding the fact that we are not required to make decisions at this moment, because that does set some store for the future. I hope that, given how our markets work in the UK, the Department will be active in ensuring that when the changes come about in the fullness of time, once the EU has discussed them and gone through all the various mechanisms, we will be in a position to be a genuine partner in that more integrated market, rather than a bystander.

5.13 pm

**Kelvin Hopkins:** Some 35 years ago I had the pleasure of contributing as a joint author to a document called, “Energy: a planned policy” for the trade union NALGO, where I was a research officer. Another joint author was Dave Prentis, the current general secretary and an old friend. Even then there was a conflict between those who supported nuclear and those wanted other forms of energy generation. Many of the themes that have come up today—insulation, solar and wind power—were all debated 35 years ago. We are incredibly slow in catching up, particularly with some of the countries in northern Europe.

Denmark, for example, on sunny Sunday afternoons, is going to have the whole country ticking over on renewable electricity, which is incredible and way ahead of where we are. We are behind the pace on that. Also, we have started to rush to get rid of coal too quickly. Coal is not a clean fuel, but we have clean-coal technology. If we worked hard on carbon capture as well, it could have a much better future than the Government seem to think. Indeed, in Poland and Germany they are building coal-fired stations, not because the stations are a long-term solution but because they can make a contribution in the short to medium term. We still have coal in the ground in Britain, yet are closing down our last deep mine very soon, and are importing coal when we could have chosen to mine our own.

We should be planning for self-sufficiency in the long term. Having interconnectors or links with other countries that are generating electricity is all very well, but we could become dependent on those other countries, and who knows what the politics of the future might be? I would have thought it would be much more sensible to try to have as much domestic energy generation as we can.

Some of the other countries that are burning coal have abandoned and are closing down their nuclear power stations, because they fear that they are dangerous. That is true of Sweden and Germany. France was always heavily dependent on nuclear—that was its choice—but some of its nuclear power stations have been out of action for a long time because they do not work well. France keeps them ticking over because they are its main source of energy.

I do not think that we should rely on nuclear for the future. There are serious worries about dangers and costs, and ultimately decommissioning. We should be looking to other forms of energy generation—and, indeed, insulation. We know that renewables cannot provide the base-load we need unless we have good storage systems—batteries, and stations like Dinorwig, and so on—so we need a base-load provider for the time

being. Keeping some of coal-powered stations going would be sensible. Gas is cleaner, and has a contribution to make as well, but in the long term both produce carbon and we want to see a world in which we produce energy in other ways.

Another aspect that has been sadly neglected is tidal power and estuaries. We should have built the Severn barrage years ago. We would have produced a very high proportion of our electricity just from the barrage alone. We are now talking about a lagoon and generating electricity in that way, but, again, we are behind the pace.

Then we come to the question of so-called markets. Energy should be planned, in my view. It should not be left simply to markets. We have a rather distorted one now; it is not a true market. A market is left alone: companies invest, and if they do not make a profit they go bankrupt, whereas if they do they stay in business. The energy markets have very close relationships with Governments, who are trying to work and plan through the private sector. But that is not that private, either—look at Hinkley Point. In France, energy is publicly owned, with EDF 85% owned by the French Government, and we can hardly call the Chinese Government private, given that it is a state communist Government.

Privatisation is not quite what it seems. Two thirds of the energy companies in Britain are foreign owned. The companies were supposed to have been privatised, but one of them—EDF—is 85% owned by the French Government. It has been openly admitted that EDF exploits the British market to subsidise its own market. It would be a good idea to start thinking about bringing the ownership of our energy companies back to Britain and possibly integrating the companies into some sort of national energy corporation. That is my view, and it is not just a socialist dream; it is what any sensible, practical person would do if they were concerned about energy security and making sure that we were not controlled by companies based abroad or even foreign Governments, as is the situation now.

There are a lot of big questions about energy in Britain that we have not really answered. I am sceptical about the energy policies of not just this Government but previous Governments—including that of my own party—and I shall remain so until the Government can demonstrate that they have got it right. I do not think that they have, or that other countries would allow their energy supply to fall into foreign hands in the way that we have. If we are dependent on importing energy, there will be a cost as well. We have a gigantic trade deficit, with the European Union in particular, so do we really want to start buying in more energy instead of producing it ourselves?

We ought to look hard at planned investment in domestic energy production, in every way possible. I believe that we could do that without relying on nuclear—certainly new nuclear—if for the time being we kept our coal-fired power stations open, invested heavily in storage and considered estuary tidal barriers and new forms of tidal energy. Technologies for generating electricity from tidal flows were being talked about even 35 years ago, but we have not made sufficient progress on them. We have underplayed all those new technologies, we have not invested enough in them and we have given far too much to the overseas energy companies, which make considerable profits out of the British market. The proposals

[Kelvin Hopkins]

are somewhat socialist in their flavour, but I do not resile from that; I am a socialist, and I believe that they are a practical and sensible way forward.

5.20 pm

**Philip Boswell:** I will be at pains not to repeat much of what has been said in this debate, most of which I agree with, but there are three points that I want to touch on. Page 19 of the third report speaks of the regulatory frameworks and integrated markets, and of integrated entities not subject to regulatory oversight, the functions of which have “characteristics of natural monopoly”.

I feel that we should not allow this to fall into private or quasi-private hands and should not be frightened to discuss solutions outside the market, such as nationalising elements of what we do in that respect. That is very much what the hon. Member for Luton North spoke about. Scottish Water is a prime example of how that can be done, and the national grid is an entity that could and perhaps should have a future in the hands of public ownership, or even in some hybrid public-private partnership. That door should not be closed, as the language in the papers to date seems to suggest it is. I urge that that not be done, and that we keep an open mind to all solutions available to us at any given time, particularly when it comes to security of energy supply.

On security of supply, I understand that each member state needs to plan its future capacity, and market coupling should significantly increase the effectiveness thereof. Most are considering future shortfalls. Page 20 of the same paper mentions better investment cycles: that is, profit-driven investment. That has not been the case to date, and legislation needs to do more. Better investment signals alone will not resolve the security of supply problems. There is no excuse for poor, bad or no planning by any Government or governing body in that respect.

Although I concede that Hinkley Point is forward planning, having some knowledge of the industry, I am certain that neither the delivery price, which allegedly includes decommissioning, nor the start-up date will be as the company envisaged. I doubt that the UK has much, if any, contingency plan for the delays and price increases at Hinkley Point. Do not be presumptive.

Page 20, paragraph 1 warns of market distortion and speaks of an objective of phasing out harmful subsidies, including for fossil fuels. That ignores the fact that the only sensible move to a carbon-free system involves continuing to improve emissions reduction on fossil fuel energy production as we gradually move towards general greener energy markets, making full use of revenues from existing fossil fuels.

Also, what is the problem with distorting the market when the market is clearly not working for consumers? Again, the paper seems too reliant on the market, when as the hon. Member for Luton North rightly pointed out, Longannet provides about 40% of Scotland’s energy. It is being closed early, next year, although it had four years to run. He is absolutely correct that we were capturing more than 90% of emissions from the coal-fired power station. The last deep mine is in England, the last Scottish mine having already closed in Scotland. That is the quality of coal that we want, with fewer emissions.

The capture system that we use—we used it at Longannet, but have moved on to the gas system up in Peterhead—is a very early design. Capturing more than 90% of emissions is like having a block mobile phone. If we move to an iPhone 5 or 6 in five years’ time, we should be capturing a high 96% to high 98% of emissions. That is entirely doable. The marketplace requires support, not destruction. Moving away and closing plants is a missed opportunity. I will not repeat the points well made by Opposition Members about foreign companies—ironically, they are nationally owned—coming in and making a killing in our market with inflated prices, given the opportunities for reductions.

5.24 pm

**Andrea Leadsom:** I am pleased that we have had a good, constructive debate on the important subject of electricity market design. Now is the right time to review European energy market design. As Europe continues to make progress towards its decarbonisation objectives, it is important to ensure that they are achieved without placing at risk the effective and efficient functioning of the single market in energy.

The hon. Member for Southampton, Test talked about the EU decarbonisation targets. The Climate Change Act 2008 provides a stronger decarbonisation challenge than the EU targets and I assure him that we are looking at what we can do on heat and transport to ensure that we meet those challenges. I take his point that we could do more on electricity generation, but he would agree that it is also essential that we keep an eye on the cost to consumers. We cannot simply worsen fuel poverty and make our businesses uncompetitive, which we would if we increased, with no limits, cost to consumers through their energy bills.

The hon. Gentleman mentioned the use of interconnection being historically far too low. I hope that he welcomes the fact that we are looking at far more interconnection going forward. He said that prices will eventually make interconnection inefficient and ineffective, but I assure him that that is not the case at the moment: the cap and floor regime makes interconnection still profitable and we hope to take advantage of lots of other interconnection opportunities that are coming up.

The hon. Member for Luton North raised coal. Our coal-fired power plants are all very old—40 or 50 years old—and they are due to come off-grid. They are not brand-new clean-coal plants. Most are not able to meet the industrial emissions directive and only a couple are prepared for it. Their future is not long term and I do not think he is right to say that we should stick with coal just because it is cheap. The Secretary of State made it clear that because gas is the cleanest fossil fuel—its carbon footprint is about half that of unabated coal—we should look to it as the bridge to a low-carbon future, not old coal. We are still dealing with the legacy of our deep coal mines. People are still dying of cancer and appalling problems caused by them, so I think we should be glad that those days are behind us.

**Philip Boswell:** On deep coal mines, we get most of our coal from Colombia, where the health and safety record is appalling, as it is in China. If we were digging for our own coal here, at least we would be doing it

safely. In the talk of switching to gas, I feel there is an alternative agenda, which is fracking, which the Government are rushing headlong towards. I wrote a paper on fracking in about 2006 and while I admit that the chemicals we were using or talking about using then as catalysts for better—

**The Chair:** Order. Relatively short interventions, please.

**Philip Boswell:** I apologise. Does the Minister intend to rely heavily on fracking to provide us with gas?

**Andrea Leadsom:** I am glad that the hon. Gentleman has given me an opportunity to respond to that. At the moment we import up to half our gas needs, but by 2030 we will import up to 75% of our needs—he will know that the North sea basin is slowly in decline—so it is vital that we either build our home-grown gas or recognise that we will become extremely dependent on imported gas. My view is that, having looked carefully at all of the regulation and fracking processes, if it is safely done with some of the best regulation in the world—we have more than 50 years' experience of regulating onshore and offshore gas—we can safely extract in this area.

As the hon. Gentleman will know, there is no fracking going on in the UK at the moment and we do not even know if we can extract gas from the shale. Never to give it a chance seems to be an enormous waste of a potential industry that could offer up to 65,000 much-needed jobs, which would be a huge boost.

**Philip Boswell:** We entirely agree with the Minister on the gas issue—Scotland has a moratorium. However, although it is true that the known gas reserves are in decline, there is plenty of gas off the west coast of which we are aware. Does the Minister agree that we should focus on developing that safer fracking offshore, rather than onshore gas?

**Andrea Leadsom:** I can agree that it is vital that we maximise the economic recovery from the North sea. The hon. Gentleman will be aware of all the measures we have taken, including on the fiscal regime, the setting up of the new Oil and Gas Authority, and our seismic studies to help businesses that want to consider the under-explored parts of the North sea basin. I certainly agree that the industry is vital to the whole UK.

The hon. Member for Luton North said that he thought that we are behind the pace in tidal. We are keen to consider such projects but, notwithstanding our desire to bring on new technologies, the projects need to offer value for money to bill payers if they are to be deployable. He also talked about nationalising energy businesses, and I am sure he will recognise that I do not agree with him on that. The UK has always been open to foreign investment but that does not mean users' profits going overseas, nor does it threaten our energy security. Foreign investment in UK energy projects benefits the UK consumer, bringing in the competition that keeps the costs down.

**Kelvin Hopkins:** There is a problem for Britain at the moment. We have a gigantic trade deficit and it is effectively being paid for by inflows of money buying

up assets and companies in Britain. That cannot go on forever. In the end we become completely owned by foreign institutions and people and have no control over our own capital in our own country. That is not a sensible way forward.

**Andrea Leadsom:** I do not agree. Now is probably not the time to debate capitalist philosophy, but I will give the hon. Gentleman just one example. I understand that the biggest Siemens project anywhere in the world at the moment is the turbine factory Siemens is building in Hull—a fantastic development—on an old part of the virtually derelict docks. It is creating up to 1,000 jobs in the local area and I have met young apprentices who are getting involved. It offers enormous potential, jobs and an exportable project that will be used for offshore wind turbines right across the world. It is a fantastic investment for UK energy security, as well as for jobs and growth.

**Kelvin Hopkins:** We are talking about net investment. If we had similar investment overseas and the net investment flowed outward rather than inward we would be making income from abroad, but the balance is wrong and we are selling off assets. So much of our industry is now foreign-owned that there will come a point when we own nothing of our own and the income from all our industries flows overseas.

**Andrea Leadsom:** The UK is a trading nation. We invest overseas. We allow foreign investors to invest in the UK. I still strongly argue that foreign investment in UK energy has benefited consumers by keeping bills down, and energy security by keeping the lights on.

Finally, the hon. Member for Coatbridge, Chryston and Bellshill discussed his concern about the lack of energy security. I point him to the capacity mechanism that ensures that we provide capacity for the future, to ensure that we have the security on which we all depend. He will be aware of the demand-side response. We enter into agreements with companies that wish to be paid either to reduce their demands on the system or go off-grid and generate their own power at times when that is needed. That response is a vital contribution to energy security, as is the capacity mechanism, and the hon. Gentleman should rest assured that my Department's absolutely non-negotiable core focus is ensuring energy security.

**Philip Boswell:** On the issue of closing Longannet, 40% of Scotland's energy generation comes from Longannet, which will make us more reliant on EDF Torness and Peterhead—the two ageing nuclear power stations that the Minister referred to. That creates a massive problem for a black start. If things go down in Scotland it is extremely difficult, without power generation from the coal-fired power stations, to start up again. What assurances can the Minister give us that we will be able to start up again?

**Andrea Leadsom:** All I can say to the hon. Gentleman is that we, along with National Grid and Ofgem, focus above all else on security of supply. National Grid has a range of tools—I have mentioned a couple—to ensure that we are able to keep the lights on at all times. It is our No. 1 priority. I can assure him that National Grid

[*Andrea Leadsom*]

has created sufficient security of supply and that there is a margin to ensure that the lights stay on, as stated in its “Winter Outlook Report”. The matter is absolutely non-negotiable.

For the energy market design in Europe to enable the further integration of the single electricity market, national interventions need to be in line with single market aims and the EU state aid rules. Consumers should be enabled to play a more active role in the market and mechanisms should be developed further to incentivise demand-side response and storage. The UK is already addressing those challenges, including through the implementation of the electricity market reform and other measures, such as smart meters, enabling domestic households to make the most of their electricity management. Many other member states are only just starting. We stand ready to share our expertise with them and with the Commission.

I want the UK to be constructive on the issue of energy market design, but I am determined to ensure that any proposals brought forward by the Commission maintain an appropriate level of competence between the Commission and member states. I urge the Committee to endorse the motion.

*Question put and agreed to.*

*Resolved,*

That the Committee takes note of European Union Document No. 11018/15 and Addendum, a Commission Communication: launching the public consultation process on a new energy market design; and supports the Government’s approach of welcoming the Commission’s consultation which addresses the challenges that decarbonisation creates for Member States’ electricity systems and the effective functioning of the internal energy market, while working to ensure that any future legislative proposals preserve an appropriate balance of competence between the Member States and the Commission.—(*Andrea Leadsom.*)

5.37 pm

*Committee rose.*